

# CEPAL

# REVIEW



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# CEPAL Review

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# CEPAL

## Review

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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.

References 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 may not necessarily add up to the corresponding totals, because of rounding.

## Note by the Director

The significance of the transnational corporations in Latin American development is a phenomenon of particular importance, and there can be no doubt that the future of the region must perforce envisage various degrees and forms of coexistence with this type of economic units.

With a view to helping to clarify this topic and collaborating with the countries in strengthening their bargaining power *vis-à-vis* foreign capital, the editorial board of *CEPAL Review* have considered it useful to publish in the present issue a number of articles which analyse various aspects of the presence and activities of the transnational corporations in the region.

The articles presented here include some which contain more global, and hence more abstract, reflexions on the subject, such as those by Luiz Claudio Marinho and Arturo Núñez del Prado, while other articles, such as those by Alberto Jiménez de Lucio and Jan Křákal, analyse and compare the presence and behaviour of transnational corporations in different geographical areas. A third set of articles (those by Maria da Conceição Tavares/Aloisio Teixeira on Brazil and Eugenio Lahera on Chile) examine the impact of the transnational corporations on particular countries, and finally the papers by Robert Devlin and Michael Mortimore deal with the activities of the transnational banks in Peru and Bolivia respectively.



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

*Luiz Claudio  
Marinho\**

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

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

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

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

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## Introduction\*

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

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

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

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

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

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

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

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

## I

### Contradictions of the present form of development

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

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

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

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

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

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

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

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

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

## II

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2. *Extreme poverty*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



### III

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

### 1. *The present style.*

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

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

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

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

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

goods, 62% of durable consumer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

port, in which the transnational corporations predominate.

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

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

In the case of Colombia, the position in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1  
 BRAZIL AND MEXICO: SOURCES OF INPUTS IMPORTED BY BRANCHES  
 OF UNITED STATES TRANSNATIONAL CORPORATIONS, 1972

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

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

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

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

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

nomical interests of the countries where they are operating.

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

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

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

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

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

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

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

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

Taking up once again a more global view-

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

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

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

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

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

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

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

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

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

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

## IV

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

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

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

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

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

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

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

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

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

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

Table 2

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

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

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

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

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

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

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

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

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

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



Table 3

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

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

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

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

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

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

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

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

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

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

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

Table 4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This is not the place to go into this phe-

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

Table 5

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 6

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

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

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

<sup>a</sup>No data available.

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

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

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

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

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

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

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

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

Table 7

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

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

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

<sup>a</sup>Excluding rubber.

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

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

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

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

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

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

Table 8

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

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

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

Table 9

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

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

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

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

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

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

## 2. Integration: the regional market

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 10

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

Table 11  
LAFTA: TRADE BALANCES  
(1962 = 100)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## V

### Final Summary

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

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

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

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

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

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

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

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

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

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

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

## The transnational corporations in a new planning process

*Arturo Núñez del Prado\**

During the last few years, events of the greatest importance have taken place which have significantly altered the world picture, and of course the Latin American one too. The author therefore considers it an appropriate time to reflect on some aspects of the prevailing form of development, and especially the role played by the transnational corporations in this context.

The way in which these phenomena are interpreted, the defence mechanisms employed by the countries, the strategies formulated in this respect and the plan of action adopted will have consequences of tremendous significance for the future of the region. The author draws attention to the role of planning in carrying out these demanding tasks, above all if it is desired to try to cope with the prevailing conditions not just on an emergency basis but also from a longer-term prospective. Planning is the most suitable instrument for conducting economic and social activity in general and regulating the market in particular, and the imperfections from which the latter suffers demand not only active State participation but also new forms of co-ordination and participation for the agents of the economic and social system, breaking away from the usual limitation to the traditional distributive struggle.

In the last section of the article, the author outlines a possible change in the basic methodology of planning with a view to reappraising and selecting the participation of transnational corporations in the development of Latin America: he sustains that planning at the enterprise level, in the case of a mixed economy, would give rise to a fresh conception of the planning process particularly appropriate for the present time and would help to strengthen the region's bargaining power.

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## I

## Governments face to face with the new Latin American situation: Passivity or action?\*

Once again the region is being shaken by external forces which are aggravating the already difficult internal situations of the countries. While it is true that Latin American development has been characterized by continual adaptation to conditioning factors which have been changing with the course of time and by the constant modification of the domestic apparatus to suit such changes, the current phenomenon seems to go deeper and is certainly more complex. Anyone who thinks about the future can see that the 1980s could witness the consolidation within the framework of modern capitalism of forms or styles of growth and development different from those of the recent past.<sup>1</sup> Judging by the factors which gave rise to it, the process initiated in recent years enables us to gauge the depth and extension of this phenomenon. The features of the crisis which the world is experiencing mean that the very roots of the economic systems are feeling the impact of this and will have to embark on a transformation in the strict sense of the word rather than a mere readaptation to the new circumstances.

This is a crucial time which calls for the closest analysis of what is happening and the course which is being followed: a time which makes it essential to appraise the scenarios that would be formed in line with the tendencies

\*This article forms part of a broader scheme and is complemented by the article by Luiz Claudio Marinho, "The transnational corporations and Latin America's present form of economic growth" which appears also in this issue of *CEPAL Review*. The author wishes to express thanks for the valuable comments and suggestions of Alfredo E. Calcagno, Adolfo Gurrieri, Pedro Sáinz, Claudio Marinho and his colleagues in the Joint Unit but stresses of course that they are in no way responsible for the views expressed in this article. He also wishes to express his grateful recognition of the work of the late Oscar Varsavsky, since several of the ideas expressed here have their origin in his generous teachings.

<sup>1</sup>The concept of form or style of development used in this article is in line with the approach described by Aníbal Pinto in "Styles of development in Latin America", *CEPAL Review*, No. 1, first half of 1976.

which appear to be taking shape. Failure to take such action could lead to much more pressing situations.

If we examine the main elements affecting the Latin American economies it is easy to see that a form of evolution has been initiated which is quite different from that which characterized most of the preceding decade. Although a great deal has already been written on this matter, it does not seem superfluous to stress that the more general crisis of the world economic system is undoubtedly one of the factors which is most influencing the readjustment and restructuring of the economic systems of the region. The central countries themselves are suffering from disturbances in the functioning of their economies, and although they obviously possess greater defence mechanisms than the countries of the region for facing this crisis, in one way or another they are being seriously perturbed by it and are surviving the new situation only with difficulty. Both on the side of the real supply and demand of goods and that of financial flows, changes are to be observed at this moment which not only affect the context and frames of reference but also alter the very substance of the functioning of capitalism in the economic systems where it has become established. Hence, it is clear that the world scene is in a process of transformation and a qualitatively and quantitatively different situation is taking shape which has direct and more serious implications for the Latin American economies.

A decisive influence in the eruption of the crisis, but not in its creation, has been the upheaval in the energy sector and the multiplication of oil prices almost by twenty. The origin of this phenomenon must of course be sought not only in the problem of the oil and gas reserves and the political and economic agreements of producers, but also in the behaviour of the production units which are at the head of the industrialized economic systems. The energy problem is today one of the severest conditioning factors for the economic, social and political processes of the future. The saying that in the past the process of industrialization was carried out on the basis of oil at a couple of dollars a barrel is a dramatic truth which, in the light of present circumstances, reflects the pro-

found nature of the change which is taking shape. The multiplication of oil prices by twenty is inevitably bound to cause far-reaching changes in the very essence of the processes of accumulation, production and consumption, and especially in the generation of technology.

The majority of the countries of the region are suffering not only from the consequences of the original earthquake, but also the after-effects caused by the action of the centres, who, in their urgent efforts to defend themselves as best they can from the results of this situation, are passing on its consequences to the countries with the weakest defence mechanisms. The most visible forms of this particular transfer of negative effects are prices, and above all the 'manipulation' of the domestic markets for consumer goods, inputs and capital goods and the terms and destination of finance, associations with domestic private enterprises, etc. By way of example, it should be borne in mind that for the developing countries as a whole the 'manufactures bill' was higher than the oil bill in the period 1970-1978.<sup>2</sup>

Moreover, within the economies of the region the contradictions inherent in the prevailing forms of development were getting worse. The terms 'vulnerable', 'exclusive' and 'concentrative' applied to Latin American development are clearly reflected in a number of indicators and analyses which it is not necessary to refer to at greater length at this point, although in order to back up the propositions which will be put forth below it seems desirable to outline their most obvious symptoms.

Despite the significant growth achieved by the region until recently in various activities under the prevailing form of development, a serious appraisal of the volume, content and distribution of this growth leads to conclusions that call for reflection. On the one hand, if we look at the growth rate of the per capita product, we may see that between 1970 and 1979 it grew by a little over 30%, that is to say, in almost a decade the per capita income has risen from 650 to 860 dollars at 1970 prices.<sup>3</sup>

<sup>2</sup>See CEPAL, *Latin American development in the 1980s* (E/CEPAL/G. 1150), p. 69.

<sup>3</sup>CEPAL estimates prepared by the Latin American Economic Projection Centre.

Certainly, this is a rate of expansion with which we cannot be over-satisfied. But if in addition we consider the main beneficiaries of economic progress, we see from various studies and many other indications that generally speaking it was the richest sectors which gained. Consequently, the spread of growth does not seem to have reached in an equal manner to the lower strata of the region's population. Various estimates of the number of persons who may be classified as extremely poor (30% to 40% of the population) confirm this judgment. The prevailing form of development has not been capable of solving this problem: indeed, it is precisely the most privileged section of the income distribution pyramid which appears to have enjoyed the benefits. This contrast alone is sufficient to lay this form of development open to question and suggest that another orientation of the economic activity of the region should be proposed.

If, in addition, we consider that the form of development which has been characteristic of the region has demanded growing external indebtedness, then the objections to this form become even more obvious. Thus, between 1970 and 1979 Latin America's external debt more than doubled in constant terms.<sup>4</sup> It is clear that this type of development, in the present energy context, involves large and increasing injections of external finance for most of the non-oil-exporting developing countries, forming a kind of self-perpetuating spiral.

Although the information on the stock of capital continues to be very scanty, there are some indications that the product/capital ratio has gone down significantly.<sup>5</sup> The available data show that the gross investment coefficient has risen from a little over 21% in 1970 to almost 27% in 1976.<sup>6</sup> In other words, within the form of development under consideration growth seems to be becoming more expensive at an unusually high rate, which means that a

larger number of units of capital are needed to generate a single unit of product.<sup>7</sup> If the consumption structures of the various social groups are considered and that of the upper strata is compared with those of the rest of the population (to say nothing of that characteristic of the sector sunk in absolute poverty), the questioning of and opposition to the prevailing forms of development are seen to be perfectly legitimate.<sup>8</sup>

When it is borne in mind that a considerable part of society does not have access even to the items most essential for their subsistence, can there be any justification for a situation where the useful life of a product is artificially reduced by the appearance of new models which frequently have no real novelty but their design? Is it reasonable that in the case of certain articles the container and packing are worth more than the contents? Can there be any justification, in view of the reigning inequality, for a situation where the compulsive acquisition of non-essential goods becomes a growth factor for a by no means insignificant part of the economic system? We could go on asking such questions, but the real point is that the contradictions which they reflect assume even more disquieting dimensions when projected into the medium and long term. What level of imports will be needed to sustain this form of development? How big will the external debt be, and what proportion of exports will be needed to cover its servicing? What export effort must be made to cover this type of gap?

Whether in terms of diagnosis or as a function of prospective analyses, the external and internal conditioning factors have promoted the initiation of a process of adjustment in the functioning of the economies of the region. The fundamental issue to be examined is where the active trends and the forces of inertia are leading, what courses are being approved, and who

<sup>4</sup>*Ibid.*

<sup>5</sup>See CEPAL, *Long-term trends and prospects of Latin American development* (E/CEPAL/1076), April 1979, table 5.

<sup>6</sup>It should be noted that this indicator only provides an order of magnitude as regards the ratio of the two variables. The difficulties in counting up and valuing the various capital goods and in estimating their depreciation are limitations which must be borne in mind.

<sup>7</sup>It might be held that the lag between investment and production is a point to be held against this appraisal, but only extremely high rates of growth of the product in the coming years could partially invalidate this statement, and even so there would still be valid grounds for discussion regarding the type of product generated.

<sup>8</sup>See Raúl Prebisch, "Socio-economic structure and crisis of peripheral capitalism", *CEPAL Review*, No. 6, second half of 1978.



is deciding the directions which will characterize Latin American development in the future.

There can be no doubt that the set of problems facing the region, including the oil-exporting countries, calls for mature reflection on possible strategies to tackle the future in such a way as to get round the obstacles which cannot be surmounted or circumvented as painlessly as possible. The adoption of this type of strategy makes it essential to select different forms of development.

Up to a few years ago, the discussion on alternative forms or styles of development gave rise to interpretations with a high ideological content. In reality, while the topic succeeded in arousing the interest of academic centres and research institutes it was not the subject of examination and debate within governmental organizations, or at least not with the aim of correcting the tendencies which economic and social activity seemed to be following.

The new conditions through which the world economy is passing and the internal problems faced by the governments of the region give reason to foresee even greater difficulties with which the economies of Latin America will have to struggle. In view of the magnitude of the problems hanging over the developing world, this seems not only a favourable opportunity but also a time of urgent necessity for reflection and appraisal of the various available options. Whether we like it or

not, the very weight of the prevailing problems has opened the door to a debate on forms or styles of development which had up to now been pushed to one side because it was attributed to radical political motives or excessively theoretical concerns.

If this is not done, then the relocation of the region in the world context and the functioning of the Latin American economies will be adapted to the interests of the countries of the developed world and their strongest economic units, which are facing the crisis from a position of obvious advantage rather than to the needs of the Latin American masses and the governments which are genuinely concerned for them. There is no reason to assume that in a more dramatic situation these two kinds of interests will converge, unless the governments of the region take the initiative, clearly face up to this crucial moment, assume the leadership in this situation and present a solid negotiating position.

In this connexion, it should be noted that the successive stages of generation, ripening and maturity of the crisis, together with the reactions of the developed world and the attempts of the developing countries to find an answer to this, are by no means foreign to the activities of the transnational corporations.

In the following chapter, some considerations regarding alternative forms of development will be outlined.

## II

### The transnational corporations and the change in the form of development

Although each country of the region has been affected by particular combinations of internal and external factors, the direct presence or indirect influence of transnational corporations must form one of the central aspects of any analysis of Latin American development.

Just as the weight of this type of economic unit has been a determining factor in shaping the previous form of development, it also appears as one of the principal factors in the trans-

formation which has now been begun. The transnational nature of their activities gives them enormous advantages not only for relocating themselves in a substantially different framework, but also for taking initiatives which signify positions of real privilege for them. It may be said that they are facing the forthcoming changes on the basis of a more global and longer-term view than that which is to be observed among most of the governments of the

region, which are mostly struggling with serious conjunctural problems which limit their horizons.

If we take into account their economic and political power at both the external and internal levels, the information at their disposal, and the fact that their pursuit of a single objective means that they are hampered by fewer restrictions, the transnational corporations are seen to have clear advantages compared with most of the governments with which they are negotiating. As already noted, governments have to reconcile political, social, economic and technical rationales in their activities and must also grapple with contradictions, all of which goes to make up a situation full of severe restrictions. Thus, it is difficult for governments to reconcile the objectives of economic growth stability, social justice and independence of decision (especially if political pluralism is added to all this) with conjunctural and short-term perspectives.

In this context, the initiative does not exactly lie with the public sectors, and this different situation means that the transnational corporations are able to face the transition through action which reflect policies based on a broad and long-term view of their activities. The position of the governments is very different, as they must respond to the transition mainly through resort to defensive and tardy reactions to the appearance of foreseeable phenomena. They have to administer rather than conduct economic and social activity, and on occasions they are obliged to give full liberty of action and facilities to foreign capital, thus forming an alliance between the public sector, national enterprises and foreign capital which reproduces precisely those styles of development which are being questioned.<sup>9</sup>

It is against the background of this situation of imbalance, due mainly to the failure to take advantage of the effective bargaining power available to the governments, that this kind of readjustment of the components of the economic systems is taking place during the present period of crisis and the transition which lies before us. In effect, a change is beginning

to take place in the forms of development, and in this change significant weight is being exerted by the decisions and behaviour of the transnational corporations and their allies in the countries, while the action of governments is limited, as already noted, to unsystematic reactions rather than a deliberate policy fitting within a strategy in keeping with the importance of the phenomenon through which the region is living.

The transnational corporations have clearly seen that in view of the new general economic context the previous form of development no longer provides the same conditions of dynamism as in the past. Generally speaking, and leaving aside part of fiscal expenditure, the nucleus or motor driving the growth of their activities was the purchasing power of the top strata of the income distribution pyramid, particularly in the countries with the highest degree of industrialization.

In the face of this phenomenon, certain features of the behaviour of the transnational corporations indicate that their basic strategy also pursues the objective of expanding the market for their products by reaching consumers of lower purchasing power. This appraisal becomes particularly evident if we observe the structure of consumption, for if we analyse some of the characteristics of the market for final goods we see that it now displays some features which make it different from the situation prevailing until a few years ago.

Although such characteristics as the extravagant variety of products made available to the population with the highest purchasing power continue to predominate, and the wild round of renewal of fashions and models persists, both backed up by truly overwhelming publicity campaigns,<sup>10</sup> we may note a greater effort to reach also the markets immediately below that represented by the richest 20% of the population.

The relative cheapening of a number of types of consumer goods such as transistor radios, stereo equipment, digital watches, television sets, electronic calculators, etc., together with the massive introduction of disposable articles, are clear examples of a tendency towards

<sup>9</sup>Peter Evans, *A triplíce aliança*, Rio de Janeiro, Zahar Editores, 1980.

<sup>10</sup>See Carlos Filgueira, *Consumo y estilos de desarrollo*, CEPAL, March 1979 (CEPAL/IDS/VP/190).

the mass marketing of certain products which will give the entrepreneurs involved another level of dynamism for their activities and a different context for securing their objectives. Various factors would appear to be of influence in this different treatment of markets between the elite, the middle groups and even the low-income groups, which is shaping a different background and changing the forms of development of the countries.

Of course the growing number and greater variety of countries of origin of the transnational enterprises which are entering the region or selling their products in it has led to some degree of competition, which in its turn has had some influence in the price reductions referred to. Obviously, the effects of scale and in general the fulfilment of what is known as the product cycle have as their results lower costs and generally also lower real prices, while it is also necessary to take into account the practice of presenting as 'new' in developing countries products which are already past their first youth in the developed countries.

At all events, however, the foregoing do not seem to be the only causes of this type of expansion and change in the destination markets. Cost-benefit evaluations by the entrepreneurs, or the production of really new articles or the lowering of the prices of old ones through efforts which go beyond increases of scale and are designed to win broader markets, could constitute another factor to be considered.

With the passage of time, the richer stratas have undoubtedly become more demanding. Today it is more difficult than before to introduce into everyday consumption products which do not really represent an authentic novelty and whose consumption does not provide any significant new satisfaction. The almost irresistible urge observed some time ago to acquire appliances which originally worked manually or mechanically but then progressed to automatic, electrical or electronic operation is no longer to be observed with the same vigour, except in the case of goods which, as already noted, constitute real technological progress and provide real new satisfaction. The renewal of models—particularly in clothing, where this may even run counter to the laws of functionality—is an expedient which is used with dis-

quieting persistence and aggressivity, with the aim of creating artificial 'obsolescence'.

The ever-expanding publicity campaigns where use is made of insinuations or even demonstrations which go beyond the bounds of the ethical, warping the authentic behaviour of consumers, form another element which shows how far these firms are having to go to secure the expansion of their markets and thus guarantee other sources of dynamism to increase their sales and profits. The policy of consumer credit, which has reached an excessive level in some countries, is another complementary mechanism in market management. At the same time, however, in proportion as technology advanced and an extraordinary range of products was placed at the disposal of consumers, part of the richest sector became rather reluctant to continue with their buying mania, although not because of considerations of purchasing power. In the final analysis, the capacity for enjoyment also has a limit, in the form of the time available for enjoying the products acquired. Although the time devoted to cultural development has given way to another type of entertainment, such as the consumption of different types of services, these also take up time and make it necessary to exercise a choice, thus generating forms of behaviour which reflect a refusal to accept 'sophistications' which represent only apparent or insignificant degrees of progress.

The magnitude of the technological effort made and the amount of financial resources invested gain easier rewards, in terms of profits, when, as already noted, real innovations are made. The cheapening of older products seems to have been considered as a complementary alternative resulting from a deliberate policy on the part of the producers and generators of technology, quite separate from decisions of governments.

The question now arises in the countries of the region: who is taking these decisions to modify the structure of consumption? What direct role is being played by the public sector in shaping this new situation? In most cases it can be said that government bodies have not had any direct intervention in the adoption of decisions in this sphere, and their action has been limited to influencing the course of these

events through their handling of the short-term situation, mostly with a short-term perspective. A decision which involves the incorporation of the intermediate and even the lower strata into the consumption of products which are not always essential is of very great importance, especially when it is borne in mind that this type of decision has fundamental implications for the industrialization processes of the countries, with their role sequel of direct and indirect, positive and negative, controllable and uncontrollable effects. Of course any expansion of the consumer base, especially if it originates in the reduction of prices, leads to a reaction which is in principle positive, but it remains to be seen first what type of products are going to reach the broad masses of the population, and what is the *quid pro quo* for these market expansions. How will they affect the population which receives them, and what part of the available resources will be absorbed by this new increasing growth? What does this form of growth mean in terms of attention to the needs of the

extremely poor section of the population? What is the new industrial structure which will be built up through this form? What effects will it have on employment and income distribution? How much more or less dependent on external financing is this new type of economy likely to be?

Obviously, it is not possible to answer these questions without first of all clarifying the phenomenon and seeing where these trends lead in the framework of the economic and social activity of each particular country. The above is intended only to draw attention to a change which already seems to have started and which may become uncontrollable, as happened with elite consumption. This is all the more true when one considers that the objectives pursued by a private economic unit, particularly if it is transnational, do not always coincide with the needs of the countries and especially of the broad masses in them: indeed, they frequently diverge from these needs or even contradict them completely.

### III

## The basic options

In the face of the situation described, one option is obviously to use the market as the means of solving the fundamental problems of the functioning of economic and social activity. This is an option which, in its own way and with the consequences already suffered by the region, has helped to reproduce the type of concentrative, exclusive and vulnerable growth already referred to.

There is no doubt that the imperfect mechanism of the market is indeed a form of settling the incompatibilities, maladjustments and imbalances typical of the Latin American economies, but unfortunately it does so with results and final balances which are far from being satisfactory in the light of any appraisal which includes economic and social criteria seen from the general viewpoint of the community. In practice, the imbalance between the insufficient capacity to absorb labour displayed by the economic system and the relatively

abundant supply of such labour results in disquieting levels of unemployment. The maladjustments between the supply and demand of goods are corrected by the market through price rises. The disparity between the financing needs of a type of development which is increasingly expensive in terms of investments and intermediate goods and the capacity for generating exportable surpluses is reflected in growing deficits and external indebtedness, and this generally leads to the adoption of extreme and urgent measures to export, even at the cost of adversely affecting domestic consumption.

The different weights of the agents involved, whether they be consumers or economic units, mean that the unrestricted play of the market mechanism suffers from such a degree of imperfection that its advantages turn out to be only apparent and its results are frequently negative. There is no need to enlarge on the list of its disadvantages; since this is not a new

matter, it is enough to ask ourselves whether, in the present crisis, it will permit the solution of the gravest problems and the assignment of proper attention to social problems, when it did not do so in less severe and less complex situations.

It hardly seems necessary to say that the long-term view, which is so neglected by those who participate in the taking of decisions, once again shows itself to be essential, and this time in a more urgent manner than before. It is worth noting that short-term views, and even medium-term ones, are not capable of assimilating the real significance of the change which looms ahead of us. In practical terms, what is involved is the construction of different economic systems and different societies, and a limited time horizon does not permit us, in the present context, to gain a clear idea of the possible final situations that will result. Moreover, the appraisal criteria characteristic of the short term are not only insufficient but may even be misleading. How can we evaluate decisions which may have great importance in the future in the light of short-term and even transitory parameters? Can the play of the markedly imperfect market forces ensure at one and the same time a growing and better distributed income, greater sobriety in consumption, and the allocation of resources to items which the community really needs in terms of essential goods and services? What long-term view does this type of market have, unless it is simply that of profitability? At a time when the allocation of resources should be carefully examined in order to ensure that priority is given to the most pressing needs, is it reasonable that publicity and propaganda should be the factors generating needs, instead of the needs generating production?

Every time that crises and upheavals which affect the countries of the region in a profound and extensive manner loom over us, planning is rehabilitated as a form of government management of the economic systems. It should not be assumed from this, however, that in this other option the problems can be solved without difficulty. As long as needs are greater than availabilities, that is to say, as long as the problem of shortages continues to prevail, the difficulties will continue. The basic question to be considered is therefore what type of needs,

and whose needs, deserve priority attention, and this brings us to reflect on alternative forms which make the sacrifices and opportunities more equitable and provide greater possibilities of growth. The problem of running economic activity is not a trivial matter and lies at the very heart both of the form of development and of the long-term options.

Whether we like it or not, the forms of development which prevailed until recently will have to undergo changes. The line these will follow is relatively foreseeable if the fundamental problems are left to the unrestricted play of market forces, whereas the planning alternative, in contrast, involves the assumption of broad responsibilities: identifying the most important outlines of the type of society which it is desired to attain, establishing the primary characteristics of the form of development consistent with this object, and proposing the mechanisms of participation which this society will have at the different levels of decision-making.

Quite apart from the various ideologies and concepts of economic, social and political activities, planning as a practice and as a method is essential if we are to defend ourselves more effectively during crises and gain a proper place for ourselves with vision and foresight in the complex set of international economic relations, and above all if we are to respect the principle of equity in the distribution of the fruits of growth. As already noted, the achievement of these objectives involves recognition of the need for planning, in all its temporal, spatial, sectoral and institutional dimensions.

The main responsibility for running economic and social activities lies with governments, and it is their responsibility to appraise the course and evolution of future development and make the necessary corrections if this course, as often happens in the region, does not lead to the desired situations, particularly for the most under-privileged sectors. This responsibility is even more obvious when it is observed that moves are being made in circles other than those of government which are likely to affect future development and modify its forms.

It was already noted above that the transnational corporations and the domestic eco-

conomic units controlled by them or assimilated to them are taking steps, with particular and often alien criteria, which could lead the course of development in the region towards destinations not yet appraised from a long-term perspective. The criteria regarding the activation of economic processes, the reduction of inflationary pressures and balancing of the balance of payments have generally been established within a narrow time horizon, using measures of a traditional nature which, in the final analysis, favour that sector of the population whose purchasing power is most vigorously manifested in the play of the market forces. Thus, the incompatibility between the objectives of the private economic circles (especially the transnational corporations) and the more genuine needs of the mass sectors of the region is not brought out in its true dimensions. It would be very different if the presence and activities of this type of economic unit were weighed in the light of these needs and with perspectives which also included the medium and long term.

It is indispensable to identify the main features of the situations which would be created if the question of the form of development were left to the decision-making centres which have

been taking the initiative up to now. If this were done, it would provide us with qualitative and quantitative indications of the type of society which is being created and we would be able to appraise the potential magnitude of the inequalities and imbalances. This would permit the proposal of strategies leading to different situations, if the considerations of equity of distribution merit a weighting which, if not paramount, is at least comparable with that given to purely economic considerations.

Even in the case of those countries which have been most reluctant to plan their economies, sooner or later the circumstances will convince them that some form of planning will be necessary in order to tackle the crisis and adjust their forms of development in the light of the external restrictions and the persistence of domestic problems. In some cases because of social sensibility, and in others because of the pressures and demands of those who can no longer bear to continue in extreme poverty, forces could emerge which also demand another style of growth or another type of development dynamics, adding their influence to that arising from the inadequacies and contradictions of the forms of development currently prevailing.

## IV

### Reappraisal of transnational corporations in the context of planning

*Latin America in the 1980s*, a document prepared by the CEPAL Secretariat, clearly states the need to appraise the activities of these agents from the point of view of planning, as a way of expanding the negotiating power of governments. The present article takes up some of the proposals made in that document. Although the considerations set forth below concern various agents of the economic and social system, this study is directed in particular towards the phenomenon of the transnational corporations, in view of the decisive influence which this type of economic unit has had on the development of the region so far and the determining

role which it could play in the future. It must be borne in mind from the start that the transnational enterprises also engage in planning, in their own manner, and not only are their decisions based on detailed and timely data on economic, social and political aspects of the countries where they are operating or have the intention of establishing themselves, but also their broad geographical and temporal view of business gives them the advantageous position already referred to. If the instruments at the disposal of the modern State are organized and applied as a function of plans, development strategies or planned economic policies, then

they can approach the negotiations with these corporations from a more solid position. Even in those cases where planning is already institutionalized, reappraisal of the role of the transnational corporations in the light of the new circumstances could be beneficial.

In the final analysis, what is necessary is to analyse the way in which the transnational corporations could contribute to the fulfilment of a political plan or project and also, of course, to decide which activities are not in keeping with the lines of the latter. In essence, this is the basic scheme for a new appraisal not only of their investments but also of their entire area of influence.

The reappraisal of the transnational corporations in the context of a planning process would make it possible to identify first of all those sectors and activities where their collaboration is considered appropriate and even indispensable; next, the areas reserved for the activity of national firms, whether public or private; and finally those areas where the activities of the transnational corporations would run counter to the main lines of the options decided upon by the countries. A reappraisal based on this type of criteria, appropriate to the planning process, would make possible better selection of the transnational corporations and their activities; it would create a suitable field for new dealings with foreign capital and would also make possible more stable agreements with these economic units. For their part, the transnational corporations which make a real contribution to the achievement of the objectives of the type of integrative development proposed will be more inclined to make their conditions more flexible, and the legitimate nature of their presence would undoubtedly modify the negotiating positions.

For governments, the fact of their knowing the implications of the presence of transnational corporations for the main variables in play in a planning process would not only increase their information on the repercussions of this type of economic units but would also mean that they could properly appraise the positive and negative consequences of their presence, thus imparting greater accuracy, a broader perspective and a sounder basis to the process of decision-making in this area.

It has already been stated<sup>1</sup> that the operations of the transnational corporations have been decisive in shaping the present style of development and can also be decisive during the critical period through which the region is passing. Hence, a different type of appraisal of and negotiation with them is essential in order properly to fulfil the accepted principle that it is necessary to maximize the benefits represented by their presence and minimize the costs involved in it. As a guiding criterion, this represents the first step in a new relationship with the transnational corporations. At all events, in order to determine with some degree of accuracy how to maximize the benefits and minimize costs, it is essential first of all to prepare a list of quantitative and qualitative objectives to be achieved over various periods, followed by an outline of the various alternative policies that could lead to the achievement of this. These two tasks are routine fundamental steps in planning processes. On the basis of them it is then possible to go more deeply into the diagnosis designed to clarify the present behaviour of the transnational corporation and identify the main components of the strategies and plans connected with this type of economic unit. The appraisal of their presence and possible future participation in the context of a planning process naturally offers possibilities for a new type of negotiations between governments and transnational corporations.

When a government clearly perceives the most important delayed and immediate, direct and indirect effects which the participation of transnational corporations is likely to have on a set of economic and social variables, its real negotiating capacity automatically acquires a different scope and it is in a much better position to appraise the implications of each concession and each demand. Thus, knowing what the immediate or potential influence will be on employment and wages, the balance of payments, taxes, the use of credit, internal activities on the side of inputs and sales, etc. —all specified for different time-spans within a gradual process of improvement— would permit a really strict appraisal of the effects of this type of economic unit. Up to now, many of these aspects have only been given superficial qualitative appraisal, and most often the factors

which have predominated in the negotiations are related with aspects which are very important for contingent situations, but are of minor significance for development.

An appraisal methodology like that suggested above would lead to the selection of transnational corporations whose activities and behaviour were compatible with the new form of development which it is hoped will take shape in the region. The capacity to discriminate in favour of those enterprises which are in line with the form of development finally selected can only be properly carried out when the respective appraisal fits in with one of the basic stages of a planning process.

Moreover, as already noted, the rules of the game will be clearer for the transnational corporation itself, and its presence will become more legitimate when its activities effectively contribute to the achievement of the objectives pursued by a country. Volumes of investment, scales of production, amortization policies and policies on the reinvestment and repatriation of profits will have another frame of reference which would probably lead to the corporations making their negotiating positions more flexible, while the true problems of the countries would be seen more and it would be easier to distinguish between the interests of economic groups and those of the national masses.

In reappraising the transnational corporations it would seem useful to contemplate all three of the traditional perspectives of planning: the short medium and long term. By doing this, it will be possible to establish what their implications are in terms of the variables pertaining to each of these time horizons. The entry of a particular transnational corporation may satisfy short-term requirements, but it may come into conflict with longer-term needs. Moreover, while conjunctural requirements are generally easier to satisfy, at the same time they are more fleeting and frequently spurious. In contrast, those connected with the structural background, apart from being reflected better in longer-term perspectives, are not always even contemplated by the typical short-term criteria because the short-term is much more conditioned by contingent pressures, and different weight is given in it to the different aspects and effects of foreign investment.

It is self-evident that attempts to appraise transnational corporations from the point of view of plans and strategies which aim at more sober forms of development are likely to encounter strong reactions from the groups which are associated with the very forms it is desired to change. The resistance of the economic groups connected with the transnational corporations to their inclusion in other schemes which would alter the distribution and appropriation of the surplus will undoubtedly constitute a difficult barrier for any attempt to correct the situation, and these corporations will accuse those who are trying to reorient development of interventionism and transgression of the laws of the market.

Although it is difficult to oppose the idea of promoting a form of development which is more rapid but less extravagant, more efficient but less unjust, it will not come as a surprise to anyone that the groups which are benefiting from the exaggerated consumer society will use all their economic and political power to hinder a new form of development. It is foreseeable that attempts in this direction will give rise to violent reactions, but it can also be foreseen that the search for a form of development which is less extravagant and has a higher social content will receive by no means insignificant support even from entrepreneurial groups, to say nothing of the support from those sectors which are more deeply affected by the imbalances and weaknesses of the styles of development which are being questioned. In the discussion of these topics, it will be of really crucial importance that the analysis should concentrate on the essential features of what the transformation of its development model will mean for a society.<sup>11</sup>

It may be noted, in this connexion, that this matter gives rise to discussions which enter the ideological sphere, and it is very likely that the real positions against the correction of the situation will be disguised with fallacious arguments and surrounded by dark and mysterious warnings of dire consequences.

Of course the economic, social and political implications of changes of this type require

<sup>11</sup>See Jorge Graciarena, "Power and development styles", *CEPAL Review*, No. 1, first half of 1976.



not only a clear diagnosis in each country, but also a firm political decision to seize the initiative precisely in the present period of crisis, and not afterwards, when the courses will already have been set and the new economic relations consolidated. Choosing planning as a basic instrument for the management of the economy by the government not only strengthens the tendency towards a desirable course of development but also opens up new possibilities for negotiation with foreign capital and, in particular, with the transnational corporations. Neglecting to lead society in a particular direction not only means eluding an essential responsibility but also implies overlooking an effective capacity for negotiation which, in varying degrees, the countries of the region have significantly increased in recent years. Merely by way of illustration, think of the potential negotiating capacity which the State enterprises of each country would have if they acted together in accordance with a plan or in the light of a planned economic policy.

In advocating a different form of negotiation with foreign enterprises, within the framework of a process of planning and with the aim of achieving a new type of development, there arises a basic issue which must be defined: the demarcation of areas or activities in which the participation of transnational corporations would be permitted, and of areas which are reserved for national public or private capital. In this demarcation it seems vital to introduce the criterion of whether the activities are essential or not, so that foreign investment is limited to those activities which really help to make the form of development more equitable and less vulnerable. It is worth stressing that these proposals involve the idea of a gradual process which begins by identifying the most important and crucial aspects and goes on, with the passage of time and the accumulation of experience, to cover a larger number of aspects.

The negotiating capacity of the countries will be increased in proportion as there is an increase in the degree of generalization of those positions which stress the most essential and transcendental issues in their policies with regard to foreign capital. If this is not done, the result could be the proliferation of 'consumer

paradises' as the result of policies which welcome all types of foreign investment with open arms.

Once the sectors, activities or projects where the participation of this type of enterprise is considered appropriate have been demarcated, the negotiations with them should not be restricted solely to the topics covered by most of the laws and regulations on the treatment of foreign investment. Thus, in addition to the traditional concern with the establishment of regulations on taxes, permits, reinvestments, repatriation of profits, etc., it seems advisable to introduce also clauses on minimum export quotas and maximum import levels, on the employment of labour, on the use of domestic credit, etc. When their administration permits, clauses should also be included on prices, qualities and quantities of products. Naturally, the introduction of these other variables into the negotiations means that differential treatment must be given to the different categories of transnational corporations, but in spite of the greater complexity involved, the magnitude of the investments in question and the importance of their compliance with the basic objectives of the new development policies make it advisable to spare no effort to overcome these difficulties.

In advocating specific treatment for each transnational corporation, we have in mind the larger projects: those activities which call for special attention because of the size of the investment involved or the weight they can assume in the economic process. In speaking of the treatment of foreign capital in general terms we are only typifying a global position or characterizing a certain philosophy with regard to the entry of such capital: in contrast, the actual negotiations involve factual and detailed considerations.

While the transnational corporations form a category with common features they are nevertheless very heterogenous and of different origins, while the projects or activities which the countries wish to promote are themselves of great diversity. In the face of these two types of heterogeneity it is difficult to see how general laws or regulations could permit the 'optimization' of negotiations with foreign capital.

Perhaps global regulations could be re-

served for investments or projects of smaller scale, but for those of greater importance it is necessary to leave open the possibility of *ad hoc* negotiations capable of taking account of the special features involved so that it is possible to obtain from the transnational corporations a contribution which is really in keeping with the most genuine objectives of the countries.

In this way it can be ensured that the participation of the transnational corporations is in line with a kind of open competition which permits the appraisal of the way in which each enterprise complies with the specifications and criteria previously laid down by the host country in order to select the corporations which best satisfy the requirements. The emergence of new transnational corporations and their interest in entering the region mean that the countries would have some possibility of choice in the matter.

Apart from this consideration, the negotiating position of the countries would also be

strengthened by looking into the possibilities of negotiating with medium-sized enterprises in the central countries and in the most advanced Latin American countries, and moreover the scales and forms of operation of these companies might be more compatible with the special features of the economies of the region. At all events, the search for other alternatives and the establishment of conditions to orient the negotiations and agreements towards the achievement of a new type of development seem to be fundamental tasks which must be faced during the period of transition in order to take advantage of and increase the effective negotiating capacity of the region.

The considerations and proposals set forth above involve significant changes in the process of planning, particularly as regards the main techniques and methodologies. In the next section we will sketch some of the main modifications needed to the basic instruments in order to permit a more integral appraisal of the transnational corporations.

## V

### Planning at the enterprise level and the appraisal of and negotiations with transnational corporations

For some time past, judgments have been expressed on the problems affecting the planning processes in the region. A number of causes which might account for their main limitations have been observed, and as a result three well-defined areas may be distinguished which typify the diagnoses regarding their present state.

On the one hand, it is indicated that there is a set of factors related to the political sphere, that is to say, the question of to what extent the plans really represent a commitment on the part of those holding the real power. When it is admitted that the adoption of decisions does not come within the lines of the plan or is even contrary to them, we are admitting that the plan does not reflect the intentions and does not incorporate the interests of the political authorities and the groups supporting them. In reality, no plan can go beyond what the real centres

of decision are willing to carry out. When it is pointed out that the economic policy diverges from the lines of the plan, in reality what is being indicated is the type of dichotomy which separates the intentions of those who prepare the plans from the actions of those who carry out the policy.

On the other hand, there is another set of causes related with the organization of the planning systems and the participation of the various bodies, entities and agents of the economic and social system. The difficulties encountered by the operative organisms in taking into account the categories specific to planning in the conjunctural management of the economy, and the problems which the planners have in incorporating on a flexible and timely basis the political restrictions and alterations which inevitably arise in the everyday functioning of

the economy suitably summarize the essence of the problems which affect planning from this point of view. At all events, the different level of concern and the unequal size of the variables handled by the two groups explain a type of fundamental maladjustment which short-term planning and the so-called operational plans have not been able to solve.

Finally, there is a third area, related with the information and planning methodologies and techniques usually used in Latin America. While there has been significant progress in this field, generally speaking the instruments used still do not seem to fit in adequately with the complex tasks involved in a planning effort. The different rationales implicit in the economic, social and political processes have not found in the types of models used a suitable mechanism of comparison and appraisal capable of generating alternatives in which these rationales become coherent or at least do not contradict each other. Moreover, the instruments in question have suffered from rigidities which have prevented them from responding adequately to the conduct and behaviour of the different agents of the economic and social system. It may be noted in passing that such limitations have also become obvious, in different measures and forms, in centrally managed economies with great planning experience. However, it should be noted that the models based on numerical experimentation are those which have shown the greatest capacity for taking account of the special features and complexities of real events and properly reflecting the intentions behind the different types of plans.<sup>12</sup>

A different conception of planning is set forth below which could smooth out a number of the difficulties which planning has encountered in the region. It is interesting to note in this connexion the possibility provided by this alternative for appraising transnational corporations in an integral manner and negotiating with them on a more solid basis.

The fundamental change lies in the defini-

tion of the element or basic category to be planned. Up to now, planning has been mainly at the level of economic aggregates. At most, the classical macroeconomic variables such as the product, consumption, investment, etc., have been broken down into some subcategories, while the conventional economic sectors have been broken down into particular activities in order to avoid working with excessively heterogeneous conglomerates. There do not appear to be any serious objections either at the conceptual level or in the field of practical application, however, to the possibility of using the enterprise as the basic category of the planning process.

This possibility has been opened up for some time now by electronic computation. Planning by enterprises or by economic units seems to be a suitable response to the needs for better government management of economic and social activity and, in particular, for a fuller appraisal of the transnational corporations.

For the medium-sized or small countries, where 50, 100 or 150 enterprises are responsible for a high proportion of total production and marketing, planning at the enterprise level does not present any impracticable tasks or major complexities. It has been verified in Latin America that it is possible to work with models containing several hundred equations, which in turn means the use of highly disaggregated matrices.

For the larger countries, planning at the enterprise level can constitute an efficient alternative when planning by states, provinces or regions, where likewise 100 enterprises or so can represent a large part of economic activity, traditional planning by economic aggregates being retained at the national level.

If the characteristics of a particular country appear to present obstacles to the proposed change, one possibility would be to introduce this system gradually, selecting the leading enterprises in each sector which, by their direct weight or indirect influence, condition the functioning of economic activity. Thus, a distinction could be drawn in each sector between the public enterprises, the leading domestic and foreign private enterprises, and the rest. The knowledge of economic activity which the

<sup>12</sup>See the article by Oscar Varsavsky, "Modelos matemáticos y experimentación numérica" in Oscar Varsavsky and Alfredo E. Calcagno (compilers), *América Latina: Modelos Matemáticos*, Santiago, Chile, Editorial Universitaria, 1971.

planning offices would have after a strict examination of the activities of the leading enterprises would make it possible to reconcile economic planning and policy with less difficulty.

An effort in this direction would make it possible to gain both periodic and continual knowledge of the operations of these enterprises, their investments, production, imports, exports, hiring of staff, credits, taxes, profits, etc. When one considers the difficulties involved in planning by economic aggregates, precisely because of the need to estimate these aggregates, the advantages of planning at the enterprise level can be clearly appreciated.

Planning by economic aggregates generally uses the space of one year as its time unit. It is difficult to reconcile short-term planning, whose time unit is one month, with a three- or five-year plan. This is to a large extent the reason for the gulf between planners and those working in more operational bodies of the public sector. Planning at the enterprise level would give planners an extraordinary amount of information on the conjunctural situation, would facilitate their contact and participation in short-term decisions, and the timeliness and specific nature of the information continually collected would make it possible to bring plan and reality closer in two respects: on the one hand by enabling the plan to incorporate in a timely manner real events which had not been foreseen in it, and on the other, by orienting the real functioning of economic activity along the lines laid down in the plan.

This represents a change in the methodological conception of planning which would undoubtedly have repercussions on the actual organization of the work of a planning office. It could become a qualitative leap forward of great significance if solutions were found to the problems of working with massive information, designing new accounting systems and, in general, modifying the routines and ways of obtaining information. It is precisely in this respect that the first objections have been levelled at this proposal for planning at the enterprise level. The so-called statistical secrecy provided for in the business law of most countries and the difficulties of continuously following up dozens of enterprises have been suggested

as possible obstacles. These are not insuperable barriers however, and it would be perfectly possible to tackle them if there was determination to progress along these lines. It would be easy to continue listing the features of planning at the enterprise level and enumerating its advantages,<sup>13</sup> but this is not the moment to do so, since the aim is simply to give some idea of its main outlines so as to propose its use in the appraisal of transnational corporations.

There does not seem to be any need to give more illustrations of the way in which the presence of the transnational corporations would be appraised if the basic planning element were the enterprise. Each of these economic units would receive explicit consideration and treatment in this new methodology of planning at the enterprise level. In this way, it would be possible to see clearly and in detail what direct and indirect, immediate and delayed effects their operations would have on the present and future economic system under various hypotheses; what their positive and negative effects would be; what variables they would decisively influence; what the interrelations between this type of enterprise and those forming the rest of the system would be, etc. The comparison of transnational corporations among themselves and with the other public and private units, and knowledge of their cost structures, their expansion programmes and the role they play in the field of economic relations would undoubtedly make possible an integral appraisal of their real and potential behaviour.

The negotiating capacity of a government which had identified in detail the various types of repercussions and the magnitude of their effects would assume very different levels of solidity and accuracy from those characteristics of partial appraisals. In this different conception of planning at the enterprise level, new elements of judgment would emerge, some of them favouring the transnational corporations and others working against them. At all events, a larger amount of available information cannot

<sup>13</sup>In the CEPAL/CTC Joint Unit on Transnational Corporations, research has been initiated with a view to proposing methodological alternatives for the explicit and disaggregated consideration of transnational corporations in planning processes.

but guarantee better appraisal, and this would contribute to different treatment of foreign capital based on a variety of criteria and judgments with greater time and space coverage and, undoubtedly, with greater accuracy and scope.

## The East, the South and the transnational corporations

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Technological developments in transport and communications have made possible the centrally-managed internationalization of production and marketing of goods and services: a system which increasingly dominates the international economic scene. This *internationalization* across borders has been accompanied by *internalization* within corporate boundaries: a significant portion of international trade is today intra-firm trade, between branches of a single large corporation.

First to exploit the advantages of this mode of production and marketing were the transnational corporations based in the developed market economy countries (the 'West'), which operated freely in the West and South but not at all in the centrally-planned economies of the East. The economic importance of these enterprises has given rise to many studies which describe their approaches and forms of operation. Much less is known, however, of the processes whereby the socialist countries and developing countries, each in their own way, have also recently started to internationalize their production and marketing. In so doing, the East has somewhat opened up to transnational corporations, while the South has created some competition to these, and in this sense has closed slightly to their influence, although overall their presence has not diminished. Considerable empirical research is needed to ascertain the exact dimension of these developments, but enough is known to formulate at least some suggestions to developing countries which might be useful in charting their policies. To this end, the present article surveys recent developments in the East and South, and then seeks to draw some significant conclusions.

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## I The East

Efforts in the East to internationalize the production and marketing of goods and services have given rise to a number of activities of socialist ventures in the markets of the West and to the creation of international enterprise organizations (IEOs) and socialist joint enterprises (SJE). In the process, various modalities of East-West industrial co-operation have been developed, including tripartite arrangements with countries in the South.

Very recent data are not available on socialist ventures in the markets of the West, but 312 such ventures with US\$ 603 million in fixed assets were identified as of November 1977.<sup>1</sup> The leading home countries were the USSR (84 ventures), Poland (65) and Hungary (58), while the leading host countries were the Federal Republic of Germany (54), the United Kingdom (48) and France (42). The principal activities of the ventures were marketing (159 ventures with US\$ 40 million in fixed assets), marketing and distribution (19 with, US\$ 57 million), marketing and services (31 with US\$ 62 million), financial services (23 with US\$ 340 million) and transport services (39 with US\$ 14 million). Only 8 ventures (with assets of US\$ 36 million) did assembly or manufacturing in addition to marketing, and only 5 (with assets of US\$ 25 million) were involved to the extraction and processing of raw materials.

International enterprise organizations (IEOs) are at present the major form of enterprise-level integration of the socialist countries. They are set up by independent enterprises of a specific industry, or subsidiaries, or even enterprises with a specific product line. They can include research institutions and even administrative divisions of an industry ministry. Their objectives are to promote co-operation and integration in specific industries among socialist countries, and to carry out common activities in research, production services and trade. The first IEO was established in shipping in 1970, and by 1976 there were five

<sup>1</sup>United Nations, Centre on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination*, New York, 1978. See tables III-70 and III-71.

IEOs in operation. They operate as rather loose associations of independent partners who exchange information about market conditions, research accomplishments and production goals.

Socialist joint enterprises (SJE), on the other hand, are jointly-owned companies with participants from two or more socialist countries. The first SJE, "Haldex", was established in 1959 by Poland and Hungary, to apply Hungarian technology to the processing of waste from coal-mine dumps in Poland. By 1976, five SJE were in operation: three in mining and mineral processing, one in transportation and one in manufacturing (textiles);<sup>2</sup> since then, a sixth enterprise, in transportation, has been established. The textile enterprise "Friendship", set up by Poland and the German Democratic Republic in 1972, is the only one in the consumer goods area. Five of the six are bilateral and one is multilateral. The latter, established in 1978 by an intergovernmental agreement between Bulgaria, Hungary, the USSR and Czechoslovakia, is called "Interlichter", and it transports goods between the ports on the Danube and those on the Black Sea and the Mediterranean.

SJE act as independent corporations which control and manage the assets contributed by their members; they are jointly managed organizations whose participants share in the profits or other forms of appreciation of the resources invested. They have a varied sphere of activity, contributing in particular to close co-operation and specialization in production activities, particularly in the services, chemical and engineering industries and in the extraction and preliminary processing of raw materials. The important feature is that they participate in the development and integration of their member countries and are able to function in a sustained and efficient manner.

A typical example of a successful SJE is "Haldex", mentioned earlier, which between 1970 and 1980 produced 3.1 million tons of coal by processing waste.<sup>3</sup> Except for the first two

years, the company has worked at a profit. It now has seven plants and employs over 1 000 workers. The Hungarian patent is being used in the United Kingdom, Belgium and Turkey, and many countries (including the USSR and the USA) have sent samples of their coal-mine wastes to "Haldex" to determine if its technology is applicable.

Socialist joint enterprises seem likely to assume increased functions and responsibilities in the coming years. They can offer bigger and more varied supply and are able to use large-scale marketing strategies and specific trademarks: all this makes for competitiveness in the West and constitutes an additional incentive for the creation of more SJE. For instance, one of the objectives of "Erdenet", established by the USSR and Mongolia in 1973 for the joint extraction of copper and other minerals, was to provide better access to Western markets for Mongolian products. Up to the present time, however, exports of SJE to the West have been marginal.

Still, no SJE are set up exclusively to export to the West, the specialization and division of labour in the socialist countries being the primary consideration in their establishment. With the State as sole owner, investment funds can always be optimally allocated for economies of scale, and the lesser gravitation of SJE, as compared to transnational corporations in the West, is not due to lack of interest or lower level of economic development, but to the fact that in the centrally-planned economies similar advantages can be derived from alternatives less integrated types of international economic co-operation.<sup>4</sup>

The establishment of SJE, despite these advantages, faces a number of practical difficulties arising from the different laws and systems in the various countries as to legal status, accounting, control measures and determination of efficiency and profits. This is why SJE almost always start as bilateral undertakings. Given the diversified needs and resources of the participating countries, fuller integration will require the abandonment of a perfectly

<sup>2</sup>D.A. Arnold, *International Economic Organizations of Socialist Countries Economic Co-operation among CMEA Member Countries*, Vol. I, 1976, p. 95.

<sup>3</sup>Vratislav Valek, "Joint Enterprises of CMEA Member States", *Nedelna Pravda*, 29 February 1980, p. 5.

<sup>4</sup>Leon Zurawicki, *Multinational Enterprises in the West and the East*, Sijthoff and Noordhoff, the Netherlands, 1979.

symmetrical structure of the SJE and the institution of a system of unequal shares.<sup>5</sup>

Let us now turn to East-West industrial co-operation. This represents the most significant opening of the East to the internationalization of the production and marketing of goods and services, and it has expanded both quantitatively and qualitatively during the last decade: the size of the projects has increased, and new and more complex forms of operation—such as joint ventures—have been utilized. Perceived mutual benefits account for this expansion. The East seeks increased technology inflows, foreign exchange and access to Western markets, while Western enterprises seek new markets, trained manpower and lower production costs. Both seek to benefit from the advantages in efficiency resulting from the internationalization of research, production and marketing, in a manner compatible with their different economic and social systems.

Industrial co-operation has taken four main forms:<sup>6</sup> supply of plants and equipment, with payment in the resultant products; co-operation in production and marketing; project co-operation, and joint ventures.

The supply of plants and equipment usually involves complete plants and related services, to be paid for in products made by the plants or raw materials extracted with the help of the equipment. Related services may include assembling the plants and putting them into operation, as well as training of personnel. Co-operation may also include exchange of information, joint research and joint marketing. Such co-operation is also in the interest of the supplier, who is going to be paid with the products of the plant.

A 1977 survey showed that although only 20% of industrial co-operation contracts were of this type, many were large-scale, long-term compensation agreements which in value terms exceeded 80% of the total industrial co-operation for several countries. Such agreements offer economic advantages to both parties much beyond the traditional types of barter

agreement. To the East, they provide stable contract terms (5-10 years normally, even up to 20 in some cases) that fit in well with 5-year plans and long-term programmes of economic development; furthermore, they often provide Eastern firms with extra-industrial capacity which increases their export potential. To the West, they open new export prospects and assure long-term supplies of raw materials and energy for productive activities.

The first industrial co-operation agreement was signed in 1968 and provided for the supply of Soviet natural gas to Austria in exchange for Austrian steel pipes, equipment, and the construction of a gas pipeline in the USSR. The second was signed in 1969 and provided for the USSR to buy forestry equipment from Japan and pay for it with forest products. Agreements similar to the one with Austria were later signed with Italy, France and the Federal Republic of Germany. Later agreements include the construction of processing plants (sulphur, caustic soda, potassium, nitrates, fertilizers, petrochemicals, etc.) and mineral complexes (iron, steel, aluminium, copper), and involve the majority of the socialist countries and of the industrial countries of the West. Recent statistics show that the total value of this type of contracts signed between 1968 and 1978 amounted to US\$ 16 750 million. The main areas of co-operation were chemical products (US\$ 8 000 million), gas (US\$ 3 500 million) ferrous metals (US\$ 2 500 million) coal (US\$ 1 250 million) and timber and wood pulp (US\$ 750 million).<sup>7</sup> An itemized listing of transactions of this type between the East and the West can be found in a report submitted to the United States Congress.<sup>8</sup> At present under negotiation is the most ambitious project yet: a natural gas pipeline from Siberia to Western Europe that would involve loans to the USSR of US\$ 10 to US\$ 15 billion to cover construction costs and the provision of Western technology and equipment, in return for the supply of 40

<sup>5</sup>*Ibid.*

<sup>6</sup>Economic Commission for Europe, Joint UNCTC/ECE Unit, *East-West Industrial Co-operation* (United Nations Publication, Sales No. E. 79. IO. E. 25, New York, 1979).

<sup>7</sup>Economic Commission for Europe, Joint UNCTC/ECE Unit, *A Quantitative Survey of the Development of East-West Industrial Co-operation*, TRADE/R. 408, 19 September 1980.

<sup>8</sup>"East European Economies Post-Helsinki", a compendium of papers submitted to the Joint Economic Committee of the US Congress, US Government Printing Office, Washington, 1977.



billion cubic metres of natural gas per year as from 1986. The project would increase the percentage of USSR gas used in Western Europe from 9% to 25% of the region's total consumption.<sup>9</sup>

As may be seen, the majority of the compensation agreements thus far have been in the energy sector and in the extractive and processing sector, but the manufacturing sector may account for an increasing share in coming years, as energy resources become depleted and the capital intensity of the sector rises. Socialist policy-makers have repeatedly stressed their preference for co-operation in sectors involving a high degree of processing, such as manufacturing, which also provides the access to foreign technology and third markets which the socialist countries are particularly interested in obtaining. Estimates of the number of contracts in the manufacturing area are only available for Austria, Czechoslovakia, Hungary, Sweden and Switzerland, and even these data are not easily comparable. Still, extrapolating from Hungarian data, an estimate of 1 000 contracts can be made for the total of East-West agreements in manufacturing.<sup>10</sup> The USSR's draft plan for 1984-1988 does not seem to indicate very active Soviet participation in agreements of this type however.

The second type of co-operation is that related with production and marketing, ranging from simple subcontracting to co-production and sophisticated specialization. In this type of agreement, both parties seek to utilize their competitive advantages, increase the scale of operations, use more fully existing capacities and ensure adequate market penetration. Technical assistance and credits are often included, but not risk or profit sharing. Although accounting for only 3% of East-West trade, agreements of this type cover 9% of East-West trade in machinery.<sup>11</sup>

Project co-operation, the third type, can refer either to joint tendering or tripartite projects. Joint tendering consists of East-West co-

operation for the delivery of plants or production lines and the construction of infrastructure to a third country; it may also involve risk and profit sharing arrangements. Its advantages lie in both cost and capacity utilization considerations. Tripartite projects also involve a third party, but this party is not merely the recipient of goods and services, but an active participant which may, for example, execute civil engineering works or supply certain kinds of equipment.

Joint ventures, the fourth type of industrial co-operation, involve joint contribution of assets, joint management, and sharing of profits and risks according to a previously agreed formula. There are different types of joint ventures in different regions. Those located in East European countries are a relatively new phenomenon, and in fact, to date only Hungary, Poland and Romania allow a limited form of foreign investment. Technology inflows and access to Western markets are the primary consideration for the East; Western enterprises see joint ventures primarily as a device for penetrating the market of the recipient countries, but also as a way of reducing cost. As of mid-1978, there were nine joint ventures in Romania, three in Hungary and none in Poland. In contrast, Yugoslavia had more than 150 contracts, with foreign participation amounting to US\$ 400 million. Joint ventures located in the West considerably outnumber those in the East: by mid-1978 they numbered 239 (excluding banks and other financial institutions), established in the West by seven socialist countries.<sup>12</sup>

Finally, there are also joint ventures established in developing countries through tripartite arrangements. Their number is small but increasing, most of them being in the Maghreb and the Near East (over 50%). The percentage in Latin America decreased from 10.5% in 1965-1975 to 5.7% in 1976-1979,<sup>13</sup> but the continued growth of East-West industrial co-operation, may result in an increase in East-South economic relations. The stress put in the East on the satisfaction of the basic needs of a relatively poor mass consumer may be of interest to

<sup>9</sup>*Time Magazine*, 15 February 1981, page 71.

<sup>10</sup>Economic Commission for Europe, Joint UNCTC/ECE Unit, *A Quantitative...*, *op. cit.*

<sup>11</sup>Economic Commission for Europe, Joint UNCTC/ECE Unit, *East-West...*, *op. cit.*

<sup>12</sup>*Ibid.*

<sup>13</sup>Economic Commission for Europe, Joint UNCTC/ECE Unit, *A Quantitative...*, *op. cit.*

developing countries striving to satisfy their peoples' basic needs by a more even distribution of their national incomes; and inflows of Western technology might in their turn enhance exports from the East to the South. The developing countries, for their part, may well find that consumers in the East provide a more ac-

cessible market for their industrial products than the more sophisticated consumers in the West, and here again, Western technology might help the abundant and less expensive labour in the South to produce the consumer goods which the East is now demanding in increasing amounts.

## II

### The South

Two developments characterize efforts in the South towards the internationalization of production and marketing: the creation of State enterprises with international activities and the expansion abroad of Third World private firms. Both provide a certain degree of countervailing power *vis-à-vis* TNCs and thus contribute to the small 'closing of the door' to which we referred in the introduction. In this section we shall first discuss the general nature of these two developments, and then briefly survey their development throughout the Third World, with particular emphasis on the experience in Latin America.

Third World State-owned enterprises have been expanding abroad, but this is not the main reason for their establishment. Analysis of the reasons why they were set up shows that such enterprises can have effects on the internationalization of production independently of any expansion abroad. Modern State enterprises have outgrown the public utilities field and range over a wide spectrum of roles and activities. They have been used as fiscal agents, to sell at high monopoly prices, by at low monopoly prices, or subsidize the sale of basic commodities at reduced prices: all functions which a ministry could handle, but probably less efficiently. They have also served to carry out needed activities which the private sector could not or would not carry out, or which the country did not want foreign-owned companies to control. They have been used to improve terms of trade by acting as sole agents for the country in international trade, or to guard balance-of-payments equilibrium by representing their country in bilateral trade agreements.

They have also served as agents of national industrial policy, setting up industries in backward areas, helping obsolete industries either to survive or die gently, softening both structural and cyclical changes, and limiting price rises in sensitive products or services. Numerous examples can be provided of enterprises in both industrialized and Third World countries which carry out these various functions.<sup>14</sup>

Some of the probable —but not yet demonstrated— international implications of the expansion of State-owned enterprises are: a greater emphasis on purchases from local suppliers; greater efforts to increase exports, if necessary by selling at reduced prices; reluctance to lay off workers, even in periods of economic downturn; a sales policy in which long-term national objectives —such as reduced sales of non-renewable resources— may outweigh short-term profits; reluctance to invest in facilities abroad or to adapt products to foreign tastes because of political sensitivities at home; a greater propensity to establish links with other State-owned enterprises, rather than with TNCs; a preference for longer-term agreements and cartelization rather than international vertical integration; and a tendency to seek new types of agreements with TNCs, be it to reach distant markets, secure sophisticated technology, or even to increase their autonomy *vis-à-vis* their own home governments. The decisions of these enterprises, it must be kept in mind, may be influenced by a number of

<sup>14</sup>Raymond Vernon, "The International Aspects of State-Owned Enterprises", *Journal of International Business Studies*, Winter 1979, AIB/Rutgers University.

considerations: a board of directors with members of different political persuasions and with the short tenures characteristic of political life, rivalries with government ministers and bureaus for greater independence, and conflicts between economic and political considerations.

Latin American State multinationals represent the most deliberate effort to acquire bargaining power *vis-à-vis* TNCs through regional joint ventures. They usually operate in strategic areas, such as the export of basic commodities, the development of transport infrastructure or the purchase of strategic inputs. Many arise from bilateral arrangements for the joint exploitation of natural resources, building and operating international pipelines, joint administration of railroads and interconnexion of electrical systems. By joining forces, the partners in the venture can overcome financial or marketing barriers to entry into oligopolistic sectors or activities where economies of scale are significant. Occasionally, some Latin American joint ventures have invited a third firm, from an industrialized country, to participate in order to provide needed new technology or better access to external markets. If such partners are properly selected, all can benefit from the arrangements. TNCs have not been slow to recognize the opportunities offered by these and other novel arrangements.

A recent study illustrates the increasing importance of State enterprises in Latin America. The share of public ownership in the local economy of Venezuela reached 60% in 1975, while it was 32% in Peru (1975) and 35% in Brazil (1974). The corresponding figures for Japan (10% in 1960), the United States (15% in 1960) and the United Kingdom (25% in 1962), show the greater importance of State enterprises in the developing countries. The study also identifies important similarities and differences between State enterprises and TNCs. First, both have large operations and a high degree of monopoly power and leadership in the markets in which they operate (in 1970 the government share of national investment was 52% in Brazil and 35% in Mexico); the investment is concentrated in a small number of strategic sectors (e.g., in Mexico for 1971-1976, 46% went into oil and petrochemicals, 32% into electricity ge-

neration and 13% into steel); the absolute value of the investments is often comparable to those of TNCs (PEMEX plans to invest US\$ 15 billion in 1977-1982). Secondly, both State enterprises and TNCs tend to participate in relatively high-technology dynamic sectors, where mere ownership is not enough to guarantee control. A large percentage of the goods and services involved in the State enterprise investment must be imported (60% in the case of PEMEX, 80 to 90% in relatively less developed countries), which often means that total TNC business through the sale of specialized goods and services can match or even exceed the corresponding figures for all wholly-owned foreign subsidiaries in the remaining industrial sector (so that these figures could, therefore, grossly underestimate the extent of TNC involvement). The *ad hoc* nature of the negotiations and agreements between State enterprises and TNCs represents a field where much research is needed.<sup>15</sup>

Latin American integration efforts have thus far had only a marginal effect in promoting intra-regional joint ventures. Evidence seems to show that TNCs have been the main beneficiaries of integration to date.<sup>16</sup> SELA seems to be succeeding in setting up a few joint ventures through decentralized 'action committees' in various countries, with strong tutelage or participation by the public sector.

In general, the main motivation behind the expansion abroad of Third World firms has much in common with certain basic motivations of TNCs: the search for new markets and for assured sources of raw materials. Third World firms, however, may have more specific motives: in countries with strict controls of foreign exchange, expansion abroad provides a practical way to accumulate needed foreign exchange in other countries; in countries with small markets, or in those which restrict growth to certain permissible levels of production, it may be the only way to continued growth. Decreased risk from diversification across bor-

<sup>15</sup>Constantine Vaitsos, *State Enterprises and Transnationals in Latin America*, United Nations, Centre on Transnational Corporations (forthcoming).

<sup>16</sup>United Nations, Centre on Transnational Corporations, "Regional Integration and the Bargaining Capacity of Developing Countries", New York, 1980.

ders, and preservation of export markets threatened by protective measures to foster local production, may also be strong incentives. Ethnic reasons may also play a role in certain cases.

What characteristics of these Third World firms allow them to compete with the much larger transnational corporations? Third World firms thrive in industries or segments of the market where cost of production is high and economies of scale are not so significant as to preclude small scale operations; TNCs prefer to produce goods in which their oligopolistic position prevents over-intense price competition. Third World firms are also more amenable to entering foreign markets by setting up joint ventures with local partners, either because of their greater awareness of local political sensitivities or because of home country restrictions on the export of capital. In addition, frequently subsidiaries of Third World firms soon start operating on their own, and do not maintain the close ties to headquarters that make TNC subsidiaries permanent agents of a global strategy. Superior ability to adapt technology to small-scale production and to transmit the acquired experience, faster investment decisions, and the ability to save on management and engineering personnel costs are also frequently mentioned as likely advantages of Third World firms. The reduced asymmetry between investor and host country, the greater receptivity to local participation in the ventures, and the lesser emphasis on global optimization, however, seem to be the key to their current expansion abroad.<sup>17</sup>

Before turning to a survey of the existing situation, it must be noted that statistics on this subjects are hard to come by. Few countries disaggregate their investment figures to this level, be it as host countries or as home countries, and even when available these figures underestimate the investment, for local partners usually supply a major portion of the capital. In addition, investment figures usually do not provide information about the real source of

the investment: funds apparently coming from a developing country may really be coming from the subsidiary of a transnational corporation in that country. Tax heavens may also produce distortions. Some representative figures, nevertheless, may be useful:

(a) In Indonesia, if mining and petroleum are omitted, Hong Kong is second only to Japan as foreign investor, Philippines is third, Singapore seventh and Korea eighth, while Asian developing country investors together stand above Japanese, North American or European investors. Of 360 firms granted promotion status in Thailand between 1966 and 1973, 93 were from Taiwan, 16 from Singapore, 15 from India, 10 from Malaysia and 5 from Hong Kong; 36 listed in the 'others' category were probably mostly from developing countries too. In the Philippines, Chinese investors accounted for 413 million of the 2 829 million pesos of foreign investment approved between 1968 and 1974.<sup>18</sup>

(b) India has 110 joint enterprises operating in over 35 countries, and 87 in various stages of implementation. Main host countries are Malaysia (36), Indonesia (18), United Arab Emirates (17), Kenya (14), Nigeria (12), United States (10), and United Kingdom (6). The main activities of these enterprises in developing countries are in engineering products, capital goods and shipping, while in developed countries they are in hotels, restaurants and food processing, although there are also a few manufacturing enterprises.<sup>19</sup>

(c) Seventeen out of 29 foreign-owned companies in textiles and related fields in Nigeria have owners from other developing countries; the same is true of 3 out of 6 companies in cocoa, chocolate and sugar confectionery, 4 out of 10 in structural metal products, 4 out of 7 in furniture and fixtures and 4 out of 4 in miscellaneous chemical products.<sup>20</sup>

<sup>18</sup>*Ibid.*

<sup>19</sup>Ram Gopal Agrawal, "Third World Multinationals: Indian Experience", paper presented to Seminar on Third World Multinational Corporations, East-West Center, Honolulu, September 1979.

<sup>20</sup>C.N.S. Hambudiri, O. Iyanda, D.M. Akinnusi, "Third World Country Firms in Third World Developing Countries: The Nigerian Experience", paper presented at the same seminar mentioned in footnote 19.

<sup>17</sup>Louis T. Wells Jr. "The Internationalization of Firms from Developing Countries", in Tamir Agmon and C.P. Kindleberger (eds.) *Multinationals from Small Countries*, Cambridge, The MIT Press, 1977.

(d) South Korea has 150 international firms operating in 44 countries, 77% of them in developing countries. Korean private investment abroad increased from US\$ 64 million (103 cases) in 1976 to US\$ 150 million (245 cases) in 1978. Nearly 50 South Korean construction companies are operating in 25 developing countries: in the Middle East alone there were 30 companies with over 60 000 workers and US\$ 8 million worth of contracts in 1979.<sup>21</sup>

As regards Latin America, the statistics for nine countries (see table 1) show that intra-regional direct foreign investment amounted to about US\$ 350 million at the end of the 1970s: somewhat over 1% of total direct foreign investment in the region. Many of the countries are both sources and recipients of such investment. As sources, Argentina is first in Brazil and second in Ecuador, Mexico and Venezuela; Brazil is first in Bolivia and Chile; Venezuela is first in Colombia, Mexico and Peru; Chile is first in Ecuador; Uruguay is second in Brazil and Peru, and Colombia is first in Argentina. Overall, Argentina and Brazil are the main source countries. Mexico is probably also an important source, but statistics for Central America, where most Mexican investment occurs, are

not available and in South America Mexican investment is not significant. The less developed countries, as might be expected do not have large investments abroad. As recipients, both Argentina and Brazil are important, but so are some less developed countries such as Ecuador. Geographical proximity has a decided influence: 36% of Colombian investment is in the Andean region and Panama, 30% of Argentinian investment is in Brazil and 30% in Uruguay; 50% of Chilean investment is in Argentina, Ecuador and Peru. Manufacturing investments clearly predominate, and joint ventures with local partners constitute the preferred modality. Other data show that the rate of growth of intra-regional investment in the last ten years has been significant.<sup>22</sup>

As we look at all these figures, however, their low absolute value must not be forgotten. With few exceptions, the international activities of Third World enterprises, by world standards, are still embryonic. To pretend otherwise might put them in an unequal struggle with small chances of survival.

<sup>21</sup>Kyung-Il Ghymn, "Multinational Enterprises from Third World", presented at the above seminar (see footnote 19).

<sup>22</sup>Eduardo White, *Latin American Joint Ventures: A New Way to Strengthen the Bargaining Power of Developing Countries vis-à-vis Transnational Corporations*, United Nations, Centre on Transnational Corporations (forthcoming).

Table 1

## INTRA-REGIONAL DIRECT INVESTMENT IN LATIN AMERICA

*(Accumulated flows recorded,\* in thousands of dollars)*

Countries of origin	Host countries									(Total)
	Argentina <sup>a</sup> 8/1976	Bolivia <sup>b</sup> 1976	Brazil <sup>c</sup> 6/1976	Colombia <sup>d</sup> 12/1978	Chile <sup>e</sup> 8/1978	Ecuador <sup>f</sup> 12/1977	Mexico <sup>g</sup> 12/1978	Peru <sup>h</sup> 12/1977	Venezuela <sup>i</sup> 12/1978	
Argentina	*	441	20 031	1 062	662	10 846	986	1 771	2 058	(37 857)
Bolivia	2 605	*	17	5	133			431	49	(3 240)
Brazil	16 889	1 301	*	2 404	13 969	4 752	734	949	338	(41 336)
Colombia	22 043	—	244	*	50	10 347		695	1 499	(34 878)
Chile	355	271	273	195	*	11 097	218	1 240	82	(13 731)
Ecuador	—	—	148	17 620	100	*	—	825	21	(18 714)
Mexico	762	—	7 650	4 142	2 552	4 771	*	1 156	1 846	(22 879)
Paraguay	—	—	1	—	—	—	—	—	77	(78)
Peru	8	594	14	1 719	47	1 186	133	*	193	(3 894)
Uruguay	7 930	—	16 475	1 110	300	—	—	2 256	3 811	(31 883)
Venezuela	10 090	—	13 333	26 123	5 697	5 525	1 205	2 011	*	(63 984)
Other Central American countries	—	—	194	278	82	9 776	—	38	933	(1 525)
<i>Total</i>	<i>60 682</i>	<i>2 607</i>	<i>58 380</i>	<i>54 659</i>	<i>23 592</i>	<i>58 300</i>	<i>3 276</i>	<i>11 372</i>	<i>10 907</i>	<i>(273 999)</i>

Source and notes:

\*By host countries.

<sup>a</sup>Investments declared up to August 1976. Data supplied by the Department of Foreign Investments of the Ministry of the Economy. No data available for the period 1 September 1976 to 1 March 1977. A total of US\$ 27 426 000 was approved from September 1976 to September 1979 (Brazil 20 632 000, Uruguay 4 917 000, Venezuela 829 000, Costa Rica 848 000, Guatemala 200 000).

<sup>b</sup>Direct foreign investment approved by the Industrial Promotion Agency (INI) between 1972 and 1976. Covers only part of the investment in the industrial sector.

<sup>c</sup>Bulletin of the Central Bank of Brazil, December 1978.

<sup>d</sup>Foreign Exchange Office, Banco de la República. Does not include investments in the oil industry.

<sup>e</sup>Foreign Investments Committee, period from 1974 to 11 August 1978.

<sup>f</sup>Central Bank of Ecuador, Balance of Payments Unit. Direct research on accumulated investment.

<sup>g</sup>Department of Foreign Investments and Transfer of Technology: "Sociedades mexicanas con participación de capital de países de la ALALC". Calculated at an exchange rate of 22.767 pesos per dollar, corresponding to the average for 1978.

<sup>h</sup>CONITE - Ministry of the Economy and Finance. Calculated at an exchange rate of 83.81 soles per dollar corresponding to the average for 1977 (IMF, *International Financial Statistics*).

<sup>i</sup>Superintendency of Foreign Investments, Ministry of Finance. Does not include investments in oil, tourism, banking and insurance (IMF).

## III

## Conclusions

What guidance can developing countries derive from this survey of recent developments in the East and South? This question is hard to answer without knowing what orientation developing countries want, and this in turn requires that the countries define what kind of development they want: economic system, income distribution, consumption patterns, industrialization goals, food and energy policies,

desired level of national and collective self-reliance, degree of reliance on foreign investment and loans and on foreign markets. In the light of these objectives they will then have to decide the goods and services they need, whether to import them or produce them, and in the latter case, whether to set up a national enterprise or rely on a subsidiary of a transnational corporation. If the decision is to call in a

TNC, then the desired arrangement with it will have to be decided, since many new modalities have recently been developed.

The importance of clear objectives and strategies cannot be overemphasized. As the Cheshire cat told Alice: if you don't know where you want to get, it doesn't much matter which way you go. But answers to the questions raised in the previous paragraph call for difficult choices between short-term and long-term objectives and between national and regional development plans. It is often difficult for a poor country to sacrifice present consumption for the sake of future generations, and yet history shows that unless a country invests in its future, it will fall behind. It is also difficult to persuade the people of a country that regional development may be more to their advantage than the installation of a particular project in their country, yet modern production methods require much larger economic units than those provided by most developing countries. The transnational corporations, with which the developing countries have to negotiate many aspects of their development plans, know exactly what they want. Likewise, agreed objectives and regional solidarity seem to be the surest ways to strengthen the bargaining capacity of developing countries, particularly the smaller and less advanced ones. But even if a country decides to go its own way, clear awareness of its goals and its options is essential. The first step to development is knowing what you want.

Since every developing country has its own objectives we shall postulate a set of these in order to derive some conclusions from our survey; other objectives could, of course, lead to different conclusions. Following the lead of a distinguished Third World scholar,<sup>23</sup> let us assume the following scenario. A change in international structures is coming. The future markets and labour surplus lie in the South and the underutilized capital which the North continues to amass needs to reckon with this reality. National orders within the Third World adapt to the needs of their own peoples, led by pressure from their explosively growing cities and an intensive process of internal migration.

<sup>23</sup>Mahbub ul Haq, "Negotiating the Future", *Foreign Affairs*, Washington, Winter 1980, Vol. 59, No. 2.

Major changes in life-styles and industrial and trade patterns occur in the industrialized countries as rising energy costs cut into their comparative advantage in energy-intensive agriculture and industry. Third World countries strive for balanced development of their agriculture (including self-sufficiency in basic foods) and their industry (including national and collective self-reliance), with a view to greater internal equity within nations and external equity among the countries and regions of the world.

In this context, it seems that the growth of East-West industrial co-operation and the international expansion of Third World State and private firms surveyed in this article, although still embryonic, have solid roots and will acquire increasing significance. The sharp boundaries between an expansive industrial West, a hermetic East and a passive South, mere provider of raw materials and markets to the West, will blur as it becomes evident that effective and mutually beneficial co-operation can exist between countries with different economic systems and different levels of development. Transnational corporations have shown surprising adaptability to co-operate with countries with planned and regulated economies where only non-equity forms of participation are open to them. They have also shown ability to respond to Third World demands for greater control over TNC subsidiaries, greater linkages between the subsidiaries and the local economy, and growing accommodation between TNC activities and those of Third World State and private enterprises. The variety of business arrangements developed testify to this flexibility: joint ventures, with varying degrees of sharing of risks and benefits, control and decision-making; special contractual agreements, where the TNC bears all the risks and the share of benefits is determined by negotiation; technology, management and marketing arrangements, where the domestic enterprise owns the venture, bears all the risks and gains all the profit, with payment to the TNC according to an agreed formula; and subcontracting, co-production and specialization agreements, where long-term relationships in production and marketing exist, but there is no sharing of control decision-making, risks or profits.

In the same context, it is clear that the

South can profit from the experience of the East in their dealing with TNCs. Much of the East's success in negotiations derives from clear economic and development policies, unified bargaining—be it for the setting up of plants or for the sale or purchase of goods—and a strong administrative infrastructure. The ability to 'unbundle' the package offered by TNCs and to bargain only for the really needed items is another area where developing countries can study with profit the experience of the East. The ability to effectively monitor the implementation of agreements is another such area. In the institutional aspect, the experience of the East with State enterprises, even though carried out in different economic and political settings from those existing in most countries of the South,

may still be of interest. This may be even truer of the socialist efforts to develop international enterprise organizations and socialist joint enterprises and the potential lessons to be learnt from these examples in respect of multinational enterprises such as those the Andean Pact and SELA have been promoting.

The main lesson that the South can learn from the East, however, does not refer to specific modalities or institutions. The situations are too different to permit copying or imitation. The really important lesson is that regarding the potential of a region to plan its own way of doing things and satisfying its needs, and of successfully bargaining with other regions for an equitable distribution of the world's resources and production.





## Transnationals and mining development in Bolivia, Chile and Peru

Jan Kñakal\*

With the aim of taking greater advantage of their non-renewable natural resources, the governments of Latin America have made substantial changes in the production structure of the mining sector since the end of the war, expanding the share of the State in this sector's activities and applying active policies as well as carrying out negotiations with the transnational corporations which have traditionally been in control of the sector. In the absence of any national private enterprises with the necessary financial, technological and administrative capacity, the State has been obliged in some countries to undertake entrepreneurial functions and to establish public enterprises to mine, process and market minerals. In spite of this, however, in many cases dependence on the transnational corporations has persisted, especially in the fields of technology and world-level marketing.

This study analyses three types of experiences by the mining countries of Latin America: the promotion and supervision of transnational corporations in the boom period of large-scale mining, with particular emphasis on the case of the agreements between the Peruvian Government and the Southern Peru Copper Corporation and their subsequent renegotiation; the change of ownership of the mining industry in Chile, with the 'Chileanization' and nationalization of that country's copper industry; and finally the experience of the Bolivian public sector in the integration of mining and metal production. While admittedly dealing with only a small number of experiences, the study only seeks to bring out, those factors which went furthest to strengthen the capacity of the three countries in question for negotiation and action and which resulted in greater benefit for their economies. At the same time, the study does not exclude from consideration the negative experiences or errors committed in these processes: on the contrary, it seeks to contribute to the regional exchange of both positive and negative experiences on the preparation and execution of mining policies, especially among countries whose export and fiscal revenues are substantially affected by these economic activities.

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## I

### Promotion and supervision of the transnational corporations in the boom period of large scale mining: the agreements between the Peruvian Government and the Southern Peru Copper Corporation\*

The beginning of the development of large-scale mining in Latin America was characterized by a notable imbalance between the bargaining powers of the governments and the transnational corporations. The former wished to take maximum advantage of the potential of their 'Primary capital' of natural resources in order to increase the well-being of their peoples, but they did not have the necessary domestic saving, technology or independent entrepreneurial groups to undertake projects of this scale. The criterion therefore prevailed whereby foreign investment in large-scale mining was considered as *additional* rather than *substitutive* (a feature which is frequently attributed to it in manufacturing). The transnational corporations laid great stress on the factors which were lacking in the peripheral country; with the purpose of gaining control

\*This study is based on the research carried out in the Unit as part of the interregional project on strengthening the bargaining power of host governments in their dealings with transnational corporations in primary export commodities, and it is based in particular on Juan Eduardo Herrera and Carlos Vignolo, *El desarrollo de la industria del cobre y las empresas transnacionales: la experiencia de Chile* (E/CEPAL/R.239); Fernando Sánchez Albavera, *Políticas y negociaciones con las empresas transnacionales en la industria del cobre en el Perú* (E/CEPAL/R.240); Juan Kñakal, *Vinculaciones de las empresas transnacionales con la industria del estaño en Bolivia* (E/CEPAL/R.249), and also Benny Widyono, "Transnational corporations and export-oriented primary commodities", *CEPAL Review*, first half of 1978, and "Report on transnational corporations in primary export commodities", Interregional Meeting, Bangkok, 8-15 October 1979 (CTC/ESCAP/PEG/12). The author wishes to express his thanks for the valuable comments of A. Gurrieri, A. Núñez del Prado, A. Orlandi, R. Sanz Guerrero and other CEPAL colleagues, while stressing that the views expressed in this paper are of course entirely his own responsibility.

over supplies of strategic materials for the industrialized world and trying to maximize their profits and minimize—or rather secure the maximum possible compensation for—the foreseeable risk deriving both from the scanty possibility of exactly forecasting the mineral yield of a project and the presumed uncertainty about the durability of the original political commitments assumed by the host government. The small oligopolic group of transnational mining corporations<sup>1</sup> had at its disposal in the peripheral countries great reserves of minerals and was able both to choose the deposits with the greatest metal content and to establish itself in those countries whose governments offered additional advantages through 'promotional' and exceptional treatment. In these circumstances, at different times and in different places, Patiño, Anaconda, Kennecott and ASARCO (together with Cerro Pasco Corporation, Phelps Dodge and Newmont Mining) set up large-scale tin mining in Bolivia and copper mining in Chile and Peru with the same main impact of opening up to these countries new sources of foreign exchange and fiscal income: conditions which subsequently became determining factors for their development (at the end of the 1970s, the contribution of the mining sector to total export and fiscal income was 71% and 25% in Bolivia, 53% in Chile and 40% and 12% in Peru.<sup>2</sup> On the other hand, the same positive phenomenon led to dependence on unstable markets, while the distribution of the profits of mining between the parties—particularly at times of favourable prices—showed a disproportional bias in favour of the transnational corporations.

Furthermore, the excessive income which the transnational corporations appropriated for themselves was not capitalized in local mining or metal production, where it originated, but was increasingly concentrated, in keeping with the global strategy of the transnational corpo-

rations, in the industrialized countries; thus, during the period 1967-1975, the share of the latter countries in the direct investment of the United States transnational mining companies increased from 58% to 67%.

Let us now examine some outstanding features of the liberal or promotional treatment accorded to the transnational corporations, whose investments led to the boom period of large-scale mining in the three countries in question, with special attention to the case of the Peruvian agreements on copper.

On the one hand, the mining codes held that the minerals in the soil and the subsoil are the property of the State, but on the other hand a system of very advantageous concessions was instituted for investors which gave them the right to use, enjoy and freely dispose of the product of their activities in the areas given to them under concession for a practically indefinite length of time (50 years or more), with guarantees of tax and exchange stability. The investors paid a very small land rent which enabled them to maintain large areas indefinitely without being exploited, as part of their world reserves for possible exploitations, while the host State, in practice, lacked the capacity to question or annul a concession.

The tax régimes applied during the boom period of large-scale mining gave foreign investors a number of advantages which facilitated the rapid recovery of their investments and high and stable profits. The taxation of profits was excessively low (between 6% and 25% of the taxable amount), while the effective rate of tax was even lower because of various types of deductions and exemptions. A typical deduction was based on the 'depletion' factor of the deposits exploited by the transnational corporations, even though the non-renewable resource was the property of the State. Under these arrangements, the enterprises were allowed to deduct, free of all charges, 15% and in exceptional cases even as much as 50% of their profits, although they were, it is true, obliged to reinvest the amounts corresponding to this deduction. Investors were also permitted to make accelerated depreciation reserves in respect of machinery and equipment at a rate of up to 20% per year and to readjust their capital to take

<sup>1</sup>Thus, for example, in 1960 seven leading enterprises dominated three-fifths of the world production of copper (see T. H. Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile*, Princeton University Press, Princeton, 1974).

<sup>2</sup>Unless other sources are indicated, the data and calculations presented in this study come from official reports of the countries.

account of variations in the purchasing power of the national currency.

### 1. *The negotiations on Toquepala and Cuajone in Peru*

The Toquepala contract signed between the Government of Peru and the Southern Peru Copper Corporation in 1954 was a typical case of the application of a mining code which was liberal and advantageous for the transnational corporations. Under this contract, the investment was granted the exceptional treatment of being considered as a 'marginal deposit', thus permitting the investor to pay only 10-20% of the taxes on profit. The Toquepala deposit was considered as marginal without taking into account the situation of some similar deposits in other countries. With its average copper content of 1.7% during the first year of operation and 1.3% even six years afterwards, it had metal contents higher than almost all the open-cut mines operated in the United States.

In 1966 the investigating committee of the Peruvian Parliament also identified other irregularities in the behaviour of this foreign subsidiary, including the use of double book-keeping with substantial differences between the balances submitted to the Superintendent of Taxation of Peru and those submitted to the Securities and Exchange Commission in the United States. Thus, for example, the first set of figures reflected an over-valuation of US\$ 66 million in expenses and US\$ 44.5 million in the estimate of the depletion factor of the reserves. As a result, the contract was renegotiated and its status of 'marginal deposit' was cancelled, but no punishment was inflicted on the enterprise for the irregularities proved by the Parliamentary Commission. This leniency was connected with the Government's interest in arriving at an agreement with the transnational corporation regarding the new Cuajone deposit.

During these new negotiations (1968), the balance of the respective forces was clearly in favour of the transnational corporations. Peru was at that time going through a serious political and economic crisis characterized by arduous negotiations with the International Monetary Fund and foreign banks on the refinancing of

the external debt. The expropriation of the International Petroleum Company by the new military government which took power that year further weakened the position of the Peruvian negotiators in the face of the political and economic pressures of the United States (application of the 'Hickenlooper amendment' against Peruvian exports). In these circumstances, the successful conclusion of the Cuajone contract seemed to be an important condition for gaining the confidence and backing of the international banking community in general and for the financing of this project in particular. This was clear from the broad guarantees and advantages given to the Southern Peru Cooper Corporation and the other financiers of the project, which were based on the former promotional régime for foreign investment, although in various aspects they subsequently proved to be in contradiction with the letter and the spirit of the new mining code which the same government was to promulgate in 1971.

The Cuajone agreement was also a typical example of the new strategy of the transnational corporations, consisting of distributing the risk of the investment among various financiers interested in one way or another in the project. Whereas previously the transnational corporations provided the major part of the investment from their own capital or else had to go seeking credits on the capital market, now the sources of financing were diversified over a broad network of investment and commercial banks, suppliers of equipment and materials, and future consumers of the minerals, all of them coming from various industrialized countries whose governments also provided greater security for the investment through the direct participation of finance agencies, whether of their own country or of international status (but in which they possess most of the capital and the decisive votes).<sup>3</sup> Thus, for the Cuajone investment, which came to over US\$ 600 million, the proprietors of the Southern Peru Copper Corporation subsidiary contributed only 31% of the total and their minority associate, the Billiton

<sup>3</sup>See, for example, N. Girvan, "Corporate Imperialism", in *Conflict and Expropriation*, New York, Sharpe Inc., 1976, and T. Moran, *op. cit.*

Metallurgical Co., provided a further 4%, this contribution of the mining transnationals being almost matched by the credit of the Chase Manhattan Bank (31%) in consortium with 28 United States, European and Japanese banks. Suppliers of equipment and materials, with their banks, contributed 21%, noteworthy within this amount being the participation of the United States Export-Import Bank (9%). Finally, future buyers of the output of Cuajone provided 9% and the World Bank almost 2%. It can easily be seen that this complex and inter-related network of foreign interests represented a maximum safeguard for the foreign investment in the face of any possible unilateral action by the government of the host country, for if the latter went back on the guarantees given to the financiers of the project it would run the risk of trade and financial embargoes and political pressures (which, as we shall see later, actually occurred in the case of Chile).

The tax arrangements for the foreign subsidiary also corresponded to the investment promotion régime which minimized the enterprise's costs because it was given a number of unilateral advantages compared with the régime in force for national investors. The flat rate of tax for the first six years of recovery of the investments was set at the equivalent of 47.5% of the taxable income, increasing to 54.5% for the following six years. The effective rate of tax, however, was much smaller because of various types of deductions such as the already mentioned 'depletion factor', variations in the exchange rate, losses incurred during the five years before the signing of the contract, profits derived from the revaluation of assets, exemption from duties on financial operations, etc. In addition, the transnational corporation enjoyed preferential customs treatment consisting of exemptions from duty and facilities for the temporary importation, sale or re-export of the equipment and machinery imported during the construction stage. The propensity of the transnational corporation to import was also favoured by a clause which did away with the obligation to make local purchases of inputs if these were 'not in keeping' with the technical requirements of the foreign enterprise and if their prices were 25% or more above the level of the CIF value of offers by foreign suppliers.

It is abundantly evident that a mining contract of the size and complexity of that for Cuajone involved a wide range of sectors of the public administration in the supervision of the various aspects of the investment itself, as well as in trade, customs, taxation, exchange rate and other aspects. At the end of the 1960s, Peru did not possess sufficient infrastructure or qualified personnel to supervise and control the compliance with the various undertakings entered into, nor was there sufficient co-ordination between the various State bodies, so that there was a marked sectoralism which adversely affected the definition of a joint strategy for supervising the project. The new mining policy formulated by the Peruvian Government at the beginning of the 1970s sought to surmount these obstacles standing in the way of the proper supervision of the Cuajone agreement and even renegotiate some of its aspects in order to obtain bigger benefits for the country.

## 2. *The 'nationalist' policy of the 1970s and the renegotiation with Southern Peru*

At the beginning of the 1970s, the Peruvian Government adopted as the main objective of its mining policy the fuller utilization of the known reserves by seeking to promote the opening up of deposits not yet exploited; to develop the entrepreneurial activity of the State in the exploitation, refining and marketing of minerals; to promote new types of links with foreign capital, and to guarantee the participation of the mining workers in the private enterprises in the sector.

In order to open up the deposits not yet exploited, the principle of 'no work, no protection', was applied, whereby the concession-holders were obliged to submit new investment projects to the Government for approval. This measure led to the cancellation of over 4 000 mining concessions, among which the most important belonged to such transnational corporations as Anaconda, ASARCO (American Smelting and Refining Corporation), Cerro de Pasco and Lampa Mining.

In order to promote the expansion of the mining sector, the Government set up a public enterprise —MINEROPERU— responsible for carrying out preinvestment studies, nego-

tiating with foreign investors, preparing the projects assigned to the State and supervising the marketing of minerals.<sup>4</sup> Of the large number of deposits which the State had at its disposal as a result of the principle of 'no work, no protection' it only proved possible to put into operation and finance with foreign credits a single mine: Cerro Verde, administered by the public enterprise CENTROMIN. In addition, MINEROPERU embarked in 1971 on the construction of the Ilo copper refinery with a capacity of 150 000 tons per year, calling for investments of over US\$ 60 million which were financed through long-term sales commitments to the Japanese group Mitsu-Urakawa.

This investment led to the renegotiation of the Cuajone contract. Originally, this contract provided that the owners of the mine could dispose freely of its output subject to the sole limitation that domestic supply must take priority. This latter condition was used by the Government in order to renegotiate the contract and ensure the supply of the State refinery at Ilo. The future users of the output of Cuajone, who were entitled, under the terms of the credits provided, to about 100 000 tons a year of blister copper<sup>5</sup> for refining in the United Kingdom, Japan and the United States, had to sign contracts with the Ilo refinery, and it was also agreed that part of the copper should be supplied as blister to certain financiers of the project. Consequently, Peruvian exports of refined copper increased between 1975 and 1978 from 37 000 to 162 000 tons, i.e., 4.4 times. The higher degree of local processing of the copper increased the value retained by the economy of the country, because on average, by way of illustration, the Peruvian prices of blister copper over the same period were 3.4 times those of concentrates of the mineral, while the prices of refined copper were 3.8 times as high.

Finally, through the establishment of 'mining communities' it was sought to bring about the participation of the workers in up to

50% of the registered capital of private enterprises, with the objective of thus ensuring their participation in the decisions of the enterprise. This measure, which did not always lead to favourable results, met with strong opposition on the part of private investors and was probably one of the reasons why there was no other important foreign investment in Peruvian mining in the 1970s after the investment in Cuajone.

### 3. Marketing policies and transfer prices

The objectives pursued in the marketing of minerals differ depending on the interest of the actors involved. Whereas the Governments and, eventually, its public enterprises tend to maximize the foreign currency income from exports and the tax revenue for the benefit of the national budget, the transnational corporations, as in other fields of their activities, consider the marketing in the host country as just one link in the complex network of their world operations. The international scale of their operations permits the use of transfer prices between different units in the same enterprise in order to artificially undervalue the export income declared in the host country and transfer the generation of profits to the subsequent phases of the processing and marketing of minerals, which are usually carried out in the industrialized countries, thus avoiding the taxation and exchange controls of the host country.<sup>6</sup> This trading policy of the transnational corporations is facilitated by the high degree of oligopolic power which they have in both the local and world markets.

The marketing of the concentrates produced by the medium and small-scale miners is generally dominated by the international intermediaries, who fix a particular price, or, more likely, act as agents who receive a commission for their services. The bargaining power of these intermediaries lies in their knowledge of and contacts in world markets and in possessing sufficient capital to finance the purchase of the output and possibly in-

<sup>4</sup>Another public enterprise, MINEROPERU Comercial, was subsequently set up for the marketing of minerals. Its experience is analysed in the next section of this chapter.

<sup>5</sup>Blister copper has a net metal content of 99.2%, while refined copper is almost completely pure copper (99.9%). Concentrates normally contain 25-45% of metal.

<sup>6</sup>See UNCTAD, *Intra-firm transactions and their impact on trade and development*, Geneva, Seminar Programme Report Series, No. 2, May 1978.

vestment in the activities of the medium and small-scale producers, who are thus controlled by or 'tied' to trading firms. The profit margin of the intermediaries depends principally on the formation of 'export lots', made up of purchases of concentrates of very heterogeneous quality, and on the moment at which their shipments are made, in accordance with the situation on world markets. The mining banks promoted by the State, for their part, try to take the place of the intermediaries in the small-scale mining sector by purchasing low-content minerals or concentrates, providing credit and technical assistance, and exporting the output to world markets.

In order to increase the margins of difference between the prices prevailing on the world markets to which the products are sent and the export prices declared in the host country (or the prices at which the products are purchased from the domestic miner in the case of international intermediaries), various trade policy instruments can be used, such as agreed discounts in respect of the cost of processing the mineral ("maquila" charges) and the advantage of renting refining capacity abroad ("tolls"); discounts or premiums on the basis of the metal content of the concentrates and their level of impurities; discounts on competitive markets or premiums on others where there is less competition; careful selection of the time of shipment in order to obtain the best quotation and decisions to exchange geographical supply positions ('swaps'); policies on the destination of exports in general, and the fixing of international reference prices and standards. Obviously, the integrated nature of the transnational corporations' production and trade operations and their oligopolic position on world markets facilitate the use of these trade policy instruments to maximize their profits and ensure that these are generated where it suits them most.

In Peru, the conditions for marketing minerals have changed since the public enterprise MINEROPERU set up a trading department (in 1973) and subsequently (1974) an autonomous public enterprise, MINEROPERU Comercial (MINPECO), was set up for the marketing of minerals. In the mid-1970s, the State controlled over 90% of the national

mineral exports through this enterprise. Nevertheless, only one-tenth of its activities were carried out through direct buying and selling; the rest corresponded to 'back to back' operations where the conditions of the trade contract were transferred to the producer enterprise and MINPECO charged about 2% commission on the FOB export prices. In the case of the tripartite contracts through which the blister copper from the Cujajone deposit was sold, this commission in reality represented for Southern Peru a kind of tax paid in return for the State guarantee on sales to the financiers of the project, since MINPECO did not possess suitable instruments for supervising these contracts.

Under the contracts in question, the importers of blister copper—the financiers of the investments in Cujajone—enjoyed considerable unilateral advantages in fixing the prices for the imported product, since they could define, as suited them best, the date of quotation for the metal within the two months after the arrival of the shipment, or else they could opt for a 'marketing bonus' which meant a discount of 1% from the value of the copper quotation, fixed with respect to a base year selected by the purchaser. They also had the opportunity to fix as they saw fit the discounts for the cost of refining the blister in their countries of origin. It can be seen from table 1 that during the period 1976-1978, on average, the refining costs discounted by the associates and financiers of Southern Peru were substantially greater than the average on the international market. Thus, the transfer prices between the participants in the foreign investment facilitated the relocation of profits to their own countries of origin, while reducing the fiscal revenue of the metal-producing country.

It can be seen from the same table that the costs in the Ilo State refinery also exceeded the international average (by 31% during the period in question). This meant, on the one hand, greater retained value from the exports of Southern Peru, which was obliged to refine a considerable part of its blister copper locally, but on the other hand it showed the lower competitiveness of the public enterprise, to the detriment to greater vertical integration in local industry. Possible repercussions of a similar

Table 1  
REFINING COSTS ("MAQUILA" CHARGES) FOR BLISTER COPPER  
BY SALES DESTINATION, 1976 - 1978  
(US dollars per ton)

	1976	1977	1978	1976 - 1978 (annual average)	
				US\$	International market = 100
Cuajone blister <sup>a</sup>					
United Kingdom	143	155	202	163	96
Netherlands	...	202	202	202	118
Japan <sup>b</sup>	229	255	305	263	153
Toquepala blister <sup>c</sup>	93	118	107	106	62
Ilo State refinery	206	234	230	223	131
Average for international market	190	180	140	170	100

Source: Calculated on the basis of MINPECO data.

<sup>a</sup>Sales to associates and financiers of the Southern Peru Copper Corporation.

<sup>b</sup>According to the original agreement fixed in yens in 1972 and adjusted for the devaluation of the US dollar and the rates of inflation in Japan.

<sup>c</sup>Marketed by MINPECO above all in the socialist countries (80% and 92% of the total in 1976 and 1978 respectively).

situation are analysed below for the case of Bolivia.<sup>7</sup>

The effectiveness of State control of the marketing of minerals was adversely affected by a number of drawbacks of an administrative and bureaucratic nature. Like other sectoral marketing directorates, MINPECO was subordinated during the past decade to the Ministry of Trade, where all the activities of planning, promoting, co-ordinating and controlling the internal and external marketing of the country's mineral products were concentrated. This centralization generated serious discrepancies with the producer enterprises, while there was no adequate co-ordination between the respective ministries. The bureaucratic rigidity of MINPECO was reflected in the lack of any stimulus to increase marketing profits, the lack of budget autonomy, and the absence of wage policies, to such an extreme that it was necessary to secure a decree from the then Government in order to make each of the journeys required by marketing abroad. The international marketing infrastructure was limited to

some offices attached to the embassies (London, New York, São Paulo and Peking) which did not have any authority to conclude sales or collect payments abroad. Another serious problem was the financing of the production and investments of the medium-sized and small-scale miners, since in this sector MINPECO lacked the necessary resources to take over the functions previously discharged by the international intermediaries.

At the same time, however, despite all the limitations and problems of execution of the mining policies of the then Government already referred, it should be noted that during the 1970s it proved possible to increase copper production from 243 000 to 397 000 tons, or by 63% (compared with the increase of 33% achieved in the previous decade), and at the same time greater benefits were obtained for the economy of the country. The value retained in the country in respect of exports of copper increased with the nationalization of the Cerro Verde deposit, which is now operated by the public enterprise CENTROMIN; with the higher degree of local processing of the mineral; with the greater share of local remunerations and inputs in the expenditure of the industry; with the

<sup>7</sup>See part III. 2 below.



positive effects of the control over marketing; and with the partial substitution of trade intermediaries and the diversification of the markets of destination, including direct sales to the countries of the region and to State enterprises of the socialist countries.<sup>8</sup> The trade co-opera-

tion of MINPECO with the public and private enterprises of other countries of the region, as in the case of ENAF in Bolivia,<sup>9</sup> also provided an opportunity for taking advantage of the benefits of economic integration, particularly within the Andean Pact.

## II

### Change in mining ownership: 'Chileanization' and nationalization of the copper industry

The boom in the large-scale copper mining industry in Chile in the first half of this century was due to investments of the order of US\$ 1 600 million (at 1979 prices) by two of the main United States copper-producing companies: Anaconda (the Chuquicamata and Potrerillos mines) and Kennecott (the El Teniente mine). Copper production increased from 100 000 tons in 1918 to a pre-chileanization peak of 528 000 tons in 1964, i.e., 5.3 times, and in the latter year Chile was responsible for 11% of world production.<sup>10</sup> As in the case of Peru, the boom in large-scale mining was accompanied by a large 'additional' inflow of foreign exchange (in 1970, for example, copper was responsible for 78% of total income in respect of exports of goods) and fiscal revenue (21% of the total in the period 1965-1969); but at the same time it involved and unequal distribution of benefits in favour of the transnational corporations, which took advantage of the promotional policies of successive governments with respect to foreign enterprises and Chile's unilateral dependence on the United States market. Thus, for example, during the period before the war, the government authorities received only 17-29% of the gross profits of the transnational

corporations, which moreover imported almost half of the inputs required for their activities in Chile, so that the overall value retained in the country remained at extremely low levels of between 30% and 40% of the total export receipts. As in Bolivia and Peru, the unilateral dependence on the United States market meant heavy losses of foreign exchange at times of price freezing by the United States Government (about US\$ 500 million during the Second World War, for example).

After the war, the growing awareness of the potential and not fully exploited importance of copper for the well-being of the country led—with the natural ups and downs depending on the orientation of successive governments—to greater State intervention in the industry and greater tax pressure on the transnational corporations. Between the five-year periods 1935-1939 and 1960-1964 the value retained in the country in respect of copper exports more than trebled (from US\$ 152 million to US\$ 488 million per year, on average, in constant 1979 dollars), reflecting mainly a considerable increase in the taxation and local expenditures of the industry. These changes are typical results of the pressure which governments exert on transnational corporations to extract greater benefits from them for the country, not always on the basis of a detailed analysis of the situation or as part of a definite strategy, but rather in response to conjunctural pressures to pay for certain expenditure under the national budget: examples of this are the increase in taxation in 1934 because of the decline of the nitrates industry, the effects of the world crisis and the

<sup>8</sup>Over the period 1975-1978, direct sales of blister copper by MINPECO increased from 66% to 88% of total exports of this product, while those of refined copper increased from 47% to 69%, signifying above all better sales prices.

<sup>9</sup>See part III. 2 below.

<sup>10</sup>This was much less, however, than in the period of intense activity during the Second World War and the first two years after the war, when the Chilean share was between 18% and 21%.

need to face social reforms; the promotion of substitutive industrialization through the establishment of the Production Development Corporation (CORFO) in 1939, etc.

Finally, an important aspect of mining policies before the 'Chileanization' and nationalization of the copper industry was the more or less continuous and growing tendency towards a higher level of training of Chilean professionals, who fitted themselves not only in academic circles but also in government work to supervise the marketing and income of large-scale mining, which in turn prepared them for the subsequent tasks of direct participation in running the enterprises. Hence the significance of the establishment in 1955 of the Copper Department, which, as part of the Ministry of Mining, had an extremely favourable influence on the improvement of the knowledge and negotiating skills of Chilean specialists.

### 1. 'Chileanization'

In the second half of the 1960s, the then Government sought to establish a new model of linkages with the transnational corporations (Kennecott and Anaconda) in the copper industry, by undertaking a policy of establishing mixed enterprises between the State and the transnational corporations, with explicit agreements and mutual obligations. This represented a big departure from the promotional systems of a general nature applied in Chile by previous governments, and represented an even greater difference from the principle of 'no work, no protection' and the cancellation of foreign concessions in Peru.<sup>11</sup> Essential elements in this policy were majority ownership by the State, the strengthening of government control over the marketing of copper, and a programme of expansion of production capacity designed to increase output by 75% in the space of six years. It was also aimed to stimulate investment by reducing rates of taxation and guaranteeing stability of treatment of foreign enterprises for a period of twenty years.

In the political context of the time, 'Chileanization' represented an alternative to the

nationalization of the copper industry advocated by the political parties in opposition to the Government, both those of the left, which had been stimulated at the beginning of the 1960s by the Cuban Revolution, and those of the traditional right, which opposed the agrarian reform proposed by the Government in accordance with the postulates of President John Kennedy's Alliance for Progress. The right apparently supported nationalization as a means of protecting its own interests, which were threatened by the social reforms then in vogue. This internal political situation placed the United States Government on the same side as the Chilean Government, and both applied pressure to the transnational corporations to adapt to the new type of links with the State.

### 2. *The reaction of the transnational corporations and the results of the negotiations*

The reaction of the transnational corporations to the policy of 'Chileanization' of the copper industry was by and large positive, in spite of differences in the tactics adopted by Kennecott and Anaconda, since they saw the expansion of the industry and the new forms of their participation in this activity as the only way of surviving the prevailing political situation and drawing maximum advantage from their investments before eventually having to abandon them in the face of the imminent danger of nationalization.

In order to reduce the risk to their new investments, the transnational corporations, and especially Kennecott, tried—as in the case of the Southern Peru Copper Corporation—to obtain guarantees both from the Government of the host country and from the United States Government. They also demanded that tax incentives be increased to the maximum and that they be assured of long-term stability. As already noted, however, interesting differences were to be seen between the reactions and tactics of Kennecott and Anaconda.

Kennecott, conscious of the fact that its image in Chilean society had been adversely affected by its virtual failure to make any reinvestments in the country since the 1920s, took the initiative and put forward a proposal, even

<sup>11</sup>See section I (b).

before the inauguration of the new Government, for an expansion plan which included the transfer of 51% of ownership of the El Teniente mine to the Chilean State. Exploiting the advantage given to it by the fact that it was meeting the Government's position with an initiative of its own, it negotiated for and finally obtained a series of unilateral benefits which excessively increased the cost of the 'Chileanization' to the economy of the country. First of all, the sale of 51% of the stock of El Teniente to the Chilean Government was carried out after a revaluation of assets which brought the book value of US\$ 66 million to a commercial or 'real' value of US\$ 160 million. Secondly, the transnational corporation secured a reduced rate of taxation for the new mixed company which amounted to 20% on profits, plus 30% on the dividends corresponding to its minority participation. This promotional level of taxation, together with the subsequent rise in copper prices, enabled it not only to maintain but even to substantially increase its profits compared with those obtained in the period before 'Chileanization'.

The financing of the new investments, as later in the case of the Cuajone project in Peru, required only a minimal net contribution by the transnational corporation, which shared out the risk of the investment among the other participants, especially the Governments of Chile and the United States. Of the US\$ 230 million involved, 48% was financed by the United States EXIMBANK, 12% by the Chilean Government and only the remaining 40% by Kennecott. Moreover, the Chilean Government's payment for the 51% ownership of the former Kennecott property amounted to almost as much as the transnational corporation's own investment, so that finally the company's net contribution was barely US\$ 11 million, while moreover it enjoyed the guarantees of the two interested governments.

Finally, Kennecott maintained control of the new mixed company through a management contract which was one of the conditions for the EXIMBANK credit. The cost of these negotiations to the Chilean economy may be illustrated by quoting the words of a Kennecott representative: "... The good thing about this agreement is that the Chileans are satisfied, while Kennecott gets a bigger slice of a bigger

cake without bringing any appreciable amount of money from the United States".<sup>12</sup>

Anaconda, for its part, also offered an expansion plan, but up to 1969 it remained reluctant to participate in a mixed company with the Chilean State. Of its total new investments of US\$ 200 million, 75% were financed with the transnational corporation's own funds, while the remaining 25% were financed with an EXIMBANK credit endorsed by Anaconda and not, as in the case of Kennecott, by the Chilean Government. Anaconda, too, obtained a reduction in the tax rate on its profits, from 62% to 52%. In 1969, Anaconda gave way to government pressure to transfer 51% of its ownership and at the same time asked to be gradually nationalized and suitably compensated. As a result, it was agreed that 51% of the property (according to the book value) would be transferred immediately, to be paid for over a period of 6 years, while the remaining 49% would be transferred over the period up to 1982 at market prices ('real' value). Thus, in financial terms, the result of the negotiations with Anaconda seemed to involve a smaller cost of 'Chileanization' for the economy of the country than in the case of Kennecott.

The main benefit of the 'Chileanization' was undoubtedly the considerable expansion of production capacity, and although the increase of 75% in copper production was not achieved within the agreed length of time, nevertheless the investment made enabled copper production to be almost doubled by the end of the 1970s in comparison with the beginning of the previous decade, thus halting the decline in Chile's share in world production (see table 2). Secondly, the establishment of mixed companies also marked a considerable advance in the national control and supervision of copper production and marketing. Chileans entered the highest levels of the new companies, and the Copper Department, set up in 1955, began to exercise more efficient control over marketing, establishing as the reference price for all sales of Chilean copper the price prevailing on the London Metals Exchange and participating actively in the whole process of marketing

<sup>12</sup>See *Business Week*, New York, 7 December 1968.

Table 2

EVOLUTION AND DISTRIBUTION OF BENEFITS IN THE CHILEAN  
LARGE-SCALE COPPER MINING INDUSTRY  
(Average annual values at constant 1979 prices)

Indicator	1945 - 1949	1960 - 1964	1965 - 1969	1971 - 1974	1975 - 1979
1. Production (thousands of tons)	399	501	520	616	843
As a percentage of world total	18.4	11.1	9.7	8.9	10.8
2. Sales prices (US cents per pound)	56.7	74.3	116.6	115.9	73.2
3. Gross profits (millions of US dollars)	262	330	731	582	492
4. Fiscal revenue (millions of US dollars)	164	225	511	553	492
As a percentage of profits	62.7	68.3	70.0	95.0	100.0
As a percentage of total fiscal income	20.1	15.6	21.0	18.9	15.2
5. Local expenditure					
As a percentage of total	58.4	67.3	74.9	...	...
6. Value retained in country <sup>a</sup> (millions of US dollars)	273	513	953	1 458	1 393
As a percentage of total exports	56	62	68	90 <sup>b</sup>	90 <sup>b</sup>

Source: Calculated on the basis of official data.

<sup>a</sup>Corresponds to total value of annual exports less expenditure abroad, depreciation (up to 1968), and net profits of the foreign enterprises.

<sup>b</sup>The remaining 10% corresponds to estimated import expenditure of the State enterprise.

through the evaluation and approval of the annual sales policies and other specific conditions of sales contracts. The active participation of Chilean officials and professionals in the management of the enterprises and in the trade negotiations with clients considerably increased their level of training and experience for the tasks which they subsequently had to carry out after the nationalization of copper in 1971. It will readily be appreciated that this kind of gradual approach to the national ownership of Chilean copper differs very considerably from the beginnings of the trade supervision by MINPECO in Peru analysed earlier and from the 'abrupt' nationalization of the Bolivian tin industry in 1952.<sup>13</sup>

The Chilean economy benefited as a consequence of these agreements through a considerable increase in the revenue obtained in respect of exports and particularly through the increase in local purchases by the new mixed

company (see table 2). At the same time, however, the dizzy rise in copper prices caused by the war in Southeast Asia (world copper prices practically doubled between the years 1965 and 1966) and the promotional treatment granted to the transnational corporations in taxation matters led, in relative terms, to a greater increase in the benefits for the transnational corporations than for the economy of the country. Thus, the cumulative increase in the 'net' profits<sup>14</sup> of the transnational corporations during the period 1965-1969 was greater than the total value of the investments committed in the expansion plan, and in any case the latter were financed, particularly in the case of Kennecott, only partly by the transnational corporations themselves (see table 2).

In view of the new situation created by the substantial increase in world copper prices, in 1969 the Government renegotiated the arrangements with the transnational corporations

<sup>13</sup>See section III. 1.

<sup>14</sup>That is to say, after local taxation.

and imposed on them a supertax which progressively taxed the profits derived from copper prices over 40 cents per pound, i.e., the level corresponding approximately to the period before the price rise in 1965-1966.

### 3. Nationalization

The nationalization of copper in 1971 represented the culmination of a long process of growing awareness of the importance of this natural resource for the Chilean economy and the cost of the continued dependence of this basic industry on the two great United States transnational corporations and on the oligopolistic market of that country. Another important factor was the experience accumulated by successive governments (and by the professionals and technicians working for them) since the Second World War. Over the course of time, these governments —although with ups and downs reflecting their political and ideological orientation— gradually entered the field of the production and marketing of copper in order to secure greater benefits for the national economy. Finally, the socialist ideology of the government in power when the copper industry was nationalized was backed up in this measure by a wide political consensus, perhaps unique in its broadness, which was shared by practically all the social forces and organizations. In international terms, the Chilean Government's position was based on the exercise of the "sovereign right of every State to dispose of its wealth and its natural resources" laid down in United Nations General Assembly resolution 1803 (XVII) adopted on 14 December 1962. Against this political background it was only natural that the amendment to the Chilean constitution whereby the nationalization of the large-scale copper mining industry was officially effected should be adopted unanimously by the National Congress in July 1971.

The special feature of the Chilean nationalization which called for a constitutional amendment was its attitude to the compensation of the foreign enterprises nationalized, since in practice it introduced the idea of confiscation of the nationalized assets. In the first place, this approach lays down that the ceiling value of the nationalized assets should be determined

on the base of their book value and not their 'real' or commercial value, as had happened when copper was 'Chileanized'. Secondly, it empowered the President of the Republic to deduct from the total compensation an amount equivalent to the 'excess profits' obtained by the transnational corporation. In justification of this, it was argued that the previous agreements have not been able to foresee the profits resulting from the increase in copper prices, which had been far greater than expected. Finally, it was laid down that any litigation which might arise as a consequence of the compensation arrangements should be resolved within the jurisdiction of the country, so that no other State or foreign tribunal could intervene in any aspect deriving from the nationalization of the copper industry.

Specifically, the Controller-General of the Republic, on the basis of the book value, fixed compensation of about US\$ 282 million and US\$ 99 million for Anaconda and Kennecott, respectively. The President of the Republic, however, after adducing that the two transnational corporations had obtained a rate of profit in their Chilean activities almost six times the world average (12% per year as from 1955), laid down that the amount of the compensation originally established for the nationalized enterprises should be reduced by almost US\$ 800 million in respect of excess profits, which meant that no compensation whatever would be paid to the foreign enterprises.

### 4. Reaction of the transnational corporations

As was to be expected in view of the importance of Chilean copper to the world economy in general and the power of the two transnational corporations in particular, their reaction to the measures taken by the Chilean Government was negative and vehement. Both of them demanded rapid and equitable compensation for the real value (not the book value) of the assets nationalized, and categorically rejected the deductions for 'excess profits', arguing that this measure had a retroactive character which was contrary to the principles of international law and universally accepted ideas of justice. Without denying the validity of United Nations General Assembly resolution 1803 (XVII), they

asserted that the conditions established by the Chilean Government were incompatible with international jurisprudence and they reserved the right to seek the protection of other States—the United States and other industrialized buyers of Chilean copper—and to submit the dispute to the jurisdiction of courts other than those of Chile.

The counter-attack of the transnational corporations took the form of various embargoes on shipments of Chilean copper, which caused temporary uncertainty among buyers and in the country itself, and the companies also secured the freezing of CODELCO's bank deposits in the State of New York. In practice, however, the legal battle between Chile and the United States companies had few direct effects on Chile's exports of copper. What was really being sought was rather some justification for intervention by the United States Government in the dispute, and this took place in October 1971 when the Secretary of State clearly expressed the official support of the United States Government for the transnational corporations affected in the following statement: "the United States Government is deeply disappointed and concerned at this serious break with accepted patterns of international law. Under the established principles of international law, expropriation must be accompanied by reasonable provision for the payment of fair compensation ... the unprecedented retroactive application of the concept of excess profits ... is particularly alarming ... and the United States hopes that the Chilean Government, in keeping with its obligations under international law, will carefully consider this problem".<sup>15</sup> In addition, the United States Government had already given instructions to EXIMBANK to hold up the granting of a loan which Chile had requested in order to acquire aircraft for the national airline "until the government of this country clarifies its economic policy with regard to foreign investments".<sup>16</sup> As the investigations carried out by the United States Senate later reveal, this action was part of a much broader campaign aimed at destabilizing the Chilean economy with the aim of neutralizing the

potential threat posed to the long-term interests of the United States by the precedent of a doctrine advocating 'nationalization without compensation', which in the opinion of the United States authorities constituted a threat to all United States investments in any country of the Americas or anywhere else in the world.

The break between Chile and the mining transnational corporations of the United States was overcome in May 1974 when an agreement was signed with the new Government whereby Anaconda and Kennecott were to be paid compensation totalling US\$ 377 million over periods of between 5 and 16 years.<sup>17</sup>

As a result of the nationalization, the new public enterprise responsible for the copper industry, CODELCO, found itself faced with serious internal difficulties. It became obvious, as also happened with the public enterprises of Bolivia and Peru, that the mere act of nationalizing natural resources is not sufficient in itself to bring about an abrupt change in the nature of the problems traditionally associated with the mining industry previously controlled by the transnational corporations, or to alter the attitude of the workers. In the initial period after nationalization, unit production costs rose substantially because of serious problems of absenteeism and labour conflicts which often culminated in the paralyzation of production activities. The mining trade unions, which had acquired an unusually well-developed capacity for negotiation through long years of struggles with the transnational corporations, naturally did not wish to lose the advantages won from the transnational corporations on the grounds that the local labour was significantly cheaper than in the industrialized centres. Thus, for example, there was a negative reaction when the Chilean Government, after the nationalization of the industry, stopped paying the salaries of supervisors in dollars. The supervisors consequently came into a direct confrontation with the new administration and received the support of the political sectors opposed to the process of change in general. The prevailing political struggle also gave rise to such abnormali-

<sup>15</sup>See *El Mercurio*, Santiago, Chile, 13 August 1971.

<sup>16</sup>*Ibid.*

<sup>17</sup>See the analysis of the present policy with respect to foreign investment in Chile given in the article by E. Laheira which appears in the present issue of *CEPAL Review*.

ties as sectarian political attitudes, the filling of technical and administrative posts on a political quota basis, and consequently less efficient performance of certain management functions.

Even so, however, looking back over the long term, the nationalization of the Chilean copper industry meant a substantial increase in the benefits for the economy of the country. During the 1970s copper production increased by 70% —partly because of the investments

made during the period of 'Chileanization'— and the value retained in the country in respect of exports increased from 68% in the period 1965-1969 to 90% after nationalization (the remaining 10% corresponding to imported inputs and services). Consequently, the Chilean economy received a much larger contribution than before nationalization, in spite of the sharp drop in the real price of copper in the second half of the 1970s (see table 2).

### III

## Mining and metallurgical integration in the Bolivian public sector and the reaction of the transnational corporations

Examination of the boom period of the large-scale tin mining industry in Bolivia during the first half of the century and its nationalization in the early 1950s reveals some important differences from what happened in the Chilean case.

The first special feature of the Bolivian case is that the large-scale mining industry did not owe its origin to the transnational corporations but to a Bolivian entrepreneur, Simón I. Patiño, who begun his spectacular career around 1910 and by his own efforts, after exploiting a tin deposit at Oruro, subsequently 'Bolivianized' most of the mines belonging to Chilean and British capitalists to set up in 1924 the first mining transnational corporation which originated in Latin America. This was subsequently integrated and diversified to cover the mining, smelting, refining, marketing and transport of tin in almost all the world centres of production and consumption of this mineral, thus losing its original Bolivian character.<sup>18</sup>

#### 1. Nationalization and the establishment of the public sector

Another important feature of the Bolivian

<sup>18</sup>Although there is an extensive literature both in defence and in criticism of the life and activities of Simón I. Patiño, the experience of his enterprise has yet to be appraised from the point of view of the current problems and needs of the Bolivian mining industry.

case is connected with the time at which the large-scale tin mining industry was nationalized, for in fact this was carried out by the Revolutionary Nationalist Movement Government in 1952, i.e., two decades before the nationalization of the Chilean mining industry and long before the joint action taken by the Third World at the international and national levels to secure a New International Economic Order.<sup>19</sup> The decisive domestic political consensus achieved by the majority political force of the time in favour of this nationalization was based, as it was 20 years later in Chile, on the importance of the main natural resource for the well-being of the country and the common political determination to free it from the domination of the 'tin barons' (in addition to Patiño, there were Hochschild and Aramayo) and from the monopoly power of the United States market.<sup>20</sup>

The historical moment at which the Bolivian nationalization of the tin industry took place

<sup>19</sup>In the period 1960-1976, 71 governments of peripheral countries —including 19 from Latin America and the Caribbean— carried out some 1 370 expropriations of foreign enterprises, especially in the area of natural resources.

<sup>20</sup>The Bolivian economy —like the Chilean and Peruvian economies— was seriously affected by the freezing on the part of the United States of the prices of 'strategic materials' during the World Wars and the Korean War, while furthermore there were the negative repercussions which the strategic reserves of tin held by the United States Government had on the sales prices of the metal.

ce —like that which took place in Indonesia, likewise at the beginning of the 1950s— seems to point to the decisive importance of domestic factors in political actions of this nature, as well as indicating that they do not necessarily require a socialist government for their execution. This latter consideration seems to be confirmed not only by the universality of the phenomenon of nationalization of natural resources in the peripheral countries, but also by the persistence of such actions in subsequent political situations, some of them even opposed to the guiding role of the State in national development. The Bolivian case is clearly outstanding because of the number and variety of the political changes which have taken place in the last 30 years, while the Chilean case stands out by reason of the depth and scope of the changes which have taken place since 1973.

Returning to the special features of the Bolivian nationalization, it should be noted that, unlike the Chilean case, it was not preceded by any significant previous experience in State intervention or in supervision of the activities of the large-scale private mining industry, and unlike the Peruvian case it covered practically the whole of the production and marketing of the large-scale mining sector. This, together with the relative economic and industrial backwardness of the country, must be borne in mind when appraising the serious administrative and economic problems encountered in Bolivia by the public sector tin industry.

As in the Chilean case, Patiño and the other two mining groups which had been nationalized tried and failed to secure a legal embargo in Bolivia's mining exports. At all events, however, the transnational corporations took advantage of the fact that almost all the tin concentrates had to be refined in the smelting plant of William Harvey & Co., in the United Kingdom, which was controlled by the Patiño group (in Chile, in contrast, practically all the copper at the beginning of the 1970s was exported as blister or in refined form) and imposed on the Bolivian Government a compulsory discount of 10% on the gross value of the mineral smelted, so that during the period 1953-1961 they 'charged' some US\$ 20 million in respect of compensation which was never fixed as a whole.

At the domestic level, the new public enterprise, COMIBOL, suffered in the period following nationalization from considerable drops in production (down one-third during the 1950s), in the productivity of labour, and in the profitability of its activities. These problems were partly due to the previous over-exploitation of the deposits; to the lack of geological prospecting and the consequent drop in the metal content of the mineral; to the downward trend prevailing in the world tin market in the 1950s, etc., but they were also, and perhaps mainly, due to the fact that out of some 200 foreign engineers who ran the Bolivian mining industry, 170 left the country and the few Bolivian technicians who remained had to take over the centralized management of the 17 widely different plants which made up the three nationalized enterprises.

The consolidation of the industry and the recovery of the previous levels of production and profitability in the 1960s were facilitated by the so-called Triangular Plan introduced in 1961, whereby the Governments of the United States and the Federal Republic of Germany, in co-operation with the Inter-American Development Bank, joined with the Bolivian Government to assist COMIBOL throughout the decade with credits of some US\$ 31 million in order to improve the efficiency of the organization's management and terminate the compensation payments for the nationalized enterprises. Thus, the greater understanding of the industrialized countries in this period helped Bolivia to make up, at least partially, for the costs arising from the fact of having been a pioneer in the nationalization of the tin industry.

The foregoing does not mean that since the 1960s the external dependence of the Bolivian mining sector has been replaced by equitable links with foreign companies. As already noted, the transnational interests of Patiño led him to consider Bolivia as one of the mineral-exporting links in the worldwide structure of his enterprise, because it was "cheaper to smelt and refine tin in the plant of William Harvey & Co. at Bootle, near Liverpool (which belonged to him) than in any other place, a determining factor being the long and unparalleled experience of William Harvey & Co. in the treatment of the complex Bolivian minerals in



which they had specialized for over 25 years".<sup>21</sup> Bolivia lacked this 'comparative advantage' of 25 years' experience, and for this reason had to continue depending on foreign smelting plants, thus exposing itself to all the vicissitudes of minerals marketing, with a consequent reduction in the proportion of the value of its exports retained in the country.<sup>22</sup> Although COMIBOL managed to break the former monopoly of Patiño's William Harvey smelting plant, whose share in the total sales of the public enterprise went down to 43% by the end of the 1960s, this was merely replaced by the oligopolic power of a few foreign smelting plants consisting, in addition to William Harvey, of another British smelting firm, Capper Pass (belonging to Rio Tinto Zinc Corporation), and the United States firm of Long Horn (Gulf Resources and Chemical Corp.), which acquired 15% and 27% respectively of COMIBOL's total sales of tin ore.

For these reasons, the construction and entry into operation in the 1970s of two tin smelting plants at Vinto (one with a capacity of 20 000 tons for high-metal-content ore and another of 10 000 tons for low-metal-content ore)<sup>23</sup> represented a vital change in the national integration of the tin industry. As was to be expected, this measure led to a strong adverse reaction on the part of the transnational corporations, which were very reluctant to abandon the Bolivian market in favour of the new public enterprise, ENAF, and tried to take advantage of the complex problems accompanying mining and metallurgical integration in an underdeveloped country.

## 2. *National integration of the mining and metallurgical sector*<sup>24</sup>

With the establishment of local tin smelting in Bolivia, the national bargaining power

<sup>21</sup>See the Annual Report of Patiño Mines and Enterprises Consolidated, Inc., London, 1938.

<sup>22</sup>See Section I. 3 of the present study.

<sup>23</sup>In co-operation with two independent firms, Gloeckner of the Federal Republic of Germany and Bergsoe of Denmark.

<sup>24</sup>The author has pleasure in acknowledging the extensive and fruitful co-operation given to him in his study of the present problems of the industry by COMIBOL, ENAF and the Association of Medium-Scale Mining Enterprises

has been substantially strengthened and the necessary conditions have been created for increasing the proportion of the value of tin exports retained in the country. The public enterprise ENAF, which has sufficient capacity to produce some 30 000 tons of metallic tin per year in the 1980s, can absorb practically all the ore extracted from the tin deposits, including the production of medium-sized and small-scale mining enterprises, which is processed mainly in the smelting plant for low-metal-content ores. In the first place, this means an increase in the locally added value of 10 to 12%, representing the incidence of ore processing charges in the price of the metal, but the potential benefit for the economy of the country is much greater, for various reasons.

On the one hand, as the world market for metallic tin does not display the same oligopolic characteristics as the ore market, ENAF can concentrate its marketing on regions, countries and enterprises which offer the most advantageous conditions, and in particular it can sell directly to consumers without resorting to transnational intermediaries. Thus, ENAF managed to diversify its sales in the course of the 1970s, its main clients in 1979 being the United States (45% of the total), the Soviet Union and other socialist countries (27%), the countries of Western Europe (16%), and the emerging but potentially very important market of Latin America (10%). With regard to this geographical diversification, direct sales to consumer enterprises amounted in this same year of 1979 to some two-thirds of the total, international intermediaries being used above all in the marketing centres of the capitalist world (such as the London Metals Exchange and the New York Market).

On the other hand, the costs and benefits—both real and fictitious—related with the marketing of minerals, such as premiums and discounts, the 'manipulation' of shipments, financing, etc.,<sup>25</sup> which were previously handled

of Bolivia, and in particular the many ideas and initiatives of the Commercial Manager of ENAF, Alfonso Vrsalović, which have been used in this part of the study (although of course the author maintains his exclusive responsibility for the contents of this article).

<sup>25</sup>See section I. 3.

by the foreign smelting firms and the international intermediaries, are now handled by the public enterprise ENAF, thus enabling it to increase its profits and at the same time ensuring fairer treatment for the mining sector (both to COMIBOL and to the medium and small-scale mining enterprises).

Finally, mining and metallurgical integration within the public sector of the country constitutes a solid foundation for the eventual industrialization of Bolivia on the basis of its main natural resources.

In contrast, national mining and metallurgical integration is a negative development for the interests of the transnational corporations in two respects: first of all because they lose the previous accustomed supply of ore concentrates to which in many cases, the technology and organization of their smelting plants were specially adapted. Secondly, they now have a new competitor on the world metals market: the public smelting enterprise which now markets all the metal produced in the country. It is therefore only natural that the transnational corporations should try to prevent or at least obstruct the process of mining and metallurgical integration, and in order to achieve this objective they can try to take advantage of the problems and possible conflicts which always accompany the emergence of new structures of production and the social changes related to the process.

In other words, the bargaining power of the country *vis-à-vis* the external agents now depends to a great extent on the harmony and co-operation between the mining and metallurgical sectors. As already noted, the public mining enterprise acquires a number of advantages by the mere fact of changing its previous foreign partner for the national public enterprise in the smelting of the metal. In addition, it ceases to have to represent the country and defend its interests against the foreign enterprises because it gives up this position to the national metallurgical sector, which markets abroad the entire national production of metal (since domestic consumption continues to be marginal). The most important source of problems and friction, at least apparently, however, is usually to be found in the field of distribution of the benefits. As is only natural, the public mining enterprise and those responsi-

ble for running it are inclined to measure the behaviour and performance of their new exclusive national client according to the same lofty pattern set in their previous links with the foreign smelting plant, which had a number of advantages over its peripheral competitor in the areas of technology, management and power in world markets. Thus, in the short term and from the strictly entrepreneurial point of view, the national mining sector may interpret the change to greater national integration of the mining industry as being unfavourable for its interests, adducing in support of this the decline in its benefits in comparison with the previous period. It is indeed true that in its initial phase the national metallurgical sector suffers from a number of problems deriving from the putting into effect of new investments, its organization, management, financing, external marketing, etc. These internal problems adversely affect the co-ordination and joint programming with the public mining sector—which also suffers from the same problems, but has been suffering from them for much longer—, the bargaining power *vis-à-vis* external agents, and ultimately, the contribution of the mining and metallurgical sector to the economy of the country.

The distribution of benefits between the two public enterprises is carried out through the processing charges, which represent the discount from the price of the metal received by the smelting enterprise in return for its work of processing and marketing the metal. In the 1970s, the processing charge used in the transactions between COMIBOL and ENAF was fixed on the base of the charges paid by COMIBOL to foreign smelting plants. Thus, for example, in 1978 the processing charge made by ENAF, which was US\$ 630 per net metric ton of dry ore was practically equivalent to the weighted mean of the charges agreed by COMIBOL with the foreign smelting firms of Copper Pass, Gulf Chemical and Metallgesellschaft, which took 40% of the total sales of COMIBOL in that year. Consequently, Bolivia's dependence on the transnational corporations in the production and marketing of tin was projected even into the relations between public enterprises of the mining and metallurgical industry within the country. The repercussions of

the transnational corporations on the public sector assumed particular importance at the end of the 1970s, when the new smelting plant for low-metal-content ores came into operation and the Government set itself the goal of processing all tin ore within the country.

### 3. *Reaction of the transnational corporations to the loss of the Bolivian market*

In the face of the imminent danger of losing their supplies of Bolivian tin ore concentrates and also being faced with a new competitor on world metallic tin markets, the three largest foreign smelting plants which processed Bolivian tin in 1979 (Copper Pass, Gulf Chemical and Metallgesellschaft) reacted by resorting to a dumping campaign whereby they reduced their respective processing charges by 27%, 31% and 35% in comparison with the charge of US\$ 630 per ton used for the transactions between ENAF and the COMIBOL.<sup>26</sup> Thus, COMIBOL could have temporarily achieved higher income from its mining production if it had continued and even expanded its links with the foreign smelting plants, to the detriment of the more expensive services of the public enterprise ENAF.

The sudden reduction of the processing charges by the foreign smelting plants had no precedent in the previous links of these enterprises with COMIBOL, for the processing charges of Copper Pass and Gulf Chemical almost doubled during the period 1974-1978, increasing by between 12% and 29% per year, especially because of the increase in the cost of the energy used, whose share in the total cost of processing the ore increased 2.5 times, for example, for the Copper Pass smelting plant over the period in question. It is obvious that this situation could hardly have changed at the end of the 1970s, so it may be concluded that the advantageous offers made by the foreign firms were designed to hinder the smelting of the entire production of tin ore by ENAF, taking advantage of the advanced stage of depreciation of the foreign smelting plants, which

had an average of 40 to 50 years' service, and the low-cost recycling of secondary tin.

In addition, Gulf Chemical offered to set up a joint company with COMIBOL and ENAF to carry out activities which combined toll-type contracts,<sup>27</sup> marketing and financing and promised to establish a direct relation with consumers in the United States and to take advantage of the benefits deriving from the special situation enjoyed by Gulf Chemical as a United States domestic industry protected against the effects of sales from the United States strategic reserve. Both COMIBOL and ENAF rejected this offer by Gulf Chemical because they were convinced that if this move by the transnational corporations succeeded it would lead to the disappearance of the State-owned smelting plant, which would be unable to compete with the transnational corporations, after which the foreign smelting plants would return to their policy of raising their processing charges.<sup>28</sup>

The events referred to also have a projection which goes beyond external interference in the domestic affairs of a peripheral country. They also reflect a struggle between two types of positions and procedures based on different approaches to Latin American development. According to the 'neo-liberal' approach, the public enterprise COMIBOL should have been governed by the laws of the market and should have accepted the 'advantageous' proposals of the foreign smelting plants in order to reduce the cost of its operations. The long-term consequences of such a course of action have been indicated above, however, and are confirmed by the experience of many Latin American countries which have seen their own industries displaced by those of the transnational corporations, not only in the mining sector.

In contrast, the 'self-reliant development' approach suggests that the costs and benefits in the short term and at the enterprise level—above all in the case of a public enterprise—should be considered within the broader context of the better utilization of national resources and the reduction of vulnerability and dependence with respect to external factors.<sup>29</sup> If

<sup>26</sup>See ENAF, statement by the General Manager, Major Eduardo Quiroga, in *Presencia*, La Paz, Bolivia, 6 September 1980, p. 9.

<sup>27</sup>Rental of smelting plants for ore processing.

<sup>28</sup>Information supplied by ENAF and COMIBOL.

<sup>29</sup>See, for example, J. Medina Echavarría, "Las pro-

we bear in mind the already mentioned fact that the ore processing charges are equivalent to approximately one-tenth of the income derived from the sales of metallic tin, whereas the respective share of the State through royalties is about one-third, it is obvious that the Government has sufficient room for manoeuvring to allow it to promote and encourage national mining and metallurgical integration.

Naturally, the above does not mean that there is no need to seek to overcome the serious problems currently affecting the public sector in the Bolivian mining and metallurgical industry, including the lack of mineral prospection and exploration and the slow or inadequate assimilation of new technologies of mine operation and metallurgical processes, which threaten the future production and productivity of the sector; the high costs of operation and management which aggravate the deficit situation (deficit of US\$ 211 million foreseen in the budget of COMIBOL for 1980 and decline of almost 50% in the profits of ENAF between 1978 and 1979); domestic and external indebtedness; delay in bringing into full operation the new investments (volatilization plant of COMIBOL and low-metal-content tin ore plant of ENAF) and in the delivery of concentrates for smelting; unsuitable fiscal policies and incentives, etc. In order to overcome these drawbacks, the Bolivian Government and public enterprises and organizations of the sector are engaged in the preparation of short-term plans and measures and a national plan for the development of the mining and metallurgical industry from the year 1981 onwards.<sup>30</sup>

It is obvious that in order to overcome the present problems and fully implement the development plans for the mining and metallurgical sector it is necessary to strengthen co-ordination and planning both within the organizations responsible for their implementation and between them. In fact, this process has already begun with the establishment of inter-

institution councils and commissions and the reorganization of the governing boards of the enterprises and institutions in the sector.<sup>31</sup>

As regards the strengthening of the vertical integration of the mining and metallurgical sector and its bargaining capacity *vis-à-vis* external agents—problems which were already analysed in this chapter—a possible solution (extensively discussed among experts in the sector) would be to complete the existing technical and economic integration between COMIBOL and ENAF in the institutional framework by merging the two public enterprises into a single unit for the production, processing and marketing of ores and metals. Naturally, an idea of this scope which affects the most vital sector of the Bolivian economy calls for a thoroughgoing analysis of its potential benefits and costs, but such an analysis is beyond the scope and objectives of the present article. At all events, however, and keeping the discussion within the proposed limits, it may be asserted that a measure of this type could help to strengthen the bargaining power of the country by, *inter alia*, providing suitable concentration and making better use of the experience accumulated and the most highly qualified staff, securing the unification and greater flexibility of planning and operational decisions, and in the final reckoning bringing about the establishment of an organization whose economic and financial power would be greater than that of the largest transnational corporations in the world in this sector.<sup>32</sup> Furthermore, the institutional integration of the two large public enterprises in the mining and metallurgical sector would also permit the regionalization and decentralization of responsibilities in the largest mining and metallurgical centres of the country, thus giving greater flexibility and efficiency in their operations.

Analysis of the national integration of the mining and metallurgical sector of Bolivia

<sup>31</sup>*Ibid.*

<sup>32</sup>The combined sales of COMIBOL and ENAF in 1979 came to US\$ 650 million, whereas those of the United States transnational corporation Gulf Chemical amounted to US\$ 496 million in the same year. The latter enterprise figured among the 500 largest firms in the *Fortune* list and processed almost one-fifth of the Bolivian tin in its smelting plant.

puestas de un Nuevo Orden Económico Internacional en perspectiva", CEPAL, Santiago, Chile, November 1976.

<sup>30</sup>See various issues of the newspaper *Presencia*, La Paz, Bolivia, for the months of September and October 1980.

enables us to conclude that even after nationalizing the large-scale tin mining industry and establishing the necessary capacity for the processing of all the ore produced in a single public enterprise there is still some interference—at least during this transitional period—from the transnational corporations, which seek to maintain their own position in the industry. As they no longer have any share in the ownership

of the mining resources or in the metallurgical activities of the country, however, their relative bargaining power *vis-à-vis* the Bolivian mining industry will go down in proportion as the public sector manages to improve the vertical integration and organization of the industry, to increase its efficiency, and to reduce the costs of its operations.

## IV

### Some final considerations

Examination of the three Latin American experiences connected with mining transnational corporations suggests that in spite of the special features of each of the cases it might be possible to identify some common tendencies of a more general character in connexion with the strengthening of the bargaining power of countries with an important mining industry in the 1970s.

The previous oligopoly of a small group of powerful transnational corporations over the mineral resources of the peripheral countries, with the respective forms of generation and appropriation of mining income, is giving way to a different and much more complex situation in which the governments of the producer countries are no longer limiting themselves, as they did in the first boom period of transnational mining, to the *ex post facto* redistribution of the income of the transnationals through State supervision and taxation machinery, but are now instead negotiating with these corporations the terms and forms of the *future* increase in income through direct participation of the public sector in the activities of the industry (renegotiation of the Cuajone agreement in Peru in favour of the State refinery, 'Chileanization' of the copper industry, control of marketing).

The entry of the State into entrepreneurial activities in the mining and metallurgical industry makes it easier to link these activities with broader political objectives: to reduce external dependence and promote self-reliant development which will itself redound, at least potentially, in favour of an increase in mining

profits. Thus, for example, the higher degree of processing of minerals in State smelting plants and refineries means not only an increase in the locally added value in the export income, but also helps to diversify the external economic links in favour of markets which offer greater relative advantages (independent metallurgical engineering firms, direct sales of metal to consumer enterprises, to Latin American markets and to the Socialist countries). In the context of the redeployment of manufacturing activities from the industrialized countries to peripheral mineral producers, metallurgy seems to be most the appropriate and viable solution, which could eventually become an additional 'comparative advantage' for the subsequent industrialization of the mining countries.<sup>33</sup>

The reaction of the transnational corporations *vis-à-vis* 'nationalist' policies of the mining countries usually continue to depend on their perception of the risks and the cost/benefit involved in certain projects and policies. Naturally, their attitude is negative in the case of the nationalization and total loss of their previous investment and of the national market (as occurred in Bolivia and Chile). On the other hand, however, it seems to assume a more flexible and 'pragmatic' character *vis-à-vis* new

<sup>33</sup>Of course the technological problems of production and the problems of access to highly competitive markets for metal products and machinery are more complex than in the previous stage of the 'simple substitution' of imports on the basis of imported technology and inputs, but this is a matter beyond the scope of the present article.

forms of linkage with the public sector (as in the case of the 'Chileanization' of the copper industry or the Peruvian renegotiation with the Southern Peru Copper Corporation), and in these cases the transnational corporations try to minimize their own risks and investment of capital in the shared project, while at the same time maximizing their benefits by securing the guarantees and financial participation of other business and government interests in the project, both from the countries which consume the mineral and from the mining countries themselves. In this case, the latter are in a new and difficult bargaining position, since they must determine in advance their negotiable margins of benefit in the face of the variety and interlinked nature of the external agents which are their partners in the project (we may recall, for example, the extra profits secured by the financiers of the Cuajone project in Peru through 'transfer processing charges' in respect of the refining of blister copper received in payment for the credit provided).<sup>34</sup> Consequently, the exchange of information and experience among mining countries of the periphery on contracts of this type, and the possible adoption of a common position by them with a view to the application of more favourable reference contracts, could considerably strengthen their bargaining power.

Finally, the relatively recent experience of public enterprises in the extraction, processing and marketing of ores and metals seems to confirm the obvious truth that it is not enough

merely to 'share out the cake' in such a way as to bring greater benefits for the economy of the country: it is also necessary to increase the size of the 'cake' through better use of the country's mineral reserves, new investments to expand production capacity, and in particular the improvement of the productivity efficiency and profitability of the public enterprises.<sup>35</sup> The experience of Bolivia and Peru indicates that the proper fulfilment of these requirements by the public sector is of singular importance for the vertical integration of mining with the production and marketing of metals and usually conditions the countries' bargaining power *vis-à-vis* the foreign enterprises, which will continue to be interested in Latin America's mineral resources, especially through participation in new large-scale investment projects which require their technological and financial contribution. In view of the complexity of the new structures of the mining and metallurgical industry due to the operation of large public and transnational enterprises, it would seem to be extremely desirable to evaluate these and regulate their functioning in the framework of the planning processes of the mining countries.<sup>36</sup>

<sup>35</sup>This article has not dealt with the common efforts made by the peripheral countries to increase and stabilize world commodity prices through the "Integrated Programme" of UNCTAD, associations of producer countries and international agreements, all of which go to make up an external factor of the greatest importance for the general raising of mining income. In particular, no mention has been made of the International Tin Agreement.

<sup>36</sup>See the article by Arturo Núñez del Prado in the present issue of *CEPAL Review*.

<sup>34</sup>See section I. 3.



## Transnational enterprises and the internationalization of capital in Brazilian industry

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In a careful analytic movement from the general to the particular, the authors seek to clarify the complex and controversial phenomenon of the internationalization of capital. In the first part, after briefly reviewing the main theories in this area, they characterize the central aspects of postwar capitalist expansion in the centres; this expansion is analysed in various stages, beginning with the hegemony of the United States immediately after the war, through the period of expansion of the subsidiaries of transnational corporations (TNCs) originating from the United States, Europe and Japan, continuing with the national responses to this 'American challenge' and the differentiation among the centres, and culminating in the crisis of recent years which is causing the breakdown of the international order.

After pointing out the differences in the processes of internationalization in the advanced and underdeveloped countries, the authors enter into the case of the second part of the article, referring to two main aspects of the process of internationalization in Brazil. On the one hand, and on the basis of data obtained from a study of the main transnational corporations in this country, they explore the internationalization of industry; on the other, they analyse the external debt, its causes and its consequences for the present and future of Brazil.

In conclusion, they examine the recent general trends in internationalization and its prospects in this country, especially with reference to the mineral resources and banking sectors, in which they feel this process might intensify.

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## I

### The internationalization of capital

The veritable plethora of words written in recent years on subjects such as the internationalization of capital and of TNCs certainly sheds very little light on the matter except, of course, for rare and notable exceptions. Furthermore, disagreement is often seen even within the modern schools of thought which deal with the problem. We refer especially to the marxist currents of thought, the Anglo-American school of the theory of international oligopoly and the Latin American version originating in CEPAL.

Still, some progress has been made, and at least the marxist versions now admit that the process of internationalization of capital is derived from and determined by the movement of capitalist competition, which occurs especially between blocs of capital previously monopolized. The differences do not refer, then to the origins of monopolization, which according to the various schools of thought resulted from the national frameworks of capitalist development before the war. All agree that the United States of America, Europe and Japan are the main centres of developed capitalism.

The principal divergence behind the debate—and this is true not only for marxists but for any other school which accepts historicism—is that there is a separation between the blocs of monopolized capital and their national origin, which leads to a process of transnationalization. The three versions which attempt to interpret this fact, and the way the internationalization relations are structured, develop out of the debates between marxists and neo-marxists in France.

The first version—of which Mandel's ideas may be taken as typical—continues to centre analysis of the international system on the emphasis on competition between blocs of national capital. The second—which may be represented by Bettelheim—proposes the idea of an oligopolistic *collusion* which goes beyond national limits and places the weaker nations, that is, those of the so-called periphery, in a subordinate position. The third seems to aim at



the formation of a new *world* economy which would be relatively unified but obviously subordinate (and always according to the proper norms of the "unequal and combined development of capitalism"). This latter corresponds to the Palloix version and may lead, with some modifications by Third World attitudes, to a resurgence of the central-periphery scheme, via approaches which range from unequal exchange, according to the cruder version of Emmanuel, to accumulation on a world-wide scale, according to the more complex version of Samir Amin.

There is no need to point out the ideological attraction of the various versions of this latter idea, especially when they combine the dual attraction of the use of marxist categories and the indignation of the exploited peoples of the Third World.

In the Anglo-Saxon school, anticipating the marxist debate, the idea of transnationalization takes as its point of departure the internal criticism levelled at the theories of industrial organization in the very heart of the Harvard School of Business Administration. In reality, both the conservative vision of Vernon and that of his radical disciples, especially Hymer, restate the question of the internationalization of capital through the expansion of the large United States corporations. These points of view have already crossed the Atlantic and have found supporters such as Rowthorn and Caves in the British socialist world.

*Pari passu* with the French and Anglo-Saxon debate on the nature of internationalization there is the Latin American debate. Derived from Raúl Prebisch's thinking (based on the terms of the central-periphery relationship) on the unequal development of the capitalist system, this has given rise to a series of ideas on dependent development. In reality, this evolution represents at once a criticism of the perverted forms assumed by our types of industrialization in their social aspects and a recognition of the failure of the autonomous national projects of capitalistic development. The works of Celso Furtado, Osvaldo Sunkel, Aníbal Pinto and Prebisch himself bring out this dual process and offer a rich view of the debates mentioned.

In the more sociological version of Cardo-

so and Faletto, the lack of autonomy is the result not only of technological dependence due to the absence of a developed and autochthonous capital goods sector, but especially of the internal connexions of the national dominant classes with the interests of international capitalism. This leads to a patently concentrated model, in terms of economic and political power, which emphasizes the historical characteristics of the exclusion and marginalization of broad strata of the population.

In Aníbal Pinto's non-'dependentist'\* version, the specificity derives not only from economic and political concentration —recognized as a general characteristic of capitalism— but also from certain structural characteristics of the Latin American development style. These lead to an aggravation of structural heterogeneity, resulting in non-generalization of the so-called 'fruits of technical progress' to the majority of the population.<sup>1</sup>

These ideas do not attribute the aggravation of inequalities to the unequal endowment with factors in the face of inadequate technologies, as in the neoclassical perspective,<sup>2</sup> nor to over-exploitation of the periphery by the centre, as in the neomarxist view.<sup>3</sup>

Instead, according to the more complex 'dependentist' ideas, the aggravation of inequalities is a result, above all, of the effects of internationalization on the development of the social relationships of domination, and is all the more powerful the more developed are the capitalist productive forces, forming the so-called 'internationalization of the internal market'.

The most recent CEPAL conception of Latin American industrialization, to be seen in the work of Fernando Fajnzylber, explicitly incorporates elements of the theory of the oligopoly,<sup>4</sup> resulting, however, in its later evolu-

\*Neologism referring to the so-called "theory of dependence".

<sup>1</sup>See A. Pinto, "Heterogeneidade estrutural e modelo de desenvolvimento recente", in J. Serra (ed.), *América Latina - Ensaio de Interpretação Económica*, Rio de Janeiro, Ed. Paz e Terra, second edition, 1979.

<sup>2</sup>For a critique of the neoclassical view, see J. Serra, *op. cit.*

<sup>3</sup>For a critique of the neomarxist conception, see F.H. Cardoso and J. Serra, "As desventuras da dialética da dependência", in *Estudos CEBRAP*, São Paulo, No. 23.

<sup>4</sup>CEPAL, "The expansion of international enterprises and their influence on development in Latin America",

tion, in very different points of view on the nature of the processes at work. The various points of view include positions ranging from reaffirming the need for national industrialization centered on the formation of an "endogenous nucleus of technological dynamization" (Fajnzylber), via the idea of postnational capitalism and the criticism of the myths of development (Celso Furtado), to postulating the need for a socialist society (Pedro Vuskovic and Raúl Prebisch himself).

In the present work we will attempt to examine the process of internationalization since the war in accordance with the evolution of a manufacturing system based on United States industrial organization and supported by an international financial and commercial system controlled initially by the hegemonistic power. The contradictory evolution of this process leads, on the one hand, to the spread of the United States manufacturing pattern to a certain number of Third World countries and, on the other, to the progressive loss of United States hegemony. Therefore, it is not enough to use structural methods of analysis to compare developed and underdeveloped structures, since they do not reproduce at the theoretical level the process of internationalization. In addition, we consider clearly inadequate the attempts of certain authors to reorder the criticisms of capitalism by simply inserting the category of transnational corporations (TNCs) as if these were responsible for all the imbalances and inequalities of the whole system. In the final analysis, what they are doing is transforming the TNC into a sort of entelechy, attributing to it whatever was classically characteristic of capitalism, and merely repeating everything that has already been said. In reality, the process of postwar internationalization has had the special feature of generating a more rapid expansion and a closer solidarity of the system as a whole, weaving the famous web of interdependence, which only makes more visible and complex the problems presented by capitalism from its very inception.

### 1. *The postwar movement of capitalist expansion. Central aspects*

Under all the dust raised by the above-mentioned debate, there is more truth than may be obvious. Discovering it and incorporating the central explanatory elements of the various opposing currents is a *sine qua non* condition for capturing the essential aspects of the process of internationalization.

For this purpose, it is important to distinguish two fundamental aspects:

— firstly the generalization of the United States manufacturing pattern due to the hegemony of this country; this process reproduces the same industrial structure, with all its characteristics of industrial organization, and the same sectors and leading growth firms in the various national markets (the Japanese exception only applies in the case of enterprises, not sectors);

— secondly the response to capitalistic competition, due to the resurgence of the monopolistic power of the two main defeated countries, as a means of facing the threat represented by the bloc of socialist countries, particularly the Soviet Union and China; any difference there may be between the various national responses is due to purely morphological aspects of the constitution of the blocs of capital and to the role of the State in the relationship between these and the preservation of each national accumulation space.

The process of internationalization thus corresponds to modifications made within the capitalist system through a realignment, first commercial, later manufacturing and technological and finally financial, of the relative positions of the principal developed national capitalist countries, that is, a realignment of the centres. During this process the United States went from an indisputable position of hegemony on the commercial, industrial, financial, technological and military (and —why not admit it?— moral) levels to a situation in which it found itself obliged to concede to the two nations most strategically situated in the cold war a growing autonomy in relation to its leading role as a hegemonistic power.

The moving force of the process of internationalization was the dynamic effect of the

great industrial and financial capital. It was the efficiency of capitalist competition, the search for new markets and the national responses which reinforce capitalistic ties which led, within the system, first to the displacement of capital from the United States to the European countries, and then from the central countries as a whole towards the peripheral world.

In this second process two patterns may be distinguished: that of industrialization through the establishment of affiliate companies of the large transnational corporations in markets of considerable absolute size, confirming and emphasizing the preexisting industrial development; and the case of the so-called 'export platforms', which occurred at the end of the process of industrial expansion through affiliates after exhausting the dynamic possibilities of inter-centre expansion, in a kind of revived caricature of the theory of comparative advantages. Only in this last stage did the most apparent tendencies of the new system become evident, after the latter had already reached a level of interindustrial and financial interpenetration which was to lead Bettelheim to call it 'oligopolistic collusion'.

Superimposed on this movement of differentiated expansion of capitalistic internationalization, special cases of industrialization stand out, deliberately supported by the economic and military might of the United States in frankly backward countries, without a great market potential but located on the strategic border of the system, such as Iran, South Korea and Taiwan. In the first two, puppets to begin with, the response of the national States to a growing autonomization led to a destabilization of the proposed imperial model, which was merely the latest in the demonstrations of loss of hegemony.

This entire process, complex by nature and differentiated by its dynamics, has been approached with simplistic ideas which impede its proper comprehension. It is a wrong and absolutely empty generalization to categorize this 'general movement of extended reproduction on a world scale' as a search for cheap labour, as various neomarxist thinkers have done.

The important point for our purposes is to stress once again that, rather than the formation

of a transnationalized world economy which would tend towards the harmonious and efficient operation of a system of large enterprises, capable of imposing a transnational economic order *per se*, what happened was a destructuring of the system of capitalist power buttressed by the United States hegemony. This destructuring reveals, paradoxically, a dual impotence:

— The subsystem of industrial and, more recently, banking affiliates is so interconnected and has such rapid oligopolistic reactions in the market that it is capable of proceeding to an international redivision of labour within the enterprise (bloc of capital). By developing through the orbits of production and circulation of merchandise and circulation of financial capital, it is able to manoeuvre beyond the limits of the national economic spaces and outside the control of the economic policies of their respective governments. This slows down, or even makes impossible, strictly national solutions for structural readjustment of the system, or rather impedes the classical imperialist solution of resolving capitalistic disputes through rivalries or wars between national powers. It is not enough, therefore, to insist, as Mandel does, on the eminently national character of the capital blocs in competition;

— Nor is the transnational hope of a new order based on the affiliated and interdependent subsystem valid either, because in reality what is involved is merely a formal subsystem. The capital blocs which serve the interests of private enterprise cannot stop competing among themselves and reproducing on a broader scale, i.e., at the world-wide level, the disorder of capitalistic *laissez-faire*. The present desperate search for a conservative, neo-liberal ideology which takes away from national States, including even the hegemonistic powers, their minimal capacity for regulation and which blames the State for all the setbacks (from the fiscal crisis to the bureaucratic and moral crisis) in the path towards the new order, is the best possible demonstration of 'transnational impotence'. Everything appears to indicate that the big international bankers and businessmen would welcome the establishment, on the part of the 'invisible hand'

of the merchandise kingdom, of a new order without a visible *res publica*, beginning with the absence of an international monetary pattern, with denomination in dollars, of the great international banks, except for inter-bank accounting.

The most clearly schizophrenic manifestation of this dual impotence becomes evident in the demands made by spokesmen of the large enterprises for localized intervention by the State in markets which are in crisis. In demanding the imposition of barriers and the socialization of losses through subsidies and tax reductions, they are not ashamed to enter into conflict with their own requirement of applying liberal principles in other markets.

## 2. *Periods and national responses*

For a complete understanding of the process of internationalization, we must develop its analysis through the four stages in which the world economy expanded after the war. The first corresponds to the period of complete hegemony by the United States, from European reconstruction until 1955-1958; from then until the mid-1970s came the period of expansion of affiliates of the large enterprises originating in the United States and the national responses to the 'American challenge'; the following period, which ended around 1974, may be called global transnationalization, when the 'hegemony crisis' of the United States and the differentiation of the centres took place; finally, and up until the present, we have the evolution of the crisis provoked by the general breakdown of the international order.

The *first stage*, which corresponds to the predominance of the United States in the commercial and financial spheres, starts with the implantation of a system of rules of operation of the international market, through institutions such as GATT, IMF or IBRD, which ensured their orderly development under the auspices of the dollar system. In this period the structural elements of the internal response by the main countries affected by the war began to appear, with the following main characteristics:

— State support for reconstruction, although resorting to external indebtedness;

— monopolistic re-linking of industrial and banking capital, and adaptation of the old national structures to the technological and market patterns of the large United States corporation;

— trade aggressiveness, especially that of Germany towards the rest of Europe and Japan towards the Asiatic world, and even towards the United States.

This Japanese and German trade aggressiveness brought with it a decrease in the participation of the United States in world trade, a fact which was already manifest at the beginning of the 1970s. However, this country still maintained its industrial and technological hegemony, and used its power especially in the fields of agriculture and finance.

As regards the pattern of expansion of the United States affiliates, they maintained their traditional interest in strategic mineral resources and the opening of affiliates interested in the processes of export and import in order to control markets through the habitual practices of using patents, 'tied' financing, etc. There was still no generalization of the manufacturing 'affiliatization' which was to flourish after overcoming the regional or national tariff barriers with the implantation of new productive units.

The *pax americana*, expressed by the political and military hegemony of the United States and the remilitarization of the so-called Western world under the atomic 'umbrella', left the capitalist countries, especially the developed ones, free to carry out the tasks of economic reconstruction, technological diversification and regrouping of essentially economic forces. France is the only traditional European country which attempted to maintain a relative autonomy on all fronts without submission, even manifesting some degree of rebellion in relation to NATO itself. Japan maintained its nationalism on the economic level, but politically and militarily it remained under the aegis of the United States. England, now a minor partner, did not adhere to the European policy.

In 1954 the consolidation of this imperial system culminated with the United States intervention in the Middle East and Indochina. However, whereas in the Middle East the

United States military policy was based on the concrete interests of the advanced capitalist system because it guaranteed a cheap supply of oil, in the Far East it was only a substitute for the old colonial order. The reverses suffered on the political and military levels, and later on the moral level with the defeat in Vietnam, are all too well known. On the economic level, the greatest beneficiary of the United States military policy in the Far East was Japan. The commercial and technological expansion of Japan in the region resulted in the subsequent industrial expansion of Japanese affiliates: a process which is, on a smaller scale, the counterpart of the expansion of the United States manufacturing affiliates in Europe.

The *second stage*, which began in the mid-1950s and extended for a period of almost 10 years, was the so-called 'American challenge', that is, the intensification of inter-capitalist competition under the United States hegemony. The expansion of United States affiliates, which followed the previous stage of merchandise export and financial indebtedness of the rest of the world with the United States, developed under European regional neo-protectionism, which hoisted the flag of neoliberalism.

The organization of a European system of payments was based on military expenditures and the flight of capital in dollars, which reproduced at the European level the intra-regional, neoliberal ordering of a trade pattern, a manufacturing system and a banking subsystem. The simultaneous movement of European financial capital, especially banking capital, was inextricably linked with the cyclical movement of the United States national economy, which found in the European subsystem a mechanism for the extended reproduction of its surpluses of private capital. The issue of dollars by the Federal Reserve Bank, encouraged periodically by the United States fiscal and balance-of-payments deficits, served as a 'monetary base' for the concomitant extended expansion of the means of payment and interbank credit in the European Common Market.

All these factors, although they reinforced the greater industrial and commercial dynamism of Europe, were perceived on the politi-

cal and ideological level as an expression of the United States hegemony, and the expression 'American challenge' was coined. Actually, however, the so-called 'American challenge' already contained the response which would bring about the commercial, industrial and financial defeat of the United States national power. The strong intercapitalist competition which existed in each national European space exerted pressure in the direction of dynamic responses from the national capital interests, both private and State, in close connexion with the large national banks. Only later, after the transmigration of the United States banking affiliates, could the European affiliates of the important enterprises of this country take advantage of the complete regionalized circuit of integrated financial capital.

The single and obvious exception is England, which continued to pay the price implied in its role as minor partner and secondary financial centre, although still proud of its liberal traditions and mercantile, financial and diplomatic *savoir faire*. The British banking system, in maintaining *prima facie* its international role, did not support the industrial modernization of the country, and this led to a process of denationalization of those great British enterprises which were not either in the weak position of being 'nationalized' (by the British State) or in the strong position of being already transnationalized.

On the other hand, on the Continent the process of internationalization was influenced by the strong oligopolistic modernization and linkage of national capital in competitive or associated coexistence with the large capital from the United States, under the tutelary protection of the State, whatever the ideology (frequently neoliberal) of the governing parties.

Until the mid-1960s intercapitalistic competition, provoked by the movement and articulation of an oligopolistic interplay with a national base, although increasingly internationalized, made possible the strengthening of a properly international order which, although it affirmed interdependence on the commercial and financial levels, simultaneously gave very dynamic industrial responses in the specifically European space (for example, not only the

German miracle but also the French and Italian national miracles).

It is clear that the particularly dynamic and innovative performance of Japan allowed this country to make up for lost time and overcome its famous technological dualism, fully entering the mass consumption market which had been reached long before the war by the developed European countries. However, it may be observed that even the Europeans generalized a particular form of consumption—that of durable goods—which is a dynamic resource in expanding the internal market already saturated by the United States economy immediately after the war.

Thus, the industrialization patterns of the 1960s were very similar in all countries of the world, with the advantage that the durable consumer goods sector played an additional motivating role in the development of the metal manufactures and machinery support industries. In the United States, on the other hand, a much more mature economy whose consumer market showed purely vegetative growth, the only dynamic force lay in the armaments industry. This, however, despite complex and heavy technological development, shows very limited chain reactions and interindustrial impact.

The *third stage* corresponds to the global transnationalization of the subsystem of affiliates and also marks the advent of the hegemony crisis of United States national power. The United States, to be sure, maintained its indisputable technological and market power, especially in the sectors where it was traditionally strong: heavy and mass-produced equipment and agriculture. Nevertheless, although this buttressed its great potential for accumulation, it did not resolve the problem of interindustrial expansion nor that of the markets outside of industry. It may be noted in passing that this was the source of its inexorable vocation to expand beyond the frontiers of its national market which, in spite of being colossal, had the inertia corresponding to its own hugeness. Expansion towards the outside by the affiliate subsystems was extremely beneficial to the dynamism of the United States national economy itself, both for the circuits of head office-affiliate exports and for the demand

on its powerful agriculture and food industries by the rest of the world.

However, the oligopolistic response was not long in coming, especially in the shape of European and Japanese competition, and the actual process of expansion of affiliates and transnationalization of capital from those countries cut down the specifically United States economic space. Before the end of the 1960s and, especially, after 1968, with the United States crisis in evidence and well-developed in its commercial, fiscal and even military aspects, the transnationalization of the capitalist system and the progressive loss of the national United States hegemony was confirmed.

The system also began, and for good reasons, to lose the regulatory mechanisms built up by the hegemony itself. The permanent aggravation of the United States deficit prevented the dollar system from maintaining its power to structure commercial and financial movements. The attempt to maintain the dollar artificially as a money system, through its growing overvaluation, emphasized the loss of natural competition in the bulk of United States industry compared with European and Japanese recently installed, modernized and dynamic industries, further stimulated by the very competition unleashed by the United States affiliates. These, although on an equal level of modernization, could not compete with the heavy and important national segments of heavy industry from which they had originally come, but they obliged the rest with whom they competed, sometimes even their own partners, to win the combat of international competition.

The crisis in the United States national economy continued to worsen in structural terms, and the loss of ability to compete, the fiscal deficit and balance-of-payments deficits are only the most obvious manifestations of this. The United States' rate of accumulation at the beginning of the *mini-boom* in the world economy from 1970 to 1972 was frankly inferior not only to that of the subsystem of affiliates—indeed, it always had been—but also to its own historical postwar rate. Moreover, the subsystem of United States affiliates expanded more slowly, after the mid-1960s, than the whole of European and Japanese affiliates in

the world. Or rather, the United States system as a whole lost momentum.

The periodical recoveries in the growth of the United States national economy led to a worsening of the deficit. The stop-and-go policies, which responded to the alternating movements of the balance of payments and the flow of capital, pressured the dollar in the exchange markets, and in 1971 the dollar system, symbol of United States hegemony, collapsed along with the entire Bretton Woods system. To a considerable extent this was due to the speculation stimulated by the United States affiliates themselves in the Euro-currency markets, which reacted against the currency of their own country of origin.

The *fourth stage* occurred from 1974 until the present, and has witnessed the decay of the old economic order and the attempts, up to now fruitless, to cure it. The oil crisis actually only accentuated the structural nature of the problem of the internationalization of capital by bringing out a weakness in the infrastructure of the world manufacturing technological system not unrelated to the imperial character of the predominant economic order.

The intercapitalist rivalry, sorely tried by the forced union of interests and without a unified command at any level, could not hide the ruptures and disturbances of the national power structures which did not yield easily to the utopian or self-interested pretensions of the transnational ideology. The ideological differences themselves within the capitalist system have steadily increased in recent decades and have generated attitudes which are frankly unfavourable to that system from the traditional pillars of the oldest Western secular order, such as the national armies and the Catholic Church.

However, the transnational ideology has stood by its 'pacificist' utopias: North-South integration and East-West convergence. Such schemes, of markedly ideological origin, reduce and simplify the multipolarization of the existing political and economic forces and ignore the structural movements characteristic of each bloc of countries.

The socialist countries, especially the Soviet Union and China, are much less heterogeneous societies and are only now beginning to enter upon patterns of production and con-

sumption; to them, the United States type of internationalization of the industrial system is at the very least, quite foreign. The transnationalizing aspiration of the large capital enterprises, which would like to penetrate deep into the potentially huge markets of these two nations, runs up against at least three types of obstacles:

— the non-existence of capitalist competition, which is the dynamic and disseminatory instrument, *par excellence*, of the forms of 'technical progress', and especially their most polished form: product differentiation;

— the very form, not only of basic social relations of production, but especially of the way in which the national division of labour is articulated and its position outside the international division (which has not advanced sufficiently, even within the socialist bloc itself);

— the *modus operandi* of the large Soviet (and Chinese) conglomerates or State enterprises, which do not have any structural similarity to the internationalized enterprises, either in their intersectoral relations or in the form in which the process of labour is organized, to say nothing of the most obvious feature, which is the centrally-planned control of the economy.

Consequently, the famous interpenetration of the two systems is no more than a fantastic idea which does not even point towards a clear ideological convergence, and even less a global transnationalization of the world under the aegis of an ultramodern type of financial neo-mercantilism.

From the point of view of North-South relations, or rather of relations between the so-called centre and periphery, the limits of transnationalization are less evident, but are nonetheless strict. The existence of the *NICs* (newly industrializing countries), celebrated in prose and verse as an industrial conquest of transnationalization, hides some obvious problems of structural analysis:

1. The pattern of production and consumption reproduced in the periphery excludes, not only as citizens but also even as consumers, huge masses of the population who, although incorporated into the most modern mercantile relations, and thus subject to the dominant

mode of production, are only second-class consumers.

2. The degree of development of the specifically capitalistic productive forces of these countries is much more advanced than their position in world trade, which is low, or their position in international financial indebtedness, which is considerable. This makes even less problematic the possibility of a reproduction on a world scale compatible with the old order or even, let it be said in passing, with any foreseeable new order (since the imaginable has been formulated since 1964 by UNCTAD without any perceptible results). If this trend continues, the renationalization of the industrial, commercial and financial structures which are today transnationalized would appear as a *sine qua non* condition requiring, at least for some countries, the adherence and peaceful (or authoritarian) transition of the large enterprises to the interests of the national host States.

3. As the oligopolistic balance cannot be reestablished at the level of the central countries without the return to the country of origin of much 'affiliated'\* capital duly associated with international capital from different nations, the most plausible alternative remains the sterilization of the considerable masses of financial capital corresponding to unrecoverable debts, beginning with the debt of the United States itself. Without this prior cleaning-up, and quite apart from any considerations regarding rivalry or the possibilities of intercapitalistic collusion, it is difficult to image a reordering of the international system, even if, as is most probable, a broad North-South regionalization is maintained as a result of the historic relations of domination.

### *3. Differences between the process of internationalization in advances and underdeveloped countries*

Immediately after the war the United States economy was highly 'trustified', with a great concentration of financial capital which could

\*Neologism from "affiliate" that is, "establishment which depends on another".

not all be reinvested in the 'trustified' industry itself; hence the need to expand abroad. The first attempt was that of dismantling the monopolistic structure of the defeated countries and using their exports of merchandise and technology to finance the United States hegemony in the areas which were already industrialized. This was of short duration, and the neoliberal model of the imitative reproduction of United States financial institutions and the breaking down of the large enterprises and large rival banks gave way to a process of monopolistic restructuring which took place under the aegis of domestic economic policies.

The process of internationalization was then carried out through the spread of the large United States enterprise, and it found resistance which was neither passive nor only on the part of the market but which was reflected in the institutional restructuring and reorganization of the great blocs of domestic capital. It was only after this that the *oligopolistic reaction* mentioned by the United States school took place: that is, a reactive behaviour whose typical features were aggressive expansion of markets, product differentiation, and specialization in the most advantageous commercial branches within each industrial sector.

The expanding sectors were the same everywhere: basically metal manufactures and machinery, the electrical and electronics industries and the chemical industry. It was in these sectors associated with national banking capital that the remonopolization of capital was carried out, although no longer in the old form of the German cartel or Japanese *zaibatsu*; the form adopted from the business conglomerates turned out to be more flexible than the old prewar heavy industry and mining cartels.

Thus, it is not just any kind of oligopoly that is in question, but the form which Labini called 'differentiated-concentrated oligopoly'. The concentration lies more in the financial power of conglomeration and differentiated penetration into various markets than in the individualized participation of each enterprise in each particular market.<sup>5</sup>

<sup>5</sup>This explains the fact that the indexes of industrial concentration, as measured by the participation of the four major four-digit establishments, are practically identical in



In the developing countries the situation is radically different. The process of industrial monopolization is very backward in the industrial sectors established before transnationalization, so that in the majority of cases the entrance of transnational manufacturing enterprises took place at the same time as the constitution of the productive sectors which form the technical base and the market itself. The pre-existing forms of consumption were limited to the élites, who imported durable consumer goods and a small variety of capital goods to maintain the national infrastructure. Thus, the so-called 'internationalization of the domestic market' suddenly created the enterprises, industries and markets, that is, the specifically capitalistic productive forces corresponding to an advanced stage of world capitalism.

Much more than a substitution of a ridiculously small amount of imports or a non-existent mass market, this process of 'affiliatization' requires, in order to be effective, that the industry should be a market for itself to a much greater extent than it already is by nature. This leads to a successive internationalization of the various productive stages within each industry,<sup>6</sup> with a concomitant expansion of pre-existing national capital and a voluntary or forced articulation, promoted by the State, of the various segments of capital.

Actually, rather than rivalry and competition in the struggle for pre-existing markets, we are witnessing the creation of new economic spaces which include all the types of national capital, large and small, and international capital from various sources, without apparent serious rivalries. Thus, in our opinion, the concept of 'entrance barriers' does not apply to international, national or State capital when it is a question of the installation of the new industrial structures for durable consumer goods, heavy inputs or capital goods. The implantation of these new sectors took place under the leadership of the international affiliates, with

the direct support of the State, and the tolerance, if not the association, of national private interests. It is paradoxical that the protectionism motivated by the balance-of-payments crisis did not create entrance barriers but stimuli, which were fed back through the intersectoral dynamic system itself during the periods of joint expansion, giving rise to a special type of briefer and more intense cycles than the Schumpeterian cycles of diffusion of innovations.

In the few cases where some large blocs of national industrial capital existed before, the barriers to the entrance of capital did function, supported even by the political power of the State. This was the case of the group in the heavy metallurgy industry, civil construction and construction materials, which were not denationalized even during periods of crisis. Citing the examples of the few existing national enterprises in the spheres of electrical equipment and the automobile industry as cases of denationalization does not strengthen the argument at all, since however original or technologically adequate these enterprises were for the reduced national markets, they did not have the technological and financial characteristics—that is, the degree of previous monopolization—to guarantee them a scale big enough to allow them to construct a barrier against the entrance of capital.

The preceding observations refer to the phenomenon of simultaneous implantation corresponding to the process of recent internationalization. Completely different, however, are the problems of denationalization through take-over corresponding to the classical cases of export of capital, which are aggravated in national economies during periods of crisis connected with the end of boom phases in the central economies, when there are capital surpluses; this process occurred with the pharmaceutical, food, beverage, textile and footwear industries, and in general, all the traditional industries where international affiliates existed in open competition with national enterprises. However, even in this case, we cannot speak of 'entrance barriers', since what operated was the relative advantage of the special affiliate-parent company relations with regard to very low financial costs, brands, tech-

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all countries, which shows an apparent homogeneity of the oligopolistic structure at the world scale.

<sup>6</sup>The concept of the 'product cycle', formulated by Vernon, describes only the form of this process without capturing its essence, which is expressed by the idea of the total capital cycle.

nology and marketing, which made the domination of the national markets easier for them.

Spurred on by the presence of the affiliates of the large enterprises, the national enterprises were obliged to take the path of defensive modernization. This process of modernization necessarily implied the use of techniques which required high capital density, bringing with it a rapid growth in the capital/labour relationship which became generalized in the entire industrial sector. If they did not act in this way, the national enterprises would become even more vulnerable to the competition from the TNCs. The effects of this phenomenon were already analysed by Fajnzylber,<sup>7</sup> who demonstrates that the problem does not lie in the fact that the TNCs have contributed less than domestic enterprises to the growth of employment, "but in the fact that the industrialization model which they advocate incorporates structural factors which militate against the growth of employment"<sup>8</sup>

The process tends to reach its culmination with financial internationalization. It is here that the problem of the new stage remains to be solved. In the mid-1960s, when the financial reforms of capital markets and of housing financing systems became generalized, 'affiliation' occurred only in countries where large-scale national banking and mercantile capital was not previously installed. Where it did exist, and whatever the nature of the laws (as different as those in Argentina, Mexico or Brazil), national predominance was maintained in the construction and banking sector with the explicit support of the central banks, however orthodox and liberal they were in their monetary and financial policies. There were also sectors, such as that of strategic mineral reserves, in contrast, where a process of renationalization did take place after the war. It is precisely these sectors—mining, construction and banking—which are now under attack by the new internationalizing liberal ideology.

## II

### The internationalization of Brazilian industry<sup>9</sup>

Up to now we have seen the process of industrialization as a movement articulated from the centres of the capitalist system and carried out through the implantation of affiliates of the great enterprises, at first from the United States and later from Europe and Japan. This movement, which generalized the United States' manufacturing system and was based on a trade and financial pattern controlled by the imperial power, cannot be understood in strictly economic terms; its understanding requires a study of the conditions in which what we call the United States hegemony was formed and an examination of the various factors which contributed to this hegemony's entering a period of crisis.

But it is another matter to see this same movement from the angle of the peripheral countries such as Brazil. In our case, the meaning of the term 'internationalization' corresponds, *lato sensu*, to the process of the implantation of affiliates of foreign enterprises, giving rise to situations of integration and

<sup>7</sup>See Fajnzylber, "Oligopolio, empresas transnacionais e estilos de desenvolvimento", in *Estudos CEBRAP*, No. 18.

<sup>8</sup>F. Fajnzylber, *op. cit.*, p. 26.

<sup>9</sup>In this section and the following ones, liberal use will be made of the thesis *Ciclo e crise - O movimento recente da industrialização brasileira*, submitted by Maria da Conceição Tavares to the Faculty of Economics and Administration of the Federal University of Rio de Janeiro in applying for the post of full professor. The empirical material used is based on the research on industrial structure and leading enterprises carried out in FINEP (Fund for the financing of studies and projects) by the economists Luiz Otávio Façanha and Mário Possas, and on the research on TNCs in the Brazilian economy carried out in the Institute of Industrial Economics of the Federal University of Rio de Janeiro by the economist Reinaldo Gonçalves, both under the guidance of Maria da Conceição Tavares. We also wish to thank Luiz Otávio Façanha and Reinaldo Gonçalves for their suggestions in the drafting of this work.

complementarity with domestic private or public corporations without necessarily meaning their expulsion.

Thus, the term 'denationalization' remains limited to those cases of the purchase or failure of national enterprises which occur in the phase of the cycle in which the predominance of foreign capital is exercised in open competition with domestic capital. When this occurs we have a phenomenon of *absolute* denationalization, which may be distinguished from the modalities of *relative* denationalization. This took place in stages of rapid expansion or accelerated modernization, whether through relative concentration in favour of the foreign enterprises, due to their greater power of internal accumulation, or through the influx of new capital to achieve a technological leap forward (as occurred in the synthetic textile industry), or through significant economies in horizontal and vertical market integration (as happened in various branches of the chemical, pharmaceutical and cosmetics industries).

In this broad sense the Brazilian economy has undergone processes of internationalization which are not limited to recent decades, when it has been presented as a domestic counterpart of the more general process of rearticulation of the international capitalist system since the end of the war. The peculiar feature of this period, however, is that it creates a convergent logic of accumulation in which public investment (particularly in the infrastructure and in the production of basic inputs) becomes subordinate to investment by international enterprises, and both carry national private investment with them in their career.

If we take into account only the processing industries, we may see that the process of internationalization is old and has accompanied almost all the stages of industrialization since the 1920s. The recent period of expansion, which has confirmed the trends already outlined since the mid-1950s, extended internationalization to all branches of industry, particularly in the case of the large enterprises which dominate the principal industrial markets.

### 1. Presence of TNCs in Brazilian industry

The data from a study carried out in FINEP,

which covers only a sample of the leading enterprises in the processing industry, show the degree of internationalization of the Brazilian industrial structure, which is manifested in oligopolistic control of the principal markets of the processing industry. The analysis starts from a sample of the four biggest establishments according to the four-digit industrial classification of the Brazilian Institute of Geography and Statistics (IBGE), the only standard classification of industry which approximates (although not totally satisfactorily) to the market concept.<sup>10</sup> This group includes 1 528 establishments belonging to 1 261 leading enterprises and corresponds to 38% of the value of production in 1970.

The participation of foreign capital is 50% of the value of production of the sample, and of the rest 33% corresponds to national enterprises and 17% to establishments of public enterprises. If we limit ourselves to the 272 large leading enterprises which figure among the 500 largest mentioned by the review *Visão*, we note that 149 belong to groups of external capital, 110 to national groups and 13 to public enterprises. The overall weight of these 272 enterprises amounts to 30% of the total value of production, revealing a high level of concentration similar to the international indexes of the mature industries in the central countries.

The proportions of market control are substantially modified when we consider a sample including only the large enterprises, in which the groups of foreign capital come to represent 57% of the value of production of the establishment of large enterprises, while the subgroups of public and private domestic capital enterprises account for 21% each.

In order to distinguish between the various forms of foreign-capital enterprises, the research group of FINEP adopted a four-part subdivision, as follows:

— International enterprises, where at least 20% of the capital belongs directly or indirectly to a foreign-based enterprise or industrial group which figures on the list of the 500

<sup>10</sup>For methodological considerations on the coverage of the sample and the principal concepts used in the analysis, see the master's thesis submitted by professor Mário Possas of the University of Campinas.

largest enterprises in the United States, or the 200 largest outside the United States (published by the magazine *Fortune* in 1970), or which carry on industrial activities in at least six countries;

— Foreign enterprises, where at least 20% of the capital is controlled by a foreign-based enterprise or group which does not satisfy any of the previously mentioned conditions;

— Financial conglomerate enterprises, when at least 25% of the capital belongs to a foreign-based bank or financial group;<sup>11</sup>

— Joint ventures, when there is equity participation by one or more foreign-capital enterprises (international, foreign, financial conglomerate or even another joint venture), with the respective percentage of control, side by side with at least one domestic and/or State enterprise or group with equal or greater participation.<sup>12</sup>

This subdivision allows us to distinguish, first of all, the affiliates of companies with headquarters outside the country—i.e., international and foreign companies—from those where the external control represents much more a financial contribution of capital, in the abstract sense, although it takes the form of direct investments. In the second place, this separation between international enterprises and foreign ones, based on the size of the parent company and on the degree of international penetration, is an attempt to avoid confusion between the large transnational corporations—usually called the transnationals—and enterprises with scant financial, technological and market power at the world level, which in some cases are only distinguished from domestic corporations in that the control of capital belongs to a 'foreign resident'. In any case, the number of foreign enterprises thus defined, among the sector leaders in 1970, turned out to be fairly low, as was to be expected.

<sup>11</sup>The higher base figure for participation in this case assumes less ease of control by the enterprises of this group than by industrial enterprises, specifically control of technology and patents, knowledge of and access to product markets, raw materials and equipment, marketing techniques, etc.

<sup>12</sup>The inclusion of this category in the group of foreign capital enterprises is not strictly justified and only means that the enterprise in question is not under full domestic control.

In fact, among the 272 foreign groups included in the sample of the leading enterprises operating in Brazil, there are 114 groups with capital from the United States, 107 of which are affiliates of international enterprises; only 5 are foreign and 43 are controlled by financial conglomerates from the United States. Of the 159 non-United States groups at the head of Brazilian industry, the majority are of European origin, but only around half (84) are international enterprises. The rest represent foreign enterprises (54) and financial conglomerates (24).

The foreign enterprises entered the country more recently than the international ones, upon the diversification of the metal manufactures and machinery, chemical and various instrument industries. The accelerated development during this period opened up gaps in the market which were filled by smaller enterprises, with European and Japanese capital, as well as by small and medium-sized domestic industries which then expanded.

The financial conglomerate enterprises are even more recent: most entered since May 1968 as a result of the excess of liquidity in the Eurocurrency markets and the process of conglomeration of international financial capital. Mostly of European and Japanese origin, these groups are scattered over almost all the industrial branches, the only exception being the case of rubber and tobacco, which are dominated by two world cartels within which the markets of each important country are shared out.

Market control was exercised predominantly through the operation of closed affiliates which followed the technological, commercial and financial policies of their respective head offices. That seemed to be the most effective method for large-scale international capital, since through parent company-affiliate operations they could carry on the well-known practices of transfer pricing, import- and export-related policies, excessive diversification of products, technology, etc., whose most spectacular and visible result was, up until very recently, the trade deficit.

European and Japanese capital, which was less internationalized, used more flexible means of controlling the market with less par-

ticipation of capital and sometimes even without stockholder control, their control being basically exercised through technology and external indebtedness, taking advantage of less restrictive marketing practices. As a result inter-capitalistic competition sharpened even within the great oligopolies, and the position of some traditional cartels became less stable, in both the Brazilian and international markets. In any case, this was due not so much to the industrial policies adopted by the host countries as to the increase in the international oligopolistic rivalry, which grew still further following the peak in the world cycle. In this stage, foreign capital, of all types and sources, intensified its efforts towards a rapid conquest of newly expanding markets. On the domestic level, this movement gave rise to the accelerated reproduction of national capital, spontaneously incorporating into this process the growth of the small and medium-sized firms, especially in the metal manufactures and machinery industry.

The available empirical evidence supports this assertion. Actually, in the period of rapid expansion from 1970 to 1973, no increase in the coefficients of concentration occurred, nor was there any accentuated *denationalization* of Brazilian industry. The growth rates of the large and small leading corporations were the same, and were identical to the average for processing industry. In addition, despite the growing internationalization of diverse markets, in this stage (which was completely favourable to the processes of fusion and association of foreign capital with national groups) the take-overs were less important than the opening of new economic spaces, at least in respect of the leading enterprises. This explains why the large domestic corporations have not lost the leadership that they have traditionally exercised in some markets.

## *2. Market leadership and competition strategy of international enterprises*

The Brazilian industrial structure shows some characteristic features in relation to the presence and leadership of international enterprises and to the division of spheres between

them and domestic public and private capital. In the durable consumer goods sector, the international firms exercise almost absolute leadership; in the capital goods sector their presence is now decisive; while in the non-durable consumer goods sector they exercise leadership in conjunction with the large domestic enterprises, nevertheless dominating in the production of tobacco, pharmaceuticals, toiletries and some branches of the textile industry, clothing and food. In the basic inputs sector, such as heavy chemicals and metallurgy, they share domination with the State enterprises, and in the production of paper and pulp, non-metallic minerals and other branches of metallurgy, they exercise leadership along with domestic private capital enterprises. Moreover, they completely dominate the flat glass, rubber and electrical conductor industries, and are leaders in the dyes and paints, petrochemical materials, resins, pigments and colourings and plastic laminate industries.

The degree of internationalization of production in Brazilian industry may be gauged from the fact that only 29% of such production corresponds to sectors where there is exclusive leadership by domestic State or private enterprises. The State enterprises include iron and steel, fuels and lubricants, while the domestic ones include cement, some branches of construction materials and large sectors of the non-durable consumer goods industry.

This structural picture enables us to understand why the recent industrialization has been led by the growth strategy, the patterns of production and the accumulation of capital of the international enterprises situated in the dynamic sectors producing durable consumer goods, especially the automobile and related industries and electronics. In both cases these are concentrated and differentiated oligopolistic structures where practically closed affiliates of TNCs of various origins predominate.

The automobile industry is composed of large, independent corporations which compete aggressively in the international market and which see the Brazilian market as a platform for the expansion and differentiation of markets and models. This industry shows growth rates of its productive capacity which

are greater than the growth of demand, and its profit margins are flexible in the face of lower sales. These strategies correspond to forms of rivalry between the leading enterprises and represent an attempt to conquer the new portions of the market for which they are seriously competing.

The electrical and electronic industry is dominated by a cartel of enterprises organized on a world scale with a clear division of areas and markets, and this explains why it responds less aggressively to the growth of the market. Its high rates of accumulation are more a response to the rapid growth of the market itself than an attempt to win territory from rivals. Thus, it is more rigid in the face of the reduction of its profit margins and lower rates of accumulation when there is idle capacity. The dynamism of the automobile industry and the electrical and electronics industry is largely responsible for the rapid growth of new sectors (especially that of capital goods) which are fed by its derived demand.

The presence of international enterprises in the heavy inputs industry is much less significant, and this, except in the case of the recently modified legal oil monopoly, is not due to the existence of legal barriers. The logic of the Brazilian market alone, as it is historically structured, has prevented the entrance of new foreign affiliates in certain branches of strategic inputs. Among the central elements of this logic, there are two factors which are fundamental for the market strategy of the large enterprises: firstly, the impossibility of controlling the market structure and final demand, which precludes the traditional monopolistic practices of selection of customers, control of sales and differentiation of the product; secondly, and increasingly important, the impossibility of control or association in a backward direction towards the suppliers of equipment and technology, a normal TNC practice which would run up against the governmental policy of substitution of capital goods imports by buying from national producers. These structural elements explain, more than does any tendency towards State control, the expansion of public enterprises in the basic inputs sectors.

The oldest and most firmly established international groups are found in the non-

urable consumer goods markets. The markets concentrating on tobacco, toiletries and pharmaceutical products are traditionally internationalized, and in them the dominant enterprises exercise absolute control through marketing, brands, advertising and distribution. In the markets of deconcentrated production, particularly the food industry, the control is exercised through the 'monopsonic' purchase of raw materials and/or the marketing of production (milk, milk preparations, wheat milling, production and refining of vegetable oils, animal slaughtering and preparation of preserved meat). In all these branches, the internationalization of capital and production took place through the dominant presence of the United States affiliates, with the notable exception of one Swiss firm. In these cases it is a question of stable monopolistic situations, with a low relative growth rate of demand and productive capacity. The progressive conquest of the regional markets has led to the formation of multi-plants when the local urban market justifies it, thus keeping the control of the national market in the hands of the dominant group.

The only case of control by a stable oligopoly, with technical decentralization by multi-plants but with high economic concentration, is that of beverages, whose market division between large national enterprises and some international ones in the carbonated beverages sector guarantees high profit margins to both. The growth of the sector as a whole is quite low, both in demand and in productive capacity, but at all events market control by the dominant firms allows a substantial raising of relative prices and maintenance of higher profit margins than the industry average, in a situation such that the performance of the leading establishments is not much different from the whole of the branch.

In the textile, clothing and footwear industries, we have the important cases of leadership divided between domestic and foreign capital. Here, the opportunities for exports have stimulated unstructured technological development and differentiation of products with a view to the stratification of regional, national and international markets.

In the sectors of intermediate capital

goods, linked to the strategy of industrial expansion led by the automobile and electronics industries, we note the presence of the international corporations which most recently entered the country; this is the case of the electrical conductors, chemical raw materials, dyes and paint industries. An analogous phenomenon occurred in the chemicals sectors related to the expansion of heavy chemicals and petrochemicals, in connexion with the pioneer investments by the State enterprises. Here, the situation of leadership by international oligopolies is still stable, and the market strategy emanates from the investment and final demand policies of other public or international enterprises, through negotiations which result in a three-cornered interrelationship between State, foreign and domestic enterprises.

In the case of capital goods, the relative participation of the international affiliates has risen since the last period of expansion in 1970-1973. During these years their position in the group of leading establishments in the sector went from 69% to 75% of sales. This predominance reflects the control of the supply of equipment in two of the four sectors of this industry: electrical and electronic equipment and at least the main sectors producing machinery for cargo transport and handling, such as tractors, with parts and accessories, and earth-moving equipment. In the first sector, their leadership position was largely consolidated by the total guarantee of orders on the part of the government, which accounted for almost all of the demand for heavy equipment produced by the large companies. The same occurred in the sectors producing heavy metal manufacturing machinery. Here, the division of markets between affiliates of international corporations and large domestic enterprises followed the guidelines imposed by the control of production technology.

In the sectors of the capital goods industry which are still not 'cartelized', where there is a struggle between capital from various sources, including domestic capital and non-internationalized foreign capital, the leadership situation is still not defined. The adoption of 'market reserve' policies would not in itself guarantee the relative position of the domestic groups, even the most powerful, unless it were accom-

panied by an explicitly directed ordering strategy. It is thus not a question of imposing 'entrance barriers', nor even of the traditional 'import substitution', since almost all the suppliers of equipment are already installed in the Brazilian market. The open oligopolistic competition of the large-scale, non-internationalized foreign capital and the strongest domestic capital will in no way aid in maintaining the portions of the market conquered or 'granted'. The most probable trend is towards the concentration and centralization of capital in the hands of the large international groups which are moving towards the complete 'cartelization' of the market, in view of their greater power of internal pressure and external financing.

### *3. Internationalization and external debt*

After the boom in the last growth cycle had passed, the fallacy of the 'island of prosperity', with which economic policy-makers claimed to present the Brazilian situation, also disappeared. The link between the Brazilian economy and the capitalistic system in crisis could no longer be hidden by waving a magic wand, and in a certain way the solution for the former involved solutions for the problems faced by the latter, too. Let us reconsider here some arguments dealt with at the beginning of this essay, in order to explain the trends towards internationalization of capital in Brazil.

Around 1973-1974 it began to be evident that the great boom in post-war capitalist expansion had come to an end. Two symptoms made this clear: the dollar crisis and the oil crisis. The first signalled the breakdown of the United States hegemony and the second was a menace hanging over the entire industrial structure of the capitalist world, which was built on the three legs of the tripod: the petroleum industry and its derivatives, automobiles and the highway system. The resistance to collapse shown by the large international enterprises was due to their desperate attempts to maintain their privileged positions in the various markets, using their monopolistic power to raise prices on a world scale and permit a speculative spiral of the money, commodities and land markets.

Thus the phenomena which reveal the end

of the great boom of industrial capitalism have materialized in this general crisis, in the specific manner in which the monetary system, basic raw materials and land are seen to constitute the three pillars of the speculative springboard which is precipitating the world economy into a situation of slow fragmentation, destruction and formation of blocs which are fighting among themselves for their relative positions without showing any inclination to yield.

Brazil is deep within this movement of sharpened competition between the great blocs of internationalized capital. Thus, after a mutually advantageous coexistence between the oligopolistic rivalries which reinforced the simultaneous expansion of the productive and market capacities, we seem now to be approaching a critical point in non-peaceful 'coexistence' between capital blocs of diverse origin. The rivalry between these blocs manifests itself in various ways. The most important weapons in this struggle are privileged access to national and international credit and the capacity to capture regional markets outside of Brazil through an aggressive policy of industrial exports of products with absolute advantages. These latter derive both from the policy of implicit or explicit subsidies granted by the Brazilian economic policy and from the fact that they are made at marginal cost on the basis of considerable scales of production for the internal market. The rate of industrial expansion has been kept fairly high by international standards, so that the dilemma between the external and internal markets has not yet arisen. In fact, the affiliates have used the obvious advantages of complementarity which exist in the joint expansion of both markets. The efforts of the affiliates to export have mainly been oriented towards the Latin American and African markets, but also include the socialist countries and developed capitalist countries where the affiliates can open gaps in the unconsolidated market of their rivals. Recent studies on the exports of the largest international corporations reveal that the trend towards a trade deficit of the principal affiliates has been reversed as a result of the worsening of the overall situation of the Brazilian balance of payments and the international crisis itself, which have led to an export effort made neces-

sary both by Brazilian domestic policy and by the increase in intercapitalistic competition.

After the tapering-off of the cyclical boom, the accumulation by international corporations in the country lost momentum and overall indebtedness became especially concentrated in the State enterprises, which resorted to it because of decisions by the government to finance its deficit position in foreign currency rather than for reasons to do with domestic accumulation by these enterprises themselves. The Central Bank's report for 1978 shows that on 31 December of that year the public sector was responsible for 63.3% of the external debt recorded: an increase over the previous year, when the figure was 60.3%.

The external debt represents one of the most perverse factors of the process of internationalization of the Brazilian economy, since its growth since 1976 is absolutely sterile in real terms. It does not correspond, whatever the concept used, to so-called 'external savings', since it coincides with the deceleration of the investment rate and with a fall in the demand for imports of capital goods and complementary inputs for domestic production. In other words, the external debt has become sterile from the point of view of the need for imports, and accumulative from the financial point of view.

The external financial debt of Brazil contracted in recent years may be considered overall as a 'fictitious' mechanism for accumulating financial capital to permit the transfer of profits to international bankers who invest their excess 'international liquidity' here. What has caused this transfer is the difference between the domestic and external interest rates, which has made the Brazilian financial market attractive. This mechanism may be considered 'fictitious' because it derives from an accounting game which arose with the conversion of the cruzeiro, permanently over-valued in relation to the international monetary system. In turn, this was brought about as a result of the 'manipulation' of the exchange rate and the monetary correction of public debt securities, which act as a new form of domestic 'financial money'. Public debt securities, especially treasury notes, were used during the first



stage (1971-1974) as a monetary policy instrument to counteract the expansion of the means of payment derived from the money indebtedness abroad, but in a second stage, after 1975, it accelerated more than the external debt due to the movement of speculative financial circulation which has occurred since then.

Part of the external debt figures as a 'forced debt' of the government, since as the cruzeiro is not a convertible money, the Brazilian State needs to finance its debtor position in the international market with foreign currency. The question of why the government did not try sooner to renegotiate the debt and chose to serve it by indebtedness which was increasingly greater than necessary remains unanswered. The idea that this process, which results in a considerable increase in reserves, could be used as 'an emergency safeguard' in any potential crisis in the international financial market is inconsistent with the increase in the already very heavy financial burden of the debt, which represents a game of blind man's bluff with the future. The pressure presently being exerted by international bankers for Brazil to submit to the rules of the International Monetary Fund may even mean that the future has already arrived.

The other part of the external debt is that which is contracted either directly by the enterprises, through Law No. 4131, or through the intermediation of financial institutions in accordance with Resolution No. 63. In this case the increased indebtedness is due not only to the short-term interests of the international bankers, always eager to find a profitable application for the excess money that they themselves help to create with their speculative movements in the principal financial markets of the world; it is also due to the interests of the Brazilian affiliates of the international corporations and of the national banking system.

While the difference between internal and external interest rates represents only an *accounting* transfer backed by the issuing power of the government, the internal difference between the cost of money taken externally and its remuneration in domestic applications represents a *real* transfer of incomes of wage-earners, small and medium-sized enter-

prises, and even large domestic enterprises showing a deficit, which cannot resort to the mechanism of direct indebtedness with the exterior. From the point of view of the profits of the capitalist class as a whole, this transfer is only a redistribution in favour of the financially strongest sectors. However, from the point of view of the workers, it is a real loss of income, since financial speculation pushes the inflation rate above the prices desired by the large corporations and used as an element in calculating their gross margins of profit.

The difference in interest rates resulting from the international exchange of currencies, when one of them is non-convertible—that is, without international exchange value—cannot be paid in effective terms since there is no trade surplus. Even the transfer price mechanisms are incapable of transferring the real surplus to the exterior; they can only move an accounting surplus. The difference in interest rates is paid, from the accounting point of view, through the State's power of regulation over the exchange rate and over the sale of securities issued by the State itself. That is to say, it is 'socialized' in a way which represents only a growing indebtedness on the part of the State, both internally and externally, which will have to be resolved in the future (perhaps sooner than imagined) by its internal power of arbitration and its political power of international negotiation, which are contradictory because they represent great opposing interests.

#### 4. *Recent trends and prospect of internationalization in Brazil*

There are various foreseeable trends as regards the restructuring of control of the market by the various groups in the Brazilian industrial structure. Various situations may occur, from a new wave of 'cartelization' and sharing-out of the market among the large competing international enterprises, to an increase in the centralization of large capital through take-overs of private capital from smaller domestic or foreign sources. Control of finance and the market, much more than technology, seems to be the strategic factor in this stage of relative international stagnation, when the main technological

innovations have already become widely diffused.<sup>13</sup>

At the same time, however, we should not set aside the more optimistic hypothesis of a partial 'renationalization' of some international enterprises in sectors where, oppressed by competition and by a possible alternative economic policy, they find conditions relatively more favourable for reviewing their rigid control practices and for trying to relocate themselves, in association with national capitals, in a large market with good prospects for long-term expansion. However, in the short term the trends towards internationalization will still predominate.

There are two sectors in particular which will be closely watched by the large international corporations during this period of sharpening competition between oligopolies at the world level: mineral resources and banking. As regards mineral resources, foreign capital is concentrating its attention on iron ore and strategic minerals. In relation to the first, the four largest enterprises, after the Companhia Vale do Rio Doce, are affiliates of international corporations or are associated with foreign capital. A study carried out by the economist Paulo César Sá and published in *Boletim do IERJ* (Instituto dos Economistas do Rio de Janeiro), reveals that "of the most important foreign investments in the mining sector, five are related to the export of iron ore (Consortio MBR, Futeco, Samarco, Samitri and H. Muller) and are linked with large iron and steel groups, while the others are connected with manganese (Icomi), gold (Anglo-American), niobium (CBMM) and cassiterite (Brascan). In non-metallic minerals, the most important is the Lafarge Association, Lonestar while the Hochschild group is also engaged in various activities"<sup>14</sup>

In broad terms, State capital has been concentrating in the areas of iron ore and energy

<sup>13</sup>We refer to innovations in the Schumpeterian sense of the introduction of new ways of producing or differentiating products and controlling the markets, that is to say, new ways of practicing intercapitalistic competition, and not to the world-wide advancement of 'technical progress', already achieved or in the process of development.

<sup>14</sup>P. C. Sá, "A política mineral brasileira", *Boletim do IERJ*, No. 17, January-February 1981.

minerals, while domestic private capital has been concentrating in non-metallic minerals related to civil construction and non-ferrous minerals. The pressures exercised by international groups with a view to taking control of certain mineral regions began to meet with resistance from the Brazilian State, more for reasons of national security, linked with the *esprit de corps* of the military fraternity, than for any other motive.

As regards the banking sector, two very different types of reasons were active here. The domestic capital was already in fact firmly installed in its market positions before the beginning of the international expansion after the war and the formation of the large 'transnational' banks, with the consequent implantation of affiliates in the various countries. Thus, and with the support (explicit or not) of the Central Bank, it maintained its predominance and had sufficient strength even to surmount certain 'liberalizing' measures.

In reality, in no text are 'entrance barriers' of a legal nature mentioned, except those contained in Law No. 4131 of 3 October 1962, article 50 of which establishes that foreign banks authorized to operate in Brazil should be subject to the same prohibitions or restrictions imposed by their countries of origin on Brazilian banks; moreover, foreign banks from countries where there are restrictions on the operation of Brazilian banks will be unable to acquire more than 30% of the voting stock of Brazilian banks. This text is the only written regulation existing in the 1946 Constitution (and successive ones), which did not adopt any other restrictive measures on the activities of foreign banking establishments.

However, in spite of the 'liberalism' of the legislation, the increase in the number of foreign banks was relatively small. In 1948 there were ten foreign establishments installed in the country: Bank of London and South America, Banco Nacional Ultramarino, the National City Bank of New York, Banco Italo-Belga, The Royal Bank of Canada, Banco Holandês Unido, The First National Bank of Boston, Crédit Foncier du Brésil et de l'Amérique du Sud and Caisse Générale de Prêts Fonciers et Industrioux.

In 1976 there were 19 foreign commercial

banks, of which only 5 had already been established in 1948: Bank of London and South America, City Bank, Banco Europeu para a América Latina (new name for the Banco Italo-Belga), Banco Holandês Unido, and Bank of Boston; the Royal Bank of Canada was still present in the Brazilian banking system, but was associated now with the Bank of America as Banco Internacional. Another two had already operated in the country but their authorization had been cancelled in 1942 as a result of Brazil's declaration of war against the Axis: the Banco Alemão Transatlântico and the Banco Frances e Italiano para a América do Sul; the Deutsch Südamerikanische Bank, which today has minority participation in the Banco Lar Brasileiro, controlled by the Chase Manhattan Bank, could also be included in this category. Among the others are the recently arrived Japanese banks (Mitsubishi, Tokyo and Sumitomo) and those which are only representative offices of foreign public or private banks such as Banco de la Nación Argentina, Banca Commerciale Italiana, Agencia Financial do Portugal and the Unión de Bancos del Uruguay, Español, Territorial y del Norte. Finally we have the Banco Cidade de São Paulo, owned by the Swiss Bank Corporation; the Banco Francês e Brasileiro associated with Crédit Lyonnais, and the Banco América do Sul, the only one which, though a foreign bank (controlled by the Japanese Fuji group), has less than 30% of its capital stock in the hands of residents outside the country.

Few of these institutions have much importance in the ranking of Brazilian commercial banks, the most important being the City Bank, the Francês e Brasileiro, the América do Sul, the Lar Brasileiro and the Francês e Italiano. Actually, the group of foreign banks represents 18% of the total number of commercial banks operating in the country, but they are responsible for only 13% of the loans and 12% of the demand deposits.<sup>15</sup> This may be explained by the unwritten rules imposed by the Banco Central, which restrict the opening of agencies on the part of foreign banks; so

much so that if we consider the total number of bank *branches* in the country (headquarters, agencies and subagencies) the share of the foreign banks drops to less than 1%.

Not all of the foreign banks operating in the country may be considered internationals (or transnationals) *stricto sensu*. However, in this sector there has been much pressure in recent years towards greater 'openness': the establishment of the 'Rio-dollar' seems to have been only a trial balloon with a view to developing a temporary statute which would allow a great number of large 'transnational' banks to enter, operating directly with their fictitious money, the dollar which they themselves issue. The big domestic banking capital was able to oppose these measures directly, as in the case of the 'Rio-dollar', or indirectly through its dissuasive power and its ties with the State apparatus, as in the case of certain aspects of the banking reform law and of the capital market. In these texts there were provisions which stimulated association with the big transnational banks, either for the differentiation and specialization of financial institutions or in order to facilitate the procurement of foreign resources in line with the means provided by Resolution No. 63 of the Banco Central.<sup>16</sup> Despite the growth in the participation of foreign capital (especially when the financial system is considered as a whole, including banking and non-banking institutions), the large-scale domestic capital promoted the trend toward conglomeration and maintained its predominance and leadership in the sector.

The future of internationalization in the financial (and banking) sector has yet to be decided. And the end of the story will not depend on the domestic capacity for political resistance and negotiation with the State on the part of the Brazilian bankers alone, but on the possibility of seeking a new connexion with the productive sectors and on the evolution of the international crisis itself and its effects on the Brazilian economy. In any case, this was the sector which benefitted most from the recent

<sup>15</sup>These data correspond to 1976 and were compiled from the *Boletim do Banco Central* and the *Revista Bancária*.

<sup>16</sup>Under Resolution No. 63, financial institutions may obtain resources in the international financial market and transfer them to the Brazilian market over shorter terms and at lower values.

development of capitalism in Brazil, and particularly from the policies of internal and external indebtedness. The sector has not shown a propensity to assume the historical role of 'financial capital' (in Hilferding's sense); it centralizes capital and promotes national heavy industry, but in relation to speculative

international banking capital it prefers a position of tacit alliance. However, the possibilities that this situation may persist are no longer the same, and the national banking capital will soon be brought face to face with the choices it has been avoiding.



## The transnational corporations in the Chilean economy

*Eugenio Lahera\**

The objective of this article is to analyse the presence and impact of the transnational corporations on the Chilean economy during the period 1974-1979. It is based to a large extent on a previous study made by the author which presents the empirical evidence and the methodology used in greater detail (Eugenio Lahera, *Presencia y participación de las empresas transnacionales en la economía chilena*, (E/CEPAL/R.235), August 1980). A substantial part of the statistical data, however, was especially updated for this article, which consists of three sections. In the first section, the author briefly analyses the guiding principles behind government policy on foreign investments; in the second, he considers the variations undergone by direct foreign investment in Chile between 1974 and 1979; and in the third section he deals with the repercussions of the transnational corporations on the economy of the country. This section is followed by the conclusions, among which the author lays particular stress on some which contrast with generally held views on this matter. Thus, for example, although the policies on foreign investments applied by the government during the period under consideration were very liberal, the average flow of direct foreign investment was smaller than that recorded in previous years and its accumulated total did not reach the levels of the late 1960s. Moreover, this investment has been concentrated in a few economic units, has been used primarily to purchase local enterprises or to strengthen existing foreign enterprises, and has been oriented towards the internal market. In short, it has not assumed an important role in the economic development of the country and indeed, on the contrary, could help to aggravate certain problems such as that of the external bottleneck.

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## I

### Government policy of foreign investment

The policy on foreign investment followed by the present Chilean Government is based, with a few significant exceptions, on three main guiding principles.<sup>1</sup>

The first of these principles is equality of treatment for both foreign and local investors, which results in extreme simplification of the rules on foreign investment. There are practically no special obligations for foreign investors, but they do have some advantages: free remittance of profits and repatriation of capital after three years, without any subsequent time limit; maintenance of a constant tax rate for a prolonged period; and other advantages regarding taxation.<sup>2</sup> Furthermore, since the conditions offered to foreign investors are ratified by agreements with the Chilean State, they offer a high degree of security that they will not subsequently be changed. Foreign investors have access both to domestic credit and to State contracts, as well as being eligible for all the regional or sectoral incentives already existing or to be adopted in the future. They may also be affected, however, by the present legislation on restrictive practices.

The second principle is that of the free access of transnational corporations to the various economic sectors of the country: they are no limitations regarding their participation in particular areas. Such exceptions as there are to this are generally of minor economic importance, and in those cases where they are important—gas, oil and uranium—exploration and operating contracts can be signed with the State.<sup>3</sup>

<sup>1</sup>For comparisons with previous periods see Eugenio Lahera, *Latin American Public Policies of Foreign Investment: The Cases of Argentina and Chile 1870-1970* (doctoral thesis), Princeton, 1979.

<sup>2</sup>It should be noted that in the case of foreign investment in the copper industry, the present government reduced the tax rates below the levels in force in the late 1960s.

<sup>3</sup>The 1980 Constitution states that the mines are of the property of the State, but at the same time recognizes the ownership by natural or legal persons of the land where mines are situated. In any case, mines can be the subject of

There are no requirements as regards nationality to prevent an enterprise from carrying out any normal economic activity, although there are some limitations of a personal nature, nor are there any restrictions on the purchase of public or private domestic enterprises by the transnational corporations.

There is no mechanism or principle aimed at subjecting transnational corporations which apply to enter or reinvest in the country to any form of selection, nor does the Government do anything to actively seek transnational corporations with particular characteristics for specific reasons. Nor is any limitation on the percentage of the mineral reserves which can be controlled by foreign enterprises, unlike other countries in Latin America.

The third general principle is that of non-intervention by the State with regard to the activities of foreign investors in the national economy. The Chilean Government has not followed the example of other countries and groups of countries in Latin America which have developed specific policies regarding transnational corporations, in some cases in order to discourage tactics considered to be prejudicial, such as the fixing of transfer prices, and in others to promote beneficial potential features of the activities of such corporations, such as exports. Indeed, a step has been taken in the opposite direction by limiting, through articles 9 to 11 of the Investment Statute, the very possibility of any special policy, since these articles guarantee the foreign investor freedom from discrimination, against which (if it should ever exist) he can have recourse to the courts of law.

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exploration or operating concessions (article 19, No.º 24). Such concessions will be regulated by the new Mining Code (second transitory clause).

There is no law along the lines of 'buy national' in Chile, and recently the very possibility of centralized public purchases by the Dirección de Aprovisionamiento del Estado has been eliminated, while there is no law on the transfer of technology, either. Moreover, the Government has limited its own rights as regards fishery policy.<sup>4</sup>

Government control activities are restricted to a few obligations imposed on foreign investors—mainly the obligation to report on some movements of capital—and there is no provision for punishment if these are not complied with.

In contrast, the Government has engaged and continues to engage in considerable activity regarding foreign investment in other respects. It followed an active policy of coming to agreements with nationalized transnational corporations in the preceding period, and paid a total of US\$ 330 million in respect to compensation between 1974 and 1979, while it still owes US\$ 180 million. The Government also actively promotes foreign investment in the country: both CORFO and ODEPLAN and, more recently, PROCHILE, carry out studies and publicize investment opportunities in Chile. In the process of transferring public sector enterprises to the private sector, a significant number of such enterprises have been sold to foreign investors, while the Government has also signed some agreements with foreign firms to carry out joint ventures, especially in the mining sector. It also intervenes in the signing of foreign investment contracts, which are of a public nature and are binding on the State.

<sup>4</sup>See the 1981 Budget Law.

## II

## Variations in direct foreign investment in Chile in recent years

### 1. Inflow and accumulated value of direct foreign investment<sup>5</sup> between 1974 and 1980

According to the estimates made for this study, the total value of direct foreign investment accumulated in Chile up to the end of 1980 was US\$ 960 million<sup>6</sup> (see tables 1 and 2). Compared with previous periods, there have been considerable changes in the volume of such investments, since in money at constant value it went down to a quarter between 1967 and 1973 but rose again by 67% between the latter year and 1979. Even so, the accumulated direct foreign investment at the end of 1979 was equivalent to only 40% of that corresponding to the end of 1967 (see table 3).

Table 1

#### ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE, 1974-1980 (Millions of dollars)

Year	Accumulated value
1974	355
1975	465
1976	435
1977	450
1978	665
1979	890
1980	960

Source: Estimates prepared for this study on the basis of the data in table 2.

<sup>5</sup>For details of the concepts of direct foreign investment, accumulated value and inflows used, see the Annex.

<sup>6</sup>In order to estimate the evolution of this value between 1974 and last year, two base years were used which made it possible to fix the range in which to locate the accumulated value: 1973, using information from the Committee on Foreign Investments, and 1977, using information from the Organization for Economic Co-operation and Development (OECD). Subsequently, variable annual depreciation was deducted from these figures for the accumulated value: 10% for 1974 and 1975; 15% for 1976 and 1977; and 17.5% for 1978, 1979 and 1980, after which the annual reinvestments and inflow of capital were added

The rate of recovery of the previous levels of direct foreign investment speeded up considerably in 1978, when such investment increased by almost 50%, but it declined in 1979, and it fell abruptly in 1980, when the growth amounted to only 8%.<sup>7</sup> Of course the materialization of some of the big mining projects could easily alter the situation in a positive sense.

### 2. Variations in the sectoral distribution

For many years, up to 1970, most of the accumulated direct foreign investment in Chile was concentrated in the mining sector, while the industrial sector had only a small share of the total. Thus, in 1967 the investments in the mining sector, at US\$ 550 million, represented almost 60% of the total, followed by public services, with more than a quarter of the total, and manufactures with only 10%. The share of commerce was less than 5%, and that of the financial sector did not even come to 1% of the total (see table 4).

The foreign investment policies adopted as from 1970 caused direct foreign investment to go down and helped to alter its distribution significantly, since they had a different sectoral emphasis. The share of mining went down to less than 20%, fundamentally as a result of the

on. The first of the latter two terms is understood here as the capitalization of profits and credits, while the second term includes the direct foreign investment made under the Investment Statute and article 14 of the Foreign Exchange Law. The results of the operations in question are to be seen in table 2. In addition, in order to confirm the values a further estimate was made: the direct foreign investment was added up enterprise by enterprise, giving an accumulated value of US\$ 806 million for 1979. The difference with the total given earlier is to be explained by the exclusion of those firms which are not joint stock companies. The result therefore confirms the values determined.

<sup>7</sup>Indeed, the inflow of direct foreign investment was smaller in 1980 than in 1979.



Table 2

ESTIMATED ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE  
(Millions of dollars)

	1974	1975	1976	1977		1978		1979		1980	
				a	b	a	b	a	b	a	b
Accumulated value in the previous period	370.0	354.5	464.1	435.7	410.0	461.0	439.2	617.7	654.8	897.6	883.6
Depreciation (-)	37.0	35.5	69.6	65.4	61.5	80.7	75.8	117.4	114.8	157.1	154.6
Subtotal	333.0	319.0	394.5	370.3	348.5	380.3	363.4	554.3	540.3	740.5	729.0
Reinvestment (+)	0.0	32.2	13.4	15.0	15.0 <sup>c</sup>	1.6 <sup>c</sup>	7.6	6.8 <sup>d</sup>	6.8	228.8	228.8
Capital inflow (+)	21.5	112.9	27.8	75.7	75.7	283.8	283.8	336.5	336.5		
Annual total	354.5	464.1	435.7	461.0	439.2	671.7	654.8	897.6	883.6	969.3	957.8

Source: Prepared on the basis of information supplied by the Committee on Foreign Investment and the Central Bank of Chile.

<sup>a</sup>Based on data of the Committee on Foreign Investments for 1973.

<sup>b</sup>Based on OECD data for 1977.

<sup>c</sup>Reinvestment/capital inflow split based on a sample including 93.3% of the total.

<sup>d</sup>Reinvestment/capital inflow split based on a sample including 90.1% of the total.

Table 3

ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE  
(In 1978 dollars)

Year	Accumulated value
1953	1 618.1 <sup>a</sup>
1967	2 014.6
1973	474.5
1975	556.2
1977	484.0
1978	665.0
1979	791.2

Source: 1953: Central Bank of Chile, Research Department, *Inversiones Extranjeras en Chile*, Santiago, 1956; 1967: OECD/DAC, *Stock of Private Direct Investment by DAC Countries in Developing Countries, End 1967*, Paris, 1972; 1973-1979: tables 10 and 11 of the present article.

<sup>a</sup>The definition of direct foreign investment used by the Central Bank of Chile differs from that used in the present study, as it includes only those enterprises where more than 50% of the capital is foreign-owned. The OECD study, for its part, only includes the DAC countries.

nationalization of the large-scale copper industry, while that of the industrial sector rose to over half the total direct foreign investment in

the country; the share of services went down sharply, and that of the financial sector also diminished; there was only one foreign bank left in the country in 1973.

The estimate of the sectoral distribution of accumulated direct foreign investment at the end of 1979 is only approximate, since it corresponds solely to direct foreign investment companies<sup>8</sup> organized as corporations, thus tending to over-represent the industrial sector. This sector, as can be seen from table 4, accounts for two-thirds of the total (US\$ 580 million), followed a long way behind by commerce, finance and mining. Within the sectors, the biggest share was that of food products—which increased their importance in respect to 1973—and the manufacture of metal products, machinery and equipment, with nearly 15% of the total each; these are followed by non-metallic mineral products and paper manufactures (both of which increased their shares) and chemical products (which suffered a considerable fall since 1973), the share of each of them being 10%.

Finally, it is interesting to analyse the sectors to which the flow of direct foreign investment has gone between 1974 and 1979, and

<sup>8</sup>For the concept of direct foreign investment company used, see the Annex.

Table 4  
 SECTORAL DISTRIBUTION OF ACCUMULATED DIRECT FOREIGN  
 INVESTMENT AND CAPITAL FLOWS, 1974-1979  
 (Percentages)

Date	Mining sector	Non-mining sector	Industry	Public and private services	Finance	Commerce	Other	Agriculture	Fisheries
Accumulated direct foreign investment:									
at 31-12-1967	57.0	43.0	9.7	20.9	0.5	4.7	7.1	0.2	ND <sup>a</sup>
at 30-6-1973	17.0	83.0	54.9	—	28.1	—	—	0.1	0.1
at 31-12-1979 <sup>b</sup>	4.8	95.2	65.8	0.0	4.9 <sup>c</sup>	12.8	7.2	0.6	3.9
Flow of direct foreign investment 1974-1979	49.6	50.4	27.5	2.3	7.9	5.7		0.3	2.8

Source: 1967: OECD, *Stock of Private Direct Investment by DAC Countries in Developing Countries, End 1967*, Paris, 1972; 1973: calculations by the author on the basis of data supplied by the Committee on Foreign Investments; 1978: calculations by the author on the basis of data supplied by the Superintendent of Limited Companies, Insurance Companies and Stock Exchanges.

<sup>a</sup>ND = No data available

<sup>b</sup>Based on the sectoral distribution of direct foreign investment companies organized as joint stock companies.

<sup>c</sup>Does not include insurance.

although the figures for this are not strictly comparable with those on the accumulated value, they nevertheless faithfully reflect the preferences of foreign investors. The sectoral distribution of the direct foreign investment which was made between 1974 and 1979 differs considerably from the distribution of accumulated foreign investment at the end of 1973, and is closer to that of 1967.<sup>9</sup> The main change to be noted is in the renewed importance of the mining sector in investments as a whole: almost half of the flow of the direct foreign investment went to this sector, but even so its significance is less than that which it had in the accumulated investment at the end of the 1960s (see table 4).

More than a quarter of the flow of new

direct foreign investment has gone to the industrial sector, which is equivalent to almost three times its share in the total accumulated value in 1967. In this sector, the new foreign investment has been concentrated in the manufacture of non-metallic mineral products—fundamentally cement—, food products and tobacco, and the manufacture of rubber products. It should be noted that in two of these three cases it was mainly a matter of the acquisition of assets, while in the third it involved the purchase of shares of the transnational corporation itself.

In the financial sector, new investment came to 8%, while in the commerce and fishery sectors the percentages were smaller.

### 3. Characteristics of the new direct foreign investment

The new direct foreign investment showed a notable degree of concentration in a small number of local enterprises: a single direct for-

<sup>9</sup>The basic information used here derives from a sample which included 90% of the accumulated direct foreign investment between 1974 and 1979. Of the total included in the sample, 1.4% did not correspond to direct foreign investment according to the concept used here. This percentage corresponded to three transactions involving foreign investment in locally controlled firms.

Table 5

CHILE: SECTORAL CLASSIFICATION OF DIRECT FOREIGN INVESTMENT OPERATIONS OF  
OVER ONE MILLION DOLLARS CARRIED OUT BETWEEN 1974 AND 1979

ISIC division	Number of enterprise	Value in thousands of dollars	Percentage distribution
Forestry and logging	1	2 299	0.36
Fishing	4	17 996	2.82
Metal ore mining	9	316 788	49.64
<i>Manufacture of food, beverages and tobacco</i>			
Food manufacturing	3	11 899	1.86
Beverage industries	1	2 522	0.40
Tobacco manufactures	1	31 052	4.87
			7.13
<i>Textiles, wearing apparel and leather industries</i>			
Manufacture of textiles	3	5 802	0.91
Manufacture of leather and fur, except footwear	2	5 884	0.92
			1.83
<i>Manufacture of paper and paper products, printing and publishing</i>			
Manufacture of paper and paper products	1	9 197	1.44
Printing and publishing	1	1 434	0.22
			1.66
<i>Manufacture of chemicals and chemical, petroleum coal, rubber and plastic products</i>			
Manufacture of other chemical products	6	7 903	1.24
Manufacture of rubber products	2	17 453	2.73
Manufacture of plastic products not elsewhere classified	2	11 488	1.80
			5.77
<i>Manufacture of non-metallic mineral products, except products of petroleum and coal</i>			
Manufacture of pottery, china and earthenware	1	1 839	0.29
Manufacture of other non-metallic mineral products	4	59 426	9.31
			9.60
<i>Manufacture of fabricated metal products, machinery and equipment</i>			
Manufacture of fabricated metal products	1	1 600	0.25
Manufacture of electrical machinery, apparatus, appliances and supplies	3	6 575	1.03
Manufacture of transport equipment	1	1 200	0.19
Construction	1	1 043	0.16
Wholesale trade	7	33 130	5.19
Retail trade	2	3 478	0.55
Land transport	1	1 250	0.20
Water transport	1	8 243	1.29
Financial institutions	14	50 201	7.87
Business services, except machinery and equipment rental and leasing	1	1 186	0.19
Machinery and equipment rental and leasing	2	3 847	0.60
Activities not adequately defined	2	23 429	3.67
<i>Total</i>	<i>77</i>	<i>638 164</i>	<i>100.00</i>

Source: Prepared on the basis of data from the Committee on Foreign Investment.

ign investment company received one-third of the total foreign investment between 1974 and 1979, and the top five accounted for over half of the total.<sup>10</sup>

A novel feature of the direct foreign investment carried out during this period was the magnitude of the purchases of the assets of local public or private enterprises by the transnational corporations. Such sales, which represented 11% of the total<sup>11</sup> between 1964 and 1968 (years for which information is available), increased considerably in importance, since half of the direct foreign investment in the period 1974-1979 corresponded to such transfers and to subsequent investments in the same enterprises.

Moreover, according to the sample in question, only 22% of the investment took place in respect of new enterprises, the remainder corresponding to already existing firms,

and out of the total investment in new enterprises, 30% was used to install banks and one finance institution. With regard to the number of enterprises, it may be noted that 40% of the new firms are financial institutions.

#### 4. Composition of the new direct foreign investment

The flow of new direct investment consists to an overwhelming extent of capital in the form of foreign currency, since physical capital goods barely represented 6% of the total (see table 6). The small share of such goods contrasts strikingly with the share which it traditionally had in the direct foreign investment arriving in Chile in the past, for between 1954 and 1970<sup>12</sup> these goods represented over half of the total of such investment.

Table 6

#### ANNUAL AND ACCUMULATED FOREIGN INVESTMENT MADE UNDER DECREE LAW 600, BY INDIVIDUAL COMPONENTS (In thousands of US dollars of each year)

	1974	1975	1976	1977	1978 <sup>a</sup>	1979 <sup>b</sup>	1980
<i>Income</i>							
Foreign exchange	9 589	19 032	6 377	35 846	93 746	253 536	ND <sup>c</sup>
Physical capital goods	400	1 679	1 228	12 293	4 776	18 948	ND
Capitalization of profits	-	25 781	6 851	11 904		5 113	ND
Capitalization of credit and debts	-	6 383	6 504	3 124		1 804	ND
Other	-	1 183	5 108	1 620	154 699	21 354	ND
<i>Total for year<sup>c</sup></i>	9 989	54 058	26 068	64 787	260 871	300 755	201 055
<i>Accumulated total</i>	9 989	64 047	90 115	154 902	415 773	716 528	917 583
<i>Outgoings</i>							
Remittances of profits and dividends and amortization of credit and interest payments	-	1 011	9 409	16 869	27 079	15 125	ND
Balance	9 989	53 047	16 659	47 918	233 792	285 375	ND

Source: Prepared by the author on the basis of information supplied by the Committee on Foreign Investments.

<sup>a</sup>Estimated distribution based on the projection of a sample including 93.3% of the total.

<sup>b</sup>Estimated distribution based on the projection of a sample including 90% of the total.

<sup>c</sup>ND = No data available.

<sup>10</sup>The 76 most important direct foreign investment companies accounted for 90% of total investment, while the rest of the firms received direct foreign investment totalling less than US\$ 1 million during this period.

<sup>11</sup>ODEPLAN, *Antecedentes sobre la economía chilena 1960-1970*, Santiago, 1972.

<sup>12</sup>CORFO, *Análisis de las inversiones extranjeras en Chile amparadas por el Estatuto del Inversionista*, 1972, p. 162.

The capitalization of profits and dividends, together with that of credits and debts, which together represent the reinvestments made by foreign investors or, in this particular case, also the entry into the foreign investment régime of local funds, made up more than half the flow of direct foreign investment in 1974 and 1976, but since then their importance has steadily gone down until they amounted to only a little over 2% of the total in 1979. Their absolute value in the latter year is in notable contrast with the remittances abroad made by the direct foreign investment companies, which are two and a half times greater: for every dollar reinvested in Chile, these enterprises remitted two and a half dollars abroad, solely under the terms of the Investment Statute.

From another point of view, it should be noted that more than half the direct foreign investment authorized up to the end of 1979 was in the form of loans. Moreover, the net balance of the credits made under the terms of the Investment Statute at the end of the same year amounted to one-third of the total income under that Statute during the period 1974-1979.<sup>13</sup> The funds in question are not risk capital of the firms themselves, but financing obtained by them on the international financial market.

##### 5. Investment authorized compared with that actually made

The number of investment projects approved between 1974 and 1980 is much larger than the number of projects approved by the Committee on Foreign Investments between 1954 and 1970—530, compared with 300—which would appear to indicate more diversified and massive interest by foreign investors in Chile.<sup>14</sup> However, the average annual inflow of direct foreign investment between 1974 and 1979 was equivalent to only 70% of the corresponding inflow for the period 1964-1968.<sup>15</sup>

<sup>13</sup>Central Bank of Chile, *Deuda externa de Chile al 31 de diciembre de 1979*, table 3, 1980.

<sup>14</sup>Almost one-third of the projects approved between 1974 and 1980 are in respect of expansion of capital, however.

<sup>15</sup>However, if investments in the large-scale copper mining industry are excluded, the average annual inflow for

Since Chile was at the beginning of a wave of expansion of direct foreign investment in its economy, it was only to be expected that the inflow of such investment should exceed the outflow of capital by a wider margin than that recorded in previous periods. Thus, the annual average net inflow in 1974-1979 was twice that of 1954-1958 and almost three times that of 1964-1968, all in money of the same value.<sup>16</sup>

The investments approved are very concentrated in mining. Of the total foreign investment authorized between 1974 and 1979, 84% was for this sector, followed by industry with 9% and services with 5%. From another point of view, however, the latter sector registers the largest number of projects (43% of the total), followed by industry with 36%.

The proportion of the total authorized investments actually carried out by the end of 1980 was slightly over 20%. Withdrawals by foreign investors amounted to 12% of the total authorized value at the same date.

The rates of authorization and materialization of new investments speeded up significantly in 1978 and 1979, when 75% of the total foreign direct investment for the period 1974-1980 was approved and 60% was materialized; in 1980, however, only 6% of the total was approved, while 22% of the total for the period as a whole was materialized.

##### 6. Origin of direct foreign investment in Chile

The participation of the various countries of origin of direct foreign investment in Chile varied substantially between the late 1960s and the end of the following decade: whereas the United States provided over 90% of such investment in 1967, its level of participation fell to only 40% of the total by 1979, mainly as the result of the nationalization of enterprises belonging to that country during the previous

1974-1979 is more than twice that of the previous period, in money of the same value.

<sup>16</sup>Figures for 1954-1958 and 1964-1968 taken from Ricardo Ffrench-Davis, *Políticas económicas 1954-1970*, CIEPLAN, 1973. For 1974-1979 see Eugenio Lahera, *Presencia y participación de las empresas transnacionales en la economía chilena*, *op. cit.*

period.<sup>17</sup> It should be noted, however, that this is the country whose direct investment has been growing most rapidly in recent years: its share in the direct foreign investment actually made between 1974 and 1978 came to two-thirds of the total, while its share of total authorized direct foreign investment came to 80% of the total as at December 1980.

The share of the European countries, which came to only 5% in 1967, had increased by 1978 to 48%, whereas Japan and Canada maintain a relatively unimportant presence. The share of Europe in the direct foreign investment actually made up to 1978 came to 18%, while its share of authorized direct foreign investment up to December 1980 was 6.4%. These figures thus show a downward trend in participation by Europe.

The transnational corporations originating from the United States have the most diversified presence, since they operate in two-thirds of the ISIC groupings in which there are transnational corporations, followed a considerable distance behind by those originating from the United Kingdom.<sup>18</sup>

The economic significance of the direct investments made in Chile with respect to the total foreign direct investment of various countries is relatively small. Its share in the accumulated direct foreign investment in Latin America and the Caribbean, according to OECD estimates, dropped from 5% to 1% between 1967 and 1975, and remained at this level in 1976 and 1977. This share must have gone up slightly in 1978 and 1979 and gone down again in 1980.<sup>19</sup> In the case of the United States, the share of Chile in the direct investment from that country in developing America was less

<sup>17</sup>Based fundamentally on data regarding joint stock companies.

<sup>18</sup>The groupings which display the participation of foreign direct investment companies from the largest number of countries are those in the areas of chemical products and wholesale trade (9), followed by retail trade (6), and food products and metal products excepting machinery and equipment (5).

<sup>19</sup>Chile's share in the flow of direct foreign investment to the region came to 3% of the total between 1975 and 1979. See IMF, *Balance of Payments Yearbook*, Washington, 1980.

than 1% in 1979, while in the world total it came to only 0.15%.<sup>20</sup> In the case of the Federal Republic of Germany, Chile's share came to 1.2% in developing America and only 0.17% of the world total in 1978.<sup>21</sup>

The situation at the enterprises level is not very different. Taking a sample of firms from the 500 largest non-financial enterprises of the United States, the sales of their Chilean subsidiaries generally did not exceed 0.5% of the total in 1978, and in only one case were the sales over 1%.<sup>22</sup> Of course this situation may vary, and the importance of their investments in Chile may increase for some transnational corporations, especially in the extractive sector, as happened in the past with copper, for example.

The information regarding direct investment policies in Chile, broken down by countries of origin, is rather incomplete, but it may be said in general that in the past a cautious attitude has been noted on the part of some governments with regard to investments in Chile.

Thus, the Netherlands Government withdrew official support for a US\$ 63 million investment project approved in 1976, which was the seventh largest project up to the present.

Moreover, during the previous administration the United States Government did not renew the authorization for OPIC (Overseas Private Investment Corporation) to continue to insure investments to be made in Chile, but the situation may be expected to change with the present United States administration.

In the case of the Federal Republic of Germany, the State insurance company Hermes does not grant insurance against economic and political risks in respect of direct investments in Chile, and in the case of exports of industrial plants the maximum amount authorized is DM 2.5 million.<sup>23</sup>

<sup>20</sup>*Survey of Current Business*, Washington, August 1980.

<sup>21</sup>Ministry of the Economy of the Federal Republic of Germany, *German Investments Abroad*.

<sup>22</sup>*Fortune*, 7 May, 1979.

<sup>23</sup>*Cámara*, magazine of the Cámara Chileno-Alemana de Comercio, Santiago, July 1979, p. 16.

### III

## The transnational corporations and the Chilean economy

### 1. *Significance of the transnational corporations with respect to some macroeconomic variables*

The accumulated total direct foreign investment in Chile represented nearly 3% of the total capital of the country in 1979, and when added to the share of local capital in the direct foreign investment companies, this investment was close on 4% of the national total during the same year.<sup>24, 25</sup> What is surprising is both the low level of this participation and the difficulty in explaining this in view of the high participation of the transnational corporations in other variables such as profits and sales.<sup>26</sup>

The contribution of the transnational corporations to the generation of employment is rather small: the nearly 40 000 workers employed by these enterprises represented only 1.4% of the total number of employed persons in the country in 1979.<sup>27</sup> The transnational corporations have an average number of workers higher than the national average, which includes a large number of small enterprises, but they generate less employment than domestic firms for a comparable level of product. This explains why their share of sales is generally higher than their share in the number of workers.

The operating income of the direct foreign

investment companies in Chile came to US\$ 2 750 million in 1979, and since it increased more than the national average with respect to the previous year there was also an increase in the share of these firms in total sales, which rose by 0.5% to 23%. This share increases if only the larger enterprises are considered, since for the 100 largest private firms it came to 38% in the same year. Purely by way of information —since the figures for sales are not comparable with those for the national product— it may be noted that the operating income of the transnational corporations came to rather more than 13% of the gross domestic product expenditure in 1979.<sup>28</sup> This confirms that the contribution of the transnational corporations to the product is significantly higher than their contribution to employment and investment.

The profits obtained by the direct foreign investment companies during 1979, which came to US\$ 140 million, gave these firms an average rate of return of 12% on their capital, which was more than twice the overall average of only 5%; these percentages correspond, however, to different types of enterprises because of the average size of the units involved. The rate of return of the United States-owned transnational corporations was slightly higher than that of the transnational corporations as a whole, but it was below the Latin American average, which came to 14% in 1979.<sup>29</sup>

An interesting detail is that the concentration of profits in the transnational corporations with the biggest profits exceeded that of domestic firms in 1978. The four top transnational corporations received almost one-third of the total, while the rest of the firms received the remaining 68%. In the case of the domestic

<sup>24</sup>The capital/product ratio in Chile has traditionally been defined at around 2.5.

<sup>25</sup>Using an exchange rate of US\$ 1 = CH\$ 37.25.

<sup>26</sup>The participation of the direct foreign investment companies within the total number of enterprises organized as corporations in Chile is rather unequal as regards the various variables which may be taken into consideration. Thus, they constitute 9% of the total number of enterprises and control 10% of the total worth and 12% of the total assets; their participation in employment is higher, since it amounts to 15% (the difference between the variables for worth and employment is probably due to the many holding companies in the domestic private sector). Their share in total sales and profits, however, is considerably higher than the proportions in question, amounting to 23% in both cases (see table 7).

<sup>27</sup>The figure for the total number of employed persons was taken from the *Compendio Estadístico 1980*, published by the National Institute of Statistics.

<sup>28</sup>According to provisional figures from ODEPLAN, the gross domestic product expenditure in 1979 was CH\$ 762 128.9 million.

<sup>29</sup>United States Department of Commerce, *Survey of Current Business*, Washington, August 1980. In fact, the rate of return in Chile departed from the average in 1979, after having come closer to it in 1978.

Table 7

## DOMESTIC AND FOREIGN CORPORATIONS: SHARES IN SOME MACROECONOMIC VARIABLES, 1979

	Domestic companies	%	Trans-nationals	%	Total
Number of enterprises	1 819	90.9	181	9.1	2 000
Worth <sup>a, b</sup>	390 245	84.8	44 398	10.2	434 643
Total	646 772	88.1	87 397	11.9	734 169
Number of workers	219 179	84.6	39 894	15.4	259 073
Sales <sup>a</sup>	339 273	76.8	102 660	23.2	441 933
Profits <sup>a</sup>	17 217	76.9	5 174	23.1	22 391

Source: Prepared by the author on the basis of *Chile: Sociedades Anónimas*, School of Administration, Department of Systems Engineering and Computer Sciences Centre, Catholic University, Santiago, 1980.

<sup>a</sup>Figures in millions of Chilean pesos.

<sup>b</sup>If foreign banks are included the figures are: domestic enterprises 421 164 Chilean pesos; transnational corporations 46 692 Chilean pesos; total, 467 856 Chilean pesos.

firms, in contrast, the top four firms concentrated 24% of the profit.

With regard to the participation of transnational corporations in investment, the existing references only cover investments in fixed capital by direct foreign investment companies in which there is majority participation by United States investors. The share of these investments in gross domestic investment in fixed capital dropped from 4% to 2% between 1978 and 1979,<sup>30</sup> and the projections for 1980 do not indicate any significant increase in their absolute value, so that an even larger fall in their share is to be foreseen.<sup>31</sup> The renewed role of United States direct investment in Chile did not give grounds for expecting this result: the explanation is to be found in the composition of the direct foreign investment in recent years, in which physical capital goods were of little significance.

In general terms, and although this corresponds to a variable which is difficult to quantify, it may be noted that the transnational corporations have made a significant contribution to élitist and luxury consumption, the existence of which has been pointed out by various ana-

lysts. They acted as suppliers of imported goods and of credits to finance such imports, and they also carried out publicity campaigns and either acted as intermediaries or even as direct vendors of such goods to the public.<sup>32</sup>

## 2. The external sector

### (a) Domestic and external credit

Since external credit was cheaper than domestic credit during the period considered, the transnational corporations gave preference to the former. Their share in private domestic credit did not even amount to 5% in 1978, whereas their share in external credit for the private sector channelled through article 14 of the Foreign Exchange Law<sup>33</sup> came to 10% in 1979. In addition —according to the existing partial evidence— the transnational corporations secured average interest rates below the prevailing average level in international financial markets.

The participation of the transnational corporations in the accumulated national external debt in respect of financial credits to the private

<sup>30</sup>The provisional figures for the gross domestic investment in fixed capital are taken from ODEPLAN.

<sup>31</sup>It should be noted that the period in question was one of depressed investment, followed by recovery of past levels.

<sup>32</sup>On this topic, see the article by Arturo Núñez del Prado elsewhere in this issue of *CEPAL Review*.

<sup>33</sup>Of the accumulated debt in respect of credit to the private sector at the end of 1979, 85% corresponded to this manner of entry of external credits.



sector may be estimated at around 15% and consists of three items: credits associated with direct foreign investment, and credits which came in under articles 14 and 15 of the Foreign Exchange Law. Moreover, it is necessary to add the pending commitments in respect of compensation payments for the nationalization of transnational corporations, which amounted to US\$ 181.9 million at the end of 1979, together with the share of the direct foreign investment companies in various external debt items, including short-term credit lines, supplier credits to the private sector, and the traditional external debt, regarding which there is not much information available. It may be added that the high volume of credits included under the contracted direct foreign investment may considerably increase the share of the transnational corporations in the external debt in the future.

From another point of view, it may be noted that the flow of direct foreign investment has been considerably smaller than the flow of capital in the form of loans. Thus, the former was equivalent to only 8% of the total loans which entered the country in the period 1974-1979.

#### (b) *External trade*

The share of the transnational corporations in the external trade of Chile is concentrated, small, and shows a deficit. The imports made by these firms were almost double their exports in 1979, so that the latter financed only half the former. The situation is still worse if the mining industry is excluded (see table 8). Of the total number of direct foreign investment companies participating in the country's external trade, only 12% had a surplus, whereas the overwhelming majority helped to aggravate the Chilean trade deficit.

Making exports does not seem to be an important objective for the great majority of the transnational corporations, since only 23% of them did so—most of them only in small amounts—and barely 10% of their total sales went abroad in 1979. Their main objective is the domestic market, where they make 90% of their sales.<sup>34</sup> Because of this, and in view of the international trade openness of Chile in these years, it is not surprising that the imports of the

direct foreign investment companies should be so high: they include not only inputs, but also finished products for local sale.

The information on the destination of the exports of transnational corporations indicates that—at least in the case of the United States transnationals—these exports are not for the most part to the countries where the parent firms are located. The share of exports to the United States in the total exports by enterprises originating from that country was between 21% and 23% between 1974 and 1976, while the rest of the exports went to third countries. It does not therefore seem that the direct foreign investment companies make an effective contribution to penetration of the markets of their home countries. Indeed, the exports made by affiliates of United States transnational corporations in Chile amounted to only 5% of total Chilean exports to that country in 1977.<sup>35</sup>

The exports made by the transnational corporations from Chile display a noteworthy degree of concentration. The top five firms were responsible for 60% of the total, and two transnational corporations alone were responsible for 46% of it in 1979, through their local enterprises in various sectors, while the ten most important transnational importers, for their part, carried out one-third of the total imports made by these firms, representing in both cases a higher degree of concentration than the national average. Such concentration would greatly facilitate any external trade policies of these firms.<sup>36</sup>

#### (c) *The external sector as a whole*

The participation of the transnational corporations in the income and outgoings of the Chilean external sector has shown a balanced general situation. These firms made quite

<sup>34</sup>In 1976, the latest year for which information is available, the United States transnational corporations in Chile exported a still smaller share of their total sales: only 7%. See US Department of Commerce, *Survey of Current Business*, March 1978.

<sup>35</sup>A. Eric Calcagno, *Informe sobre las inversiones directas extranjeras en América Latina*, Cuadernos de la CEPAL series, No. 33, January 1980, pp. 60-61.

<sup>36</sup>Eugenio Lahera, *Agentes del comercio exterior en América Latina*, External Trade Division, December 1980 (unpublished report).

Table 8

TRADE BALANCE OF THE NATIONAL ECONOMY AND THE  
TRANSNATIONAL CORPORATIONS, 1979  
(In millions of dollars)

	Exports	Imports	Balance
National total	3 821.1	4 442.7	-621.6
Transnational corporations	284.3	518.3	-234.0
Share of transnational corporations in the total	7.4%	11.7%	37.6%
National total excluding mining	1 509.5	3 297.5	-1 788.0
Transnational corporations	171.1	505.4	-334.3
Share of transnational corporations	11.3%	15.3%	18.7%
Share of mining in the external trade of the transnational corporations	39.8%	2.5%	

Source: Transnational corporations: data prepared by the author on the basis of information provided by the Central Bank. Totals: *Boletín del Banco Central*, March 1980, p. 528.

small exports, but brought in a relatively large volume of capital, while their capital outflows were relatively scanty but were combined with a high level of imports.

Table 9 shows, in a simplified and in some cases tentative form, the various aspects of the participation of the direct foreign investment companies in the external sector. In the merchandise account, the contribution of the transnational corporations was clearly negative, and its contribution to the merchandise services account must also have been negative, although few details are available on this. As regards credits, the data are incomplete, but the inflow of credits associated with direct foreign investment, together with the inflow requested by the transnational corporations, exceeds the amortization and interest payments on prior credits. The high flow of capital had as its counterpart a low level of repatriation of capital and remittances of profits and dividends. Finally, the payments in respect of compensation for nationalization may also be taken into account in making the overall balance regarding the participation of the direct foreign investment companies in the external sector.

### 3. The industrial sector

Far from diminishing, the importance of the

transnational corporations in the Chilean industrial sector is in the process of going up: their share of total industrial sales, which was a little less than 19%<sup>37</sup> in 1967, amounted at the end of 1979 to 28%.<sup>38</sup> Various factors have influenced this result. On the one hand, both the industrial policies of 1970-1973 and the recession of 1975 and its results found the transnational corporations in a better position to withstand them than most of the domestic private enterprises. While many of the latter went bankrupt or had great difficulty in keeping their heads above water, the transnational corporations, by using their resources, remained in the market and improved their share in it. Moreover, the purchasing of assets which they carried out in the more recent period, which, as we have seen, was of a considerable scale, had the simultaneous double effect of reducing the

<sup>37</sup>The estimate for 1967 is from Ernesto Tironi, *Economic Integration and Foreign Direct Investment Policies: the Andean case* (doctoral thesis), MIT, Cambridge, Mass., 1976. This author defined as firms with foreign capital those where the share of foreign capital was over 20%. This leads to overestimation of the share of the transnational corporations in sales, as it includes the capital of foreign natural persons living in Chile. Moreover, it does not include sales under US\$ 200 000.

<sup>38</sup>Their participation in 1979, for its part, was higher than that in 1978. This means that the point of balance has not yet been reached.

Table 9  
 THE TRANSNATIONAL CORPORATIONS  
 AND THE CHILEAN EXTERNAL  
 SECTOR IN 1979  
 (Millions of 1979 dollars)

Item	Income	Outgoings
— Exports	284.3	
— Imports		518.3
— Royalties	(1.0) <sup>a</sup>	(15.0)
— Other services	ND <sup>b</sup>	ND
— Credit under article 14	100.0	(36.6)
— Credits associated with direct foreign investment	70.0	35.0
— Other credits	ND	ND
— Inflow of direct foreign investment	342.6	
— Repatriation of direct foreign investment		21.1
— Profits and dividends		41.9
— Payments in respect of nationalization		56.8
<b>Total</b>	<b>798.4</b>	<b>724.7</b>

Source: External trade, table 8.

Royalties: estimates based on data from the Central Bank.

Credits: estimates based on data from the Central Bank.

Movements of direct foreign investment: Committee on Foreign Investments and Central Bank.

Nationalization payments: Central Bank.

<sup>a</sup>Estimates.

<sup>b</sup>ND = No data available.

share of domestic enterprises and increasing that of the transnational corporations. Such was the case, for example, in motor tyre production and cement production, which changed hands in recent years.

The share of the transnational corporations in total industrial sales in 1979 was almost half of the total in metal products, machinery and equipment, in non-metallic mineral products, and in chemical products. It was over a quarter of the total in food products, but was smaller in paper, textiles and the timber industry.<sup>39</sup>

The research revealed that the structure of supply in the Chilean industrial sector is rather

concentrated, since the weighted share in sales of the ten largest firms in the sector was 60% in 1979. This raises the interesting point of whether the transnational corporations contribute to or reduce this concentration. For this purpose a calculation was made of the shares of the ten largest private domestic firms and the direct foreign investment companies, by sales and by sectors. The results of this exercise clearly show that only in the minority of cases is the contribution of the transnational corporations to the concentration of industrial sales greater than that of the domestic enterprises. This was so in the case of tobacco, construction of transport equipment, rubber products (related with the foregoing), the manufacture of non-metallic mineral products, and the leather, plastics, metal products and food products industries. In the rest of the groups, however—except for the manufacture of electrical machinery, where there was equal participation—the 'motor' of concentration was the domestic enterprises (see figure 1).

With regard to employment in industry, the share of the transnational corporations is relatively low; it amounted to 8% for industrial enterprises with over 50 workers in 1977, but differs depending on the size of the establishments, being less than 5% for those employing less than 100 workers and 22% for those employing over 1 000.

The contribution of the transnational corporations to the creation of new jobs in the industrial sector has also been slight. For a sample of 71 transnational corporations—which in 1978 generated almost 80% of the total industrial employment by such firms—the increase in the number of their workers between 1976 and 1978 was only 3.3%, which was well below the national total of 5.7%.<sup>40</sup>

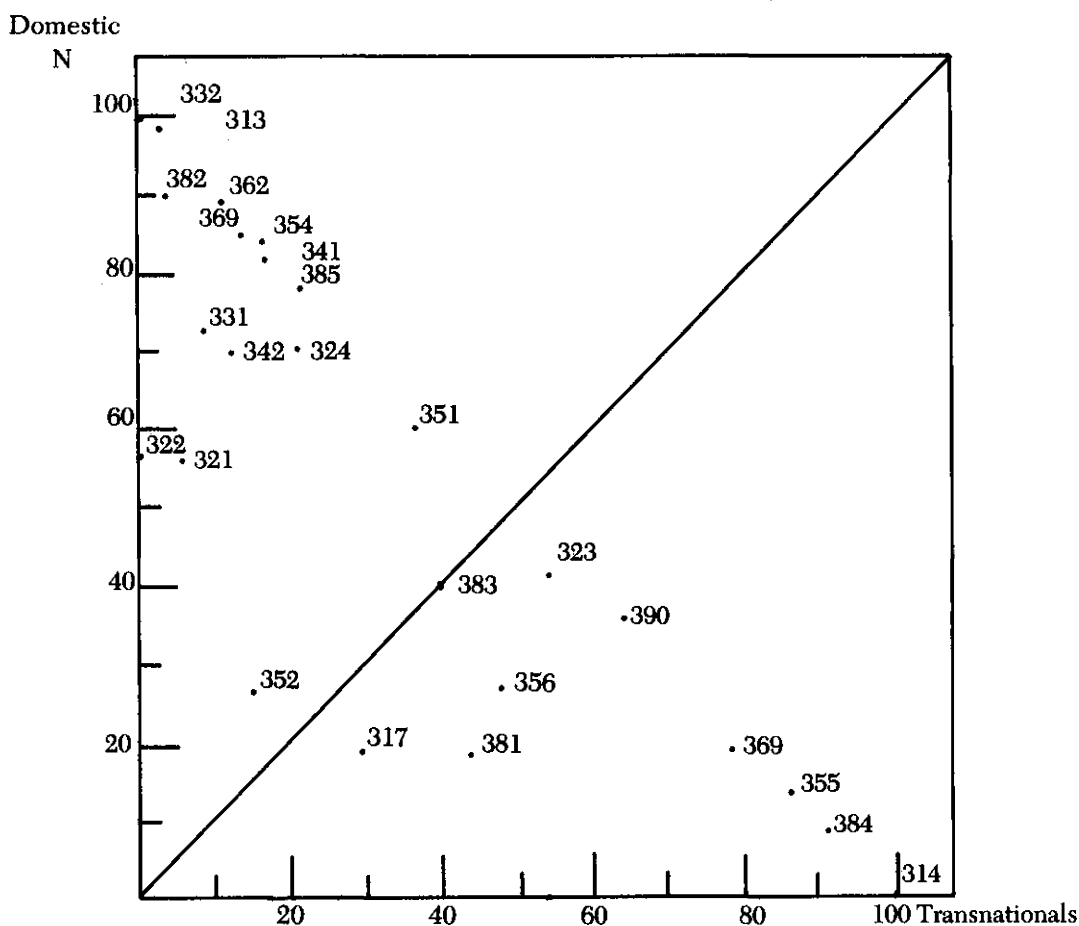
The contribution of the transnational corporations to industrial exports has been quite limited, amounting to only 12% of the total in

<sup>39</sup>The exact figures are: metal products, machinery and equipment and non-metallic mineral products, 55%; chemical products, 47%; food products, 26%; paper and textiles, 15%; and timber industry, 6%. These figures refer only to joint stock companies.

<sup>40</sup>The national variation was taken from the November 1977 to November 1978 figures given by the National Institute of Statistics in its *Compendio estadístico 1979*.

Figure 1

SHARE OF THE 10 LARGEST FIRMS IN TOTAL SALES, BY ISIC GROUPS



Source: Prepared by the author on the basis of Chile Sociedades Anónimas, School of Administration, Catholic University, Santiago, 1980.

1978.<sup>41</sup> This contribution was concentrated in 16 firms, the largest of which was responsible for more than one-third of the total. It should also be noted that the trade balance of even the biggest exporters showed a deficit, and their exports were equivalent to only 44% of their imports.

The domestic market is undoubtedly the main objective of the transnational corporations in the industrial sector, since in 1979 only 8% of their total sales corresponded to exports.<sup>42, 43</sup>

As regards the destination of exports, the direct foreign investment companies do not appear to be an efficient channel for penetrating into the markets where their parent firms are located in the case of the industrial sector either, since the share of industrial exports to the United States within the total exports by United States transnational corpora-

sales in each of the ISIC groups. The share of exports in their sales had dropped since 1978, when it had been equivalent to 10%.

<sup>43</sup>The share of exports in the total sales by United States transnational corporations in Chile was higher in 1976, when it amounted to 13% (United States Department of Commerce, *Survey of Current Business*, March 1977).

<sup>41</sup>Based on a sample which included 90% of total exports.

<sup>42</sup>Based on a sample which included all the transnational corporations (a total of 30) among the 10 firms with the largest

tions dropped from 20% in 1974 to 15% in 1975-1976.<sup>44</sup>

The 30 transnational corporations included in the sample in question had a ratio of imports to exports of 4.3 in 1978 and 4.4 in 1979, which points to a growing import coefficient. The transnational corporations thus required imports which were more than four times as large as their exports in these years. Moreover, these imports represented around one-third of their operating costs, excluding administration and sales costs.

The fixed capital investment by United States majority-owned transnational corporations—the only ones for which there is information—went down in 1979 to less than half the figure for the previous year (from US\$ 24 million to US\$ 10 million), and the projections for 1980 indicate a further drop, this time to US\$ 6 million.<sup>45</sup>

#### 4. The financial sector

The foreign banks have still not recovered the importance which they achieved at the end of the 1960s, when the diversified nature of their presence and activities constantly increased their significance. The legal obligation to make an initial investment of US\$ 4 million has given them a share of almost 4% in the total bank capital.<sup>46</sup> The level of their participation in other indicators is lower, however. On the other hand, the number of foreign banks—13, out of a total of 33 banks in the country—is more than double that of 1970.<sup>47</sup>

The share of foreign banks in placements is relatively low, only 3.5%, and is notably lower than the share of these banks in 1970, when this came to 7.5% in current money and 5.6% in foreign currency.<sup>48</sup> The same situation is to be observed as regards receipts of deposits and investments, where their share came to only 2.4% in 1980, whereas at the end of the 1960s

the figures had been almost 10% in current money and 24% in foreign currency.<sup>49</sup> Finally, although the share of foreign banks in external loans is slightly higher than their share in locally-obtained loans, even so both figures are of little significance, being around 4.5%.

#### 5. Mining

Direct foreign investment in the mining sector came to a considerable amount between 1974 and 1979, since it totalled over US\$ 400 million. This went fundamentally to the copper industry, in which 70% of State investment in large-scale mining was made in 1978-1979.<sup>50</sup> A considerable part of the direct foreign investment, however, consisted of transfers of assets or purchases of land or rights, rather than real increases in national production capacity. According to estimates by the Chilean Copper Commission, the reserves under the control of foreign enterprises came to 17.4 million metric tons in 1980, or roughly 20% of national reserves.<sup>51</sup> In this respect, it is interesting to note the presence of three transnational corporations traditionally associated with the production and distribution of petroleum in this sector, to which they have now diversified their interests.<sup>52</sup>

So far, the largest withdrawal which has taken place from an investment project is that made by a transnational corporation in this sector, Noranda Mines, which had a contract for US\$ 350 million signed in July 1977. The investment actually made by this firm up to 1980, however, barely exceeded US\$ 1 million, and it has been suggested that among the probable reasons for its withdrawal have been the persistence of a fixed exchange rate and the mining

<sup>44</sup>*Ibid.*

<sup>45</sup>United States Department of Commerce, *Survey of Current Business*, September 1978.

<sup>46</sup>All the figures for shares correspond to September 1980.

<sup>47</sup>As at February 1980, there were also 27 offices representing foreign banks and 53 foreign financial entities had been authorized to carry on activities in the country.

<sup>48</sup>*Boletín del Banco Central*, December 1970.

<sup>49</sup>*Ibid.*

<sup>50</sup>The investment by the transnational corporations was around US\$ 210 million, whereas public investment in the copper industry may be estimated at around US\$ 300 million, according to The Economist Intelligence Unit, *Quarterly Economic Review of Chile*, third quarter of 1979, London.

<sup>51</sup>*El Mercurio*, 18 March 1981. The reserves of fine copper are over 87 million tons, to which may be added 47 million tons of copper contained in ore which it is not economic to exploit in the present circumstances.

<sup>52</sup>One of the comparative advantages of Chile in the copper industry has been the high level of technology already existing, which has been attractive to the transnational corporations.

concessions régime laid down under the 1980 Constitution.

The contribution of the mining exports made by the transnational corporations to the total mining exports was only 5% in 1979, although this could increase substantially in the future if the present level of production of copper by the State continues and production begins on the part of various direct foreign investment companies which are at present in

initial stages of exploration, construction of civil engineering works, or preparatory work for exploitation activities. Chile's production of gold will probably treble in 1981 due to the activity of a direct foreign investment company.

From another point of view, it has been stated officially that Chile may declare open to offers its share in a deposit of nodules said to exist opposite the Juan Fenández Archipelago.

## Conclusions

The policies on foreign investment were very liberal during the period under consideration, and the transnational corporations operated with total liberty within the Chilean economy; the few problems which they encountered were due to the application of more general policies than those regarding foreign investment. The policies on such investment are probably the most liberal in the recent history of the country, and international investors' organizations have described them as being among the most liberal in Latin America.<sup>53</sup> In the final analysis, the State policy has been not to intervene at all in this sector once it has fixed the basic rules of the game for it.<sup>54</sup>

The reluctance of the State to exercise its capacity to formulate public policies whether of guidance or of negotiation with respect to the transnational corporations, seems to some extent to be unfounded if we compare it with the results obtained up to now, especially considering the concentration in a few firms observable in the participation of the transnational corporations in the various indexes: a situation making it easy to apply selective policies which would be relatively simple to administer and would not have serious foreseeable distorting effects.

The accumulated direct foreign investment has still not recovered the levels of the late 1960s, and Chile's share of the accumulated direct foreign investment in Latin America as a whole is the lowest ever recorded, although both indexes are displaying some tendency to recover. The new direct foreign investment has been concentrated in a small number of enterprises, and half of it has gone to the purchase of local enterprises, while a quarter has gone to existing transnational corporations; out of the truly new firms, a large proportion are financial institutions. The contribution of direct foreign investment in terms of capital goods has been minimal, the inflow of foreign exchange being the main component. Over half the direct foreign investment authorized has been in the form of loans, and not risk capital.

The transnational corporations do not appear to have made any novel or significant contribution to the national economy—with a few exceptions—but appear rather to have been marking time and to have simply adapted themselves to the new liberal conditions prevailing.

The accumulated direct foreign investment in Chile represents only a small proportion of total capital, and the contribution made by the transnational corporations to investments and the generation of employment is small and shows signs of decreasing. The rate of profits of these firms is over twice the national average, and their share of total sales is relatively high. The share of the transnational corporations in the external trade of the country, however, is concentrated, low, and shows a deficit. Over the medium term, the contribution of the extractive sector to exports is likely to

<sup>53</sup>See, in this respect, the reaction of Business International Corporation with regard to the new Foreign Investment Statute, in *Business Latin America*, New York, 30 March 1977 p. 103.

<sup>54</sup>With regard to public policies and policies of omission, see E. Lahera, "Evaluación instrumental de políticas públicas", in *Revista de Administración Pública*, Faculty of Economics and Administrative Sciences, University of Chile, No. 6, December 1980.

grow, but in the other sectors the main objective of these enterprises is the domestic market, and indeed some of the policies followed during this period have probably heightened the propensity of the transnational corporations to import. Their share in domestic credit is relatively low, but their share in external debt is fairly significant and growing. The importance of the transnational corporations is higher in the industrial sector, where they are responsible for 28% of the total sales by corporations, although their contribution to employment and investment have been low in this sector. These firms have appeared to promote concentration in some industrial sectors, but in most they have merely followed a tendency towards concentration imposed by the domestic firms. The foreign banks have not yet recovered the importance which they had at the end of the 1960s, although their importance has been steadily increasing because of the diversified nature of their presence and activities. Direct foreign investment in the copper industry was equivalent to 70% of State investment in the

large-scale mining industry in 1978-1979, but a considerable part of this direct foreign investment consisted of purchases of land or rights. As a result of this, at the beginning of 1981 the transnational corporations controlled 20% of the copper reserves of the country.

To sum up, the impact of the transnational corporations on the Chilean economy has been uneven. It has been of only slight significance in the case of some variables, but of fundamental importance with regard to certain sectors, and any policy on the matter should take this fact into consideration. Its overall importance has gone down, it is true, as a result of the nationalization of the large-scale copper mining industry and the consolidation of a powerful and united domestic private sector, but the transnational corporations nevertheless control sectors which are of great importance for the industrial development of the country and in the very near future they could once again be responsible for generating a significant part of the country's foreign exchange revenue from mineral exports.

## Annex

### *Concepts used*

*Direct foreign investment* is considered to be that investment which comes from outside the country and is intended to establish or increase some type of permanent participation in an enterprise located within the national territory. Such participation must be sufficient to ensure the foreign investor effective influence or control over the management of the enterprise, and this control or influence is defined here, for conventional purposes, as ownership of at least 10% of the share capital by a foreign enterprise.<sup>55</sup> Ignoring instances of foreign investors who are natural persons, who in any case represent a very small part of the total in Chile.

There are three important exceptions to the definition given in the previous para-

graph, and accordingly the following were not considered as direct foreign investment for the purposes of this study: (a) investments made by foreign enterprises controlled in their turn by investors residing in Chile;<sup>56</sup> (b) investments resulting from relatively small participation by foreign financial entities in the equity of the recipient enterprises in non-financial sectors; (c) enterprises where State participation predominates.

*Direct foreign investment companies* are those local firms in which direct foreign investment, as defined above, is equal to 10% or more of their capital. Agencies are direct foreign investment companies by definition. Direct foreign investment companies form part of a transnational corporation, and in the case of a particular country they may be called indifferently

<sup>55</sup>This corresponds to the minimum participation fixed by the International Monetary Fund in its *Balance of Payments Manual* and to that used by the Department of Commerce of the United States; other countries use smaller percentages.

<sup>56</sup>Such investors, without actually being foreign residents, benefit from the conditions and guarantees enjoyed by foreign investment; moreover, these operations permit the 'whitewashing' of capital.

transnational corporations or direct foreign investment companies, except in those cases—which are of little significance in Chile—of foreign enterprises which are not transnationals. It should be noted that three-quarters of the direct foreign investment companies constituted as corporations in Chile, and 80% of such enterprises in the industrial sector, have a direct foreign investment share equal or superior to 50%. In half the firms this share is over 80%, so that the local participation tends to be on a minority basis.

*The accumulated value of direct foreign investment* includes the capital belonging to foreign investors in the direct foreign investment companies and outstanding obligations to these investors. This value is generally measured at the end of the calendar year and corresponds to the effective value of the foreign

participation according to the books of the direct foreign investment companies, this value being determined by adding together the total book capital plus the capitalized reserves, the retained profits and the results of the corresponding financial year.

*The flows of direct foreign investment* are made up exclusively of the income and outgoings between the foreign investor and the direct foreign investment company, the difference between these two constituting the net flow. Income may consist of income from abroad, capitalization of credits or debts, local credit, and in some cases expenditure abroad. The outgoings, for their part, may consist of repatriation of capital, remittances of profits and dividends, or amortization of credits or interest payments.





## The State and transnational banks

### Lessons from the Bolivian crisis of external public indebtedness

*Michael D. Mortimore\**

In order to examine the decisive role played by transnational private banks in the Bolivian economy in recent years, the author considers the concept of external dependence. After analysing in his introduction the usual meanings of this concept as referred to external vulnerability and foreign participation in the economy, he concentrates on what he calls 'voluntary dependence', where such dependence is generated or increased due to the actual economic policy adopted by the State.

In order to explain fully this type of external dependence, a conceptual framework is developed based on the predominant types of development strategies defined in accordance with their peculiar distribution of benefits (neocolonial, national private and national popular) and the functions of the State (mediatory, infrastructural and sectoral).

On the basis of this conceptual framework, the author analyses external dependence in Bolivia since 1952, paying special attention to the changes which took place in the different phases 1952-1964, 1965-1973 and 1974-1978. In the final section he focuses his analysis on the internal contradictions of the State in the period 1974-1978 and the way in which these weakened its power compared with the transnational banks; more specifically, he examines the economic policy followed during these years and the negative effect which it had on the performance of public enterprises, using as an example the case of the State petroleum company, YPFB.

In conclusion, the author suggests that the Bolivian experience contains some lessons for the developing countries, especially that external financing on commercial terms should be considered with extreme prudence and as part of an overall rationale in order to avoid contributing to an increase in external dependence and a precipitation of political and economic crises.

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## I

### The general nature of the Bolivian crisis and the strategic role of the transnational banks\*

The importance of the present crisis of external public indebtedness in Bolivia lies only in its magnitude as manifest in typical indicators such as debt service as a proportion of export earnings or international reserves in comparison to imports, but in the fact that Bolivian decision-makers had put themselves in a position where a decision by transnational banks (TNBs) not to refinance the Bolivian debt would prove fundamental to a generalized crisis in the Bolivian economy. As will become apparent below, instead of negotiating better terms for its external finances on the basis of a much improved bargaining position with foreign creditors the Bolivian decision-makers fell victims to certain internal contradictions of the State, such as that between the economic policy of the Central Government and its impact on the dominant public enterprises, which debilitated the State to such an extent that its dependence on foreign participants (primarily the transnational banks) became an essential element in the present crisis of external public indebtedness.

As is suggested by the data presented in table 1, after enjoying several years of impressive economic expansion in the mid-1970s the Bolivian economy has come to be characterized by all the features common to a severe crisis. Exports have fallen off sharply in real terms, and in 1980 the value of exports of goods and services was below that of 1970, while the rate

\*This is a preliminary report on the research project undertaken by Robert Devlin and the author on the transnational banks and the external finances of Bolivia. The main report on the research results of the project will be published later. The author wishes to express his thanks for the close collaboration provided by the members of the CEPAL/CTC Joint Unit, the valuable comments of Eduardo Gana and the criticisms of R. Sanz Guerrero and L. Willmore, but assumes exclusive responsibility, of course for any error of fact or of interpretation.

Table 1

**BOLIVIA: INDICATORS OF THE CRISIS**  
(Real annual rates of growth)

Year	Exports (goods and services)	Gross domestic product	Gross domestic investment	Public external debt	
				All sources	TNBs
1974	5.5	6.1	a	-2.1	76.7
1975	-3.4	5.1	a	23.8	57.3
1976	10.8	6.8	-6.7	25.4	87.0
1977	-5.6	3.4	2.5	17.3	36.5
1978	-12.7	3.1	-7.5	10.5	11.4
1979	-10.5	2.0	-13.4	3.1	4.9
1980 (est.)	-9.5	0.3	-32.5	ND <sup>b</sup>	ND

Source: CEPAL, on the basis of official information supplied by the Central Bank of Bolivia, the World Bank and the Inter-American Development Bank.

<sup>a</sup>A new series began in 1975.

<sup>b</sup>No data available.

of growth of the gross domestic product had fallen to an estimated real annual level of 0.3%. Likewise, the real decline of the level of gross domestic investment between 1975 and 1980 was of the order of 50%. One could reason that the boom of the mid-1970s and the crisis thereafter were both related directly to external financing or the lack of it. The boom years correspond with an impressive increase in foreign borrowing, especially from the transnational

banks, and the crisis years are characterized by a steep decline in the real rate of increase of public external indebtedness. Table 2 indicates that during the period 1974-1978, which we shall later classify as a well-defined political project, external financing was totally dominated by transnational banks, which were responsible for 62% of total disbursements, 74% of total payments of amortization and interest and 71% of total net receipts from external

Table 2

**BOLIVIA: RELATIVE IMPORTANCE OF THE TRANSNATIONAL BANKS IN  
STATE-GUARANTEED EXTERNAL FINANCING, 1970-1979**  
(Percentages)

Year	TNB financing as proportion of total:		
	Disbursements	Amortization and interest payments	Net receipts
1970	0.3	2.0	-0.5
1971-1973 <sup>a</sup>	20.5	16.3	19.4
1974	39.6	19.2	71.3
1975	47.4	23.8	67.6
1976	52.5	32.4	64.2
1977	57.9	46.2	64.7
1978	61.8	73.7	40.8
1979	38.2	52.9	-31.4

Source: CEPAL, on the basis of official information provided by the Central Bank of Bolivia.

<sup>a</sup>Annual averages.

sources during that period. The sharp decline in net receipts during 1977 and 1978, as debt service payments gained on disbursements coincides precisely with the beginning of the economic and financial crisis of the Bolivian economy. The fall in the proportion of total net receipts coming from transnational banks (from 65% in 1977 to -31% in 1979) was fundamental to the ensuing crisis. In effect, the transnational banks pulled the plug on Bolivia.

One may legitimately enquire wherein this awesome power of decision on the part of TNBs lies and how it is acquired. The first part of this question can be answered immediately, the second part forms the subject matter of this article. The power of decision of transnational banks depends essentially on two factors. First, the loans provided by those banks must represent a significant proportion of the total external public debt of the borrower. Second, the TNBs must represent the principal source of new loans for that borrower. In such circumstances, the borrower is heavily indebted with

the TNBs and the power of decision of the TNBs to continue financing or, in times of economic difficulties, to refinance existing debt can become a matter of life or death for a particular régime or a specific project. One need not read sinister intentions into the outlooks or the activities of the transnational banks: all this is merely a natural consequence of the normal business practices of a private enterprise dedicated to lending money for profit. Thus, the credit rating system employed by TNBs to distinguish among the multitudes of credit seekers on the basis of the profitability and security of those investments simply reflects the normal business considerations of those private enterprises. Table 3 indicates that during the more recent crisis years in Bolivia, using the *Institutional Investor* ranking as an example, that country was close to the bottom of the list both in Latin America and the world as a whole.

In the case of Bolivia, this credit rating aptly reflects the TNBs' appraisal of that coun-

Table 3

LATIN AMERICA: CREDIT WORTHINESS RANKING OF THE INSTITUTIONAL INVESTOR, 1979-1980

Regional ranking		Country	World ranking 1980	Points <sup>a</sup>
1980	1979			
1	2	Mexico	25	71.8
2	1	Venezuela	27	71.2
3	4	Argentina	31	62.6
4	5	Colombia	37	59.6
5	6	Trinidad and Tobago	41	58.5
6	3	Brazil	43	58.0
7	7	Chile	52	52.9
8	8	Ecuador	54	52.3
9	9	Panama	61	45.2
10	11	Paraguay	63	44.6
11	12	Uruguay	66	42.2
12	10	Costa Rica	68	41.1
13	15	Peru	72	35.2
14	13	Dominican Republic	75	32.5
15	-	Cuba	76	32.2
16	14	Bolivia	78	27.8
17	16	Jamaica	84	19.9
18	17	Nicaragua	94	9.8

Source: *Institutional Investor*, July 1980.

<sup>a</sup>This credit rating reflects bankers' perceptions of each country's credit standing as of March 1980.

try's prospects of obtaining new loans. Moreover, the decision of most TNBs *not* to continue refinancing Bolivia's external public debt, which was taken most probably after a relatively large refinancing package was negotiated in 1978 with a syndicate headed by Citicorp (US\$ 155 million), was an essential ingredient in the failure of the 1974-1978 political project and the disastrous economic crisis which followed.

In effect, Bolivia was defenceless in the face of this unilateral evaluation by the consortium of TNBs, as may be seen from the following quotation: "...when Bolivia does nego-

tiate a plan with its creditors, the country will be forced to accept almost any refinancing terms that are offered."<sup>1</sup>

The external public indebtedness of the Bolivian economy with the TNBs thus became the core element of the new dependency situation affecting that country. The explanation of how that dependency situation was created and how the TNBs acquired the awesome power to make decisions directly affecting the economic well-being of most Bolivians without the latter's effective participation in the taking of that decision makes up the rest of this article.

## II

### The concept of external dependence as an analytical aid and its utility in understanding the role of the State in development

Without doubt, the concept of external dependence has been one of those most often discussed in the course of the analysis of the Latin American developmental experience. However, its use as an analytical aid to improve understanding of the various dependency situations affecting the developing countries has been on the wane. In the present article it is suggested that the concept of dependence not only continues to be appropriate for analysis of the relative negotiating positions of the local and foreign participants in the process of local development but actually forms a requisite for the detailed examination of the new situations of dependence affecting various countries of the region.

One can distinguish at least three principal streams of dependency analysis. For example, one stream views external dependence as economic vulnerability of the external sector (Prebisch-CEPAL); a second stream sees external dependence in terms of the nature and degree of foreign participation in local development (Furtado, Sunkel, and to a significant extent, Cardoso); and, of course, the Marxist stream considers external dependence as an expression of neo-imperialism (Frank and the CESO group of the University of Chile). Leaving

aside the third stream of dependency thought because of its ideological predilections, it may be reasonably maintained that, in an age of increasingly more complex negotiations between transnational corporations and the host State with regard to the nature and extent of foreign participation in local development, the remaining two streams of dependency thought are of considerable analytical utility for public decision-makers. These two streams of dependency thought may be considered as common measures of external dependence understood as factors which contribute to the weakening of the negotiating position of local entities *vis-à-vis* foreign participants in local development.

#### 1. *Some common measures: economic vulnerability of the external sector and the degree of foreign participation in national development*

The principal idea behind the concept of economic vulnerability of the external (export)

<sup>1</sup>*Institutional Investor*, New York, July 1980, p. 163. Thus, in March 1981 Bolivia accepted without further negotiation the refinancing terms demanded by the consortium headed by Bank of America. In accepting these

sector is that the fluctuations in the demand of the industrial countries for the primary commodities exported by the developing countries contribute to and aggravate the secular balance-of-payments problems which plague the peripheral economies. For example, any country may be subject to a favourable or unfavourable terms of trade relationship during a given period, but in general terms, the more diverse the export items and the more disperse the buyers, the less vulnerable will be the exporting developing country. Conversely, a monoproducer selling in a less than perfect market will generally suffer prolonged periods of extreme economic vulnerability of the external sector and consequent balance-of-payments crises. The more open an economy (e.g., high foreign trade coefficients) the more easily will the economic vulnerability of the export sector affect the internal pattern of growth and development. Although the economic vulnerability of the export sector is not generally the subject of State/TNC negotiations, the degree of economic vulnerability is a contextual factor of critical importance in State/TNC negotiations over the nature and level of foreign participation in national development. Thus, an exporter enjoying a very favourable terms of trade relationship will have a much better bargaining position with interested transnational corporations than an exporter suffering from a very unfavourable terms of trade relationship. In sum, it is possible to measure with some degree of accuracy the nature and degree of economic vulnerability in the external sector and relate it in an impartial manner to the general bargaining position of a developing country. No doubt this notion could be of significant analytical utility for policy-makers responsible for the framing and carrying out of State/TNC negotiations.

The basic idea underlying the concept of the nature and degree of foreign participation in national development is that there are several relevant structural factors which directly affect the outcome of State/TNC negotiations and influence to a considerable extent the style

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harsh terms (such as an interest rate of 2.25% over LIBOR) the Bolivian Government wished to improve its creditworthiness in the eyes of the TNBs.

of national development. The general premise is that the more direct the nature of foreign participation (e.g., direct foreign investment compared to technology transfer) and the greater the degree of foreign participation (e.g., the proportion of total exports or production accounted for by foreign enterprises), the weaker and more complicated will be the bargaining position of the host country. The principal State/TNC negotiations concern, *inter alia*, the terms of entry for direct foreign investment, the conditions (especially the use of State guarantees), for contracting external credits and the cost of the local utilization of foreign technology. For the most part, one does not see with clarity the results of these multifarious negotiations except in simplistic form, as manifest in the balance of payments, or in indicative form, as in new legislation dealing with these forms of foreign participation, or in very general form such as the data on the total amount of direct foreign investment, external public indebtedness, etc. Nevertheless, it should be evident that the more direct the nature and the higher the degree of foreign participation, the more complex and difficult will be any attempt on the part of the State to alter the existing *status quo* of foreign participation, given the plethora of commercial and financial relations based on the existing rules of the game. Obviously, for any government interested in reducing the explicit costs of the foreign participation in national development (e.g., profit, interest and royalty payments) and directing that foreign participation more clearly toward the priorities of the national plans, or otherwise increasing the net contribution of the foreign participants, a considered appreciation of the nature and degree of foreign participation and its relation to the host country's bargaining position are basic requirements for the latter's negotiators and policy-makers.

In this manner, it is possible to measure with some degree of accuracy various objective components of a given country's dependency situation for the purpose of better understanding the nature of its bargaining position with foreign participants, especially transnational corporations. Common measures such as the economic vulnerability of the external sector or the nature and degree of foreign participation

in national development can be viewed as essential aspects of that endeavour.

*2. A less common measure: voluntary dependence stemming from internal contradictions of the State*

The task of negotiating with foreign participants falls principally on the State (which consists of at least three dominant elements: the team of economic policy-makers associated with the régime in power, the bureaucracy and the principal public enterprises). It is quite possible that the State may weaken its own bargaining power in various ways which give greater influence to foreign participants than is warranted by existing conditions such as the economic vulnerability of the external sector or the degree of foreign participation in local development. A clear example is that of political instability; in these conditions a co-ordinated policy *vis-à-vis* foreign participation cannot be followed and therefore foreign participants enjoy an improved bargaining position. A less clear case would be one concerning internal contradictions within the State apparatus which create circumstances whereby the State is incapable of or decides not to make proper use of the improved bargaining position that it may enjoy due to other factors such as a reduced economic vulnerability of the external sector or a significant reduction in the nature or degree of foreign participation in national development. An example of this, which will be pertinent in the examination of the Bolivian experience, could be the case of the negative impact on dominant public enterprises caused by a given economic policy imposed by the team of economic policy-makers of a specific régime which weakens the bargaining position of those public enterprises and leads to economic and financial crisis in the public sector. However, in order to fully comprehend the essence of this kind of 'voluntary' dependency situation it is necessary to develop a suitable conceptual framework by which to understand the various roles of the State in national development, as well as elaborating a significant case study sufficient to demonstrate its relevance.

It is always a very difficult task to define

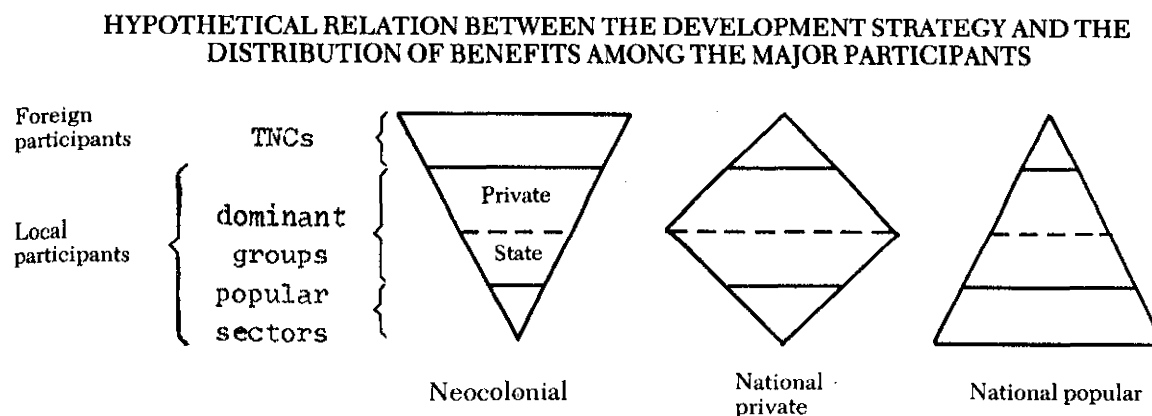
the various roles of the State, particularly in developing societies, and the significance of its economic policy in the context of the process of local development. The idea behind the concept of the 'role of the State' is generally so all-embracing and extensive as to include virtually any activity in any way associated with the State, from the political process itself to the provision of municipal services. In order to organize this amorphous mass into some kind of comprehensible framework it is necessary to simplify some of the conceptual mechanisms used.

Starting from the basis that any development strategy should in some way indicate the goals for the distribution of the benefits of national development, at least among the principal participants, it is possible to define at least three ideal-types which seem to have been basic to the developmental experience of the last 50 years. Figure 1 indicates these three simple strategies —neocolonial, national private and national popular— and the corresponding ideal distribution of benefits among the principal participants —transnational corporations, the local dominant sectors (private and public) and the popular sectors. These hypothetical ideal-type distributions of benefits associated with defined developmental strategies demonstrate a geometric simplicity which can be very useful for further understanding the distinct orientations of the State in the course of national development.

One can, without introducing economic determinism into the simplifying conceptual mechanism, consider the three ideal types to be successively prevalent orientations of development strategy which arise in the course of the development process. Viewed from this perspective, one notes that the proportion of benefits considered to correspond to foreign participants decreases and the share going to the popular sectors increases in the transition from one ideal-type strategy to another.

The part seen to relate to the local dominant sectors increases in the transition from the orientation to the national private one and declines in the shift from the national private to the national popular orientation of development strategy. The local dominant sectors can be thought of as consisting of two components

Figure 1



Source: Adapted from Petras, J., "New Perspectives on Imperialism and Social Classes in the Periphery", *Journal of Contemporary Asia*, Vol. V, No. 5, 1975.

—private dominant groups and the State— but the line dividing the internal distribution of benefits within this category must be understood in the context of local conditions and the specificities of the local development experience. Nonetheless, as a general rule it is reasonable to assume that the private dominant groups would predominate in the neocolonial orientation and the State would predominate under the national popular orientation. In similar fashion, these two components may be considered to be roughly equal with regard to benefits for the purposes of the general case of the national private orientation. Thus, this simplifying conceptual mechanism allows three principal points of reference to be proposed in respect of the distributional consequences of development strategy.

The neocolonial orientation of development strategy has little relevance to contemporary Latin American development experiences, but the other two ideal type orientations continue to have much significance for the region and capture certain fundamental aspects of the roles of the State in the development process.

For example, a national private orientation of development strategy suggests that the State is associated with and subordinate to the political leadership of the private dominant groups. The political project presented by those private dominant groups includes, in greater or lesser degree, some kind of association with foreign

participants. The principal general economic tasks which would fall upon the State probably would consist of promoting private enterprise (local and foreign) and resisting or dissuading any increase in popular sector participation in the distribution of the benefits of development. Although one would expect the State to enact certain controls over foreign participation, especially where tensions develop between local and foreign participants, those controls generally can be considered subordinate to the promotional task given to the State. For the most part, the State/TNC negotiations would consist of the State establishing general guidelines, in keeping with the priorities of the national plans, for increased foreign participation.

The example of the national popular orientation of development strategy suggests other priorities for the State, which in this case often assumes a significant degree of political leadership based on popular electoral support, while public enterprise becomes the focus of its policy. With the expansion of the entrepreneurial role of the State, the tensions with foreign participants rise and become considerably more complicated. State controls over the nature and degree of foreign participation become more severe and the State/TNC negotiations generally involve the direct relations between these two major participants.

The simplifying conceptual mechanism thus offers certain fundamental insights into the role of the State in the process of develop-



ment, particularly in respect of the State/TNCs negotiations and the general nature of foreign participation in national development. Oszlak, in a recent article,<sup>2</sup> has identified three essential roles of the State which contribute to this discussion and which he distinguishes in accordance to the principal interests served by the State apparatus. The 'mediatory' role of the State relates to the activities of the State destined to satisfy the interests of the dominant economic groups. The 'infrastructural' role consists of the activities in which the State operates in the common interest of society. The 'sectoral' role of the State comprises those functions and actions which serve its own interests as a sector apart from the others. This is no doubt a very simplified conceptual construct with labels which strike the reader as perhaps inappropriate, nevertheless, it does capture certain basic realities of the various roles of the State in developing societies.

Relating these separate roles of the State to the simplifying conceptual mechanism dealing with the distributional consequences of the neocolonial, national private and national popular orientations of developmental strategy provides us with the raw materials needed to serve as the framework for an improved understanding of the role of the State in the context of different orientations of developmental strategy.

For a régime following a neocolonial orientation of developmental strategy, the principal role of the State would be the mediatory one in the interests of the dominant foreign and local participants. Historically, countries employing this orientation have very underdeveloped State apparatus, particularly in respect of the entrepreneurial functions carried out by public enterprises, so that the sectoral role of the State is not at all important. Given the very unequal participation in the benefits of local development, the infrastructural role is not at all pronounced either. On the other hand, a régime employing a national private orientation usually expects that the growing role of the

State in local society will continue to focus on serving the dominant local interests (and to a much lesser extent foreign ones) via its mediatory role. While this is generally the case, one notes however that the infrastructural and sectoral roles of the State increase *considerably* in keeping with the level of development of the country and especially in relation to the local process of industrialization. Thus, in the national private orientation the principal role of the State continues to be the mediatory one (although it is much reduced from the previous case of a neocolonial orientation), even though the infrastructural and sectoral roles have been considerably increased. Finally, in a régime which implements a national popular orientation of development strategy, the sectoral and infrastructural roles of the State are seen as more important than the mediatory one, although the latter is never completely forgotten. The relative importance of the sectoral and infrastructural roles will depend on the particular features of the State apparatus (especially the size and nature of the dominant public enterprises). In this simplified fashion, one can develop a conceptual framework by which to understand the dominant features of the role of the State in national development and the national environment for the State/TNC negotiations in the context of the specific and changing dependency situations of individual countries.

Returning to the discussion of the various measures of the concept of external dependence, it is necessary to explain the significance of the concept of voluntary dependence which results from certain internal contradictions of the State. For the most part, this type of dependency situation seems to result from a *return* to an extreme form of national private orientation of development strategy following a period in which the national popular orientation was predominant. For that reason, the State apparatus is usually quite extensive and the sectoral and infrastructural roles of the State well developed so that it is very difficult to implant the mediatory role desired by the new team of economic policy-makers in a bureaucracy and in public enterprises accustomed to relatively greater decision-making autonomy, serving broader interests and, last but not least, receiving a greater share of the bene-

<sup>2</sup>Oszlak, O., "Critical approaches to the study of the State bureaucracy: a Latin American perspective", *International Social Science Journal* (UNESCO), Vol. XXXI, No. 4, 1979.

fits of local development. In these terms, one can identify internal contradictions in the State concerning the conflicting roles played by the various components of the State apparatus. As well as having a rather negative impact on the general well-being of the local economy, these internal contradictions, in extreme cases, can produce situations in which the dominant component of the State—the team of economic policy-makers of the new régime—find that they have more in common with foreign participants in respect of the national private orientation of development policy than they have with the rest of the State apparatus (particularly the principal public enterprises). The closer association of the team of economic policy-makers with foreign participants, which usually entails an easing of controls and restrictions on foreign participation, can lead to the State *voluntarily*

ceding influence to foreign participants above and beyond what would normally result from other conditions such as economic vulnerability of the external sector or the existing nature and degree of foreign participation in local development. In sum, the State *purposely* restricts the implementation of its available bargaining strength in negotiations with TNCs in order to cement the new association with foreign participants and the particular benefits which that brings to the private dominant groups defining the project. In this sense, the new dependency situation can be very convenient for the dominant private participants, but as will become apparent in the Bolivian case study, in extreme circumstances it can easily result in profound economic and financial crisis for the local economy.

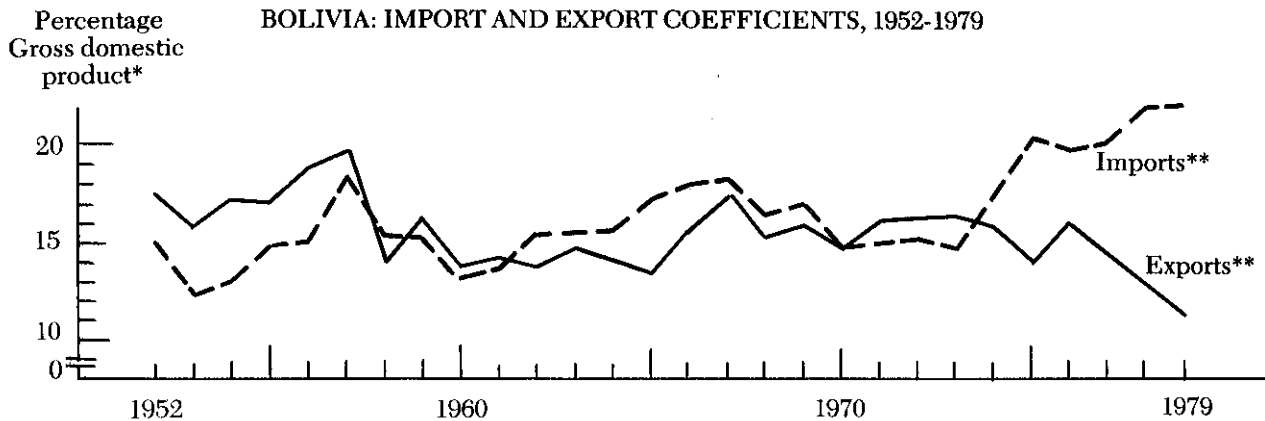
### III

## An overview of external dependence in Bolivia, 1952-1979

Generally the Bolivian economy can be thought of as a very open one in the context of Latin America and it has demonstrated a tendency towards higher foreign trade coefficients in the recent period. For the most part, the foreign trade coefficients have been in the 30-

34% range in the 1952-1979 period, with the exception of the 1960-1964 period of extreme economic vulnerability (below 30%) and the 1974-1978 period of exaggerated imports (above 34%). Figure 2 demonstrates the change in export and import coefficients over the 1952-

Figure 2



Source: CEPAL, on the basis of official information.

Note: Calculated on the basis of constant values (millions of 1970 US dollars).

\*At market prices.

\*\*Goods and services.

1979 period in general and captures admirably the exaggerated importation which occurred in the period following 1974.<sup>3</sup>

The export experience of Bolivia is indicated in figure 3. This experience appears to consist of three separate phases: extreme economic vulnerability (1952-1964); exceptional growth and diversification (1965-1976); and decline (1977-1979). During the phase of extreme economic vulnerability of the export sector the country was a typical mono-product exporter (minerals in general and tin in particular) operating in a very imperfect market. Thus, when that market weakened after the

Korean War and tin and other mineral prices declined sharply, the economic vulnerability of the export sector quickly affected the balance-of-payments position of the country and rapidly spread to internal economic activity. The export sector remained in a state of depression for more than a decade and this was reflected in the erratic pattern of internal growth, in which the 1952 value of the gross domestic product, in constant terms, was not surpassed until 1962. In effect, as is suggested in table 4, Bolivia was buffeted by extremely unfavourable terms of trade until at least 1965.

Table 4  
BOLIVIA: TERMS OF TRADE, FIVE-YEAR AVERAGES, 1952-1979  
(1970 = 100)

	Periods					
	1952-54	1955-59	1960-64	1965-69	1970-74	1975-79
Average	55.7	64.3	66.8	91.9	97.9	120.7

Source: CEPAL, on the basis of official information.

These data also clearly show that after 1965 the Bolivian export sector enjoyed substantial and sustained growth based on the recovery of the markets for tin and other minerals and the diversification of exports by way of new and expanded exports of crude petroleum, natural gas and agro-industrial items. To all intents and purposes, economic vulnerability of the export sector disappeared as a constituent of the Bolivia dependency situation and as an unfavourable influence on the bargaining position of the State, particularly after 1975 when the country enjoyed an especially favourable terms of trade situation.

The nature and degree of foreign participation in Bolivia between 1952 and 1979 played an important part in the dependency situations

in which Bolivia was placed. It should be mentioned that for the most part these situations were of what has become known as classic dependency, that is, extensive foreign influence in the export nexus between the local economy and the international market, and not the high degree of foreign participation via direct foreign investment in the local process of industrialization which typifies what has become known as 'dependent development'. It should be noted, however, that the financial dependency that characterized the Bolivian economy in the later 1970s is often considered to be more clearly related to the dependent development variant than that of classic dependency. These distinctions will become more evident with further elaboration of the Bolivian case study, particularly examination of the 1974-1978 experience.

Viewed from the balance-of-payments perspective, that is, the net inflows of foreign capital, table 5 summarizes that aspect of foreign participation in local development over

<sup>3</sup>The increase in the import and export coefficients during the period 1953-1957 was partly the result of the relative decline of the real value of the gross domestic product.

Figure 3

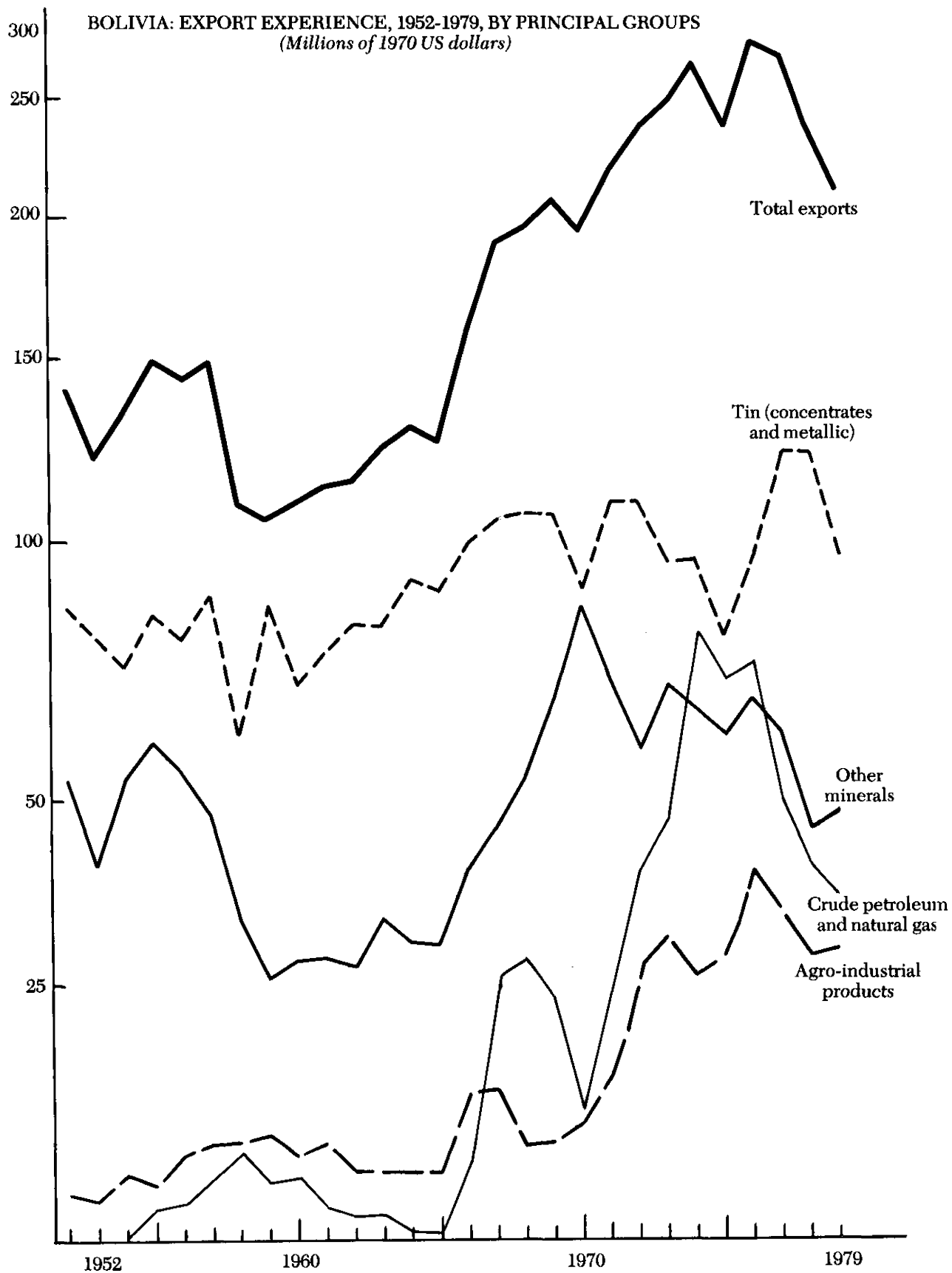


Table 5

**BOLIVIA: NET INFLOWS OF FOREIGN CAPITAL, 1952-1978, BY FIVE-YEAR PERIODS**  
(Annual averages in millions of 1970 US dollars and percentages)

Category	1952-54	1955-59	1960-64	1965-69	1970-74	1975-78
Donations	6.9	31.1	25.8	14.2	8.7	8.4
Direct foreign investment (DFI)	11.2	11.5	13.4	-3.7	-20.9	12.0
External loans	-3.8	5.2	13.5	27.3	53.7	65.1
<i>Total</i>	<i>14.3</i>	<i>47.8</i>	<i>52.7</i>	<i>37.8</i>	<i>41.5</i>	<i>85.5</i>
DFI + loans as % of exports	5.3	12.1	21.0	12.5	11.8	27.3

Source: CEPAL, on the basis of information supplied by the International Monetary Fund.

the 1952-1979 period. Measured in these terms, it is clear that the nature of foreign participation has changed significantly over the more recent period and there have been two periods—1960-1964 and 1975-1978—in which the degree of foreign participation has been notably high.

During the phase of extreme economic vulnerability of the external sector, 1952-1964, foreign participation came mainly in the form of official donations: the least costly form of foreign participation in terms of the explicit costs involved. Direct foreign investment was a significant, if subordinate in magnitude, element of the foreign participation during this phase. In the period which followed, official donations declined sharply and there was pronounced disinvestment by foreign participants,<sup>4</sup> so that foreign loans became by far the most important form of foreign participation in Bolivian development. That form of participation, however, implied certain explicit costs in respect of commissions, amortization and interest payments. In summary terms, it might be suggested that the increased foreign participation (via official donations) of the 1955-1964 period was a result of the extreme economic vulnerability of the external sector, whereas that of the 1975-1978 period (via external loans)

<sup>4</sup>The figures for direct foreign investment during the 1965-1974 period reflect mainly the profit remittances of the foreign petroleum enterprise, Bolivian Gulf Co., its subsequent nationalization in 1969 and disinvestment of the mining enterprise, Mina Matilde, in 1971.

stemmed from the local proclivity to import to an extent far beyond the parameters of export earnings. The first form of pronounced foreign participation was relatively costless in financial terms (although it did provide a high degree of foreign influence in the local export sector for the principal donor country) whereas the second category of participation carried rather onerous costs in the form of commissions, amortization and interest payments.

Turning to the role of the State in Bolivian development, which, as already noted, is a necessary antecedent for the examination of what has been called "voluntary dependency" resulting from the internal contradictions of the State, it may be said that the Bolivian case is not at all simple in the sense that there were continuous and constant trends in the orientation of development strategy. Rather, the Bolivian case is one of leaps, reverses and vicissitudes. Nevertheless, in the context of this overview of the subject, it may be suggested that the Bolivian experience has consisted of the following phases: the prerevolutionary period before 1952, which displayed a neocolonial orientation; the 1952-1964 period, which witnessed a jump to a defined national popular orientation; the 1965-1973 period, which was characterized by transition and uncertainty manifest in various changes in orientation of a national private and national popular nature, none of which were very well-defined; the 1974-1978 period, when a well-defined orientation of the national private variety was implemented; and the post-1978 period, in which transition and uncertain-

ty have again come to characterize the orientation of development strategy.

Before the Bolivian revolution which began in 1952 the orientation of development strategy may be thought of as a form of the neocolonial perspective, due to the fact that a small group of large and nominally Bolivian mining enterprises linked closely to the local landholding oligarchy monopolized the benefits deriving from Bolivian development. The particular case of Simón Patiño is illustrative because from that basis he created what is today a fully-fledged transnational corporation.<sup>5</sup> The mediatory role was almost the only one undertaken by the State, although there were weak efforts to promote the infrastructural role of physically integrating the country, primarily on the basis of development assistance from the United States. The excesses of the mediatory role implemented by the State in the hands of the mining companies and local oligarchs undoubtedly account for the revolutionary initiatives which took place in the early 1950s.

The revolution brought with it a leap from the neocolonial to the national popular orientation of development strategy, based on co-government by the National Revolutionary Movement party and the Bolivian Workers' Central. The new orientation was manifest in the nationalization of the large mining companies, large-scale agrarian reform, the widening of popular political participation by way of universal suffrage and the institutionalization of the State and its public investment as the basic impulse for national development. With the obliteration of the power bases of the previous local dominant private groups, the dominant roles of the State became the infrastructural and sectoral ones. However, the revolutionary chaos and the extreme economic vulnerability of the external sector soon brought this political project to the edge of economic and financial bankruptcy, and the Immediate Economic Policy Plan of the Government of the National Revolution issued in 1955 became, in essence, an appeal to the

<sup>5</sup>See Arce, R., "Influencia de las empresas transnacionales en la minería del estaño: el caso boliviano", CEPAL/CTC, working paper No. 4, July 1977, pp. 21-28.

United States Government for emergency and continuing economic assistance.<sup>6</sup> The ample literature on the subject has demonstrated that although this assistance was relatively costless in financial terms, the foreign influence that it permitted caused a split between the two partners of the revolutionary government and the orientation of development strategy deviated in the national private direction.<sup>7</sup> This was demonstrated, *inter alia*, by the opening up of the petroleum sector to transnational petroleum corporations, the orientation of the stabilization programme of the International Monetary Fund implemented in 1957-1958 and the new foreign influence introduced into the nationalized mining sector by way of the Triangular Plan. In the meantime, the fiscal deficit of the public sector was being met through external official donations. Table 6 suggests that to the extent that the revolutionary government eased up on its propensity to Statism in the distribution of internal credit, it was able to obtain external resources for investment purposes. Nevertheless, this experience with the national popular orientation of development strategy resulted in tremendous growth and expansion of the public sector (estimated in 1961 to account for 45% of the national GDP<sup>8</sup> and the establishment of State infrastructural and sectoral roles much in advance of the local process of industrialization, in spite of the foreign influence which accompanied the extreme economic vulnerability of the external sector during this period.

The following period, 1965-1973, consisted of various opposed changes or zigzags in the orientation of development strategy, none of which can be considered *both* clearly defined and effective. This period is best characterized as one of transition and uncertainty made up of a kind of national private orienta-

<sup>6</sup>See Guevara Arze, W., *Plan de Política Económica de la Revolución Nacional*, Ministerio de Relaciones Exteriores y Culto, La Paz, 1955.

<sup>7</sup>For example, Malloy, J. M. and R. S. Thorn (eds.), *Beyond revolution: Bolivia since 1952*, University of Pittsburgh Press, 1971; Arze Cuadros, E., *La economía boliviana: ordenamiento territorial y dominación externa, 1492-1979*, Ed. Los Amigos del Libro, La Paz, 1979, chapter XV.

<sup>8</sup>Plan General de Desarrollo, *Planeamiento*, 3-5, La Paz, September 1961, introductory letter of Vicepresident Juan Lechín Oquendo.

tion during 1965-1969, a pronounced but ineffective national popular orientation, 1969-1971, and once again a sort of national private orientation implemented during the crisis years 1972-1973. Again, table 6 shows basic aspects of these changes of orientation, as reflected by the sectoral placing of internal credit and the source of gross domestic investment. In many ways, the about-faces which took place represented reactions to the previous orientations. It should be emphasized, however, that the national popular orientation of the 1969-1971 period resulted in the nationalization of the largest foreign enterprise in Bolivia—Bolivian Gulf Co.—which gave the State almost complete control over the local export sector (in association with the nationalized mining sector). Thus, although the populist project contained in the strategy defined<sup>9</sup> during this period never came to be, the public sector experienced a noteworthy expansion, again above and beyond the requirements of the local process of industrialization. Furthermore, the transition from this national popular orientation to the national private one which followed was particularly violent and characterized by economic and social dislocation which required quite a strong stabilization programme to establish order. The new national private orientation was evident in the reopening of the petroleum sector to private participation (this time, however, via contracts of association between the State petroleum company and foreign petroleum enterprises) and the new investment law which promoted private (local and foreign) enterprise. In other words, the 1965-1973 period was one of political instability in which the orientation of development strategy underwent continual and opposed changes. Concomitantly, the various roles of the State went from one extreme to the other without clear or effective definition, and following the nationalization of the largest foreign enterprise in the country, foreign participation in Bolivia (except with regard to the financing of the nationalization) demonstrated a tendency towards decline. By and large, this period was one of transition and uncertainty.

<sup>9</sup>Ministerio de Planificación y Coordinación, *Estrategia socio-económica del desarrollo nacional, 1971-1979*, La Paz, 1970.

The 1974-1978 period witnessed the clear and definite implementation of a national private orientation of development strategy which heavily favoured the private sector and its dominant interests. In the context of a volume of internal credit which doubled in real terms during this period, over three quarters of that credit was placed with the private sector. Furthermore, in spite of the fact that the country was enjoying an export boom of unprecedented proportions, a rapidly increasing proportion of the resources destined for domestic investment came from external sources, reaching 42% in 1978 (see table 6). As a consequence of this increased foreign participation, based on external loans, the external public debt of Bolivia shot up dramatically, doubling in real terms between 1974 and 1978, as shown in table 7. Nevertheless, in spite of this clear orientation of development strategy and the volume of resources available in the context of the export boom and the increase in foreign participation in local development, the economic situation of the State and, increasingly, the economy, was one of deepening crisis, as is suggested by the data in table 8. The fiscal deficit of the State and more generally the deteriorating state of public finances aptly bring out the principal factor in the voluntary dependency situation which led to the undoing of the Bolivian economy: public investment for private profit. However, in order to understand in greater detail this particular dependency situation, it is necessary to focus more closely on the specific internal contradictions of the State, which accompanied the national private orientation of development strategy during the 1974-1978 period.

Before turning to that task it should be mentioned that since 1978 there has been a worsening of the crisis born of the 1974-1978 period. Again, transition and uncertainty are dominant elements of public policy, most notably in relation to the renegotiation of the external public debt. The indications are, as was suggested by the quotation from the *Institutional Investor*, that the dependency situation in respect of the transnational banks is such that the Bolivian authorities will have to accept virtually any terms offered to them.<sup>10</sup>

<sup>10</sup>See footnote 1.

Table 6

**BOLIVIA: SECTORAL DISTRIBUTION OF INTERNAL CREDIT AND SOURCE OF  
FINANCING OF GROSS DOMESTIC INVESTMENT, 1952-1979**  
(Millions of 1970 pesos and percentages)

Year	Internal credit				Gross domestic investment			
	Current values	Constant values <sup>a</sup>	Sector (%)		Current values	Constant values <sup>a</sup>	Source (%)	
			Public	Private			Internal	External
1952	10	714.3	65	35	18	1 285.7	94	6
1953	20	408.2	65	35	34	693.9	79	21
1954	28	297.9	61	39	88	936.2	99	1
1955	62	301.0	74	26	318	1 543.6	99	1
1956	327	819.5	90	10	551	1 380.9	99	1
1957	406	955.3	85	15	558	1 312.9	93	7
1958	537	1 100.4	87	13	565	1 157.8	78	22
1959	632	1 134.6	88	12	477	856.4	83	17
1960	721	1 151.7	89	11	675	1 078.3	76	24
1961	803	1 216.7	86	14	546	827.3	82	18
1962	858	1 243.5	83	17	876	1 269.6	75	25
1963	934	1 338.1	79	21	909	1 302.3	76	24
1964	1 014	1 350.2	75	25	1 009	1 343.5	105	-5
1965	1 161	1 488.5	74	26	1 218	1 561.5	79	21
1966	1 340	1 660.5	71	29	1 291	1 599.8	81	19
1967	1 538	1 792.5	72	28	1 284	1 496.5	68	32
1968	1 685	1 855.7	66	34	1 836	2 022.0	66	34
1969	1 765	1 873.7	64	36	1 714	1 819.5	64	36
1970	2 071	2 071.0	63	37	2 111	2 111.0	88	12
1971	2 510	2 408.8	61	39	2 302	2 210.2	80	20
1972	3 219	2 567.0	58	42	3 364	2 682.6	82	18
1973	4 223	2 368.5	46	54	5 311	2 978.7	92	8
1974	4 118	1 462.4	11	89	7 026	2 495.0	133	-33
1975	5 702	1 885.0	23	77	11 801	3 901.2	73	27
1976	8 233	2 488.8	26	74	11 861	3 585.6	83	17
1977	11 188	3 027.9	21	79	13 523	3 659.8	77	23
1978	15 135	3 498.6	26	74	18 505 <sup>b</sup>	4 277.6	58	42
1979	21 274	3 953.5	37	63	21 683 <sup>c</sup>	4 029.5	50	50

Source: International Monetary Fund, *International Financial Statistics, 1980*; Central Bank of Bolivia, *Cuentos Nacionales, 1970-1977*.

<sup>a</sup>Using implicit deflator for GDP.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Estimate.



Table 7

**BOLIVIA: PUBLIC EXTERNAL DEBT AND ITS SERVICING, 1974-1979**  
(Millions of 1970 US dollars and percentages)<sup>a</sup>

Year	Private sources <sup>b</sup>	Official sources <sup>c</sup>	Total	Debt service (% exports)
1974	219	404	623	11
1975	267	504	771	15
1976	385	581	967	16
1977	472	662	1 134	21
1978	508	745	1 253	49
1979	509	787	1 292	30 <sup>d</sup>

Source: Inter-American Development Bank, *External Public Debt of the Latin American Countries*, Washington, D.C., July, 1980, and information supplied by the World Bank.

<sup>a</sup>Deflated by the wholesale price index of the USA.

<sup>b</sup>Mainly transnational banks and suppliers.

<sup>c</sup>Bilateral and multilateral loans.

<sup>d</sup>Based on payments made, amortization payments overdue.

Table 8

**BOLIVIA: THE DEFICIT OF THE FISCAL SECTOR, 1974-1979**  
(Millions of 1970 pesos and percentages)

Year	Fiscal deficit	Deficit		
		GDP	Exports	Fiscal receipts
1974	161.6	1.0	5.2	9.0
1975	233.6	1.4	8.1	12.4
1976	422.9	2.4	12.9	20.4
1977	896.5	5.0	29.0	43.4
1978	693.9	3.8	23.9	35.2
1979	1 244.2	6.5	43.9	81.1

Source: Central Bank of Bolivia, *Cuentas Nacionales, 1970-1977*, and *Boletín Estadístico*, No. 237.

## IV

## A short examination of the internal contradictions of the State which derive from the national private orientation, 1974-1978

### 1. *The general situation*

One of the anomalies of the experience with the national private orientation during the 1974-1978 period is that the financial crisis in the public sector came hard on the heels of the most notable export boom in modern Bolivian history, despite the fact that the State exercised almost complete direct control over the major export items (mineral concentrates and metals, and crude petroleum and natural gas) through the main public enterprises COMIBOL, ENAF and YPFB. Table 9 demonstrates that during the 1974-1978 period, public sector fiscal income was to a very high degree (57-69% of total fiscal receipts) generated by the external sector, particularly the export sector. How then, should one interpret the resulting crisis which coincided with the vastly increased economic potential of the State?

Without doubt, one important factor involved was the false expectations generated by the export boom. Evidently, the team of decision-makers associated with the central government believed that the export boom provided a self-sustaining basis for contracting external loans, as did the transnational banks, which provided the major part of that external financing. It seems, however, that the latter were quicker to spot the artificial basis of the country's economic policy, that is, they realized that the export boom was mostly based on a favourable price effect that simultaneously affected most Bolivian export items. Indeed, the physical volume of most export items did not increase, and several even experienced a decline, especially after 1977. Thus, one could conclude that the increase in external financing was based on a false export perspective and that, when those expectations did not develop, the export earnings received were not enough to sustain the dimension of external public indebtedness already contracted. However, as

will be explained later, the decline in Bolivian export performance was *not*, in fact, primarily a result of bad luck, it was largely a direct consequence of the general economic policy followed during this period.

On the one hand, the decline in the real value of export earnings can be associated with the level to which the Bolivian peso was overvalued. Table 10 makes a rough estimate of the extent of that overvaluation—between 25 and 37% during the 1974-1978 period—using the 68% devaluation in 1972 as the basis for parity. Undoubtedly, the overvaluation of the peso served as a consequential disincentive for local exports, most of which were generated by the local public sector. Moreover, the ability to maintain the exchange rate in that state of overvaluation resulted in good part from the level of net receipts from external financing, and because of a reduction in that external financing there was a 25% devaluation of the peso in November 1979.

On the other hand, the team of economic policy-makers followed an explicit policy of financial drainage of the dominant public enterprises. Table 11 illustrates this aspect of local economic policy. In essence, the export boom was channelled *through* the dominant public enterprises to the National Treasury (where the lion's share was further directed to the private sector). Furthermore, the rate of taxation of these public enterprises exceeded their rate of return from export activities, as measured by the indices of table 11. Obviously, this degree of financial drainage of the principal export enterprises explains a significant part of the poor export performance which resulted.

Finally, because of this financial drainage and the placing of about three-quarters of all internal credit in the private sector, the major public enterprises were forced to rely on exter-

Table 9

**BOLIVIA: RELATION BETWEEN THE FISCAL RECEIPTS OF THE CENTRAL GOVERNMENT<sup>a</sup>  
AND THE EXTERNAL SECTOR, 1964-1979**  
(Millions of 1970 pesos and percentages)

Year	Current values	Constant values	Percentage distribution in external sector						Total	
			Customs	Royalties <sup>b</sup>		Tax on exports	External sector	Internal taxation		All others
				Mining	Petroleum					
1964	511.3	680.8	(53.5)	-	-	-	53.5	42.8	3.7	100
1965	613.0	785.9	(56.0)	(0.2)	-	-	56.2	41.3	2.6	100
1966	723.5	896.5	(47.4)	(6.5)	-	-	53.9	43.0	3.1	100
1967	771.8	899.5	(51.0)	(0.9)	-	-	51.9	45.2	2.8	100
1968	836.9	921.7	(41.7)	(4.0)	(6.2)	-	51.9	44.7	3.5	100
1969	871.4	925.1	(41.5)	(7.1)	(1.1)	-	49.7	47.8	2.4	100
1970	1 070.4	1 070.4	(39.1)	(16.3)	-	-	55.4	41.0	3.7	100
1971	1 093.1	1 049.0	(34.6)	(4.2)	(3.3)	-	42.1	50.4	7.4	100
1972	1 330.1	1 060.7	(31.4)	(3.2)	(4.4)	(10.5)	49.5	45.2	5.2	100
1973	2 460.5	1 385.0	(21.0)	(7.7)	(11.3)	(18.3)	58.3	36.7	5.1	100
1974	5 069.7	1 800.3	(18.7)	(17.9)	(17.4)	(15.8)	69.7	25.6	4.6	100
1975	5 688.8	1 880.6	(27.2)	(8.4)	(14.4)	(10.9)	60.9	30.3	8.7	100
1976	6 840.9	2 068.0	(21.2)	(12.5)	(18.6)	(8.6)	60.9	34.1	4.9	100
1977	7 641.2	2 068.0	(22.2)	(16.5)	(12.0)	(7.0)	57.7	36.0	6.4	100
1978	8 540.1	1 974.1	(22.9)	(18.1)	(10.8)	(5.5)	57.3	37.1	5.6	100
1979	8 255.0	1 534.1	(25.0)	(16.1)	(0.6)	(9.8)	51.5	42.7	5.8	100

Source: Central Bank of Bolivia, *Boletín Estadístico*, various numbers.

<sup>a</sup>Measured by the current receipts of the National Treasury.

<sup>b</sup>Applied to mainly export activities.

Table 10

**BOLIVIA: APPARENT PURCHASING POWER OF THE PESO, 1973-1979**  
(1973 = 100)

Year	(1)	(2)	(3)		(4)	(5)	(6)
	Pesos per dollar	Exchange rate index	Comparative inflation indices		Parity index	(5)	(2)
			Bolivia <sup>a</sup>	USA <sup>b</sup>			
1973	20.00	100	100	100	100	100	100
1974	20.00	100	157.9	118.9	132.8	75.3	
1975	20.00	100	169.2	129.9	130.3	76.7	
1976	20.00	100	184.5	135.8	135.9	73.6	
1977	20.00	100	209.8	144.2	145.5	68.7	
1978	20.00	100	231.4	155.5	148.8	67.2	
1979	20.86	104.3	277.0	174.9	158.4	65.8	

Source: CEPAL, on the basis of IMF data.

<sup>a</sup>Using implicit GDP deflator.

<sup>b</sup>Wholesale prices.

Table 11

**BOLIVIA: TAX AND ROYALTY PAYMENTS TO THE NATIONAL TREASURY BY THE  
PRINCIPAL EXPORTING PUBLIC ENTERPRISES AND COMPARISON WITH  
THE EXPORT EXPERIENCE, 1971-1978**  
(Millions of 1970 pesos, percentages and indices)

Year	Tax and royalty payments			Percentage of fiscal receipts of Treasury
	COMIBOL- ENAF	YPFB	Total	
1971-1973 <sup>a</sup>	110.8	109.5	220.3	18.9
1974	307.2	425.6	723.8	40.7
1975	171.2	356.8	528.0	28.1
1976	248.1	467.7	715.0	34.6
1977	317.4	291.7	609.1	29.5
1978	329.7	235.8	565.5	28.6

Source: Calculated on the basis of information from the Dirección General del Presupuesto of the central government.

Note: Excludes royalty payments to regional authorities and taxes on local sales.

<sup>a</sup>Annual average.

nal financing for their investment programmes. Table 12 shows how the main public enterprises in the productive sector became dependent on external financing, almost all of it from transnational banks. The figures for total credit to public enterprises in the productive sector are almost identical with those for total external financing from transnational banks. Furthermore, although these public enterprises received only 38% of the total net receipts from external financing during the 1974-1978 period, they were the recipients of over 68% of loans from the transnational banks. In other words, 'productive' public investment was, to a very significant degree, financed by foreign participants, namely the transnational banks. In the context of national economic policy, which militated against the continued solvency of these productive public enterprises, particularly the major exporters, a decision by transnational banks not to refinance the growing public external debt of these enterprises meant the collapse of most public investment programmes in the productive sector,<sup>11</sup> and in an economy like that of Bolivia, where

<sup>11</sup>The effect of the external financing, by transnational banks, of public investment in the services and other sectors will not be dealt with in this article. This aspect will, however, receive explicit treatment in the larger document currently in preparation.

the public sector is such an important part of local economic activity and is almost the sole major exporter, the collapse of the programme of public investment signals oncoming crisis.

Until this state of affairs went to such an extreme that it called into question the solvency of the public enterprises in particular, and the economy as a whole, this form of voluntary dependency was quite *convenient* for all the main participants. The State completed its mediatory role in relation to the dominant private groups and the foreign participants by channelling the gains from the export boom to private groups (local and foreign). The transnational banks, in an epoch of surplus funds associated with the recycling of petrodollars, were happy to make loans to the major public enterprises on the basis of a guarantee from the central government. Furthermore, the rates of interest charged, not to mention the fat commissions, made for very good business. The local dominant private groups enjoyed unheard-of levels of internal credit and had plentiful foreign currency available to satisfy their desires to import. Last, but by no means least, the State enterprises were able to advance their infrastructural and sectoral roles, *in the short term*, on the basis of external financing. In the beginning, then, the new system of public investment for private profit associated with the clearly defined

national private orientation of development strategy applied in the period 1974-1978 seemed to work well in spite of the fact that it created a kind of voluntary dependence on the transnational banks.

Unfortunately, the new system was pushed to an extreme and the internal contradictions of the State laid the basis for its subsequent collapse. First, a significant element of the local dominant private groups took unfair advantage of the new focus of public policy. Increasingly, internal credit in the private sector was directed to non-productive ends and the accelerated importation came to reflect conspicuous consumption. Figure 4 shows that private investment in fixed assets declined

steeply after 1975. It was public investment which fuelled the economy thereafter. In this way, the private sector registered its lack of confidence in the prevailing economic scheme. Cases of misuse of public credit by the private sector, such as that of the loans of the Agricultural Bank to the cotton growers of the Santa Cruz region, became common. Furthermore, the flight of capital (reaching US\$ 33 million in 1977 in constant 1970 values) reflected the lack of faith of the private sector in this particular national private orientation of development strategy. In short, the private sector declined the opportunity of becoming the motor of Bolivian development. Second, the effect of the national economic policy on the dominant

Table 12

**BOLIVIA: NET INFLOW OF EXTERNAL FINANCING<sup>a</sup> BY RECIPIENTS, 1974-1978;  
OVERALL TOTAL AND TOTAL FROM TRANSNATIONAL BANKS**  
(Millions of 1970 US dollars and percentages)<sup>b</sup>

Recipient	1974	1975	1976	1977	1978	Total	Percentage
<b>I. Overall total:</b>							
all sources							
Central government	15.2	8.2	25.9	31.8	18.2	99.3	22.2
Local government	-	0.2	6.2	11.7	15.7	33.8	7.6
COMIBOL	6.0	4.9	13.6	14.0	-9.0	29.5	6.6
ENAF	3.7	2.0	9.0	15.0	1.9	31.6	7.1
YPFB	-14.3	-10.9	19.4	39.3	0.7	34.2	7.1
CBF	-0.8	8.6	-0.8	-2.1	17.9	22.8	5.1
Specialized banks	15.9	16.0	11.0	7.1	3.6	53.6	11.9
Subtotal PEPS <sup>c</sup>	(10.5)	(20.6)	(52.2)	(73.3)	(15.1)	(171.7)	(38.3)
All others	7.7	29.1	28.3	34.2	44.3	142.6	31.9
Total	33.2	57.4	112.5	151.0	93.5	447.6	100
<b>II. Total: transnational banks</b>							
Central government	0.2	4.9	1.4	6.4	-1.7	11.2	4.1
Local government	0.1	-0.4	-0.6	8.8	11.0	18.9	6.9
COMIBOL	4.0	2.0	12.7	12.9	-8.2	23.4	8.5
ENAF	1.5	...	5.6	5.2	-	12.3	4.5
YPFB	-1.1	2.2	22.7	47.0	7.5	78.3	28.5
CBF	1.7	2.2	0.3	0.6	19.1	23.9	8.7
Specialized banks	13.8	15.7	11.5	6.4	1.8	49.2	17.9
Subtotal PEPS <sup>c</sup>	(19.9)	(22.1)	(52.8)	(72.1)	(20.2)	(187.1)	(68.1)
All others	3.4	12.4	18.7	10.4	12.9	57.8	21.0
Total	23.7	38.9	72.3	97.7	42.3	274.9	100.0

Source: Calculated from official information provided by the Central Bank of Bolivia.

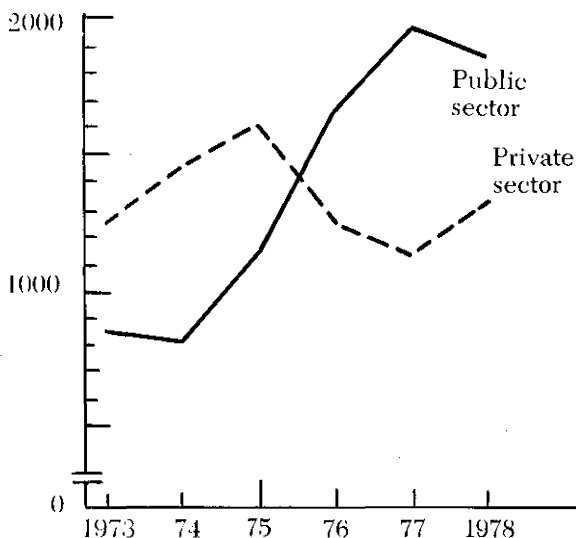
Note: These figures have been adjusted to distribute to the corresponding public enterprises the credits contracted on their part by the central government. Only the largest loans (US\$ 155.0, 37.0, 25.0, 13.5 and 10.0 millions), which add up to US\$ 240.5 millions, were distributed in this manner.

<sup>a</sup>With guarantee of State.

<sup>b</sup>Deflated by wholesale price index of USA.

<sup>c</sup>PEPS: Public enterprises of productive sector.

Figure 4  
BOLIVIA: DOMESTIC INVESTMENT  
IN FIXED ASSETS, BY SECTOR,  
1973-1978  
(Millions of 1970 pesos)



Source: Banco Central de Bolivia, *Cuentas Nacionales, 1970-1977*, La Paz, 1980.

public enterprises soon contributed significantly to the termination of the export boom as well as the decapitalization and consequent economic and financial crisis of those enterprises. In these unfavourable circumstances, the transnational banks soon decided not to continue financing the investment programme of those enterprises or refinance their existing external public debt. In this fashion, the internal contradictions of the State, in circumstances of voluntary dependence, resulted in a generalized crisis: one in which the foreign participants held the decision-making power to determine the extent of local suffering as a consequence of the terms and conditions that these transnational banks demanded as part of the necessary refinancing package.

This, then, is the general situation whereby the internal contradictions of the State produced crisis and the transnational banks acquired an awesome power of decision-making with regard to the intensity and duration of that crisis. Analysis of a particular example of the internal contradictions of the

State and the specific dependency situation of a dominant public enterprise will further illustrate this analysis of the general situation. We will therefore take the very well-known case of the State petroleum company, for the obvious reason that, more than other public enterprises, it would seem highly improbable that a State petroleum company of a petroleum exporting country could be brought close to bankruptcy precisely at the time of the OPEC initiatives.

## 2. The revealing case of the State petroleum company, YPF

One of the serious problems faced by the State petroleum company during the 1970s was the steep decline in crude petroleum reserves in the face of increasing local consumption. A significant portion of overall export earnings came from exports of natural gas to Argentina, but the growth in the value of these exports could not keep pace with the fall in the value of exports of crude petroleum. In spite of the fact that this depletion of natural resources put a constraint on the operations of the public enterprise, however, it was by no means the *principal* cause of the financial crisis which the enterprise experienced in the later 1970s.

The principal causes of that crisis are to be found in the national economic policy which affected in notably negative fashion the operation of the enterprise, whose financial drainage went far beyond the parameters of the export boom in crude petroleum and natural gas (see table 13). In the context of declining exports, payments of taxes and royalties as a proportion of the value of export sales increased from 57 to 70% between 1974 and 1978, while measured as a proportion of net profits they went from 149 to 1 015% over the same period. This accelerated financial drainage of the State petroleum enterprise soon surpassed its ability to pay that level of taxation and royalties, and it fell behind in its payments as of 1975. The reaction of the team of economic policy-makers of the central government was rather novel, if disastrous for YPF, for what happened was that the Central Bank contracted external credits (on very expensive terms), used the receipts to cancel YPF's overdue tax and royalty payments, and charged the debt to

Table 13

**BOLIVIA: FINANCIAL ASPECTS OF THE OPERATION OF THE STATE  
PETROLEUM ENTERPRISE, YPFB, 1971-1978**  
(Millions of 1970 pesos and percentages)

Item	Annual average 1971-1973	1974	1975	1976	1977	1978
1. Gross sales	858	1 633	1 336	1 325	1 206	1 004
Exports	503	1 249	930	936	730	565
Local sales	355	384	406	389	476	439
2. Total expenditure	647	1 155	1 120	1 011	1 082	965
Taxes and royalties	216	711	562	601	495	396
Exploration, etc.	n.d.	118	178	191	137	99
General administration	n.d.	20	29	35	35	36
Others	n.d.	306	351	184	415	434
3. Net profits	203	478	217	315	124	39
4. Total assets	2 490	2 296	2 600	2 961	3 751	3 684
Fixed assets	1 364	1 221	1 327	1 770	2 731	2 731
Inventories	304	346	669	622	498	473
Others	822	729	604	569	522	480
5. Total debt	1 723	1 105	1 263	1 407	1 707	1 879
Long term	1 391	808	787	1 124	1 301	1 224
Short term	332	297	476	283	406	655
6. Number of employees	4 885	4 380	4 252	4 411	4 347	4 590
<i>Memoranda (percentages)</i>						
1. Exports/ gross sales	59	76	70	71	61	56
2. Net profit/ gross sales	24	29	16	24	10	4
3. Taxes and royalties/ exports	43	57	60	64	68	70
4. Net profits/ taxes and royalties	94	67	39	52	25	10
5. Fixed assets/ total assets	54	53	51	60	73	74
6. Short term debt/ total	19	27	38	20	24	34
7. Total debt/ fixed assets and inventory	103	71	63	59	53	59

Source: YPFB, *Memoria anual*, various years.

the State petroleum company. Thus, a public enterprise which already could not meet the burden of the accelerated financial drainage in process was expected to generate additional resources for the payment of interest and amor-

tization on loans in the order of US\$ 17-26 million per annum (see table 14).

In this difficult financial situation, the State petroleum company had very little room for independent action. It was still paying

Table 14  
BOLIVIA: CHARACTERISTICS OF THE EXTERNAL AND INTERNAL DEBT OF YPFB, 1978-1979  
(Millions of current dollars)

Source of financing	Amount contracted	Year	Periods (years)		Interest rate (%)	Use
			Grace	Repayment		
<b>1. External financing</b>						
(a) Transnational banks	(240.5)					
(1) New York State C.R. Fund	14.0	1971	1.5	19.5	7.0	Gasduct Sta. Cruz-Yacuiba
(2) Bank of America <sup>a</sup>	35.0	1975	2.5	6.0	2.1 + Libor	Expansion of Cochabamba refinery
(3) Anthony Gibbs & Sons <sup>a</sup>	16.2	1976	2.0	7.5	7.5	SCZ and CCB refineries, lubricants
(4) Deltec Bank Corporation	3.0	1976	1.0	3.0	1.9 + Libor	Working capital
(5) Bank of America <sup>a</sup>	15.0	1977	3.0	4.5	1.6 + Libor	Pipeline Tita-Sta. Cruz
(6) Citicorp <sup>a</sup>	75.0	1977	3.0	4.5	1.6 + Libor	Refineries
(7) Texas Commerce Bank <sup>a</sup>	15.3	1978	3.0	4.0	1.5 + Libor	Expansion of gasduct Sta. Cruz-Yacuiba
(8) Arlabank <sup>a</sup>	47.0	1979	3.5	4.5	1.4 + Libor	Exploration and development fields
(9) Texas Commerce Bank	5.0	n.d.	5/12	-	1.5 + Libor	Rotating credit for materials
(10) BIB/Swiss Bank Corp.	5.0	n.d.	-	1.0	1.0 + Prime	Expansion of refineries
(11) Citibank	10.0	n.d.	1/2	-	1.5 + Libor	Rotating credit for materials
(b) Others	(180.8)					
(1) IDB-221/SF-BO	3.3	1970	6.0	19.0	6.0	Gasduct Monteagudo-Sucre
(2) Gulf Oil Corp.	78.6	1970	-	9.0	-	Compensation of Gulf Boliviana
(3) IBRD	23.3	1971	3.5	18.5	6.5	Gasduct Sta. Cruz-Yacuiba
(4) IDB-215/OC-50	21.8	1971	3.6	16.5	8.0	Gasduct Sta. Cruz-Yacuiba
(5) IDB-255/OC-BO	46.5	1975	4.0	14.0	8.0	Expansion of Cochabamba refinery
(6) IDB-418/SF-60	1.2	1975	3.0	7.5	6.0	Technical assistance
(7) Worthington Pump	1.4	1979	1.0	5.0	7.0	Pumps and panels
(8) Cie. Générales Géophysique	3.5	n.d.	1/3	7.0	7.5	Seismic surveys
(9) Sismograph Service	1.2	n.d.	1/6	7.0	6.5	Seismic surveys
<b>2. Internal financing</b>						
(a) Central Bank of Bolivia	(79.2)					
(1) BCB	17.0	1975	1.5	3.0	2.0 + Libor	For payment of overdue taxes
(2) BCB	16.0	1975	1.5	6.0	1.9 + Libor	Refineries
(3) BCB	15.0	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(4) BCB	5.9	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(5) BCB	5.0	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(6) BCB (IMF)	18.4	1978	-	4.5	5.9	For payment of overdue taxes
(7) BCB	1.9	1976	1.5	4.0	2.3 + Libor	Purchase of aircraft for President
(b) Others	(15.2)					
(1) Comité Obras Públicas Chuq.	1.3	1970	3.5	11.5	1.0 + Libor	Gasduct Monteagudo-Sucre
(2) US AID Bolivia	12.4	n.d.	5.0	15.0	4.0	Acquisition of materials
(3) Caja Petrolera	1.5	n.d.	1/2	12.0		Recognition of debt

Source: YPFB, *Estado de la deuda*, 1978 and 1979.

<sup>a</sup>Syndicated loan.



the indemnization of Bolivian Gulf Co. which, according to the agreement of 1972, meant that the export earnings from the fields corresponding to the ex-Gulf operations (50-54% of total production during this period) were channelled into a fiduciary fund administered by the First National City Bank.<sup>12</sup> This had the effect of removing from YPF's control a major element of its operations. Another agreement in 1975, this time administered by the Bank of America Trust and Saving Association of San Francisco, removed from YPF's hands virtually the rest of its crude petroleum export earnings, which were held in trust for payment of external loans contracted for the purpose of building and expanding local refineries. Thus, until those projects were operating and generating returns, YPF was extremely short of funds. On top of this, YPF was expected to subsidize local consumption of petroleum and its derivatives. YPF has estimated that the cost of these subsidies reached a value equivalent to 786 million 1970 pesos, or 12% of total sales of the enterprise between 1974 and 1978.<sup>13</sup> The accelerated financial drainage of the public enterprise via tax and royalty payments, the earmarked export earnings and the subsidization of local consumption were all aspects of national economic policy which forced the State petroleum company to undertake a rather pronounced mediatory role in its activities in the petroleum sector.

At the same time, indicative of the internal

contradictions of the State which derived from this public enterprise, it launched a large public investment programme for the construction and expansion of local refineries. This can be interpreted as an expression of the sectoral role of the State played by this public enterprise, a role which was in total contradiction with the mediatory one implanted in the operations of that enterprise. In order to undertake this rather large investment programme, YPF had to contract external credits guaranteed by the Central Bank, mainly with the transnational banks. As is made clear by table 14, as well as introducing further external dependency into the operations of YPF, the terms of the new loans completely changed the structure (and most of all, the cost) of that enterprise's existing debt, most of which had come from multilateral institutions on concessionary terms. Needless to say, in a short period of time this public enterprise was on the verge of bankruptcy and the transnational banks were reluctant to re-finance outstanding loans held in the Central Bank.

One might add that in the midst of the financial chaos which resulted from the internal contradictions of the roles of the State relating to the YPF operations, the infrastructural role of the State, which in this case would presumably relate to the exploration for and development of new petroleum reserves, seems to have been completely overlooked, to the detriment of the process of national development.

## V

### Conclusions: Lessons from the Bolivian experience

Obviously, this unfortunate experience for Bolivia offers some lessons for developing countries hoping to avoid a repetition of the dangers of the Bolivian crisis. Firstly, it is evi-

dent that the transnational banks are profit-making commercial institutions which have considerable power and influence available to achieve their goals. This power and influence considerably affects the results of their negotiations with their clients, especially in the developing countries, as regards: (i) the possibility of obtaining external credit from the transnational banks; and (ii) its cost to the recipient country.

<sup>12</sup>For details of this agreement and that of 1975, see YPF, *Memoria anual, 1978*, p. 49.

<sup>13</sup>See information presented in YPF, *Gestión, 1978*, p. 22.

A country without creditworthiness in the view of the transnational banks will simply not be able to obtain external credits, while a country with low creditworthiness will be able to obtain funds, but at a cost which does not perhaps reflect the real situation of the country. In the second place, it is obvious that a developing country must negotiate the conditions of its external public debt if it wants to avoid falling into new dependency situations which create greater external influence and consequent weakening of national decision-making power. In this sense, a government *must negotiate* with transnational banks in order to contract external financing on terms *appropriate* to its economy. In order to be able to carry out these negotiations, government negotiators must possess an explicit and concrete understanding of the relative dependency situations which affect their country and their bargaining position *vis-à-vis* the transnational banks. These considerations should govern not only the terms and conditions negotiated but the absolute level of external public indebtedness. For these purposes, a national system for co-ordinating negotiations, limiting the use of State guarantees and recording contractual obligations is a fundamental and essential prerequisite. Thirdly, the internal contradictions evident in

the State only serve to weaken its bargaining position compared with that of the foreign participants. The Bolivian experience clearly demonstrates that external financing on commercial terms, even in times of an export boom, cannot serve as a means of either overcoming or avoiding these internal contradictions. The more a given State makes use of this expensive form of external financing, the greater in general will be the external influence it creates. Sooner or later, depending on the extent of these internal contradictions, the negative repercussions of this kind of voluntary dependency will be felt in the economy and in society, especially in the relative bargaining position of the State during its negotiations with foreign participants such as transnational banks.

Fourthly, foreign loans on commercial terms should be contracted *only* for those public enterprises and those specific projects which are capable of meeting these terms. Or, conversely, if the economic policy does not enable the public enterprise to function according to commercial norms, as was the case with the Bolivian State petroleum company, YPF, external financing should be limited to that available on similar terms to those offered by multilateral institutions.



## Transnational banks, external debt and Peru

Results of a  
recent study\*

*Robert Devlin\*\**

The causes of the economic crisis experienced by Peru in recent years are primarily of domestic origin. At the same time, however, the author considers that those of external origin should not be underestimated, including those connected with the role played by the private commercial banks, which is the subject of this article.

In the first section of the article, the author explores the economic situation of Peru since the mid-1960s, the behaviour of the suppliers of external finance, the nature of bank lending, and above all the patterns of behaviour characteristic of the various private banks. He then goes on, in the second section, to make an appraisal of the effects of commercial bank lending on the economic development of Peru, distinguishing between its positive and negative aspects.

In the final section of the article, the author presents his conclusions and recommendations. In his view, consideration of the case of Peru gives grounds for the formulation of some more general proposals, either because other developing countries are displaying the same symptoms or because private banks are guided by relatively uniform criteria in similar situations. Hence, he suggests that while private bank loans may be a useful financial tool, they must be analysed with care because of the obvious limitations which they display with respect to the needs of development, the fundamental reason for these limitations being that commercial banks are not development institutions but profit-making enterprises which usually prefer types of investments and terms frequently incompatible with national economic and social goals.

\*This is a revised version of a paper on the same subject presented at the CEESTEM/ILET seminar on Financial Capital held in Mexico in February 1980.

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## Introduction

The decade of the 1970s witnessed the emergence of private commercial banks as important actors in the external finance of the Third World. Commercial lending to the non-oil-exporting developing countries has displayed astonishing growth from 1970, rising from the equivalent of less than one-fifth of current account finance to more than one-third by the second half of the decade. In the case of Latin America, private banks became the major source of finance, accounting for over 50% of the current account finance of the region's non-oil exporters; in the latter half of the 1960s the banks share of total finance was only 12%.

Notwithstanding the important role of banks in the economic life of developing countries in general, and Latin America in particular, there is an incredible dearth of specific information on the processes of lending by the banks and borrowing by the developing countries. Recent improvements in data collection have mostly involved very aggregate figures that tell little about how banks have lent and what their impact has been on the process of economic development; moreover, data collection and publication is more reflective of the needs of regulatory authorities in the center (who are doing the collecting) than the requirements of the developing countries.

The lack of insight into the process could conceivably be resolved if individual commercial banks made their loan portfolios more transparent. However, banks traditionally operate on the principal of confidentiality, making the detailed study of the experience of individual LDC borrowers the only reasonable alternative for breaching the gap in data and analysis.

In order to gain a better understanding of the role and impact of commercial bank lending in developing countries, CEPAL decided to employ the latter strategy, initiating the project in Peru. The precise focus of the project was on the public sector medium and long-term borrowing for 1965-1976, a period in which the country underwent two complete borrowing cycles. Data collection involved information on the amounts and costs of all loan flows, aggregated according to their various official and private sources, and comprehensive quantitative and qualitative data on a loan-by-loan basis

for all commercial bank transactions that were not related to national defence activities. Using the data on commercial bank loans, profiles were created on individual commercial institutions for the purpose of analysing their behaviour. Data were also reaggregated to provide a more complete view of the nature of bank lending and its impact on the economic development of Peru. The data were further complemented by more qualitative research on the chaotic events of 1977-1979, a period in which the country had lost its creditworthiness and experienced open conflict with its private bankers and the IMF.

The results of the research have recently been published in a book (in Spanish) by CEPAL.<sup>1</sup> The purpose of this article is to summarize some of the major findings of the project. By its nature a summary tends to compress complex issues and detailed analysis into simplified proportions that can sometimes be mis-

leading, so that a reader with more than a casual interest in the matter would be wise to consult the original work, with its accompanying documentation and caveats. However, even here it is worthwhile pointing out that since the project deals specifically with the transnational commercial banks it tends to magnify the role of the banks in Peru's economic difficulties. This focus is further intensified in the present summary article. The author would like to make clear that in his own view many, if not most, of Peru's problems in the 1970s stemmed from poor economic management. What is of interest here, however, is the behaviour of banks in this environment and, as will be seen below, one of the major findings of the study is that the banks' activities tended to seriously exacerbate these deficiencies, thus raising questions about their dominant role in the external finance of Latin America.

## I

### Effects of bank lending on Peru

#### 1. *Background on the borrower*

During the period under study Peru had two governments with different economic philosophies. From 1965 to 1968 there was the civilian Belaúnde Government, which promoted industrialization and moderate social reform while, however, respecting Peru's traditionally liberal economy based on the export of primary commodities and an inflow of foreign investment. Thus, the government sector, while expanding rapidly with respect to its small size in the 1950s, remained basically supportive of the private sector. The introduction of a 'revolutionary' military government headed by General Juan Velasco Alvarado in late 1968 brought economic policies that showed a much more intensive nationalistic and developmental tone. The philosophy underlying the basic

model was described as something that would bridge the gap between capitalism and socialism. The State became the dominant entrepreneur in productive activities; foreign investment that was not compatible with national autonomy was dismissed from the country; and comprehensive socio-economic reforms were undertaken to enhance the well-being of the population.

Despite the different orientations in economic policy, the factors behind the relatively high demand for foreign resources displayed by both governments were similar. At the risk of oversimplifying some of the basic elements underlying requirements for finance can be defined as follows:

(a) In both cases the public sector was expanding rapidly with respect to previous rates of growth. This was particularly true for the military government, which took control of wide segments of productive economic activity. However, the domestic tax base severely lagged behind the expansion of activity,

<sup>1</sup>See R. Devlin, *Los bancos transnacionales y el financiamiento externo de América Latina: la experiencia del Perú: 1965-1976*, Santiago, Chile, CEPAL, 1980.

creating large fiscal deficits that for numerous reasons exceeded the capacity of domestic capital markets to finance them.<sup>2</sup>

(b) There was a long-term supply constraint on exports, coupled with ever-growing pressures to import.<sup>3</sup> The export constraint reflected a combination of laxity, bad luck and long gestation periods and/or delays (sometimes due to TNCs' global procurement strategies) on investments in the export sector. The demand for imports stemmed from rapid growth of investment (especially public), expanding consumption, overvalued exchange rates, dismal levels of domestic food production, and speculation by the private sector.

(c) The public sector was relatively inexperienced *vis-à-vis* the ever-growing responsibilities placed on it. This meant that foreign contractors, imports and finance easily penetrated national investment schemes and there was little effective discipline and/or control with regard to the contracting of debts, thus creating debt service problems which generated their own demand for foreign exchange.

It should be added that the post-1968 government was affected by several unique factors that inflated its demand for resources. One was the comprehensive subsidies paid on basic consumer items, many of which were imported. Another was the virtual disappearance for ecological reasons of the anchovy, a major export item. And perhaps most importantly, there was anticipated (and ultimately exaggerated) reliance on receipts from exports of newly found petroleum in the Peruvian jungle. One suspects that the authorities either consciously or unconsciously mortgaged future petroleum receipts for present-day consumption and investment. Unfortunately, however, actual production fell far short of expectations.

Many of the above factors of demand for foreign finance stemmed from structural weaknesses in the economy that went unrepaired for

prolonged periods. For each government these problems culminated in economic crisis. The Belaúnde Government had its crisis in 1967-1968 and this culminated in the military takeover of the latter year. The Velasco régime entered into crisis in mid-1975, bringing with it new leadership in the form of General Francisco Morales Bermúdez. The military government's crisis was especially severe and prolonged, and signs of improvement did not appear until 1979.

## *2. Behaviour of the suppliers of foreign finance*

Despite the similarities in the factors of demand for foreign resources, the response from the supply side was substantially different for each government, the only common factor being the blockades contrived by one or more official sources of finance.

In the mid-1960s the Belaúnde Government faced varying credit freezes from United States AID, then a major source of concessionary finance for Latin America, because of an investment dispute with a United States-based transnational enterprise, the International Petroleum Corporation, a subsidiary of Standard Oil of New Jersey (now Exxon). This fact, coupled with the taxing analytical and political requirements of multilateral finance, caused the Government to become highly dependent on private suppliers' credits, which were readily available from firms eager to sell their wares. As a result the Government's external debt was already 'commercialized' as early as 1965 (see table 1 and figure 1). As for commercial banks, they played a secondary role in finance, but were important at the margin because of the emergency budgetary loans that they provided to the Government during the 1967-1968 period. The commercial banks may also have been indirectly present in Peru's external finance to the extent that they discounted and assumed promissory notes held by foreign suppliers.

The military régime which was installed in late 1968 encountered a financial blockade on account of its programme of nationalizing foreign firms with compensation that was less

<sup>2</sup>Between 1969 and 1975 central government expenditures (excluding amortization) as a percentage of GDP rose from 17% to 21%, but income remained constant over the same period at roughly 16% of the product. The deficit as a percentage of the product thus rose from 2% to nearly 8%.

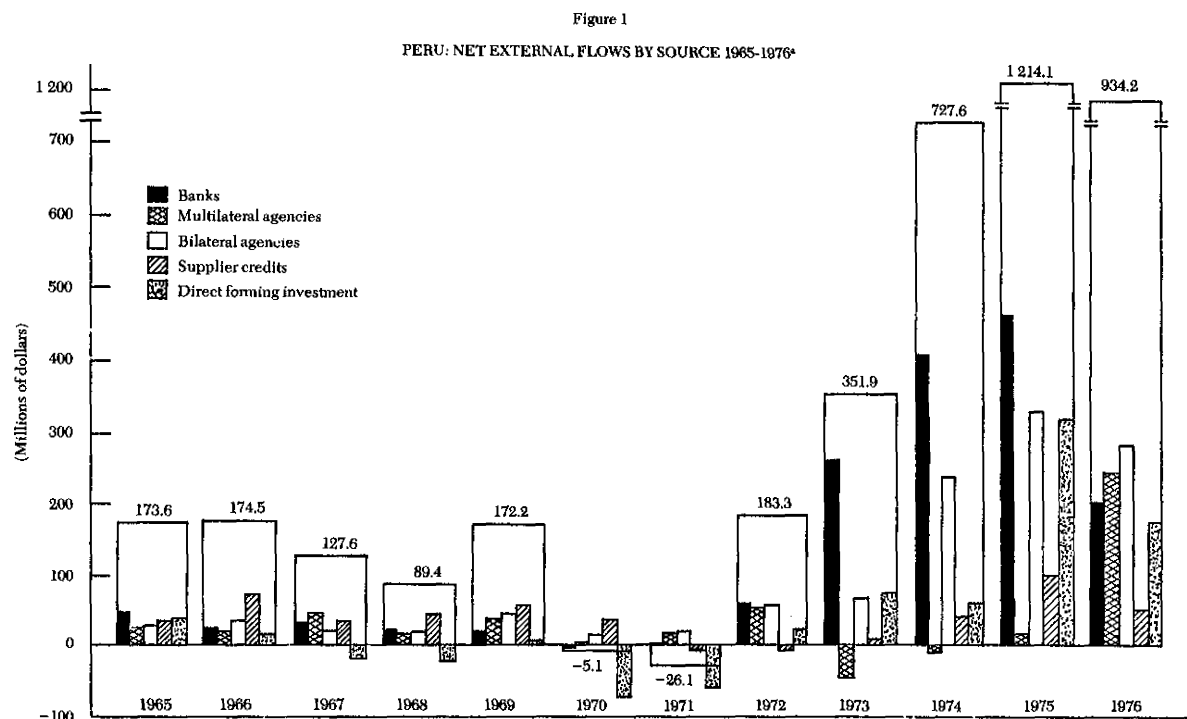
<sup>3</sup>Over the period 1965-1975 exports as a percentage of the product fell from 18% to 12%, while imports rose from 20% of the product to over 22%.

Table 1  
**PERU AND LATIN AMERICA: DISTRIBUTION OF EXTERNAL PUBLIC  
 DEBT ACCORDING TO SOURCES OF FINANCE,  
 1965-1966 AND 1975-1976<sup>a</sup>**  
 (Per cent)

	Private				Official		Total
	Bonds	Suppliers	Banks	Others	Multilateral	Bilateral	
<b>1965-1966</b>							
Peru	5	40	8	3	23	21	100
Latin America	8	20	9	3	23	37	100
<b>1975-1976</b>							
Peru	-	11	45	3	11	30	100
Latin America	4	9	39	5	21	22	100

Source: Inter-American Development Bank, *External Public Debt of the Latin American Countries*, Washington, D.C., 1978.

<sup>a</sup>Disbursed and undisbursed debt with maturity of more than one year.



Source: CEPAL, on the basis of official data.

<sup>a</sup>With the exception of direct foreign investment, all flows relate to the public sector and include national defence transactions.

than adequate in the view of the companies and their home governments. United States firms (and the United States Government) were most actively involved in the disputes, reflecting this country's very high profile in the Peruvian economy. Important sources of bilateral finance were cut off and the United States Government used its leverage to slow down credit flows from multilateral agencies. Peru's commercial bankers were also very reserved, lending only for purposes of refinance, and then only for fear of non-payment. Given the difficult economic environment in 1968-1969 it is hard to determine conclusively whether the bankers' attitude was due to objective economic circumstances or participation in the blockade. But there is evidence to suggest that at least some banks held back finance as a retaliatory measure for the nationalization of foreign enterprises and the takeover of the local operations of certain transnational banks.

In 1972 Peru once again began to have access to foreign credit. The renewed access stemmed from several factors. First, Peru's deep determination to overcome the blockade enabled it to successfully reactivate the economy and initiate reforms even in the face of a hostile external environment, thereby making the punitive measures increasingly counterproductive. Second, oil had recently been discovered in the Amazon region, making Peru potentially an important strategic element in the oil procurement strategy of the United States. Third, Peru had begun to diversify its external economic relations to incorporate partners (Japan, Europe and the Soviet Union) with a neutral or favourable view of its economic policies. Fourth, and most importantly, the structural changes in world banking which took place in the late fifties and the sixties eventually induced commercial lending institutions in the early seventies to abandon their traditionally conservative attitude on finance for developing countries in favour of an aggressive strategy involving rapid expansion of lending to these borrowers. Peru eventually got caught up in the process, which intensified with the advent of OPEC surpluses, and commercial banks became increasingly eager to extend no-questions-asked finance to the Government (see again figure 1). Thus, the seemingly un-

limited desire on the part of the banks to expand their assets in LDCs, coupled with the Government's inflated demand for foreign finance, created conditions whereby Peru accumulated enough commercial bank debt to rank it among the top non-oil-exporting developing country clients of the banks.

The banks remained eager lenders to Peru until late 1975, when a new cautious attitude was adopted. On the one hand, banks in general had become more reserved lenders due to a series of major bank failures (connected with bad management of foreign exchange) in mid-1974 and criticism from home governments to the effect that banks had over-lent to LDCs. On the other hand, the structural weaknesses underlying Peru's demand for external finance had been intensifying, as had the burden of its debt.<sup>4</sup> Moreover, anticipated receipts from petroleum had not lived up to original expectations. By 1976, then, bankers were only very reluctantly financing Peru's balance of payments under onerous terms and conditions, and indeed, as will be explained shortly, relations with the bankers subsequently became even more tense and ultimately creditors forced the Government to have recourse to the IMF. The ensuing harsh stabilization programmes generated heavy social costs for a country already characterized by severe poverty.

### 3. *The nature of bank lending: 1965-1970*

In the period 1965-1970 a handful of large, internationally experienced United States banks virtually controlled the Government's access to foreign commercial bank credit. Peru's most important bank at this time probably was Manufacturers Hanover Trust, both because of the volume of credit it extended and the fact that it arranged several relatively large, multi-institutional loans for the Belaúnde administration. The other major lenders were Bankers Trust, Bank of America, Chase Manhattan, Citibank and Continental Illinois. Altogether, there were only 27 lending banks in this period (see tables 2, 3 and 4).

<sup>4</sup>The cost of servicing the medium and long-term public debt had risen from 16% of the value of exports in 1969 to roughly 30% by 1975.



Table 2

PERU: MAJOR COMMERCIAL BANK LENDERS GROUPED ACCORDING TO THE AMOUNT  
AUTHORIZED, 1965-1970 AND 1971-1976<sup>a</sup>

1965-1970			1971-1976		
Lending banks and amounts authorized in millions of dollars <sup>b</sup>	Country headquarters of bank	International ranking of bank <sup>c</sup>	Lending banks and amounts authorized in millions of dollars <sup>b</sup>	Country headquarters of bank	International ranking of bank <sup>c</sup>
<i>Major lenders</i>					
1. $\geq 45$ and $< 55$			1. $\geq 123$ and $< 150$		
Bankers Trust	United States	11	Citicorp	United States	2
Citicorp	United States	2			
Manufacturers Hanover	United States	5			
2. $\geq 35$ and $< 45$			2. $\geq 95$ and $< 123$		
Chase Manhattan	United States	3	Manufacturers Hanover <sup>d</sup>	United States	16
Continental Illinois	United States	22	Wells Fargo	United States	69
3. $\geq 25$ and $< 35$			3. $\geq 68$ and $< 95$		
Bank of America	United States	1	Bank of America	United States	1
			Chase Manhattan	United States	4
<i>Intermediate lenders</i>					
4. $\geq 15$ and $< 25$			4. $\geq 41$ and $< 68$		
Bank of Nova Scotia	Canada	47	Bank of Nova Scotia	Canada	53
			Bankers Trust	United States	32
			Continental Illinois	United States	30
			Morgan Guaranty	United States	19
			Crocker National Bank	United States	79
			Dresner Bank	Germany	14
			Banco do Brasil <sup>e</sup>	Brazil	12
			Royal Bank of Canada	Canada	22
5. $\geq 6$ and $< 15$			5. $\geq 16$ and $< 41$		
Charter New York corporation	United States	39	Banca Commerciale Italiana	Italy	24
Crocker National Bank	United States	48	Bank of Tokyo	Japan	28
First National Bank Boston	United States	59	Lloyds Bank	United Kingdom	31
Franklin National Bank	United States	78	Franklin National Bank	United States	...
National Detroit Corporation	United States	57	Union Bank of Switzerland	Switzerland	41
			National and Commercial Banking <sup>f</sup>	United Kingdom	102
			Bancal Tristate Corporation	United States	199
			Banca Nazionale de Lavoro	Italy	20
			Long Term Credit Bank of Japan	Japan	44
			Credit Lyonnais <sup>f</sup>	France	7
			Banque Française du Comm. Exterieur <sup>f</sup>	France	174

1965-1970			1971-1976		
Lending banks and amounts authorized in millions of dollars <sup>b</sup>	Country headquarters of bank	International ranking of bank <sup>c</sup>	Lending banks and amounts authorized in millions of dollars <sup>b</sup>	Country headquarters of bank	International ranking of bank <sup>c</sup>
			Canadian Imperial Bank of Commerce	Canada	29
			Fuji Bank	Japan	13
			Amro Bank <sup>f</sup>	Holland	48
			First Pennsylvania Corp.	United States	106
			Deutsche Bank	Germany	6
			Bank of Montreal	Canada	45
			Chemical Bank	United States	23
			First Chicago Corp.	United States	35
			Security Pacific Corp.	United States	54
			Commerzbank A.G.	Germany	26
			American Express Int.	United States	223
			Toronto Dominican Bank	Canada	66
		<i>Minor lenders</i>			
6. <6			6. < 16		
There are 15 banks in this group			There are 131 banks in this group		

Source: CEPAL, on the basis of official data.

<sup>a</sup>For credits with and without an export credit guarantee.

<sup>b</sup>The range of authorizations in each group are different for the two periods due to the much greater value of loans in 1971-1976. However, the scaling of the values for each group has been done in such a way that 1971-1976 is roughly proportional to 1965-1970.

<sup>c</sup>Ranked on a scale from 1-300 in world banking. Size is based on assets; 1965-1970 uses asset size for 1969 as published in *The Banker*, June 1970, p. 596; 1971-1976 uses size for 1975 as published in *The Banker*, June 1976, p. 645.

<sup>d</sup>If credits with export credit guarantees are excluded, would fall into group 3.

<sup>e</sup>If credits with export credit guarantees are excluded, would fall into group 5.

<sup>f</sup>If credits with export credit guarantees are excluded, would fall into group 6.

Table 3

PERU: DISTRIBUTION OF TOTAL AUTHORIZATIONS AMONG MAJOR, INTERMEDIATE AND MINOR LENDERS, 1965-1970 AND 1971-1976<sup>a</sup>  
(Per cent)

	Major lenders	Intermediate lenders	Minor lenders	Total
1965-1970	71.7	17.4	10.9	100
1971-1976	23.0	46.8	30.2	100

Source: CEPAL, on the basis of official data.

<sup>a</sup>Lending groups correspond to those of table 2.

Table 4

PERU: COMMERCIAL BANK AUTHORIZATIONS ACCORDING TO COUNTRY OF ORIGIN,  
1965-1970 AND 1971-1976<sup>a</sup>

Country of banks	Percentage of total loans authorized	Number of institutions <sup>b</sup>	Average size <sup>c</sup>	Number of credit transactions
<i>1965-1970</i>				
United States	86.1	14	5	49
Japan	0.1	1	26	1
Canada	7.8	3	42	5
United Kingdom	1.5	2	74	5
Germany	1.1	1	14	1
France	-	-	-	-
Italy	1.0	1	25	3
Switzerland	-	-	-	-
Other	-	-	-	-
Consortium	1.0	2	301 <sup>c</sup>	2
Unknown <sup>d</sup>	1.2	3	...	5
<i>Total</i>	<i>100.0</i>	<i>27</i>	<i>5</i>	<i>71</i>
<i>1971-1976</i>				
United States	45.3	42	17	196
Japan	11.6	26	41	160
Canada	10.2	6	46	61
United Kingdom	6.5	11	54	41
Germany	6.4	11	18	27
France	4.3	8	43	39
Italy	2.1	8	30	24
Switzerland	2.5	7	54	15
Other	7.5	24	53	58
Consortium	3.5	23	301 <sup>c</sup>	43
Unknown <sup>d</sup>	0.2	1	...	3
<i>Total</i>	<i>100.0</i>	<i>167</i>	<i>27</i>	<i>672</i>

Source: CEPAL, on the basis of official data.

<sup>a</sup>Includes all credits, i.e., with and without guarantees of an export credit agency.

<sup>b</sup>Subsidiaries have been consolidated into parent.

<sup>c</sup>Ranked according to asset size on the basis of *The Banker's* top 300 in world banking. The period 1965-1970 uses asset data for 1969 and 1971-1976 uses asset data for 1975. The country average was calculated by weighting the asset size of each bank in dollars by the amount authorized in each period. The resulting average asset size was then assigned a rank according to where it came in the top 300 of *The Banker*. A rank of 301 is used to indicate an average asset size too small to be ranked in the top 300. Banks whose origins are unknown, of course, received no ranking and do not figure in the overall averages. Since the number of unknown, bore only insignificant weight, the absence of these banks in the ranking exercise had little effect on results.

<sup>d</sup>Banks whose national origin could not be identified.

Ninety-five per cent of the value of the loans authorized in 1965-1970 came from the headquarters of the banks, both because the absolute volume of lending was small enough not to require special funding from abroad, and because loans to LDCs were uncommon enough to merit the attention of the very top executives of the banks. Reflecting the source

of the loans, slightly more than 80% of the authorizations had interest costs that were based on a floating domestic prime rate and carried an average spread of 1.72%<sup>5</sup> (often the variability of the floating rate was alleviated by

<sup>5</sup>The prime rate for all practical purposes was the United States prime rate quoted in New York.

floor and ceiling base rates). Maturities rarely exceeded 5 years, which was normal for international credit at this time. Flat front-end fees on loans also were rare.

Most commercial bank loans (80%) extended in the period were formally designated for purposes of refinance (see table 5). The banks refinanced commercial goods suppliers who were reluctant or unable to lengthen their loan commitments and also official agencies which, for political reasons, were withholding credit to the Government. In view of Peru's inability to service its debt, the banks also constantly refinanced their own credit, especially in the crisis of 1967-1968 and then again under fear of default by the military government in 1969-1970. It must be pointed out, however, that while banks refinanced loans in the difficult economic environment of 1967-1970, their credits were characterized by very short overall maturities (5 years), brief grace periods (sometimes less than a year), and rather high interest margins (1.75% or more).

Table 5

PERU: BREAKDOWN OF COMMERCIAL BANK CREDITS BY TYPE, 1965-1970 AND 1971-1976<sup>a</sup>  
(Per cent)

Type of loan	1965-1970	1971-1976
Import of capital goods	-	2.0
Import of other goods	-	2.0
Refinance	79.9	48.6
Free disposition	15.3	27.8
Projects	4.8	14.7
Nationalizations	-	6.1
Other	-	0.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>

Source: CEPAL, on the basis of official data.

<sup>a</sup>Only for credits without guarantees of export credit agencies.

Lastly, bank lending in the period was almost always very conditional. Commercial security arrangements such as escrow accounts were very common in transactions with quasi-autonomous government agencies, and furthermore, with the appearance of economic stress after 1966, refinance credits carried political-economic conditionality. When the Gov-

ernment was under IMF scrutiny in 1967-1969, credits were tied to IMF standby accords and carried debt restrictions very similar to those applied by the IMF itself. When the Government managed to avoid the IMF, as was the case in late 1969 and in 1970, banks reluctantly agreed to refinance their loans, but they also applied unusual forms of conditionality designed by them. The conditionality basically involved precise debt service restrictions which gave the Government little room for contracting new debt in the first half of the seventies. This in turn placed severe constraints on the possibility of financing an ambitious development programme.

#### 4. The lending nature of commercial bank lending: 1971-1976

In 1971 commercial banks were still restrictive lenders to Peru. However, in the following year a process began which brought a massive change in relations with the world banking community. Not only was there a phenomenal rise in the volume of lending (see again figure 1), but also a tremendous diversification of sources. The total number of private commercial creditors rose from just 27 in the sixties to 167 in the seventies.<sup>6</sup> Major lenders at the institutional level were still Citibank, Wells Fargo, Manufacturers Hanover, Bank of America and Chase Manhattan, all of which (with the exception of Wells Fargo) came from the same club of major international lenders of the sixties (see table 2). However, unlike the previous period, when a few major lenders accounted for almost all the lending in absolute terms, in 1971-1976 they accounted for a minority of credit flows. A large mass of newcomers to international lending (of which Wells Fargo was one), although mostly only of intermediate or minor importance as individual lenders, as a whole accounted for the vast majority of credit extended to the Government (see again table 3).

Not only were there many new institutions lending to Peru, but there was much greater dispersion in terms of the geographic origin and size of the institutions. As just mentioned,

<sup>6</sup>It should be mentioned that subsidiaries have been consolidated into the parent.

in the sixties an overwhelming part of all commercial credit came from just six large, internationally experienced United States banks. While United States institutions were still the dominant source of finance in the seventies, however, lending was shared among 42 individual lenders. Moreover, important lending came from Japan and Europe as well. Most of the newcomers in the seventies were of varying degrees of size and often had little international lending experience (see again table 4).

The very significant dispersion in the sources of finance could suggest a greater degree of independence for the borrower, and indeed there is no doubt that there was more plurality than in the sixties. However, in the seventies nearly 80% of all credit was extended in the form of syndicated loans, which were organized and administered by a lead bank, and just 5 lead banks—Citibank, Wells Fargo, Manufacturers Hanover, Bank of Tokyo and Dresdner Bank—accounted for roughly three-quarters of the credit mobilized in syndication during this period.<sup>7</sup> Thus, with the new mechanism for international lending—the syndicated loan—came a new form of power. While many new banks lent to Peru, a handful of institutions again had a considerable degree of control over the access to foreign credit. Moreover, the situation for Peru was merely a more severe form of a similar concentration at the level of international syndication.<sup>8</sup>

Given the very large volume of credit extended to Peru, most commercial banks had to seek offshore finance (this was particularly true for United States banks, which faced home country capital controls). Thus, while headquarters still remained the main source of loans (47% of all credit), London, the Bahamas, Luxembourg and other offshore centres became important points of funding and booking of loans. Another reason for sourcing loans abroad, especially in the case of tax heavens

like the Bahamas, was to enhance income from foreign transactions.

As regards the currencies in which loans were denominated, in the seventies (as in the sixties) United States dollars were by far the most common currency for loans, accounting for 89% and 98%, respectively, of all transactions. However, in the more recent period there was some use of other currencies such as the yen and D-mark.

The costs and conditions of credit reflected the importance of offshore funding; 94% of the value of all loans were based on the floating London Interbank Offer Rate (LIBOR). Accelerating world inflation caused the disappearance of the floor and/or ceiling base interest rate arrangements that had accompanied many floating rate loans of the sixties.

When Peru first gained access to considerable amounts of commercial bank loans in 1972, the terms of credit were very severe. Margins over the LIBOR were well in excess of 2% and maturities did not extend beyond 5 years (see figure 2). In contrast, established developing country borrowers like Brazil and Mexico were taking full advantage of the bankers' eagerness to lend and were negotiating margins of something near 1.5% over LIBOR and maturities of up to 10 years. Peru's more costly terms reflected bankers' continued uncertainty about the policies of the reform government, the state of the economy and, perhaps to a lesser extent, the authorities' inexperience in negotiating with commercial bankers.

However, as international lending terms became increasingly favourable for LDCs in general (a borrowers' market), and as the banks became ever more interested in Peru, the terms of credit underwent a massive transformation. By 1974 Peru was able to negotiate margins only slightly above 1%, and maturities reached up to 10 years. These conditions were only slightly less favourable than those offered to prime developing country borrowers like Brazil and Mexico.

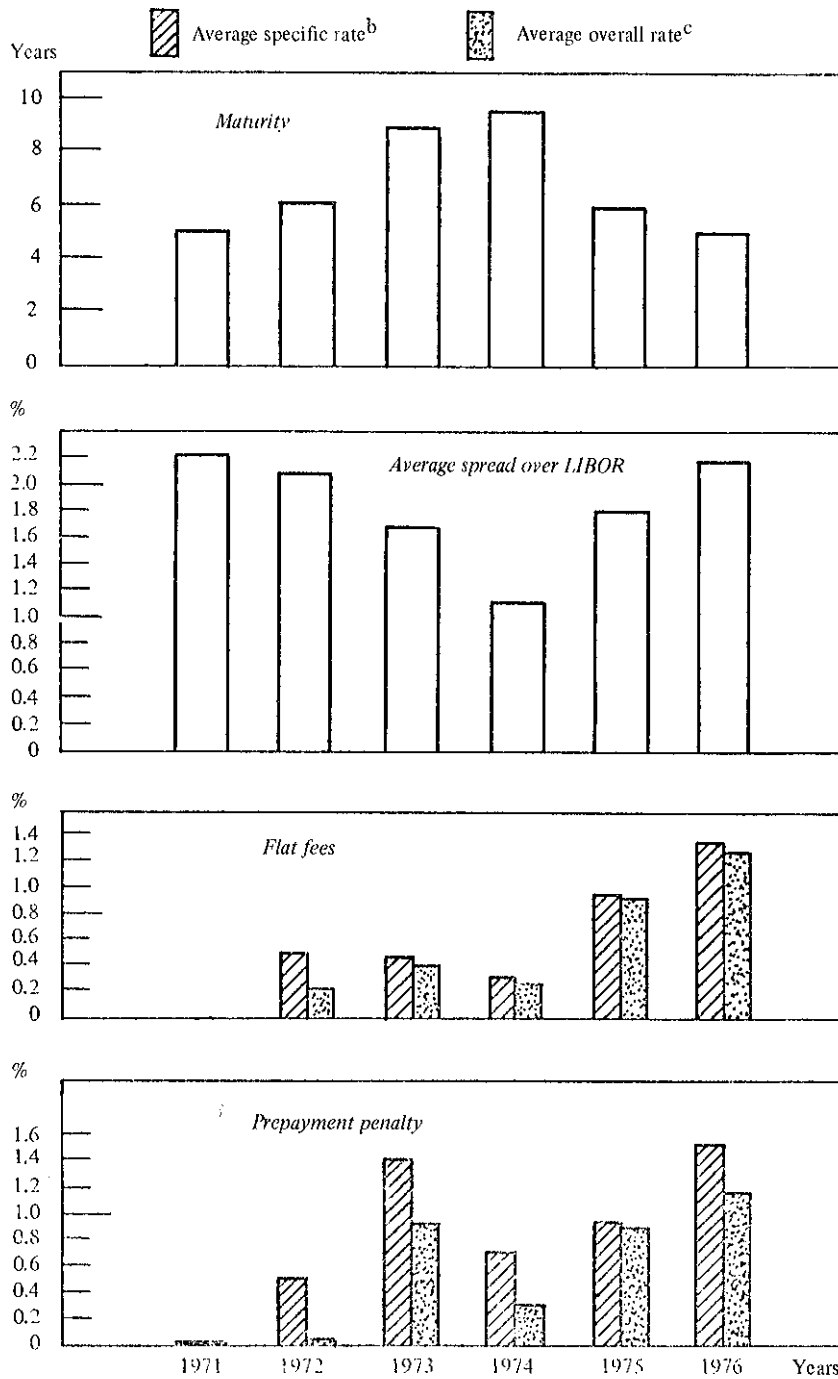
In 1975, reflecting a turn to generally tight international borrowing conditions (a lenders' market), the terms of credit hardened for Peru about as much as they did for most LDC borrowers. In 1976, however, when bankers were openly concerned about the Peruvian economic

<sup>7</sup>Where there was more than one lead bank for a syndicate, the principal lead bank was taken to be the institution which also assumed the role of agent. The principal lead bank usually takes the role of agent because of the increased income it can gain through commissions.

<sup>8</sup>Only about 50 banks worldwide act as leaders in syndication, and within this group the top ten have at times mobilized more than 50% of the credit.

Figure 2

PERU: AVERAGE MATURITIES, SPREADS, FLAT FEES AND PREPAYMENT PENALTIES ON COMMERCIAL BANK LOANS, 1971-1976<sup>a</sup>



Source: CEPAL, on the basis of official data

<sup>a</sup>Excludes credits with guaranties of export credit agencies.

<sup>b</sup>Average for loans bearing such a fee or penalty.

<sup>c</sup>Average then applied to all commercial bank loans for the period in question.

situation, the country's average terms underwent serious deterioration *vis-à-vis* other borrowers, and by the end of the year borrowing conditions had come full circle and recalled the costly levels of 1971/1972 (see again figure 2).

As far as fees and penalties are concerned, in the 1970s, they became a very common part of commercial bank loans. Nearly nine-tenths of the value of lending in the period carried flat front-end fees of one kind or another, at an average cost of 0.77% of the face value of the loans. Also, nearly two-thirds of the loans carried prepayment penalties, at an average cost of over 1.18% (flat) on the amount to be prepaid (see figure 2).

The generalized application of fees in the 1970s could be attributed to the emergence of syndicated loans as the major mechanism for the extension of credit. Banks were attracted to syndication because each individual institution could commit a relatively small amount of funds and thereby minimize risk. Moreover, fees were often a major inducement for lead banks to initiate syndication of a loan and were also an important inducement to participants. Reflecting the need to attract banks at the margin, syndicated credits generally had higher interest rates and fees than single bank loans and they carried much higher prepayment penalties (see figure 3). Notwithstanding these features, syndicated credits appear to have been more favourable to the borrower than single bank loans because of both longer maturities and the much greater amount of resources that could be raised on any one transaction.

*Types of loans.* In 1971-1976 refinance operations continued to be the most important form of credit transaction carried out by the commercial banks, accounting for some 49% of the value of all authorizations. Banks refinanced not only their own debt, but also that of other private and official sources. This reflects a government policy of almost continued refinance of its external obligations. In 1971-1972 refinance was motivated by the burden of debt service payments. But in 1973-1974 the Government refinanced its debt basically to take advantage of the more favourable lending terms offered by the banks in this period. In 1975-1976 refinance again was motivated by

debt service problems, and in the latter year Peru arranged a historic US\$ 400 million refinance loan with its major private creditors. The operation was notable not only because of the size of the transaction, but also because the banks agreed to help Peru avoid an IMF stabilization programme.

While refinance credits were the main type of credit, the new style of world banking in the early 1970s was reflected in a significant diversification of lending activities (see table 5). Nearly 28% of the credit was of free disposition, i.e., the banks provided the funds with no strings attached whatsoever. There was also a significant amount of project lending. An interesting point too, is that the banks provided considerable amounts of credit to help the Government compensate foreign firms that were nationalized in the reform programme.

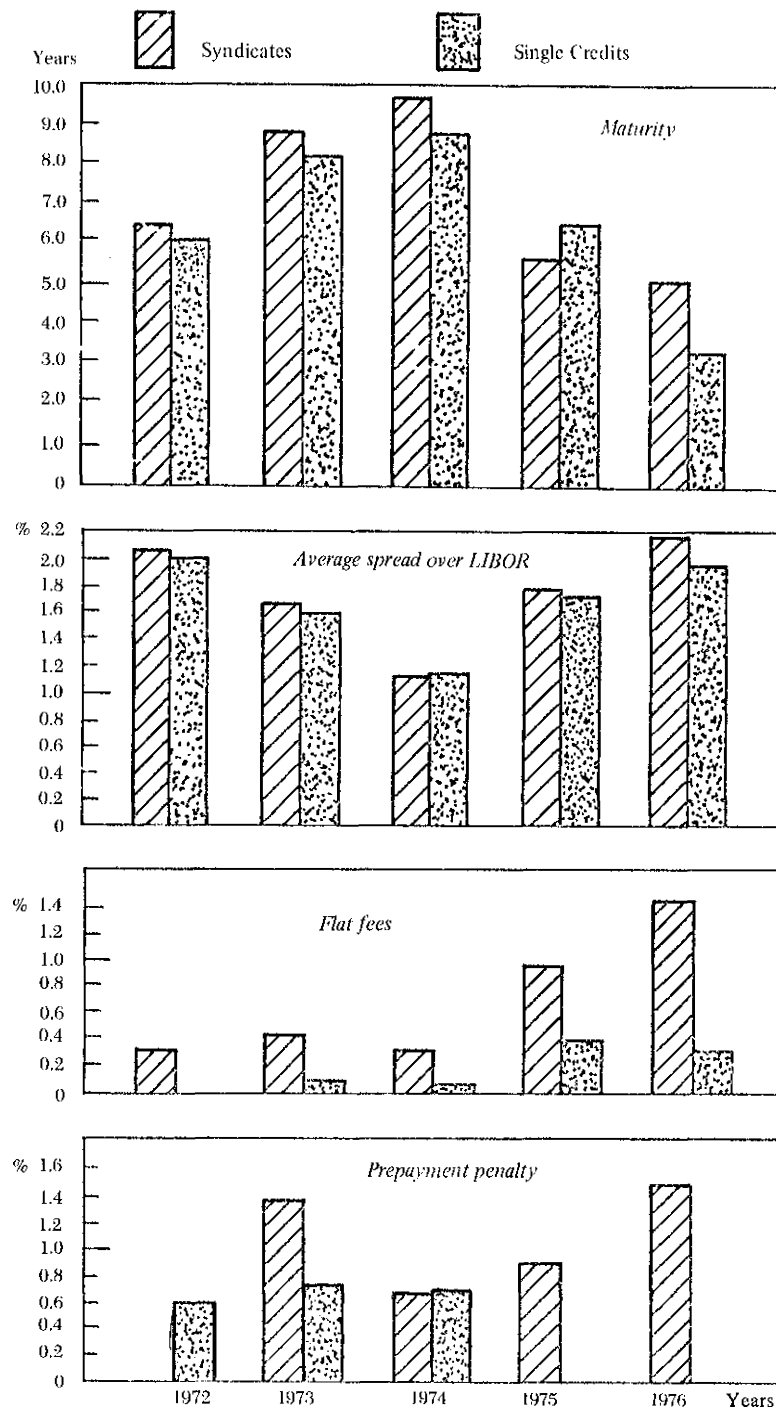
Most of the loans of free disposition were extended in 1973. This reflects the fact that the banks were very eager to lend to Peru at a time when major projects were still in a planning stage, while Peru was also eager to establish itself as a major client. The objectives of the two parties were best achieved through the extension of credit that was not tied to any specific activities.

Unlike the 1960s, the banks' project lending was of some significance in 1971-1976. The economic areas where bank project loans were most heavily concentrated were petroleum-related activities and manufacturing, in that order. It is estimated that over a quarter of the resources were granted for local costs. In most individual projects bank loans complemented other sources of finance like suppliers' credits and bilateral loans; in other words, they were one layer in a multilayered financial package. Significantly, however, commercial banks were very important in the successful financing of some projects of high national priority like the trans-Andean oil pipeline and the Cerro Verde I copper mine.

The nationalization credits, representing some 6% of all credit authorized, were extended as a form of solidarity between banks and home country investors. They were valuable to the Government inasmuch as the loans permitted the authorities to settle prolonged disputes with foreign investors and their home

Figure 3

PERU: COMPARISON BETWEEN AVERAGE TERMS ON SYNDICATED CREDITS AND LOANS ADVANCED BY A SINGLE BANK, 1972-1976<sup>a</sup>



Source: CEPAL, on the basis of official data.

<sup>a</sup>All credits.



governments. United States and Swiss banks and investors were the key actors in this type of credit. One historic credit arranged by Morgan Guaranty in 1974 was part of a package agreement with the United States Government to end an investment dispute (and sanctions) that arose in late 1968 over the nationalization of United States-based enterprises.

As for the terms of the credit, the different types of loans carried costs which were broadly similar to each other. The clear exception to this was nationalization credit, which carried notably more favourable terms as regards interest rates, maturities, fees and prepayment penalties (see table 6). The more favourable conditions reflect the special nature of the credit as a form of bank investor solidarity.

Banks in the period 1972-1975—in contrast to the 1960s—were virtually unconditional lenders to the Government. The earlier, heavily conditioned loans of the sixties were prepaid by new (and cheaper) unconditioned credits. Banks showed little interest in securing loans with anything more than a general government guarantee, and it seemed that what was financed, how it was financed, and the ultimate purpose of the finance mattered little to them.

The permissive environment of 1972-1975 changed radically in 1976. As noted before, banks were generally more cautious lenders because of factors external to Peru. However, the country's economic difficulties generated special concern among its private creditors, and loans once again were very closely scrutinized. When Peru requested a large refinance credit from the banks in 1976 the immediate reaction was to condition any new credit on an IMF standby agreement, as had been done with developing countries in the 1960s. But the Government insisted that it could not submit to the traditionally harsh IMF policies, and after intense negotiations, and with strong reluctance on the part of some banks, commercial creditors agreed to extend refinance loans to the government. For this purpose the banks joined together into regional groups—United States, Canadian, Japanese, European, etc.—in order to organize large syndicated credits worth nearly US\$ 400 million, all carrying practically identical terms and conditions

(2.25% over LIBOR; 5-year maturities with 2-year grace period and flat fees of 1.5%).

In the negotiations on refinancing of the debt, banks displayed an open willingness to protect the interests of TNCs. At least implicitly the loans were conditioned by the requirement that the Government settle investment disputes with two foreign firms. This conditionality was a radical departure from the behaviour of the early seventies, when banks lent to the Government even in the face of prolonged disputes with many firms. On at least one other occasion after 1976 the banks attempted to make finance conditional on the treatment given to a TNC (see below).

When the banks agreed to refinance the Government's commercial debt in the absence of the IMF, they did so fully aware of the fact that their credit completely dwarfed all other sources, including the IMF. Banks clearly had the leverage to influence government policy, and this fact was exploited, as is manifest in their agreement to monitor a government-designed stabilization programme that was introduced by the authorities as an inducement to have the banks refinance the debt without the IMF. The banks split the loan into two tranches, with disbursement of the second one contingent upon the success of the stabilization programme.

The agreement of the banks to extend credit without the IMF was not new: as we have already seen, in 1969-1971 commercial banks had provided heavily conditioned finance on their own. What was new was that bankers took it upon themselves to monitor the whole economy, not just a few parameters like external debt.

While some large banks technically had the ability to monitor the economy, and as a group banks enjoyed considerable leverage over government policy, the foray into IMF territory failed. Outside criticism of their venture was strong, and arose from concern about having private profit-making institutions monitoring the affairs of a sovereign government. The possibilities for conflicts of interest obviously loomed large. Also, the Peruvians were unable to muster the political cohesion to make the hard economic decisions that bankers

Table 6

PERU: TERMS ON CREDITS GROUPED ACCORDING TO TYPE, 1965-1970 AND 1971-1976<sup>a b</sup>

Category of loans	Interest rate			Total maturity (years)	Flat fees and prepayment penalties	
	Percentage of credit in each category with:				Percentage of credit in each category with:	
	(i) Fixed rate	(ii) LIBOR spread	(iii) Prime spread		Flat fee	Prepayment penalty
	Actual rates				Actual rates	
<i>1965-1970</i>						
1. Import of capital goods	-	-	-	-	-	-
2. Import of other goods	-	-	-	-	-	-
3. Refinance	13.0	4.2	82.9	5.07	1.0	14.9
4. Free disposition	7.96	1.74	1.72	4.78	1.00	0.32
	5.5	-	94.5		100.0	100.0
5. Projects	8.75	-	1.69	5.64	-	0.44
	100.0	-	-		100.0	100.0
6. Nationalizations	7.45	-	-	-	-	-
	-	-	-		-	-
7. Other	-	-	-	-	-	-
<i>1971-1976</i>						
1. Import of capital goods	9.0	53.1	37.9	6.34	35.3	21.9
2. Import of other goods	10.43	1.61	1.15	2.00	0.65	1.28
	100.0	-	-		-	-
3. Refinance	9.00	-	-	6.98	-	-
	-	96.1	1.6 <sup>c</sup>		83.0	69.6
4. Free disposition	-	1.81	1.55	7.15	1.00	1.23
	3.9	95.2	1.0		93.3	70.1
5. Projects	8.12	1.79	0.75	6.87	0.61	1.39
	-	93.1	6.9		92.0	61.6
6. Nationalizations	-	1.71	1.78	8.38	0.67	0.52
	-	100.0	-		100.0	100.0
7. Other	-	1.31	-	4.63	0.22	-
	-	12.2	87.8		100.0	100.0
	-	0.59	1.25		-	-

Source: CEPAL, on the basis of official data.

<sup>a</sup>Credits without guarantees of export credit agencies.

<sup>b</sup>Average weighted by amounts authorized.

<sup>c</sup>2.3% of the refinance credits had rates other than those cited in the table.

wanted so that foreign exchange could be squeezed from the economy for payment of debt.

With the stabilization plan failing, and criticism about their role in the economy mounting, commercial banks withdrew their support from the Government, forcing the authorities to run back and forth between their private creditors and the IMF in search of a solution to their problems.

*The post-1976 period.* The path to resolution of the problems was highly conflictive and very costly to the economy. Introduction of new austerity measures in mid-1977 met with strong public resistance and brought about the rapid fall of a recently installed economic minister. In late 1977 a new economic team, under pressure from the banks, reached an agreement with the IMF implying adjustments which many felt were totally unrealizable. As a result of this agreement, the commercial banks agreed to negotiate new refinance credits. However, as expected, the IMF targets were not met—notwithstanding a reported attempt to ‘cook’ the financial books—and in early 1978 both the IMF and the banks withdrew their support. Faced with embarrassment over the IMF fiasco, continuous strikes and demonstrations over austerity measures, and scarcity of foreign exchange, there was another change of economic teams in May 1978. With the introduction of more austerity measures, street riots broke out in Lima. However, the authorities did manage to negotiate a more reasonable accord with the IMF and towards the end of the year enough confidence was generated to renegotiate debt payments falling due in 1979 and 1980.<sup>9</sup> By the end of 1979 the financial picture showed signs of marked improvement: export earnings boomed because of a recovery of copper prices, new volume from Cuajone and oil exports (with high world prices) from the Amazon; imports slackened because of austerity measures; and outflows of capital had

been reduced by postponement of debt service. Indeed, during 1979 the external sector improved to such a degree that the Government decided to reject part of the debt relief provided in 1978, and by 1980 Peru appeared to be on the verge of initiating another credit cycle with the banks.

##### 5. *The differential behaviour of the banks*

Research also provided reasonable support for the hypothesis that banks behave differently and are not a homogeneous group, which in turn suggest that they merit more discriminating analysis than has heretofore been the case.

In 1965-1970 lending to the Government was dominated by a few large internationally experienced United States banks. The posture of the banks was generally conservative, as exposure, terms, and conditions of credit were restricted. However, in the early seventies there appeared many new lenders eager to expand their international portfolios. Both because of the crowded nature of markets in the industrialized countries, and the relatively lower rates of return to be found there, these banks focussed on developing countries as a way of satisfying their ambitions for earnings growth, displaying an aggressive and liberal attitude with regard to amounts extended, terms offered, types of loans and prevailing conditions of credit. Peru's traditional creditors of the sixties maintained a more conservative posture in this environment. Some, interested in maintaining their market position, followed the trends generated by the newcomers, but other traditional lenders assumed a more rigid posture and resisted them.

The aggressive lenders of the early seventies were characterized by a willingness to extend large amounts of unprotected credit without conditions. They were also likely to be more willing to extend free disposition and refinance loans than their more conservative counterparts, and were inclined to finance activities in non-commercial areas such as social infrastructure. Until 1975 the aggressive lenders continuously undercut the prevailing market terms for loans to Peru, thereby helping

<sup>9</sup>During the negotiations one major bank was accused of ‘blackmail’ as it reportedly attempted to tie the success of the debt negotiations to the Government's handling of a dispute over management of the foreign exchange earning of Cuajone, a project for which the said bank was a major lender. The ensuing bad publicity made the bank abandon this strategy, however.

to steadily reduce interest margins and lengthen maturities.

By 1975, however, the world's commercial banking community had turned relatively conservative in its posture *vis-à-vis* the Third World. Most of the aggressive lenders of the early seventies retrenched and/or became conservative due to fear about the stability of international finance and the massive debt accumulation of LDC borrowers. Market trends once again came under the influence of the big, experienced international banks which had controlled credit flows in the sixties. Nevertheless, within the confines of a generally more conservative lending environment, some international banks behaved in ways which were more flexible than other institutions.

The study attempted to classify banks according to their behaviour with regard to Peru, although this could be done only in a limited and tentative way due to the fact that few banks individually undertook extensive lending to the Government. Moreover, while some banks showed clear signs of an aggressive approach and others were definitely conservative in their actions, there were others which acted in ways that were sometimes conservative and sometimes aggressive, depending upon the time and circumstances.

#### 6. *Classifying the behaviour of the banks*

From the standpoint of national origin, generally aggressive behaviour was found in Japanese banks, United States (regional) banks and Italian banks and consortia, while generally conservative behaviour was found in British, Swiss and French banks. German institutions also on balance may be considered to have been conservative. Other national groups showed more mixed behaviour, being conservative or aggressive depending on the particular focus of action.

When the banks were viewed from the standpoint of size, generally no clear-cut behavioural patterns were revealed. It is interesting to note, however, that aggressive behaviour was often witnessed in the smallest banks, partly because consortia members fell into this latter category.

Moving to the level of individual institutions, one of the most aggressive lenders was

seen to be Wells Fargo, which came from a zero start to become a major creditor of the Government. Dresdner Bank, American Express International, Bank of Tokyo, Banca Commerciale Italiana, Bancal Tristate Corp. and Crocker National Bank were among the institutions that displayed generally aggressive behaviour. Openly conservative positions were found in Chemical Bank, Bankers Trust, Morgan Guaranty, Continental Illinois, Charter New York Corp., First Chicago, First National Bank of Boston and the National Detroit Corp. Some European banks alike Schrodgers, National and Commercial Banking, Crédit Lyonnais, Banque Français du Commerce Extérieur, Banque de l'Indochine et de Suez, Amro Bank Algemene, Bank Nederland and Banque Worms, to mention just a few, also showed generally conservative behaviour towards Peru. Other banks like Citicorp, Bank of America, Lloyds Bank, Chase Manhattan, Manufacturers Hanover and Bank of Nova Scotia showed varying degrees of aggressiveness and conservatism depending upon the circumstances.

With regard to the relative commitments of the banks (authorizations to Peru as a percentage of total assets),<sup>10</sup> it was found that the public sector was generally a very minor element in the overall portfolio of the banks. However, within this context, in the 1970s consortium banks assumed by far the highest relative commitments (see table 7). Among regular banks, Wells Fargo, followed by American Express International and Bancal Tristate Corp., carried the highest relative commitments in Peru. In general, Peru's 'major' lenders of the sixties showed very similar relative commitments throughout the 12 years covered by the study. Exceptions were Bankers Trust, Continental Illinois, and to a lesser extent Manufacturers Hanover, which reduced their relative commitments in the period 1971-1976. Intermediate lenders of the 1960s such as First National Bank of Boston, Charter New York Corporation and National Detroit Corporation also seem to have reduced their commitments to Peru in the seventies.

<sup>10</sup>The reader should be reminded that the measurement excludes short-term debt.

Table 7

PERU: RELATIVE COMMITMENTS OF COMMERCIAL BANKS-TOTAL AUTHORIZATIONS  
AS A PERCENTAGE OF TOTAL ASSETS, 1965-1970 AND 1971-1976<sup>a</sup>  
(100 = 0.499% of total assets)

1965-1970		1971-1976	
Level of commitments and names of banks <sup>b</sup>	International rank of bank <sup>c</sup>	Level of commitments and names of banks <sup>b</sup>	International rank of bank <sup>c</sup>
<i>High</i>		<i>High</i>	
<i>100-80.0</i>		<i>&gt;668.9</i>	
Bankers Trust	11	Libra Bank	301 <sup>c</sup>
Continental Illinois	22	Euro American Bank	301 <sup>c</sup>
Manufacturers Hanover	5	668.9-510	
		Atlantic International Bank	301 <sup>c</sup>
<i>Intermediate</i>		Asian and Euro American Bank	301 <sup>c</sup>
<i>79.9-60.0</i>		509.9-343	
Bank of Nova Scotia	47	Banque Européene de Tokyo	301 <sup>c</sup>
Franklin National Bank	78	Associated Japanese Bank	301 <sup>c</sup>
<i>59.9-40.0</i>		342.9-175	
Schroders Ltd.	197	Iran Overseas Investment Bank	301
Charter New York Corp.	39	Western American Bank	301 <sup>c</sup>
Citicorp	2	Nippon European Bank	301 <sup>c</sup>
First National Bank of Boston	59	Japan International Bank	301 <sup>c</sup>
<i>39.9-20.0</i>		Banque de la Société Financière	
		Européene	301 <sup>c</sup>
Chase Manhattan	3	Wells Fargo	69
Bank of America	1	174.9-100	
National Detroit Corp.	57	Italian International Bank	301 <sup>c</sup>
Crocker National Bank	48	Bancal Tristate Corp.	199
Toronto Dominion Bank	54	United International Bank	301 <sup>c</sup>
		Inter-Union Bank	301 <sup>c</sup>
<i>Low</i>			
<i>&lt;20</i>		London and Continental Banks Ltd.	301 <sup>c</sup>
Royal Bank of Canada	12	International Mexican Bank	301 <sup>c</sup>
Banca Commerciale Italiana	25	European Brazilian Bank	301 <sup>c</sup>
Morgan Guaranty Trust	6	American Express Int. Banking	233
Westdeutsche Landesbank Girozentrale	14	<i>Intermediate</i>	
Philadelphia National Bank	94	<i>99.9-60</i>	
Lloyds Bank	33	Bank of Nova Scotia	53
Western Bancorporation	8	Banque Commerciale pour l'Europe	
Bank of Tokyo	26	du Nord	195
		International Commercial Bank	301 <sup>c</sup>
		Crocker National Bank	79
		Fidelcor	203
		Philadelphia National Bank	144
		Toronto Dominion Bank	66
		Grindlays Bank	154
		Manufacturers Hanover	16
		First Pennsylvania Corp.	106
		C.I.T. Financial Corporation	210
		Banque Canadienne Nationale	130
		Banque Continentale du Luxemburg	301 <sup>c</sup>
		<i>59.9-40</i>	
		Banque Européenne de Crédit	301 <sup>c</sup>
		Bankers Trust	32
		Orion Bank	301 <sup>c</sup>
		Continental Illinois Bank	30
		Franklin National Bank	...
		Citicorp	2
		Royal Bank of Canada	22

1965-1970		1971-1976	
Levels of commitments and names of banks <sup>b</sup>	International rank of bank <sup>c</sup>	Level of commitments and names of banks <sup>b</sup>	International rank of bank <sup>c</sup>
		<i>Low</i>	
		39.9-20	
		Bank of Montreal	45
		Anthony Gibbs	301
		Industrial National Corp.	260
		U.B.A.F.	301 <sup>c</sup>
		Dresdner Bank	14
		Trade Development Bank	219
		Chase Manhattan	4
		Lloyds Bank	31
		First Chicago Corporation	35
		Bank of Tokyo	28
		Morgan Guaranty Trust	19
		Bank of America	1
		Shamut Corporation	248
		Nomura Securities	d
		Cleveland Trust Co.	151
		Midland and International Bank	301 <sup>c</sup>
		Banco de Santander	112
		Long Term Credit Bank	44
		Central Corp.	258
		Marine Midland Bank	77
		Banque Française du Commerce Extérieur	174
		Chemical Bank	23
		Banque Worms	286
		Schroders Ltd.	301
		Security Pacific Corp.	54
		Deutsche Bank	6
		Western Bancorporation	39
		Fuji Bank	13
		Swiss Volksbank	143
		20	
		Remainder of the banks in the study <sup>e</sup>	

Source: CEPAL, on the basis of official data.

<sup>a</sup>Includes only authorizations without a guarantee from an export credit agency.

<sup>b</sup>Authorizations calculated as a percentage of bank assets. The asset size for the period 1865-1970 is based on 1969 data presented in *The Banker*, June 1970; asset size for 1971-1975 is based on 1975 data presented in *The Banker*, June 1976. Where a bank did not rank in the top 300 of world banking, asset size was determined from 1975 balance sheet data of *The Banker* Research Unit's *Who Owns Whom in World Banking*, 1976. Other sources used to determine asset size were the *Japan Company Handbook* and *The Times 1000*. Banks for which no asset data could be secured were excluded from the exercise (see footnote e).

<sup>c</sup>The ranks are based on the list of the top 300 in world banking prepared by *The Banker*. The ranks for 1965-1970 are based on 1969 asset size presented in *The Banker*, June 1970; the ranks for 1971-1976 are based on asset size in 1975 as presented in *The Banker*, June 1976. Banks that did not figure in the top 300 are ranked as 301. The letter "c" in parenthesis designates a consortium bank.

<sup>d</sup>Not ranked in *The Banker*.

<sup>e</sup>The following banks were excluded from the exercise: Banque de L'Union Européenne; Banque Internationale du Luxembourg; Balfour Williamson; Commerce Union Bank; La Salle National Bank; Rothschild Intercontinental Bank; Union Planters Bank; Banco Mexicano; Morgan Guaranty and Partners; Dow Banking Corporation; Algemene Bank Nederland; Comco International Bank; LTCB Asia Ltd.; Banque Arabe et Internationale d'Investissement; Trade Invest Bank and Trust Company; Banco Atlántico; Banco Nacional de Panamá; Banco de Bogotá; First National Bank of St. Louis; Bank Lev; Privatbank and Verwaltungsgesellschaft; Bank für Gemeinwirtschaft; Industrial Multinational Investment Ltd.; and Liberal Bank.

Some banks which had maintained or increased their relative commitments in the seventies can nevertheless still be classified as having had a restrictive attitude on exposure in Peru. Morgan Guaranty appeared cautious and kept a low profile until it decided in 1974 to take the symbolic role of heading the large syndicated credit to the Government that was part of a settlement of an investment dispute with the United States. Chemical Bank had an openly restrictive attitude on the Government and did not really initiate lending to the public sector until it participated on the above-mentioned syndicate with Morgan Guaranty. First Chicago also appears to have held back its exposure in Peru, entering the market only after the settlement of investment disputes with the United States.

Empirical tests for the period 1972-1976 suggested that as a rule banks discriminated risk through loan volume and not through the price of credit. While relative loan commitments among institutions showed great variation over time, there was practically no significant divergence by individual banks (and groups of banks) from the general market's interest margins and maturities for Peru. Thus it appears that over time individual banks generally could not resist market trends, nor reflect differential risk considerations in interest rates and maturities.<sup>11</sup>

Some limited exceptions were found to the above. Empirical tests gave reason to suspect that commercial institutions whose size (by assets) ranked them in the range of 47-91 on a world scale (1975) consistently pursued a pricing policy on the high side of the market trends. Also Bankers Trust appears to have had a deliberately cautious policy and provided maturities that were significantly shorter than the market average, while Dai-Ichi Kangyo Bank appeared to extend significantly longer than average maturities. In addition, a miscellaneous category of banks that included institutions from countries generally outside the mainstream of international finance also showed a tendency to offer maturities signifi-

cantly longer than the market average. Lastly, the Banque Commerciale pour l'Europe du Nord consistently charged significantly higher than average margins on its loans, although this may have been offset by significantly longer than average maturities.

While over time few banks were able to formulate prices that diverged significantly from general market forces, some institutions clearly created inflection points in trends. The key bank in this regard was Wells Fargo. In 1972-1974 it repeatedly headed syndicates—heavily supported by Japanese institutions—that undercut prevailing market trends. This was quickly copied by other banks, thereby markedly lowering the average cost of Peru's credit.<sup>12</sup> To a lesser extent Dresdner Bank played a similar role. Banks which often supported the new trends were Bank of Tokyo and Crocker National Bank.

As part of traditional risk consideration commercial banks have preferred to finance income-generating projects and have been less enthusiastic about refinance, balance-of-payments support and loans of free disposition. Thus, sectoral preference has been for income-generating primary production activities. However, in the seventies most aggressive lenders abandoned this tradition and revealed little preference for specific sectors or types of loans. The big, experienced international banks also showed little preference in this regard.

Aggregating banks into country groups revealed certain preferences with regard to traditional and non-traditional behaviour. Traditional, conservative preferences relating to sectors and types of loans were found in British, German and Swiss banks, and to a lesser extent in French and Canadian institutions, whereas bolder, non-traditional behaviour was found in Japanese, Italian and America banks, as well as consortia. A miscellaneous group of banks from countries generally out-

<sup>11</sup>The data suggest that fees played a greater role in risk discrimination, but the limitations on the survey prevented any conclusive tests in this area.

<sup>12</sup>Wells Fargo is a good example of a case where personal rapport between bank and government authorities can influence lending behaviour: it is well known that a high-level official of Wells Fargo's international lending operations was a Peruvian national who had worked as an executive in that country's Central Bank during the Belaúnde administration.

side the mainstream of international finance also acted outside traditional preference patterns. On the other hand there was no clear-cut functional relationship between revealed preferences for sectors/types of loans and the size of the banking institutions. However, it is interesting to note that many intermediate-sized banks revealed preferences for traditional behaviour, while small banks did not.

As regards preferences for external protection, the banks most inclined to use guarantees of home country export credit agencies appeared to be the French and British institutions. A group of banks from countries outside the mainstream of international finance also had a high proportion of its lending to Peru covered by such guarantees. Banks which appeared to lend to Peru with little or no insurance from home country governments were the United States, Japanese, German, Italian, Canadian and Swiss institutions.<sup>13</sup> At the level of individual institutions, banks with a high proclivity to protect their loans with home country guarantees were the National and Commercial Banking Group, *Crédit Lyonnais*, *Banque Française du Commerce Extérieur*, *Banque de l'Indochine et de Suez*, *Amro Bank Algemene*, *Bank Nederland*, *Banque Worms*, and *Banco do Brasil*, to mention just a few.

When banks were grouped according to size, there was some evidence that the frequency of use of home country guarantees increased as the size of the bank decreased.

As for the behaviour of lead banks in syndicated loans, it was found that the aggressive newcomers —e.g., *Wells Fargo*— employed strategies that were different from those of the big, internationally established banks. First, the former gained mandates for syndication through offers to undercut prevailing market terms. Second, they established working relationships with a wide variety of newcomers that were willing to price cut as well. Working relationships reflected them-

selves in relatively large clusters of banks that repeatedly participated in syndicates led by the newcomer. Internationally established banks like *Citicorp* had less recourse to price cutting and maintained only a limited number of working relationships, which interestingly enough, often involved other big, internationally established banks.

There was some evidence that banks which carried on local operations in Peru via branches or subsidiaries (see table 8) occasionally altered the pattern of their foreign currency lending to the Government out of concern for protecting local business interests. However, there were no conclusive patterns established in this regard, making one suspect that most 'protective' lending was done by the local operation itself and in local currency.

In the restrictive environment of international markets after mid-1974 and the open economic crisis in Peru in late 1975, the Government encountered a generally reserved banking community. However, some banks took a more flexible position in negotiations than others. Many aggressive newcomers of the early 1970s with significant exposure in Peru —e.g., *Crocker National* and *Bancal Tristate*— simply retrenched and even did not participate in general refinance accords arranged by the banks in 1976. Other banks maintained their interface with the Government, but took the position of hardline adversaries with regard to the authorities' efforts to avoid the IMF and reduce the social and political costs of adjustment. Among the banks in this second group were *Morgan Guaranty*, *Bankers Trust* and *Continental Illinois*. *Chase Manhattan* would also fall in this group, especially because it continuously conditioned its co-operation on the way the authorities treated the *Southern Peru Copper Corp.* Another group of banks took a softer and relatively more flexible position (within a commercial context) in negotiations with the governments. *Dresdner Bank* and *Bank of Nova Scotia* stand out in this regard. One could also place *Crédit Lyonnais* and *Manufacturers Hanover* in the group of 'soft-line' banks. Despite a noticeable hardening of *Citibank's* position in 1977, it too may be considered to have had a rather flexible attitude in negotiations during the economic crisis.

<sup>13</sup>These findings should be viewed with care, since the borrower is not always aware of the presence of external guarantors on his commercial credit. It should also be noted that the United States Export-Import Bank kept its doors closed to Peru through much of the early 1970s, thereby precluding guarantees for United States banks.



If behaviour in the post-1975 crisis is analysed on the basis of national origin, it is seen that the most flexible lenders *vis-à-vis* the Peruvian position were the European banks. The hard-line adversaries were mostly United States institutions, which incidentally, had by far the greatest exposure in Peru. The Japanese did not appear to take a strong position, but rather followed bargaining trends which were usually dominated by the United States banks.

Table 8

PERU: BANKS WITH BRANCHES, SUBSIDIARIES OR AFFILIATES IN PERU AND THEIR IMPORTANCE AS LENDERS TO THE GOVERNMENT, 1965-1970 AND 1971-1976

Name	Date of establishment	Importance as a lender to Peru <sup>a</sup>		Relative commitment to Peru <sup>b</sup>		Importance as lead bank <sup>c</sup>	
		1965-1970	1971-1976	1965-1970	1971-1976	As agent and/or manager	As agent only
<i>Branches</i>							
Citicorp	1920	Major	Major	Intermediate	Intermediate	Major	Major
Lloyds Bank	1936	Minor	Intermediate	Low	Low	Intermediate	Minor
Bank of Tokyo	1965	Minor	Intermediate	Low	Low	Intermediate	Intermediate
Bank of America	1966	Major	Major	Intermediate	Low	Intermediate	--
<i>Subsidiaries or affiliates</i>							
Banca Commerciale Italiana <sup>d</sup>	...	Minor	Intermediate	Low	Low	Minor	Minor
Crédit Lyonnais <sup>e</sup>	...	--	Intermediate	--	Low	Minor	Minor
<i>Banks with firms in Peru until 1970</i>							
Chase Manhattan <sup>f</sup>	1964-1965	Major	Major	Low	Low	Intermediate	Minor
Chemical Bank <sup>g</sup>	1966-1967	--	Intermediate	--	Low	Intermediate	--
Royal Bank of Canada <sup>h</sup>	1920's	Minor	Intermediate	Low	Intermediate	Intermediate	--

Source: CEPAL, on the basis of official data.

<sup>a</sup> Based on gross authorizations in each period.

<sup>b</sup> Based on gross authorizations scaled to size.

<sup>c</sup> Based on data on syndicated credits.

<sup>d</sup> Major foreign owner of Banco de Crédito. Before banking reform laws this institution, through its affiliate Sudameris, owned 62% of the local bank's stock. This was reduced to less than 20% under the banking reform laws.

<sup>e</sup> Had a large holding in the Banco de Lima. As a result of the banking reform laws its share was reduced to less than 20%.

<sup>f</sup> Bought 51% of Banco Continental. Was nationalized in 1970 by the Government under the banking reform laws.

<sup>g</sup> Was a major shareholder in Banco Internacional. Bought out by the Government in 1970 under the banking reform laws.

<sup>h</sup> Closed its branch in the latter half of the 1960's.

## II

## Impact of commercial bank lending on the economic development of Peru

Up to now analysis has focussed on very specific aspects of the impact of bank lending on Peru. This section will attempt a more global evaluation of the effects of commercial banks on the Peruvian economy. Since it is virtually impossible to empirically isolate the impact of commercial bank loans from other financial, real and political aspects of the economy, any general evaluation of this sort must have a more than usual degree of normative content. Thus, a similar examination undertaken by an individual with another perspective could generate very different findings. No absolute truths are posited here; the reader must ultimately judge the following arguments on their merits and draw his own conclusions.

*The positive aspects.* In the period 1965-1968 banks were not a major source of finance for the government. However, at the margin they provided important resources that bridged the gap in fiscal and foreign exchange resources during 1966-1968. Subsequently, beginning in 1972, the banks provided important external savings (see again figure 1) and played a crucial role in the development of the country, both in absolute and relative terms. Moreover, it is clear that the appearance of new commercial lenders in 1972 provided Peru with a way of breaking the grip of the financial blockade instituted by hegemonic powers in the centre and possibly also supported by Peru's traditional commercial lenders, who in 1969-1971 extended loans in a very restricted fashion, i.e., only for refinance and then on very onerous terms and subject to conditions restricting future indebtedness. Moreover, not only did the volume of bank credit increase dramatically as from 1972, but competition for Peru's business also created an environment where lending was virtually unconditional and no questions were asked about the use of credit. Even in the more restricted environment of the post-1974 period, banks displayed flexibility by agreeing in 1976 to Peru's request

for refinance of its debt without the interference of an IMF standby agreement.

Another potentially positive aspect of bank loans involves the external sector. With the virtual stagnation of export growth in the seventies, commercial bank loans were the single key element supporting the rapidly growing capacity to import foreign goods and services during the period (see table 9). This growth in import capacity was accompanied by unprecedented expansion of domestic consumption and, at the same time, investment. The cushion provided by imports permitted domestic demand to expand by margins in excess of the domestic product that were large with respect to previous trends in Peru and with respect to current trends in Latin America (see table 10). Accompanying this growth in domestic demand there was significant reduction in unemployment and growth in real wages.

Commercial banks also made a large contribution to public finances in 1972-1975. Over this period government deficits were very large, as was recourse to external finance, the latter dominated of course by commercial banks (see table 11). More specifically, by continuously refinancing the government's external debt, commercial banks freed resources for investment and consumption and a large mass of free disposition credits enabled the Government to build up reserves, or employ them as it wished. And while banks were not overwhelmingly involved in project finance, they supported ventures of high national priority which were not easily financed, such as the trans-Andean oil pipeline and the Cerro Verde copper mine (as well as the Cuacone project in the private sector). Moreover, banks regularly covered the local costs of projects. Finally, considerable finance was also extended to cover compensation for nationalized foreign firms, thereby helping to defuse potentially explosive investment disputes.

Table 9

PERU: EVOLUTION OF CAPACITY TO IMPORT, 1960-1976  
(Millions of 1970 dollars; annual averages)

Year	Financial flows (net) <sup>a</sup>							Capacity to import (1+2)
	Purchasing power of exports <sup>b</sup>	Total (6+7)	Foreign flows				Other <sup>f</sup>	
			Direct foreign investment <sup>c</sup>	Loans <sup>d</sup>	Other <sup>e</sup>	Total (3+4+5)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1960-1964	754	-38	-66	49	-	-17	-21	716
1965-1970	1 023	-15	-104	77	17	-10	-5	1 008
1971-1976	1 083	210	19	368	20	407	-197	1 293

Source: CEPAL, on the basis of official data.

<sup>a</sup>Deflated by import price indexes.

<sup>b</sup>Exports adjusted for the effects of the terms of trade. Includes non-requited transfers.

<sup>c</sup>Net direct foreign investment less profit remittances.

<sup>d</sup>Gross non-compensatory short, medium and long-term loans, less amortization and interest payments.

<sup>e</sup>Net of donations, SDRs, and amortization of compensatory loans.

<sup>f</sup>Net movement of assets of residents, and errors and omissions.

Table 10

PERU: GROWTH OF DOMESTIC DEMAND AND PRODUCT IN COMPARISON  
WITH LATIN AMERICA, 1972-1975<sup>a</sup>

(Average annual rates of growth)

	Peru	Latin America
Consumption	6.9	5.5
Investment	13.9	12.0
Domestic demand	8.1	7.0
Gross domestic product	5.6	6.5

Source: CEPAL, on the basis of official data.

<sup>a</sup>Based on market prices in 1970 U.S. dollars.

*The negative aspects.* When viewed from another angle, however, many aspects of the banks' involvement in the economy can be viewed as being less fortunate.

One of the major preoccupations about bank involvement in the Peruvian economy is that their finance may have lulled public authorities into a false sense of security. In 1969-1971, the Government used deep resolve

and discipline to overcome a full-scale external economic blockade and despite a hostile environment the authorities managed to achieve more than respectable rates of growth, reductions in unemployment, increases in real wages, etc., all while significantly reforming relations with foreign and domestic private capital (the after-effects of the 1967-1968 crisis were only a small element in this performance:

Table 11

PERU: CENTRAL GOVERNMENT FISCAL DEFICIT AND ITS FINANCE, 1966-1968; 1969-1971; 1972-1975; AND 1976

	Average			1976
	1966-1968	1969-1971	1972-1975	
Fiscal deficit (billions of soles) <sup>a</sup>	4.8	3.9	17.4	48.4
Deficit as percentage of expenditure <sup>a</sup>	16.3	9.3	21.4	30.3
Finance of the deficit (net)				
Percentage externally financed	47.2	18.0	51.8	32.2
Percentage internally financed	52.8	82.0	48.2	67.8
<i>Total finance percentage</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: CEPAL, on the basis of official data.

<sup>a</sup>Excludes amortization of the public debt.

see table 12). However, beginning in 1972—which corresponds to the period when banks entered the economy *en masse*—the economic discipline of the régime began to weaken. With a *carte blanche* from commercial lenders Peru found it could import without adequate concern for exports; invest without adequate concern for import content or an adequate mix of gestation periods; consume food without effective programmes for local production; and spend despite a stagnant or declining local tax effort (see table 13). In this permissive environment, the economy's dependence on external finance and banks became paramount. Thus, a programme originally designed to eliminate dependence on foreign capital iron-

nically evolved, instead, in such a way as to trade foreign firms for foreign banks. The new type of interface with foreign capital was complicated, and the economy clearly became as vulnerable as ever to outside influences.

Had the banks continued to display unlimited willingness to bankroll Peru's economy without interfering in any way the issue of vulnerability would not be relevant. There was, however, a general retrenchment in world banking in 1975; and as bankers became more reluctant to finance and the terms of loans became more onerous, the veil of finance became more transparent, showing behind it an economy which was structurally very weak. In 1976 the bankers panicked and attempted to

Table 12

PERU: EVOLUTION OF EXPENDITURES AND GROSS DOMESTIC PRODUCT, 1966-1971  
(Index based on 1970 soles with 1966 = 100)

	1966	1967	1968	1969	1970	1971
Private consumption	100	102.5	103.5	109.9	120.6	125.5
Public consumption	100	105.5	111.3	114.1	123.7	131.7
Fixed investment	100	92.5	78.7	80.9	90.1	99.2
Domestic demand	100	101.8	97.6	102.7	112.4	120.5
Exports	100	101.5	112.8	108.1	112.9	103.1
Imports	100	102.5	89.3	87.5	92.3	92.5
Gross domestic product	100	101.6	102.3	106.8	116.5	122.5

Source: CEPAL, on the basis of official data.

Table 13

## PERU: TRADE AND FISCAL TRENDS

*(Percentage of GDP)*

	1960 1964	1967	1970	1971	1972	1973	1974	1975	1976
Export coefficient	23.1	20.4	19.7	17.2	17.5	14.1	12.7	11.5	11.7
Import coefficient	16.1	20.0	15.7	14.9	14.4	16.3	20.2	21.8	17.7
Fiscal revenue	14.2 <sup>a</sup>	15.1	16.1	15.7	15.5	14.9	15.3	15.8	14.5
Fiscal expenditure	... <sup>a</sup>	20.2	19.9	21.8	22.2	23.2	22.1	23.7	22.9

Source: CEPAL, on the basis of official data.

<sup>a</sup>1962-1964.

force Peru into an IMF stabilization programme, but subsequently, seeing Peru's resistance and recognizing their own leverage, the banks experimented with explicit balance-of-payments support on their own. Moreover, no longer did they refrain from interfering: not only were banks formally monitoring the economic policy of the Government, but they also began to protect the interests of their TNC clients. Thus banks once again became interventionist.

While the commercial banks thus started to intervene in the economy, they nevertheless provided Peru with unquestioned finance in the seventies, notwithstanding economic policies that promoted ever more inflated reliance on foreign resources. If the banks were aware of underlying trends—as they should have been—then they too must have been placing their faith, as did the Peruvians, in the long-term payouts on investments in petroleum, mining, etc. If they were not aware of trends, then their lending behaviour must be deemed to have been reckless. In either case, however, their tacit support of government policies in the first half of the seventies would lead one to have expected, ideally, that the banks would have borne the consequences of their decisions and have helped Peru overcome the difficulties without grave social costs. As it was, as soon as it became apparent that the momentum of past policies—which the banks unquestionably supported—could not be broken easily, and that the mixture of politics and economics was not ripe for the harsh adjustment needed to

squeeze foreign exchange out of the economy for servicing the debt, the bankers lost their confidence and held back finance until Peru submitted to the even tougher requirements of the IMF.

Banks thus proved to be an ephemeral source of finance for an LDC unable to make quick and hard decisions about economic adjustments. Things might have been different of course, if from the very start Peru had displayed restraint and carefully screened the overtures of commercial lenders for credit. But even if this had been the case commercial finance would still have proved inadequate from the standpoint of providing appropriate maturities for development needs. In the period 1971-1976, Peru's commercial maturities averaged just 7 years, suitable for only the most commercial of ventures. Social infrastructure, of course, can sometimes take up to a generation to pay off, and therefore needs much longer maturities than commercial banks could offer. Even in the commercial sphere 7-year maturities may be too short, because many projects involve infant industries that can have payouts that are much more extended than identical activities in the industrialized countries. This is quite apart from prolongation of payouts due to mistakes or the unforeseen events—such as falls in export prices—that are very common occurrences in LDCs.

This latter issue is important and has implications beyond the Peruvian case: clearly, the lack of symmetry between the long-run requirements of development and the short to

medium-term nature of commercial bank finance places serious obstacles in the way of broad-based socio-economic development. There are a variety of ways in which policy-makers can confront the problem. But in order to illustrate the gravity of the matter for a country that is heavily indebted to commercial banks, one can simplify and reduce policy options to basically two: (i) to focus development strategies on activities with high short-term private commercial rates of return and wait for social development to 'trickle down' to the population; or (ii) to seek balanced socio-economic development today and hope that the banks refinance their short maturities.

The first option might prove attractive to conservative financial managers, but unfortunately experience has shown that 'trickle down' strategies are often worse than useless, acting merely as an excuse for unnecessary postponement of social reform and reasonably balanced income distribution. Likewise, they have been associated with régimes that exclude large segments of society from political participation.

It has already been seen that banks do indeed sometimes refinance (albeit perhaps reluctantly), making option two technically feasible. However, refinance is a terribly awkward way to accommodate the long gestation period of development, since a borrower becomes very vulnerable to the volatile lending terms in commercial markets. If refinance is sought in a borrowers' market, such as 1972-1974, the results can be attractive, with new credits car-

rying low margins and longer maturities. However, if refinance takes place in a lenders' market, as in 1975-1976, the results can be counterproductive to development. Not only may access to credit be difficult, but interest margins will be distressingly high and maturities uncommonly short. This causes bulges in debt service payments, complicates debt management and generates more requirements for refinance. In this type of environment debt service can prove to be more burdensome, making bankers concerned about the country and thereby further aggravating borrowing conditions. As government authorities become preoccupied about the bankers' view of their country's creditworthiness, economic policy can drift away from broad-based socio-economic development strategies into a more narrow approach stressing ventures with high short-term private rates of return and an excessively liquid external payments sector.

If the need to refinance occurs under conditions of open economic duress, as in the case of Peru in 1976, the results can be disastrous to development. Banks, seeking to squeeze out foreign exchange for debt service, become interventionist either in a direct manner, by imposing through the placement of requirements on government policy, or indirectly by forcing the authorities to submit to IMF scrutiny. Moreover, any relief provided by the banks is very short-term in nature, made available on onerous terms and accompanied by considerable social costs and setbacks to the process of development.

### III

## Some conclusions and recommendations

The purpose of this section is to draw some conclusions about commercial bank lending on the basis of the study of the Peruvian experience. Firm conclusions are, of course, difficult to formulate because of the uncertainties of generalizing from a one-country case and because retrospective analysis of the type performed here can be eclipsed by the fast changing events in world banking. Nonethe-

less, in the absence of more precise analysis of the experience of other borrowers, there are at least two reasons to suspect that general lessons and tentative policy conclusions are indeed to be drawn from this in-depth study.

Firstly, a significant number of the symptoms of the Peruvian case are seemingly apparent in a number of other developing countries (e.g., Jamaica, Bolivia, Zaïre, maybe Ni-

caragua) that have borrowed from banks; furthermore, as debt piles up in the Third World, and should more domestic political régimes evolve towards democratic processes, the aforementioned list could very well expand, even perhaps incorporating some of the so-called successful developing country borrowers. Secondly, while banks undoubtedly have learned from past errors and will attempt to adjust lending accordingly, much of their behaviour is induced by their private-commercial institutional makeup and therefore there is little reason to expect radical alteration of their attitudes in the medium term. Thus, subject to this preliminary warning the following paragraphs will posit some general conclusions and recommendations.

The research raises serious questions about the dominant role of commercial banks in the external finance of developing countries. Their appearance in the 1970s certainly provided LDCs with a new and useful financial instrument, but this new instrument appears to demand caution due to its limitations *vis-à-vis* the requirements of development. It has been found that the maturities that banks have offered on their loans, even under the best of circumstances, have been very short relative to the long gestation period of many activities related to broad-based socio-economic development. Nor has refinance been shown to be an adequate way to overcome the short maturity spectrum. In the case of Peru, banks have also displayed highly erratic lending patterns both in terms of the amount of credit available and its costs and conditions. When banks were in an expansive mood in the early 1970s they aggressively extended no-questions-asked finance to the Government. Facing seemingly unlimited external finance, an inexperienced public sector thought that it could make a dash for development while avoiding timely (and politically disagreeable) adjustments in economic policy; indeed, the bankers' loans masked underlying structural and policy weaknesses in the economy to such a degree that many banks themselves apparently did not anticipate the ensuing problems. Only when financial imbalances became grossly exaggerated did the bankers react. Then, when the authorities attempted to adjust the economy, the banks limited their

loans to the refinance of prior debt on extremely harsh terms, a response which served as a mere stopgap measure rather than real relief from debt service. Moreover, it has been shown that the banks intervened in the domestic affairs of Peru and exerted pressure to protect the interests of their TNC clients at the moments of the borrower's greatest vulnerability. As soon as it became apparent that the adjustment process could not be effected rapidly because of internal resistance to the social and political costs required to squeeze out foreign exchange for debt service, the bankers panicked and refused to extend any credit unless Peru deflated its economy according to the IMF prescription. Thus, commercial banks provided evidence that they are not equipped to cope with the economic dislocation and uncertainties that often arise in developing countries, particularly in periods of economic crisis.<sup>14</sup> Indeed, employing a popular joke of the period of financial crisis in the 1930s, bank loans to Peru have appeared as "an umbrella which a man is allowed to borrow as long as the weather is fine but which he has to return the moment it starts raining".<sup>15</sup>

The underlying problem appears to be that commercial banks are not development institutions and their private commercial time and risk preferences make it difficult, if not impossible, for them to fully accommodate the broader socio-economic goals of development, which are long-term in nature and based on social rates of return.

There are several factors which seem to seriously restrict the behaviour of commercial banks. First, they are profit-oriented institutions which operate on the basis of private rates of return. They may internalize social rates of

<sup>14</sup>In theory the economic crisis could have been quickly overcome (or of course avoided altogether) through timely economic policy measures. However, in the real world economic criteria are often overridden by more immediate social and political considerations. In poor countries—especially those with a significant degree of political participation—these latter forces can be very strong. Thus, while economic discipline is to be encouraged, recurrent and prolonged economic crises are an unfortunate reality which we must all confront.

<sup>15</sup>Taken from Ragnar Nurkse, *Problems of Capital Formation in Under-Developed countries*, Oxford, England, Basil Blackwell, 1953, p. 135.

return in their lending only to the extent that the latter enhances the former, and in any case the gestation period for such a feedback process tends to be rather long.

Second, the great majority of bankers' resources come from call or short-term time deposits,<sup>16</sup> and this places limits on the degree to which banks can prudently mismatch maturities, i.e., lend long on short funds. Thus, the nature of the resource base gives these institutions only a short to medium-term time horizon with regard to lending.

Third, as bankers will readily admit, they have a special concern for minimizing risk. This is partly a matter of tradition, but also reflects the reality that banks operate with other people's money and must ensure the safety of deposits if access to resources is to be maintained. This leads to a conservative view of life where 'caution and prudence' are usually the watchwords for lending operations. When viewing prospective loans to developing countries, bankers are naturally primarily interested in the prospects for repayment. It is not surprising, then, that short-term liquidity indicators (as opposed to development indicators) dominate creditworthiness criteria; good management is synonymous with assurance of liquidity to service debts, even if this means deflation of the local economy to free foreign exchange.

If banks depart from the conservative mould dictated by institutional constraints—as in the brief period of the early 1970s—the institutional contradictions and the criticism from regulatory authorities build up, forcing them to rediscover so-called prudent banking practices. In these circumstances lending conditions contract and borrowing countries face a very difficult external environment, often causing setbacks to development which they can ill afford; banks, in contrast, appear to lose nothing as their short rollover credits ensure repayment and profits.

The Peruvian experience suggests that commercial bank finance has many characteris-

tics which are out of keeping with the requirements of development. While ideally suited as intermediaries of short-term fund for trade and working capital (a function banks have had for centuries), there is evidence that they find it difficult to satisfy the requirements of long-term development finance and that their time and risk preferences make them a rather unreliable source of finance for structural balance-of-payments problems. It would seem, then, that commercial banks are not an adequate substitute for long-term official finance and access to private bond markets. Indeed, in the case of developing countries such as Peru where public policy suffered from the inexperience of those responsible for shaping it and/or severe domestic pressures for economic growth cum social reform, banks clearly acted as an extremely poor substitute. Peru has suffered the consequences and undoubtedly other countries will too. One would think that the international community should be seeking alternatives to the present system of bank-dominated external finance, which has evolved in an *ad hoc* fashion and which appears to function in a manner that leaves unfulfilled many of the basic requirements of development finance.

Unfortunately, while there is evidence to suggest that commercial banks—for reasons which are not completely their own—are excessively enmeshed in the overall finance of developing countries, there is an unfortunate intellectual and political inertia in the industrialized countries as regards revitalizing alternative sources of finance, especially when programmes aimed at this may involve greater contributions to multilateral agencies, which would appear to be in many circumstances a very suitable source of development finance. Thus, in the harsh world of political reality it must be assumed that barring a collapse of world finance, commercial banks will continue for the immediate future to be the major source of development finance for upper-income developing countries such as those of Latin America. How then can we make the best of an unsatisfactory international financial system for development?

The immediate goal should be to hone down the sharper edges of bank lending beha-

<sup>16</sup>For example, in 1976, 61% of Citicorp's total deposits had an average maturity of only 90 days. See Chandra Hardy, "Commercial Bank Lending to Developing Countries: Supply Constraints", *World Development*, Vol. II, No. 2, February 1979, p. 192.



viour. The scope for change is limited by the fact that many problems are intrinsic to the institution of private commercial banking itself. Also, change is handicapped by the fact that there are hundreds of banks operating internationally, with no supervision over their liquidity or behaviour. Nevertheless, it would seem that some action may be taken to alleviate the situation without violating the boundaries of prudent banking.

As a general rule commercial banks could take greater care to operate in areas where they are institutionally most comfortable in the long run and therefore reduce the possibilities of radical alteration of behaviour that is disruptive to market stability and the development of developing country borrowers.

In this spirit, banks could consider concentrating their lending in traditional areas of competence, i.e., short-term working capital or medium-term commercial investment finance. Moreover, banks could avoid lending to commercial ventures merely on the basis of a government guarantee; rather, it might be advisable to coldly evaluate ventures on commercial (and not political) grounds with a view to assessing the real repayment prospects of the venture itself. In other words, banks should cease to treat governments as if they had some type of fail-safe repayment mechanism; lending of commercial ventures should conform to some standards of commercial viability.

Following the above prescription, commercial banks could avoid direct balance-of-payments finance when problems are clearly associated with socio-economic structure as opposed to short-term illiquidity. Experience has shown that banks are incapable of absorbing the political-economic shocks that, as noted earlier, are frequently an unfortunate reality accompanying the adjustment process in developing countries; they are also not suited to be involved in public macroeconomic policy making. So why enter terrain that ultimately may require a quick and disruptive retreat? Of course, it would be feasible for banks to avoid direct balance-of-payments support only if countries came to feel more comfortable with the IMF and if more financial resources could be disbursed from multilateral development agencies. Thus it would be desirable for the

IMF once and for all to moderate its conditionality and adopt a pluralistic and longer-term methodology for tackling the adjustment problem; also, much more medium-term programme lending from the World Bank and IDB would be needed if banks are to avoid direct balance-of-payments finance.

Commercial banks, of course, will frequently be asked to refinance their loans, which is the same thing as indirect balance-of-payments support. Refinance should be considered a natural way of relieving repayment difficulties, and borrowers undergoing adjustment should not be burdened with punitive terms such as much higher than average interest margins and fees, and shorter than average maturities. It must be remembered that the real capacity of almost all borrowers to meet their debt service commitments hinges on the refinance and rollover process; since most developing countries run heavy deficits on current transactions debt is almost always repaid with new debt. Thus, to weigh a weakened borrower down with high interest margins and short maturities may actually induce new problems and increase the risk of non-payment rather than reduce it. In the case where a developing country faces internal structural difficulties and bunched maturities, banks could show less reluctance to enter into rescheduling agreements. A medium-term rescheduling of principal could be viewed as a routine way to provide relief for economic development and reduce risks of non-payment. If interest payments are kept current, as they should be, banks would encounter extra book-keeping work, but not necessarily losses of income.<sup>17</sup>

Commercial banks could also take a broader view of the prepayment/refinance strategies of developing country borrowers, and keep to a minimum the penalties and other restrictions related to such activities. This is not to imply that prepayment or refinance is a 'right' of the borrower. Such strategies are undoubtedly troublesome to a bank; for not only does it lose a

<sup>17</sup>Since risk premiums have been charged on loans, one could even envisage concessional interest rates (i.e., losses) when rescheduling debts of especially hard pressed (quasi-bankrupt) borrowers.

profitable loan, but it also receives unwanted liquidity, unless the bank itself participates in the new credit, and moreover banks cannot call for *ex post* adjustment of the terms of an old loan when market conditions shift in their favour. Nevertheless, this is a situation in which what appears to be rational action on the part of an individual bank could be detrimental to all concerned in the aggregate. This is because a developing country borrower which can trade in old loans for more favourable terms can thus alleviate the effects of the constantly changing terms on credit markets and will therefore be a better overall credit risk and will generally have increased capacity to assume new debt from the banks.

There are three other specific areas where banks could alter their behaviour:

(i) One is that banks might seek more long-term funds, so as to reduce their dependency on short-term deposits and thus be able to prudently lengthen maturities. Some banks such as Citicorp have already attempted to do this, but hopefully the strategy will become more intensive and generalized in the world banking community.<sup>18</sup>

(ii) Banks might reconsider the need to act as world policemen for TNCs. When TNCs invest in a country (and banks help them) all parties take calculated risks based on the returns on capital. Thus, lending to a developing country government must be viewed as a separate business transaction and should not be linked to the fortunes of a locally-based TNC. In the early 1970s banks showed that there does not have to be a connexion between a government's treatment of foreign investment and successful business relations between them and a government. So why renew the ancient practice of fronting for TNCs?

(iii) Banks could avoid offending the sensibilities of developing country borrowers through demands to waive sovereign immunity and local jurisdiction over loan agreements. As an alternative to the traditional practice, one

could envisage greater employment of international arbitration as a way to satisfy a bank's requirements for security and a government's desire to avoid an alien country's legal system.

Another major area of change would be to bring commercial lending out into the open. Lenders (and sometimes borrowers) behave in ways which shroud transactions in secrecy. This ultimately benefits the banks, which can 'fragment' markets to their advantage as regards the establishment of the terms and conditions of credit. A more perfect flow of information on the details of loan transactions by individual banks can only enhance the bargaining position of developing countries. It must be remembered that the study has found that commercial banks did not act as a homogeneous group; rather in many important ways they displayed distinct modes of behaviour. In the bargaining environment it is important for developing country borrowers to be aware of these distinctions so that they can tailor their interface with commercial institutions in ways which are supportive of national development objectives. However, there is little institutional analysis available on the behaviour of specific lenders and their loan agreements, making it difficult for new borrowers to map out *ex ante* strategies for negotiations with individual institutions. Under present circumstances, borrowers can only begin to know the differences in the behaviour of banks after long experience, and this 'learning by doing' mode can be difficult and full of unnecessary and costly pitfalls. Moreover, the resulting evaluations of the banks may be informal rather than systematic.

To overcome these problems, researchers and international organizations must make a greater effort to analyse the institutional behaviour of commercial lenders. As long as banks remain reticent about revealing the exact nature of their interface with developing countries, the most productive way to go about this would seem to be detailed case studies such as this one, which could accumulate to reveal more about the lending behaviour of specific institutions.<sup>19</sup> Indeed, an international organi-

<sup>18</sup>In many cases there are legal restrictions on long-term funding by commercial banks. National regulatory authorities might therefore want to reconsider their policies in this area.

<sup>19</sup>CEPAL is following up the Peruvian project with a similar study on Bolivia. See the article by M. Mortimore in this same issue of *CEPAL Review*.

zation such as the United Nations Centre on Transnational Corporations, the World Bank, or a new special institution sponsored by developing countries themselves, could set up a reporting system whereby developing country borrowers would provide copies of credit agreements with commercial banks. Using these data the organization in turn could systematically analyse the evolving behaviour of individual banks both with regard to individual borrowers and groups of borrowers. The findings could be disseminated to governments participating in the system, providing a view on banks that would be more extensive than that available to any single borrower.<sup>20</sup> Such an arrangement would allow countries to effectively interchange views and experiences concerning specific lenders and permit them to adjust their negotiations with creditors accordingly. The interchange of information among borrowers about banks would also counterbalance the advantages enjoyed by bankers, who are increasingly gaining access to official data on the countries and who have the opportunity to exchange this information during their contacts in connexion with the organization of syndicates.

Of course, initially there may be resistance to such a system, since some borrowers can be very secretive about data concerning their activities with commercial banks. Thus work will

<sup>20</sup>In the case of Peru the World Bank's tabulation of publicized Eurocurrency credits provided only a partial view of transactions with commercial banks. The data also provided only limited information on a syndicate, the conditions of the agreement, and the specific role of each bank in the operation.

have to be done to overcome this problem. The advantages of such a system will have to be demonstrated to developing countries and confidentiality on individual transactions will have to be ensured. Notwithstanding these obstacles, a dialogue among developing country governments on this matter should be undertaken as soon as possible.

The last major conclusion of the study is that an unregulated international banking system appears to experience periodic supply-led expansion, requiring borrowers to show restraint in the face of bankers' overtures. In the early 1970s world liquidity and an unregulated Eurocurrency market fostered clear supply-led expansion of lending. After a period of retrenchment in 1975-1977, banks once again, under pressures of liquidity, began actively soliciting clients in developing countries. Since banks sometimes show little self-restraint, then borrowers must be prepared to do so. This suggests that (i) countries must pursue disciplined economic programmes; (ii) they must carefully control their interface with foreign finance in general and commercial finance in particular; and (iii) foreign finance must be viewed only as a complement to a vigorous national effort to generate savings for development. Moreover, when foreign resources are used, care should be taken to ensure that the way they are deployed is consistent with the cost and maturities of the credit. Restraint and sagacious deployment of resources is particularly important for small and medium-sized economies, where offers of commercial credit can easily exceed the real capacity of the economy to match commercial funds with appropriately commercial activities.

# Some CEPAL Publications

**Economic Survey of Latin America, 1979**, CEPAL, Santiago, Chile, 1980, 534 pages.

The *Economic Survey* is an annual report whose main purpose is to summarize the trends of the economic evolution during the corresponding year. The 1979 *Survey* begins with an introductory part in which some of the main aspects of that evolution are analysed, especially economic growth, the external sector and inflation, continuing in the second part with a study of events in the 26 countries of the region. From a general point of view, the *Survey* concludes that the evolution in Latin America was fairly favourable on the whole, especially in view of the world economic situation which was characterized by a reduction in the economic growth rate in the industrialized countries, centrally planned economies and main oil-exporting countries; an accentuation of world inflation; new and pronounced rises in oil prices, and significant changes in trade movements and international finance. Although the inflationary processes became more acute in many countries during the year, and although the deficit on the current account of the whole of Latin America rose considerably, the growth rate of the total product of the region also rose markedly in 1979, and the value and volume of Latin American exports continued to expand at high rates.

Thus, after four years of mediocre economic growth, during which the gross domestic product increased, on average, by barely 4.3% per year, in 1979 it rose 6.5%. This rate—which was almost double that of the economic growth of the OECD countries—meant, moreover, that for the first time since the international crisis at mid-decade the per capita product increased 4%, approximating the rates recorded in the region in the first half of the 1970s, during which the economy of Latin America expanded in an exceptionally rapid and sustained manner.

The intensification of productive activity was accompanied in 1979 by a particularly significant expansion of commercial and financial contacts with the rest of the world. Actually, despite the more sluggish behaviour of the central economies this year and the upsurge of protectionist practices in them, and also despite the fewer purchases made by the OPEC countries in the exterior, the value of Latin American exports of goods increased more than 33%, thus substantially exceeding the growth rate of world exports (25%).

As in the three previous years—during which exports also increased at fairly high rates, although much slower than in 1979—the expansion of sales largely originated in the increase in volume which grew almost 11% for the whole region and even faster for the group of non-oil-exporting countries.

This vigorous expansion was reinforced, moreover, by the substantial rise in the unit value of exports, which increased more than 20% because of higher international prices for oil, copper, wood, lead, nickel, meat, sugar and many other basic products. As a result, and despite the

likewise very pronounced rise (15%) in the unit value of imports, the terms of trade increased almost 5%, thus partly compensating for the sharp drop the previous year.

In 1979 the value of imports also grew strongly (26%). On the whole, however, although much greater than that recorded in any of the four previous years, this expansion was substantially lower than that of exports and thus, in 1979, the trade deficit of goods and services was markedly reduced. For the whole region, it dropped from US\$ 5 900 million in 1978 to US\$ 4 000 million in 1979.

Nevertheless, as a result of a large new increase of more than US\$ 4 000 million in net payments of profits and interest to foreign capital, in 1979 the deficit on the balance-of-payments current account grew again. This negative balance rose to more than US\$ 18 300 million, an amount never before recorded and substantially exceeding the previous year's US\$ 16 300 million and the US\$ 14 200 million recorded in 1975, at the end of the previous international recession.

At the same time, as in previous years, the imbalance on the current account was partly a result of the abundant flow of capital into the region. In fact, in 1979 the net movement of autonomous capital reached an unprecedented amount of almost US\$ 25 500 million, with which it was possible not only to finance the adverse balance on current operations but also to expand net international reserves by more than US\$ 7 000 million.

Finally, in 1979 the inflationary processes in Latin America accelerated and became more generalized. For the region as a whole, the rate of growth of prices rose from slightly more than 40% in 1978 to 55% in 1979, while the number of countries where consumer prices increased more rapidly than in the previous year (17) was more than three times the number of those where inflation slowed down.

**Nicaragua: El impacto de la mutación política** (Nicaragua: The impact of political change), CEPAL Studies and Reports Series, No. 1, Santiago, Chile, 1981

This publication, which is the first in the new 'CEPAL Studies and Reports Series', is meant to facilitate the mobilization of international technical and financial co-operation required by the situation in Nicaragua. It consists of three parts, plus a summary. In the first part, some references are made to the recent past which will help to interpret the events which have occurred and provide an idea of the social cost of these events for the Nicaraguan people, including the characteristics and outstanding facts of the evolution of the economy since the Second World War, especially in this decade, and the critical economic background against which the events of recent years took place. The human losses and material costs of this conflict are also estimated, although it should be noted that in making these calculations, for obvious reasons, more attention has been paid to the emergency situation than to precision. Some of the probable repercussions of these events on the recent evolution of the Nicaraguan economy are also mentioned. The second part describes the priority agenda adopted by the new National Reconstruction Government and the first steps taken to put this programme into practice, and priority areas for national goals which might receive financial and technical support from the international community are also identified. Finally, the third part is mainly directed

toward the international community; some requirements are mentioned for external co-operation in the framework of the priorities established by the Nicaraguan government itself.

The Programme of the National Reconstruction Government proposes to initiate three areas of action, not necessarily in sequence: the emergency plan, immediate economic recuperation and reconstruction, transformation and socio-economic development.

Besides the emergency programme—to take care of the most immediate needs of the population: food, first aid and resettlement, besides reparations for damage caused by the fighting—the agenda of the new Government gives priority to five areas which would require the technical and financial support of the international community. *Firstly*, there are the tasks related to the characteristics of a mixed economy and to the new role assumed by the State. In other words, it is thought that one of the most important activities—already undertaken—is the consolidation of the public sector, efficient operation of all its bodies, and especially those which will be responsible for the tasks of reaching the goals of the process undertaken, among which figure predominantly the Institute for Agrarian Reform, the National Trust, the proposed Ministry for Foreign Trade, the recently nationalized banks, the Finance Ministry, and those of Social Welfare, and Planning. *Secondly*, the rehabilitation of the financial system, including the intermediation system, public finances, and external financial relations. *Thirdly*, the reactivation of the productive sectors must be undertaken, especially the agricultural sector but also mining and industry, for the purpose of obtaining foreign reserves and creating employment opportunities. *Fourthly*, the agenda includes the reconstruction of the fiscal infrastructure—especially housing—affected by the 1972 earthquake and by the war; and *fifthly*, the normalization of basic services such as education—interrupted in recent months—and health care, with special attention to the food supply for the population.

The international community has given strong support to the Government of Nicaragua in its emergency activity—although greater and more rapid co-operation would be desirable—and it will have to take the responsibility of playing a decisive role in the activities of rehabilitation and reconstruction which cannot be postponed, and in those related to the long-term consolidation and development. The expected co-operation should serve the dual purpose of avoiding greater sufferings for the Nicaraguan people during the critical stage of rehabilitation and reconstruction of their country and, at the same time, contributing to an expanded vision of economic and social development.

In the financial area, it is urgently necessary to adjust the country's balance of payments, renegotiate its foreign debt—with a temporary moratorium while the relevant agreements are drawn up—and obtain external financing on the most favourable terms possible for the programmes and projects related to the immediate plans for rehabilitation and reconstruction, and medium-term and long-term consolidation and development. In the area of trade, it is felt that rehabilitation will require concerted action to facilitate the entrance of Nicaraguan products into the markets of the developed and developing countries, especially those of the Central American Common Market,

without requiring Nicaragua to reciprocate at times when the country is forced to adjust to a programme of maximum austerity with respect to imports.

The situation in Nicaragua is now so serious that without the decided help of the international community the suffering of an already very overburdened people will become even worse, if that is possible, and the financial obligations contracted by the country in other circumstances will be unfulfilled.

**Latin American Development in the 1980s.** E/CEPAL/C.1150, mimeographed version, Santiago, Chile, 1981, 122 pages.

This study, which is the report submitted by the CEPAL Secretariat to the nineteenth session of the Commission, attempts to present, succinctly, an evaluation of the main problems of Latin American development and an overall analysis of the strategies and policies which should be promoted to stimulate economic and social progress in the countries of the region. It is not easy to achieve these purposes, because of the variety of situations and diversity of perspectives which may be identified throughout the region. However, it is worth the attempt, for obviously the important aspects of the problems of Latin American development are common to almost all countries; these aspects are very significant for practical action, especially those related to the nature and structure of the socio-economic process in progress and with the external relations of the countries of the region.

The present situation is not free from a certain climate or feeling of frustration, both at the national and at the regional and international level. Some years ago it was a common impression that the stability and boom of the world economy, as well as the favourable evolution of the Western countries and Eastern Europe after the war, were due to correct decisions within the institutional and operational organization of the world economy and to the progress achieved by economic science and political economics, which had managed to plan or direct the successful conduct of national economies and the reciprocal economic, financial and technological relations among countries. Undoubtedly, this impression was well founded. But it is also true that the events which occurred as the 1970s went on appear to demonstrate that this expansion of the world economy and the economic growth of the Western industrial countries was due not only to the experience and planning of political economies but also to favourable conditions arising from the exploitation and supply, at relatively low prices, of basic resources such as oil, advantages which technological development was able to use. An analogous reflection might be made, although perhaps only as a query, with respect to the economic growth of the socialist countries, although it is obvious that we are dealing with different situations and experiences. However, it is well known that some limitations on the availability of basic and human resources explain at least in part the slowdown in the rate of economic growth of these countries. Generally speaking, the problems are related to the feasibility of a style of development which has been spiraling in the industrial countries and which is assimilated by the devel-

oping world, presenting a serious question on the structural or situational nature of the economic and political crisis we are going through.

The study contained in this document on Latin American development in the 1980s covers three main areas. Firstly, it attempts to make an economic and social evaluation of the development process, especially identifying present problems; this evaluation leads to the basic conclusion that it is absolutely necessary to impose a new orientation on development strategies and policies; secondly, the elements of this new orientation are studied in the context of an integral and organic approach, indicating certain goals and objectives which Latin America should propose for the next decade, especially in the economic field. And thirdly, the general outlines of the economic and social policy, global and sectoral, are considered more concretely and in greater detail, and the main aspects of the external economic policy and regional co-operation are discussed. In brief, this study is intended to serve governments better in the preparation of a regional programme of action which would be related to the new International Development Strategy in order to facilitate its implementation at the regional level. In this way the national and regional aspects would more easily and more satisfactorily be integrated with the international proposals for the new Strategy.

Of the documents prepared to serve as support for this study, the following should be mentioned:

— *Agricultural development in the 1980s*, E/CEPAL/G.1159, 1981 (mimeographed version), 44 pages.

— *The external economic relations of Latin America in the 1980s*, E/CEPAL/G.1160, 1981 (mimeographed version), 190 pages.

— *América Latina: La política industrial en el marco de la nueva estrategia internacional para el desarrollo*, E/CEPAL/G.1161 (mimeographed version), 55 pages.

**¿Se puede superar la pobreza? Realidad y perspectivas en América Latina, (Can poverty be overcome? Reality and prospects in Latin America)**, CEPAL/UNDP, Santiago, Chile, 1980, 286 pages.

This book is a collection of documents presented at a seminar on critical poverty held at CEPAL in August 1979. They are presented here under five main headings.

The first is a modified summary of the document by Sergio Molina and Sebastián Piñera entitled "La pobreza en América Latina: situación, evolución y orientación de políticas", which is a kind of frame of reference for the study of poverty and the development of strategies and instruments to overcome it. In this work, the authors briefly present a diagnostic study of poverty in Latin America, its basic needs and various development strategies in relation to the subject; they place the problems of the poor in the context of the structure and function of the economy of Latin American countries; and finally they specify the appropriate areas of intervention and the distributive and redistributive policies to overcome poverty.

The second part—rural and urban poverty—includes two documents which attempt to present in depth and with more sectorial specificity the diagnostic and policy schemes contained in the frame of reference. Francisco

León explains the magnitude of the problem of policy in the rural areas and the ideological background of the development theories, and he discusses the strategies and policy instruments specifically designed to overcome rural poverty. The discussion of urban poverty is undertaken by Víctor Tokman, who relates it directly with the employment programme. The diagnostic study fully justifies his claim: only a small portion of the urban poor are openly unemployed, while the majority are employed in the informal sector of the economy, with low productivity and low salaries. Therefore the author emphasizes the need to consider employment and income policies as obligatory components in an integral development strategy.

The third topic relates poverty with the productive factors market, that is the labour and capital markets. Hernán Aldabe discusses the capital market and asserts that, due to the current lack of capital in the poor groups, the subject of the capital market and poverty remains circumscribed to one aspect alone: discovering the best way to channel funds to increase the consumption or investment capacity of some poor sectors, using mechanisms of the financial system itself. From this point of view the author believes that channelling "in some way concerns the public sector, which uses institutional credit as an instrument of welfare policy".

In almost all Latin American countries, the basic conditioning of the labour market is due to a structural fact: the productive structure is not adequate to the supply of existing resources. This is the point of departure of Sebastián Piñera and Joseph Ramos in their work "Pobreza y funcionamiento del mercado de trabajo". For the authors, one of the most serious imperfections of the labour market is its segmentation at the international level (barriers to migration), national level and, within this, both at the rural and urban levels and at the formal and informal levels. Consequently, proper operation of the labour market requires an active government policy to compensate for and correct its structural distortions, and to reduce the barriers which accentuate the imperfections of this market. Some ingredients of these policies, according to the authors, are, *inter alia*, the following: the movement of capitals and technologies into the field, developing the land and irrigation market, facilitating the worker's informal access to capital, credit and technology, and promoting a flow of capital and technology toward the developing countries.

The three articles in the fourth part of this book are dedicated to the analysis of some redistributive policies, necessary to any overall strategy for overcoming poverty, such as social security, the satisfaction of the land of basic needs, and some fiscal policy measures.

Carmelo Mesa-Lago demonstrates the negligible role which Latin American social security has played up to now in the reduction of poverty. He recommends a reform of social legislation, which would include national planning, priority to horizontal expansion with respect to vertical, priority to the risks to be covered, unity and uniformity of the system, financing through taxes and progressive premiums.

Marcelo Selowsky, for his part, proposes various objectives in his work, among which are the evaluation of the

lack of consumption of basic needs of the poor, with special reference to children, the identification of specific programmes designed to fill this gap—for example, the expansion of the two systems of health and education—and, finally, the evaluation of the fiscal cost of these programmes and their possible contradictions, to achieve economic growth.

The fiscal policy agenda for some semi-industrialized Latin American countries, as proposed by Eduardo Aninat, starts by assuming the convenience of proposing gradual and progressive changes to improve, strengthen and consequently stabilize the role played by fiscal policy in these countries. After reviewing the tax structure, the author discusses one of the main areas of tax policy arising from some trends in the present systems of foreign trade and income and property tax.

The final section of this compilation—international trade and employment—includes the article by Jagdish Bhagwati and Ricardo Martin, in which the authors comparatively evaluate the effectiveness of development strategies based on import substitution and export promotion in relation to the problem of employment and growth. The empirical evidence leads them to conclude that the development strategy based on export promotion is better than import substitution from the point of view of its effects on employment and growth.

**Perú 1968-1977: La política económica en un proceso de cambio global (Peru 1968-1977: Economic policy within a process of global change)**, Aníbal Pinto and Héctor Assael, CEPAL Studies and Reports Series, No. 2, Santiago, Chile, 1981.

This work is part of a series of studies on the economic policies practiced in various countries of the region in the past decades; the one on Ecuador has subsequently been published.<sup>1</sup>

The main purpose and direct motivation for this initiative was to examine to what degree and in what way the transformations of the world scene—'stagflation' in the central economies, oil readjustment, financial disturbances, to cite only the most important—affected representative countries and how they faced up to this challenge.

Within the aforementioned perspective, various attempts are made to distinguish the basic situations relative to economies which—in the main—have benefitted from the current situation, those which have been harmed and

those where the impact presents contradictory features. Obviously, whether they are exporters, importers or relatively self-sufficient in oil has had a strong effect on which group they belong to. Needless to say, an advantageous position in this respect does not mean the absence of problems—as shown by the work on Ecuador—but may mean the worsening of others, of a different nature but probably less serious than those faced by the first group of countries.

The Peruvian economy is in a very special position in this constellation, of course, by its level of domestic sufficiency, to which can be added that in the course of the period covered it seemed to be becoming significantly stronger due to expectations and works on new exploitations.

More than this, however, its peculiarity lies in that these elements are presented and act in the framework of an undoubtedly extensive overall project for political, social and economic changes. Thus, the questions relating to external relations or oil do not have the same dominant character as in other cases and can only be properly evaluated in the context of this integral design. While this makes the attempt attractive, it also implies challenges to which it is difficult to respond, especially considering the importance of the experiment.

The so-called 'Peruvian model' is one of the main examples of Latin American political creativity in recent years; proof of this lies in the international and regional attention it has attracted, the passionate controversies surrounding it and the impressive bibliography on its progress and ups-and-downs, which this latter element both facilitates and inhibits new attempts to interpret it.

To undertake this task, two parts have been prepared. In the first some primary elements of the diagnostic studies on the Peruvian reality are reviewed, followed by an examination of the components and specific achievement of the project begun in 1968 for the purpose of changing this setting; finally, an attempt is made to evaluate the development and events of the economic policies adopted and the significance and limitations of the experience.

The second part makes a concrete examination of the measures adopted under the overall project, pointing out its impact on certain decisive areas—especially the external and public sectors—and identifying the factors of imbalance which gradually become expressed in inflationary trends, disturbances in the trade balance and, finally, political crisis. As a complementary appendix, and because of its important role in this experience, a review of the characteristics and vicissitudes of external financing has been included, summarizing the available information on the subject.

<sup>1</sup>See CEPAL, *Ecuador: Desafíos y logros de la política económica en la fase de expansión petrolera*. Cuadernos de la CEPAL, No. 25, Santiago, Chile, 1979.

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