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Agroindustry and *changing production patterns in small-scale agriculture*

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The extension of technological progress to small-scale agricultural producers is an unavoidable issue in any strategy aimed at changing production patterns with equity in the rural environment. With a few exceptions, analysis of the achievements of public policies in this area reveals that they have fallen far short of their goals even in periods when the restrictions on public spending were nothing like as severe as those faced by the economies of the region today. One option which has not yet been sufficiently explored is that of involving agroindustry in the task of bringing technological progress to small-scale farmers who could become suppliers of raw materials, although to judge from some spontaneous experiences there are some forms of linkages which could raise the levels of production and productivity of such farmers. This article seeks to show that there is a need for the adoption of policies designed to incentivate agroindustry to play the role of an agent of technical progress in the small-scale agriculture sector and gives some guidelines for the design of such policies.

I

Introduction

This article seeks to broaden the scope of the proposals made by both ECLAC 1 and FAO 2 on the need to promote a process of change in the family agriculture sector.

It should be noted, however, that this article only explores the possible links between agroindustry and that segment of family agriculture which, because of the size or quality of its present or potential resources, has development possibilities which could be materialized by the establishment of such links.

The establishment of links between agroindustry and family units with development potential is only one of the possible forms of sectoral linkages that could emerge in the process of upgrading rural areas. Other complementary types of linkages, especially for peasants with little or no land, would be the creation of job opportunities in non-agricultural rural industries through the dissemination of flexible specialization technologies and the organization of units generating local infrastructure (roads, schools, health centres, housing, etc.).

II

Growth with equity: a consensual objective

Economic growth and equity are consensual objectives of all economic strategies, whatever the ideological preferences of those proposing them or the features of the developing country for which they are formulated. The question is, then, how far these objectives have been achieved in the countries of Latin America.

In the study by F. Fajnzylber (1989) which served as the inspiration for the ECLAC proposal (ECLAC, 1990), it is noted that in the period 1965-1985, some countries of the region attained a reasonable degree of equity, but with low economic growth rates (Argentina and Uruguay); others achieved acceptable growth rates but displayed a high degree of inequality in income distribution (Brazil, Mexico, Colombia, Ecuador), while other nations achieved neither growth nor equity (Bolivia, Chile, Peru, Haiti and the Central American countries).

The fact that there are no examples in the region of countries which have achieved growth with equity cannot be blamed on the fact that they are late-industrializing countries, for a considerable number of countries in other regions which have the same status (such as Taiwan, Korea, Portugal, Thailand, Indonesia, China and Sri Lanka) achieved both objectives in the period in question. Moreover, these countries display the greatest diversity in terms of size, institutions and culture, so that these can also be ruled out as causal factors.

In the study in question, Fajnzylber makes a detailed analysis of the most salient differences in the functioning of the economy between the countries which have achieved growth with equity and the countries of the region. Briefly, he notes that the first-named group of countries was characterized by: i) the adoption of more austere consumption patterns; ii) a bigger contribution by domestic saving; iii) the use of such saving for capital formation; iv) a smaller role played by foreign investment; v) greater emphasis on the formation of human capital; vi) a greater research and development effort, with a high level of private-sector participation; and vii) the development of product lines marked by an increasing content of technology, thus permitting a more dynamic place in foreign trade.

¹ See ECLAC, 1990, especially pp. 126-134 (document presented at the twenty-third session of ECLAC, Caracas, Venezuela, 3-11 May 1990).

² See FAO, 1988 (document presented at the Nineteenth Regional Conference of FAO for Latin America and the Caribbean, Barbados, 5-13 August 1986).

Our hypothesis is that, in addition to these differences, there is another one which we consider to lie at the very root of the generation of the "virtuous circles" which facilitated the spread of technological progress and made possible growth with equity. This difference is *the existence of relatively homogeneous agricultural structures in the initial stages of the industrialization process*, as shown by the past experience of the countries which attained the status in question.

Thus, the agricultural structures made up of a relatively homogeneous mass of small and medium-sized producers provided a market for the large-scale production of simple consumer and producer goods which, in the initial stages of industrialization, gave rise to the emergence of domestic firms to serve that market, and in turn the development of these firms generated a growing demand for food and agricultural inputs, thus forming a veritable spiral of mutual demand which made possible the growing sophistication of consumption patterns and production tech-

niques. As the agricultural structures were homogeneous, the techniques thus developed were valid for the vast majority of producers.

This growth pattern contrasts with that of the economies whose agricultural structures grew up around the hacienda or plantation. In these economies, the demand for both consumer and investment goods early displayed a high degree of polarization, in which the components of the consumption of the elites and the means of production reflecting the transition from the latifundio to large modern agricultural enterprises were strongly linked with the exterior.

As a result of this process of transition, the agricultural structures of most of the countries of the region now correspond to a pattern which could be termed bimodal,³ since it consists of a segment of capitalist enterprises of different degrees of modernization and another segment of differentiated peasant units. This situation is even found in the countries where there have been agrarian reform processes of varying degrees of intensity.

III

Agricultural bimodality and its implications

The existence of bimodal structures (see figure 1) raises complex problems which hinder the broad spread of technological progress—defined here as one of the most important conditions for achieving growth with equity—, since whereas in homogeneous structures a valid technological option (i.e., an option in keeping with the relative resource endowment of the economy) is valid for the great majority of production units, in bimodal structures an option which is valid for a large modern agricultural enterprise is unlikely to be valid for the family farm sector, for a given set of relative prices.

In a context like this, according to the available empirical data and some theoretical bases, there are marked differences between the two types of agriculture as regards the decisions on what to produce, how much, how and for whom: decisions which are of great importance for the design of a development strategy for the sector. In a nutshell, these differences are due fundamentally to the fact that a family unit is at one and the same time a unit for production, consumption and reproduction, in which domestic activ-

ity is inseparable from production activity and in which the latter activity is carried out without the use of wage labour, except on limited occasions and to an extent which is not significant compared with the use of family labour. These features account for the differences which exist between peasant and business agriculture in a number of respects which are important from the point of view of behaviour (table 1).⁴

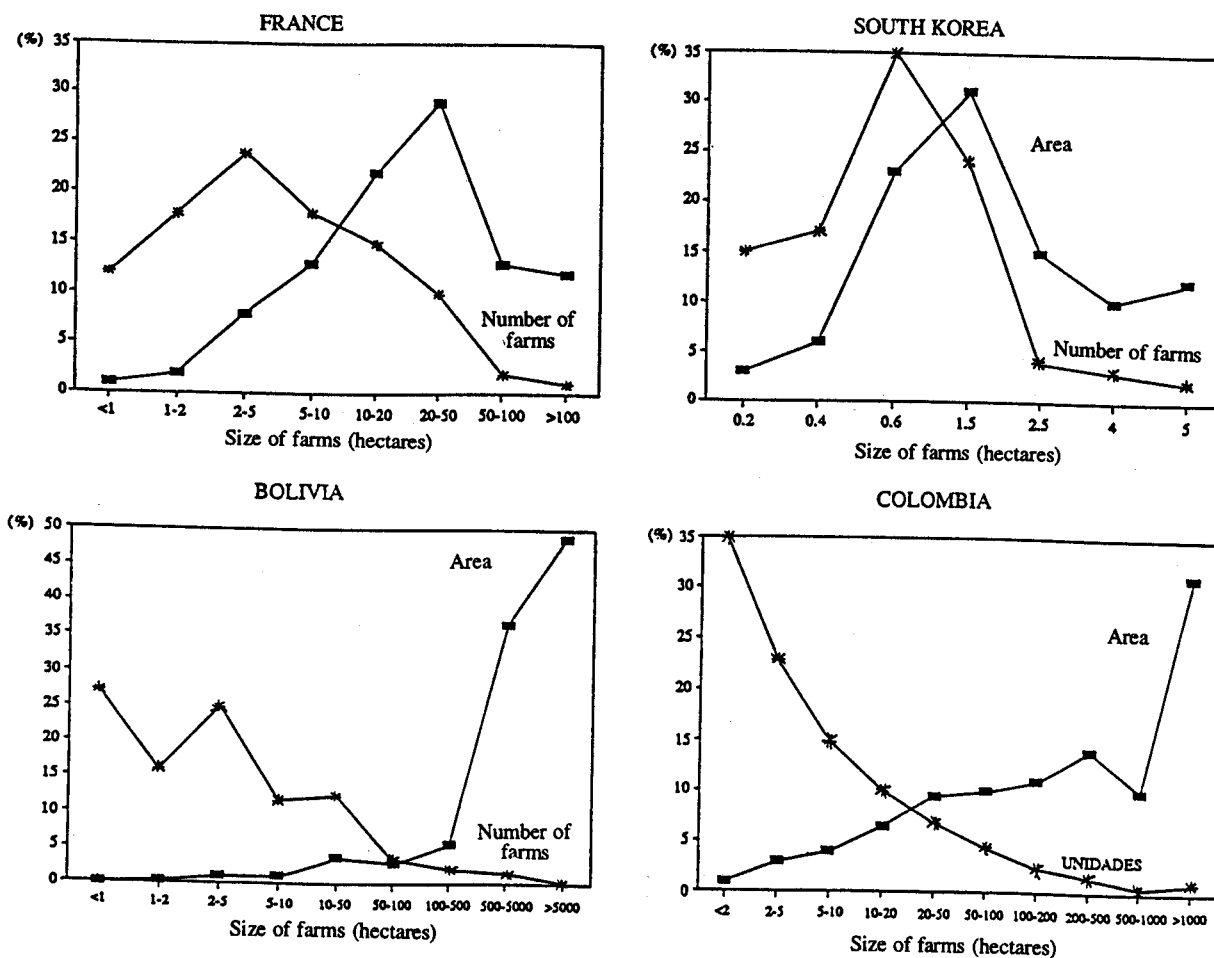
If the foregoing considerations are valid, then a given set of market signals, in a context of reasonable macroeconomic balances, which is relatively valid for guiding the behaviour of the modern business sector, will clearly not be enough to bring about a process of change in the sector made up of small producers.

³ For a fuller understanding of this concept, see Johnston and Kilby, 1975.

⁴ For a detailed analysis of each of the aspects in question, see Schejtman, 1980, pp. 117-127.

FIGURE 1

Comparative agrarian structures



The need to formulate policies or strategies which are differentiated by type of producer has been explicitly or implicitly recognized in the proposals of the international finance and technical assistance agencies, as well as by national rural development centres or institutes and non-governmental organizations dealing with the sector of small producers, but there have been more failures than successes. Among the reasons for this lack of success, mention may be made, *inter alia*, of an adverse economic and socio-institutional environment; a lack of understanding of the internal logic behind the running of family units; the heterogeneity

of the units included in development projects; the decision to resurrect low-productivity traditional technologies, in a peculiar interpretation of the term "appropriate technology"; a "helping hand" conception of the policy to be applied to this sector of producers; and *narrow sectoralization of policy measures, which makes it difficult to take full advantage of the potential implicit in the strengthening of sectoral links.*

It is precisely this latter aspect which will serve as the starting point for the observations on the potential role of agroindustry which will be made in the following paragraphs.

TABLE 1

Differences between peasant and business agriculture

Feature	Peasant agriculture	Business agriculture
Purpose of production	Reproduction of the family and the production unit	Maximization of profit rate and capital accumulation
Origin of the labour force	Basically the family and occasionally mutual exchange of labour with other units; rarely, wage labour in marginal amounts	Wage labour
Labour commitment of head of unit with the labour force	Total	Non-existent, except as demanded by the law
Technology	High labour intensity, low density of "capital" and purchased inputs per day's work	Higher density of capital and higher proportion of purchased inputs in value of end product
Destination of product and origin of inputs	Partly commercial	Wholly commercial
Labour intensification criterion	Maximization of total product, even at the cost of a decline in the average product. Limit: zero marginal product	Marginal productivity must be greater than wages paid
Risk and uncertainty	Non-probabilistic evasion: "survival algorithm"	Probabilistic internalization, in pursuit of profit rates proportional to risk
Nature of labour force	Non-transferable or marginal labour force	Only uses a labour force that is transferable in keeping with its skills
Components of income or net product	Indivisible family product or income, partly in kind	Purely monetary wages, income and profits

IV

Agroindustry and family agriculture

A prime general feature of agroindustry is its greater comparative capacity to draw other sectors along with it: i.e., its greater capacity to generate direct or indirect effects per unit of final agroindustrial demand (table 2). Thus, regardless of the differences in the structures of production of the countries considered, in all of them an increase in final demand for agrofood products generates a higher level of derived production in the goods-producing sectors as a whole than that corresponding to the rest of those sectors. Moreover, when the effects of that derived demand on the added-value components are compared, it is

noted that they have a significantly greater impact on employment and a good deal smaller incidence on the use of imported inputs, although their impact on wages is less than that of other sectors (table 3).

In addition to its inductive capacity, agrofood production has other frequently recognized qualities, such as for example its capacity to: reduce the perishable nature of products and post-harvest losses; reduce the seasonal nature of supply; raise the added value of a primary product; satisfy urban demand patterns; enhance the nutritional value of agricultural inputs, and change their organoleptic characteristics.

However, agroindustry also has some other insufficiently recognized features which make it particularly valuable for strengthening family agriculture. These are: i) it has greater relative flexibility with regard to efficient scales than many other industries, which allows the scale of its units to be more or less in keeping with the size and resources of the rural development areas with which it is proposed to link them;⁵ ii) it permits the integration of capital-intensive processes with labour-intensive processes, both in agroindustrial activities proper and, in particular, through the combination of agricultural activities which, as they are integrated with industrial processing, would permit more intensive labour use per hectare; and iii) agroindustry could become an element promoting the integration and ordering of primary activity, facilitating its organization in the areas which are its direct and indirect source of supply, even in cases where the activity only consists of husking and milling plants, for the agroindustrial

nucleus imposes certain rates of work, volumes of production and levels of quality on its sources of supply.

TABLE 2
Latin America (five countries): Indexes of "backward linkage" to the agro-food sector per unit of final demand^a

	Agriculture	Food industry	Food sector	Remaining sectors ^b
Brazil	0.9063	1.2865	1.1947	1.0981
Chile	0.9702	1.2230	1.1555	0.9897
Guatemala	0.9263	1.3429	1.1039	1.0013
Haiti	0.8372	1.2833	1.0393	0.9891
Mexico	0.8654	1.2642	1.1237	0.9730

Source: Prepared by the ECLAC/FAO Joint Agriculture Division, on the basis of ECLAC, 1983.

^a Average for all sectors is equal to 1.

^b Excluding fuels and lubricants and commerce.

TABLE 3

Latin America (four countries): Relationship between direct and indirect effects per unit of final demand between food sector and the other sectors (Percentages)^a

	Brazil		Guatemala		Mexico		Chile	
	Agri-culture	Food indus-try	Agri-culture	Food indus-try	Agri-culture	Food indus-try	Agri-culture	Food indus-try
Wages	52.7	68.9	61.2	77.5	74.9	74.7	51.0	59.3
Gross surplus	136.8	122.4	136.1	91.8	130.7	123.3	170.1	130.9
Imported inputs	22.6	62.5	55.6	216.5	22.2	65.1	55.2	119.1
Employment	309.8	127.1	460.0	180.0	648.3	319.0	207.5	102.5
Added value	104.7	102.3	105.4	85.9	104.3	101.9	108.2	96.5
Gross production	82.5	117.2	92.5	134.1	88.9	129.9	98.0	122.4

Source: Prepared by the ECLAC/FAO Joint Agriculture Division on the basis of ECLAC, 1983.

^a The table shows the quotient of the direct and indirect effects per unit of final demand on agriculture and the food industry with respect to the rest of the economy; thus, for example, the wages coefficient for Brazil was 0.1945 for agriculture, 0.2545 for the food industry, and 0.3691 for the rest of the economy: $(0.1945/0.3691) = (0.527 * 100) = 52.7$; $(0.2545/0.3691) = (0.689 * 100) = 68.9$, and so on in succession for the other categories.

A particularly important aspect is the competitive potential of the link between family agriculture and agroindustry, both in the production of food and of agricultural export products, especially where the

agricultural raw material involves very intensive use of labour per hectare, without the possibility of being efficiently replaced by machinery. The theoretical basis for this competitive potential is that, for the reasons sketched out in table 1, the cost of inducing the production of a given crop is lower in family units than in a business unit, the differential being roughly equivalent to the difference between the

⁵ Many agricultural products can be efficiently processed in plants costing between 1 million and 3 million 1980 U.S. dollars, except in the case of distilleries and breweries, whose cost may exceed US\$20 million (CTC, 1981, pp. 149-150, 158).

profit expected by the latter unit for undertaking the activity in question and the surplus required by the family unit over and above that necessary in order to maintain the family and the production unit. This consideration is particularly important in a context in which the generous profit margins associated with the early stages of development of certain lines are beginning to decline and cost competition is being stepped up on domestic and international markets.

Association between agroindustry and small-scale production units would appear to be more promising in the case of products which are labour intensive; which are highly perishable: more so than the grains and tubers easily obtainable on the open market; which have a high value per unit of volume or weight, so that transport and transaction costs are of less relative weight, and which may undergo considerable increases in added value in post-harvest phases, etc. (Goldsmith, 1985, pp.11-32).

In order for the potential of the linkages to become a reality, the agricultural production generated must meet the agroindustry's requirements as regards quality, homogeneity and regularity, especially in the case of products for export. These characteristics do not arise spontaneously in the family agriculture sector but involve—as the successful examples in this respect show—a process of organization and training of the producers, as well as working relationships which neutralize the risk involved in activities other than production for family consumption and ensure some degree of

even-handedness in the distribution of the profits arising from the increases in productivity.

If the considerations on the competitive potential of links between family agriculture and agroindustry are valid, and if the generic attributes of the products where these links seem most viable are the right ones, then it is necessary to explore the types of agroindustrial chains where the potential is greatest, in the light of technological development trends and the evolution of world demand for agriculture-based products.

Among the factors that must be considered in order to answer the above question, mention may be made of the following: i) the presence or absence of economies of scale in the agricultural base supplying the inputs; ii) the dynamism of domestic and international demand for the products of the agroindustry involved; iii) the importance of the agricultural inputs in the value of the end-product, and iv) the flexibility of the agroindustry in terms of scale and location.

An agroindustry's capacity to promote technical progress in the surrounding agriculture will depend on the presence of certain combinations of the above factors. Moreover, if the objective of food security is added to that of the development of competitive agriculture, some considerations may also enter into the reckoning with regard to the importance of the products in question in the national diet (as a function of their calorie content) or in the expenditure of the poorer sectors on food.

V

Types of agroindustries

As a first approximation to the preparation of a suitable typology, using the criteria mentioned above and taking as the central consideration the capacity of agroindustry to promote technical progress through its linkages with its agricultural base, five types of agroindustries can be distinguished (table 4).

1. Traditional basic agroindustries, which correspond to chains centered on basic grains or tubers for human consumption and are characterized by their low demand elasticity; their great heterogeneity in the industrial phase; the growing presence of economies of

scale in primary production, and an international trade structure dominated by a few big transnationals whose operations display little transparency.

Except for a few lines in the chain dominated by agroindustries producing concentrates (pastes), the capacity of this type of agroindustries to generate technical progress in family agriculture is very limited.

2. Modern basic agroindustries are characterized by the great dynamism of their demand; by a relatively high degree of concentration in the main nucleus

of the chain; by the presence of economies of scale in some agricultural inputs (animal feed grains and oil-seeds) but their relative absence in others (poultry fattening, sugar beet, dairy products, seeds). Their capacity to promote technical progress is relatively high, especially in cases where there are no significant economies of scale in the primary base.

3. *Agroindustries manufacturing differentiated or branded products* are characterized in particular by the decisive role played by publicity in their demand dynamism; the weight of agricultural inputs in the end-product is generally very small (potato crisps, savouries, cereal products, soft drinks, etc.); the agroindustrial nucleus generally displays a high degree of concentration and its capacity to generate technical progress in the agricultural base is very low or even non-existent, in view of the very low level of importance of the agricultural input in the final value of the product.

4. *Traditional export agroindustries*. When these agroindustries are based on basic grains (wheat and flour, rice, maize) they resemble traditional basic agroindustries as regards their capacity to promote technical progress, but their demands for quality and regularity may redound in a greater potential capacity in this respect than in the case of agroindustries producing for the domestic market. They display a higher degree of concentration in the agroindustrial or agro-trading nucleus and much greater homogeneity of the units making up that nucleus.

5. *New or modern export agroindustries*. These concentrate on such lines as fruit and vegetable products, flowers and essences, and, in general, products of high added value per unit of weight. They are characterized by their high international demand dynamism; by not displaying significant economies of scale in primary production, thus permitting high profitability of small units, and by a high degree of concentration (with a few exceptions) in the agro-trading or agroindustrial nucleus. They have high potential capacity to generate technical progress and hence raise living standards in areas of small producers.

The foregoing typology (table 4) –which, it should be repeated, is of a purely tentative nature– points to the following order of types of agroindustries in terms of their potential for generating technical progress in family agriculture:

1. Modern export agroindustries
2. Modern basic agroindustries
3. Traditional export agroindustries
4. Traditional basic agroindustries
5. Agroindustries manufacturing differentiated or branded products

Notwithstanding this order of merit, it may be desirable, for reasons of food security, to combine new export agroindustries with traditional basic agroindustries and/or traditional export agroindustries: the efforts of the first-named to promote technical progress may, through their demonstration effect, be reflected in technological improvements in the lines of basic consumption.

TABLE 4

Types of agroindustries

Type of industry	Dynamism	Degree of concentration	Scale in agricultural base	Weight in diet	Weight of publicity	Induction capacity
1. Traditional basic	-- ↓	- ↑	++ ↑	+++ ↓	---	--
2. Modern basic	+++ ↑	++ ↑	+ ?	++ ↑	--	--
3. Differentiated	+++	+++ ↑	++	- ↑	+++	--
4. Traditional agro-export	-- ↓	++	++ ↑		---	- ?
5. Modern agro-export	+++ ↑	++ ↑	--		- ?	+++

Notes:

---	zero	+++ decisive	↑ rising	? depends on particular case
--	very low	++ very high	↓ falling	
-	low	+ high		

VI

The advantages and risks for the participants

The various varieties of contract agriculture, together with more informal agreements between small producers and agroindustries of different sizes and organizational structures, are not a new phenomenon, although they have generally arisen without the existence of any policy designed to stimulate their development and regulate the relations between the agents concerned. This experience has given rise to advantages and problems for both sides, as described below.

a) *Advantages for the agroindustry*

The main advantages are as follows:

- i) Transfer of the risks inherent in agricultural production to third parties;
- ii) avoidance of problems deriving from wage relations;
- iii) avoidance of the risk of giving grounds for expropriation under agrarian reform legislation;
- iv) avoidance of locking up capital in land;
- v) procurement of access to land suitable for growing the inputs required by the agroindustry in areas where this is only possible through agreements with producers in general and small producers in particular, if the latter predominate in such areas;
- vi) reduction of costs when own-account production would be more costly, by making use of small producers when large agricultural enterprises ask higher prices, even though the transaction costs involved may be higher;
- vii) compliance with public incentives or legislation which respectively encourage or oblige the purchase of inputs from small producers.

b) *Risks for the agroindustry*

Among the most important risks are:

- i) Increased transaction costs as the number of suppliers rises (in respect of transport, technical assistance, quality control, administration, etc.);
- ii) more complex contracts, which, in order to ensure efficiency, must include a number of variables (quality, timeliness, price) which are hard to regulate and can lead to continual disputes;
- iii) the contract farmers may sell their goods to third parties when the price contracted with the

agroindustry is lower than the price on the market at the time of delivery;

iv) inputs supplied by the agroindustry may be diverted to other uses than those agreed upon.

c) *Advantages for the small producer*

Among the advantages are:

- i) A guaranteed market and, if stipulated in the contract, a predetermined price;
- ii) technical assistance which makes it possible to raise the yield per hectare;
- iii) incorporation of products of higher value;
- iv) fuller use of family labour, since the products concerned are generally those involving more intensive use of labour;
- v) possibility of using the new knowledge on traditional crops or crops not covered by the agreement;
- vi) in some cases, access to means of production (machinery or equipment) belonging to the agroindustry.

d) *Risks for the small producer*

Generally speaking, most of the risks stem from the agroindustry's possibility of manipulating the terms of the agreements, either because the suppliers do not fully understand them or because the agreements are sufficiently ambiguous to allow of interpretations which, depending on the relative bargaining power, may be used to the agroindustry's advantage.

The most frequent drawbacks are:

- i) Manipulation of quality standards in order to regulate prices and deliveries;
- ii) late reception of products in order to reduce the price;
- iii) tying one contract to another which is less advantageous to the producer, when the agroindustry acquires more than one product;
- iv) encouragement of concentration on a single crop, with the corresponding dependence and vulnerability;
- v) shortcomings in the technical assistance provided, whose ill-effects become the responsibility of the producer rather than of the supplying enterprise;
- vi) delays in payment or unclear settlements of amounts due;

vii) favouritism in the allocation of the most favourable sowing dates.

The agroindustry's manipulation capacity is all the greater when it is in a monopoly position, when it

is itself a major supplier of the agricultural input needed, when the producers grow only that one input and it has a relatively long growth cycle, and when they have debts with the agroindustry.

VII

Conclusions

A number of conclusions may be drawn from the foregoing which can serve as the basis for the design of a strategy for modernizing family agriculture which makes use of the potential of agroindustry for generating technological development. Briefly, these conclusions are the following:

□ A *laissez-faire* policy, even within a context of reasonable macroeconomic balances, is not enough to promote a process of modernization in family agriculture and hence bring this sector into a pattern of growth with equity.

□ Some forms of agroindustrial or agro-trading activity have considerable capacity to promote technical progress in their agricultural environment in general and in the segment of small farmers in particular.

□ In the past, the public sector has not had much success in tackling the task of promoting technical progress in family agriculture, and in the conditions imposed by the debt crisis its role in this respect has been still further restricted, so that it is necessary to seek ways of increasing the efficiency of public action in these new conditions.

□ Concerted action by the public sector and the types of agroindustries or agro-trading enterprises with the greatest capacity for inducing technical progress would be a suitable way of materializing that development potential much more effectively than through spontaneous initiatives.

In order to take advantage of the potential offered by the strengthening of the linkages between agroindustry and agriculture it is necessary, among other things, to do the following:

□ To create an institutional framework which ensures transparency and even-handedness in the relations between agricultural producers and agroindustries.

□ To establish a set of incentives to impel the agroindustries selected in the light of their development potential to take on the tasks of providing training and transferring technology to small producers

who can become stable suppliers of those industries. Among other things, these incentives should include subsidies for the higher transaction and training costs involved in the creation of such a supplier base.

□ To stimulate a higher degree of organization of small producers, seeking a reasonable degree of homogeneity among their members and also contemplating the establishment of cooperative agroindustries or mixed ventures with private entrepreneurs.

In conclusion, it should be clearly understood that agroindustrial development does not *replace* the effort that needs to be made in the field of rural development. Although agroindustry will aid rural development, effective rural development is an essential prior condition for the realization of the true potential of closer links between agroindustry and primary activity. It is also important to note that much of the agroindustry in the region is operating with levels of idle capacity which are in some cases quite high, thus forming a kind of "entry barrier" against proposed new initiatives in areas where such idle capacity exists. Finally, agroindustry's capacity for the direct absorption of labour is not as high as is sometimes supposed. In many cases, certain types of agroindustrial activity involve levels of investment for each job generated which are just as high as, and often higher than, those registered in other branches of industry.

In view of the foregoing, it is worth repeating that although the most obvious linkages are those between agroindustry and agriculture, industrial deconcentration in general, and especially its "ruralization" as part of a broader policy of upgrading rural areas, would be potentially very important factors in the task of stemming the exodus from rural areas and increasing peasant employment and income, as shown by the experience of various European countries and some recently-industrialized Asian nations (Ho, 1979).

(Original: Spanish)

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