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# Transnationalization *and integration of* production *in Latin America*

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Trade among the ALADI countries has grown with exceptional vigour so far in the 1990s, especially in the branches of metal products, machinery and equipment, chemical products, and foodstuffs, beverages and tobacco. In order for this dynamic growth to be sustainable in the long term, these countries must develop their intra-industry trade by promoting reciprocal supply in those branches. The bulk of transnational productive capital in Latin America is concentrated in those branches, and it is in the metal products, machinery and equipment sector that the swiftest increase in intra-industry trade takes place and the link between the growth of intra-regional trade and a strong presence of transnational capital is most marked. In the motor industry –which is a textbook example of these features– the existence of systems and agreements which include elements of preference, and in whose formulation the companies themselves have played a leading role, has been essential for their survival and growth. Examples of this are the rules governing trade in this field between Argentina and Brazil and the areas subject to the regulations governing assembly-type ("maquila") activities in Mexico. When shaping future strategies for open regionalism and the most suitable arrangements for attracting foreign direct investment without giving rise to an improductive struggle among the prospective recipient countries, what has been observed in the motor industry suggests that it is not only through economic liberalization but also through special conditions agreed between the firms involved and the members of a given integration scheme that transnational productive capital can be attracted and retained.

# I

# Introduction

Mutual imports among the ALADI countries, measured as a percentage of their total imports, rose from 10% to 17% between 1990 and 1993. Why did this increase take place, and how sustainable can it be in the long term?

There are increasingly clear indications that these tendencies derive from a more than proportional impact of the elimination of trade barriers among countries which, because of their relative proximity in geographical terms and their greater physical integration, are registering lower and lower transport costs. We could speak of the enhanced overall result of two individual phenomena: the "liberalization effect" and the "economic proximity effect" (Garriga and Sanguinetti, 1994). The impact on mutual trade has been all the stronger because the recent free trade agreements have further accelerated the intra-regional liberalization of the Latin American countries.

Side by side with the free trade agreements, however, systems of exceptions have continued to operate, notably in the case of the motor industry. At the subregional level, mention may be made of Protocol 21 between Argentina and Brazil, while at the hemispheric level there are the export processing zones and the regulations governing assembly-type operations between Mexico and the United States, which continue to apply, at least temporarily, even after the entry into force of MERCOSUR and the North American Free Trade Agreement (NAFTA). The transnational corporations are leading actors in this growth of trade and are reorganizing their intra-regional and intra-hemispheric forms of production specialization in order to take advantage of the economies of scale and of specialization offered by these expanded markets. Although this process does benefit from the general liberalization of markets, its main boost comes from the forms of managed and compensated trade established under the systems of exceptions mentioned earlier.

The influence of the strictly economic elements referred to above is accompanied by that of others which are harder to quantify, such as cultural or language affinity, or the easing of political tensions between neighbouring countries which has been observed with the return to democratic regimes in Latin America.

With regard to the long-term sustainability of the relative expansion of mutual trade, this will depend to a large extent –at least in the strictly Latin American area– on the capacity of regional supply to satisfy the increased Latin American demand for imports inherent in a process of sustained growth. In other words, it will depend on the ability of that supply to evolve towards manufactures or services with a high income-elasticity of demand.

The growth potential of the regional market easily exceeds that of the external markets to which most of the regional supply is directed. The long-term growth capacity of the Latin American economies is a good deal higher than that of the developed countries. In the present conditions of liberalization, however, a definite pattern of intra-industry trade is needed if all the countries participating in a mutual trade scheme are to satisfy their needs with mutual exports and thus stimulate this type of development. Unlike inter-industry trade –which is the typical form of trade between central and peripheral countries– intra-industry trade makes possible the sustained growth of trade among countries with more or less similar levels of development and relative factor endowments, through the proper use of economies of scale and specialization.

This role of intra-industry trade in Latin American integration and in the encouragement of economies of scale and specialization is not something new for ECLAC. Fully thirty years ago, it noted in this respect that: "Economies of production scale which cannot be enjoyed because of market limitations are of significant importance in major industrial activities connected with the production of consumer durables, capital goods, and basic intermediate products. These economies depend on various factors, such as indivisibility of investments, lack of propor-

□ This article is based on Di Filippo, 1994.

tionality between increased production capacity of plant and the cost of the necessary equipment, and the possibility of incorporating modern technology and some degree of specialization when working at high scales of production". "Regional integration will directly help to solve all these development problems due to market size. In proportion as this process advances, the types of production located in each of the individual member countries will be able to enjoy the potential demand of the entire integrated area. They will consequently be able to set up modern plants with optimum dimensions and suitable levels of specialization, and it will be possible to proceed with industrialization in other branches where this is currently not possible within national markets alone" (ECLAC, 1965).

This view set forth by ECLAC in the mid-1960s has now been modified in two respects. Firstly, economic integration is no longer taking place as part of a process of import substitution industrialization: the aim now is to be compatible with a broad process of opening up to the world economy and to contribute to this. Secondly, intra-industry trade is no longer promoted through sectoral economic complementation agreements, with strong intervention by government bureaucracies in the distribution of production tasks among countries, but now takes place through the increasingly prominent role of private enterprise (ECLAC, 1994 a and b). Even in those days, however, ECLAC's message was that, in order to be sustainable, the process of trade integration in Latin America needed a more than proportional growth rate of mutual intra-industry trade. Today, this same basic proposal –which came into conflict with the principle of static comparative advantages in vogue at that time– is increasingly confirmed by the most recent academic lines of thought (for example, Krugman and Obstfeld, 1994, chap. 6).

We will give the title "production integration of Latin America" to the establishment of an intra-regional division of labour which makes possible the development of an increasingly diversified supply of industrial products by all the participants. The empirically verifiable expression of the advance of this process of production integration will be the growth of intra-industry trade, not only among the Latin American countries but with the rest of the world as well.

This article provides background information on the leading role played by transnational corporations in the production of the goods –basically metal products, machinery and equipment and chemical products– which currently form the bulk of the intra-industry trade of the Latin American countries.

# II

## Forms of production integration

In a previous paragraph, we described production integration as the establishment of an intra-regional division of labour which makes possible the development of an increasingly diversified supply of industrial products by all the participating countries.

A first form of production integration is the intra-firm variety, which takes place among subsidiaries of the same transnational corporation. This form is often called "international production" in studies on transnational corporations (UNCTAD, 1993), and gives rise to intra-firm trade in the strict sense.

A second form of production integration is practiced between transnational corporations of developed countries (or their subsidiaries) and local firms to which they subcontract certain production operations, subject to very precise technical specifications. Here, different types of alliances and agreements are entered into which involve close technical and production links between the transnational subsidiaries and the local subcontractors, and these relationships are known as "new forms of international investment" (Kuwayama, 1992). In the motor industry, the interrelations deriving from these alliances are extremely complex.

Both of the forms considered so far have two features in common: they involve intra-industry trade, and they usually give rise to special trade arrangements with full exemption from customs duties (as in the free zones) or with tariffs calculated only on the basis of the value added to the part or component to be reimported by the original exporter (as in

the case of assembly or "maquila" operations). These special forms of tariff treatment are, on the one hand, a recognition of the fact that what is involved is not trade in the classical ("Ricardian") sense, while on the other hand they imply mutual preferences which are typical of integration agreements or can promote them. In addition, some of the sectoral agreements currently in force include clear elements of managed or regulated trade. These forms of trade are very frequent between developed and developing countries, and may be de facto forerunners of integration agreements, as in the inclusion of Mexico in NAFTA. They also occur between Latin American countries, involving transnational subsidiaries and local manufacturers of motor parts, as in the case of the agreement on the motor industry between Argentina and Brazil.

The third form of production integration to be examined here was actually the first to be observed in the region, namely, the process of complementation of supply in specific branches of final products, which gives rise to trade in products that belong to the same branch or activity but have different specifications. This type of intra-industry trade was strongly developed, for example, when the countries of the present European Union specialized in very specific ranges or niches of production within broader branches of manufacturing. All these countries produced machinery, household appliances and transport equipment, for example, but all of different types and quality levels. In this way, they were able to expand their trade in manufactures in a more balanced and dynamic manner, taking advantages of economies of scale and specialization. They were also able to compete in the rest of the world with their products and managed to secure complementary market niches.

This balanced growth did not occur in other important lines of trade in the period since the war. In its early studies, ECLAC clearly highlighted the unbalanced nature of the trade between the central countries and the countries of the periphery, which exchanged primary commodities for manufactures: unbalanced because of the long-term disparities in the growth rates of demand for these two types of products. Nor was it structurally viable to hope to maintain a balance in the mutual trade of countries which were traditional commodity producers, because the lack of diversity –and of diversification– of the exportable supply rapidly sapped the dynamism of such trade.

# III

## Foreign direct investment and the recipient markets

When an effort is made to identify the links between integration and the behaviour of foreign direct investment (FDI), the inflow corresponding to the transnational corporations already installed in the region immediately stands out. In this respect, estimates corresponding to the early 1990s indicate that the accumulated FDI in the member countries of the Latin American Integration Association (ALADI), at book value, amounted in 1990 to US$92 billion at current prices, while the inflow in the same year was approximately US$7.5 billion at current prices (about 8% of the accumulated FDI). Of this total stock of foreign capital, 73% corresponded to Brazil and Mexico (87% if Argentina and Chile are added).

In this section, an attempt will be made to answer a number of questions regarding the links between the presence of transnational corporations in Latin America and the regional integration process. The generalizations made are based on the analysis of five countries –Argentina, Brazil, Chile, Colombia and Venezuela– which are considered to be fairly representative of the tendencies observed in ALADI. The situation of Mexico –which was left out of this analysis for lack of information– has special features which will be analysed later on, in section VI.

At this point, some of the main questions may be raised. Which are the production sectors that account for the bulk of FDI in Latin America? In which of these sectors does the ALADI market account for a major share of total exports? For which of these sectors has the ALADI market grown faster than markets outside the region?

The answer to these questions is that in the countries in question (except for Chile) half or more of the total FDI is located in the manufacturing sectors, and, within these, mainly in the metal products, machinery and equipment sector (ISIC division 38) [1] and in chemical products (ISIC division 35). The more rapid growth of the ALADI market for these product branches has increased the interest of the transnational corporations in expanding their supply in this direction. For decades past, both branches have received transnational investments in connection with the domestic markets of a number of these countries, and now the transnationals are restructuring their operations to take advantage of the supra-national scale of the markets emerging under the terms of the integration agreements signed in the 1990s.

Another branch of manufacturing which is worthy of mention is foodstuffs, beverages and tobacco (ISIC division 31). Although to a lesser extent, this branch also absorbs a by no means insignificant percentage of manufacturing FDI. Moreover, recent press reports indicate an increase in the presence of big transnationals in this field. The proportion of total exports in this branch absorbed by ALADI is not more than 20% (except in the case of Colombia), but the share accounted for by the regional market is growing faster than total exports in this category.

The weight of these three branches (ISIC divisions 31, 35 and 38) in total exports of manufactures varies considerably from one country to another.

Thus, in Venezuela these branches account for 78% of total exports of manufactures, because of the weight of the petrochemicals industry. In Argentina, they form 70.3% of total manufactured exports, with foodstuffs, beverages and tobacco predominating. In Brazil, they represent 73.1% of such exports, mainly due to exports of metal products, machinery and equipment. In Colombia they account for 42.6% of total exports of manufactures, with chemical products predominating, and finally, in Chile, they form only 21.8% of manufactured exports because that country's main manufactured export line is basic metal industries, where the contribution of FDI is very small and most exports are to countries outside the region (see table 2 below).

The priority attention warranted by these three branches is due to their great capacity for supplying the domestic markets of the countries where such industries are installed. Their present and future competitiveness is supported first of all by the domestic markets themselves and subsequently by the supranational markets emerging from the present integration agreements, on the basis of which they can launch themselves into the hemispheric or world markets. Consequently, their rate of growth is closely linked with the rate of development of the countries of the region. Although the income-elasticity of demand for foodstuffs with some degree of processing is lower than that of the other two branches, if the region registers sustained growth of the product, together with an improvement in income distribution, the prospects for growth of the foodstuffs, beverages and tobacco branch would nevertheless be quite promising. It is in these three branches that the closest links are to be observed between FDI and Latin American economic integration.

The data presented in tables 1 and 2 below (compiled at the national level) show that, even before the wave of agreements signed in the 1990s, there was a substantial recovery of intra-regional trade as from 1985, when the relative slump in that trade reached its lowest point.

This change in direction of exports was particularly marked in the case of metal products, machinery and equipment and chemical products, where transnational corporations predominate. In the 1990s, the formal entry into effect of integration agreements gave further strength and stimulus to a process which had begun in the second half of the 1980s. The cases of intra-industry trade analysed below confirm that the transnational corporations to some extent anticipated the signing of those bilateral or subregional free trade agreements and began their own process of *de facto* integration either before or at about the same time. Consequently, if there was a growing process of absorption of these products in the ALADI market even before liberalization became a general phenomenon, it is easy to understand the rapid growth of this trade as a result of the implementation of the policies which are being applied in the 1990s.

[1] United Nations International Standard Industrial Classification (ISIC), Statistical Papers, Series M, No.4, Rev.2.

# IV

## Analysis of national case studies

In this section, we will look at five Latin American countries –Argentina, Brazil, Chile, Colombia and Venezuela– in order to determine the branches which have received most FDI (table 1), the main destinations of the exports of those branches, and the branches which have grown most rapidly in the ALADI market (table 2).

This analysis was carried out as follows. An analysis was made of the branches corresponding to ISIC divisions that absorbed more than 5% of the FDI in the production of goods, and within them two major groups were distinguished. On the one hand, there were the branches which accounted for the bulk of the manufacturing FDI, much of whose production goes to the ALADI market. These branches were chemical products and metal products, machinery and equipment (ISIC divisions 35 and 38). On the other hand were the other primary or manufacturing branches, with proportions of foreign capital which varied according to the countries and with exports directed mainly to markets outside the region. Within this second group, in which natural-resource- intensive activities predominate, there are some branches (such as foodstuffs, beverages and tobacco) which receive a growing share of FDI and are increasing their penetration of the ALADI market.

### 1. Argentina (1985-1989)

Up to the end of 1993, there were no more recent estimates for this country, broken down by branches of economic activity, which could be compared with the export data. In 1989, 18.8% of total FDI in the production of goods was concentrated in the primary sector. If other natural-resource-intensive manufacturing activities are added to this figure, this gives a total of 35%, and 70.3% of all exports came from these branches. Moreover, some 70% of the exports in question went to destinations outside the region.

The branches corresponding to ISIC divisions 35 and 38 received 49.6% of total FDI and produced 19% of all exports of goods, while 42% of the total exports of division 35 and 55% of those of division 38 went to the ALADI market.

Total exports of the chemical products and metal products, machinery and equipment branches increased by US$260 million, while exports to ALADI rose by US$376 million. Of the overall increase in Argentina's total exports of manufactures, 32% was due to exports by these two branches to ALADI.

### 2. Brazil (1985-1991)

Of the total FDI in the production of goods accumulated by the end of this period, only a meagre 4.3% corresponded to the primary sector, thus highlighting the fact that in that country export agriculture is fundamentally in Brazilian hands. If FDI in some natural-resource-intensive manufactures is added to this figure, this gives a total of 23.3%. The percentage of total exports corresponding to these branches was 55.3%, while exports to destinations outside the region came to between 79% and 94% of the total, depending on the branch in question.

The chemical products and metal products, machinery and equipment branches accounted for 65% of total FDI in the production of goods. The exports of these two branches represented 32% of total exports of goods, went to more diversified destinations, but the proportion of sales to ALADI was not particularly high.

In terms of export growth, however, the ALADI market has been vital for the expansion of these branches. The net increase in total exports for the two branches in question was US$1 155 million, while the increase in sales to ALADI came to US$1 690 million and made up for the decline in exports to markets outside the region (Di Filippo, 1994). The increase in exports to ALADI in the case of these two branches was not only US$535 million more than the growth of exports to the world as a whole but also generated 54% of the overall increase in Brazil's total exports of manufactures to the world as whole during the period.

### 3. Chile (1985-1990)

In Chile, 78% of total FDI in the production of goods was concentrated in the primary sector. There is little presence of transnationals in natural-resource-

TABLE 1

**Latin America (five countries): Foreign direct investment, by countries and sectors**

*(Millions of current dollars and percentages)*

| Country | Total | Primary sector | Foodstuffs, beverages and tobacco | Textiles and leather products | Paper and paper products | Non-metallic minerals | Basic metal industries | Chemical products | Metal products, machinery and equipment | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina (1989) | | | | | | | | | | |
| FDI in production of goods | 51 636 | 973.3 | 5 502.0 | 2 001.0 | 324.0 | 1 764.0 | 2 888.0 | 12 003.0 | 13 663.0 | 375.9 |
| Percentages | 100.0 | 18.8 | 10.6 | 3.8 | 0.6 | 3.4 | 5.6 | 23.2 | 26.4 | 7.3 |
| % of growth (1985-1989) | 4.1 | 3.1 | 14.3 | 22.5 | 0.8 | 5.5 | 0.9 | 0.5 | 1.1 | 10.6 |
| Brazil (1991) | | | | | | | | | | |
| FDI in production of goods | 273 350.0 | 1 179.2 | 21 082.0 | 8 224.0 | 8 730.0 | 6 384.0 | 31 079.0 | 79 176.0 | 98 477.0 | 810.6 |
| Percentages | 100.0 | 4.3 | 7.7 | 3.0 | 3.2 | 2.3 | 11.3 | 28.9 | 36.0 | 2.9 |
| % of growth (1985-1991) | 35.6 | 21.1 | 28.0 | 32.6 | 58.8 | 47.0 | 60.7 | 48.0 | 25.0 | 5.0 |
| Chile (1990) | | | | | | | | | | |
| FDI in production of goods | 4 438.4 | 34 980.0 | 2 094.0 | 154.0 | 1 010.0 | 772.0 | 9.9 | 251.6 | 1 283.0 | 40.3 |
| Percentages | 100.0 | 78.8 | 4.7 | 0.3 | 2.2 | 1.7 | 0.2 | 5.6 | 2.9 | 0.9 |
| % of growth (1985-1991) | 172.2 | 233.4 | 35.6 | 79.6 | 106.2 | 15.7 | 17.5 | 24.5 | 51.8 | 436.0 |
| Colombia (1991) | | | | | | | | | | |
| FDI in production of goods | 3 289.9 | 1 638.6 | 231.8 | 646.0 | 186.8 | 89.7 | 17.0 | 6 316.0 | 4 088.0 | 208.0 |
| Percentages | 100.0 | 49.8 | 7.0 | 1.9 | 5.6 | 2.7 | 0.5 | 19.2 | 12.4 | 0.6 |
| % of growth (1985-1991) | 75.4 | 119.0 | 46.3 | 30.3 | 55.3 | 39.1 | (-1.6 ) | 27.9 | 97.2 | 35.0 |
| Venezuela (1991) | | | | | | | | | | |
| FDI in production of goods | 3 426.2 | 1 886.0 | 561.8 | 42.8 | 158.3 | 210.7 | 313.4 | 11 960.0 | 7 469.0 | 73.0 |
| Percentages | 100.0 | 5.5 | 16.4 | 1.2 | 4.6 | 6.1 | 9.1 | 34.9 | 21.7 | 0.2 |
| % of growth (1985-1991) | 190.5 | 385.1 | 106.1 | 106.3 | 305.1 | 240.1 | 244.7 | 132.5 | 272.9 | (-43.7) |

**Source:** Prepared by the author on the basis of official figures.

TABLE 2

**Latin America (five countries): Exports by sectors, by destination**

*(Millions of current dollars and percentages)*

| | Total exports | Primary sector | Foodstuffs and beverages | Textiles and leather products | Paper and paper products | Non-metallic minerals | Basic metal industries | Chemical products | Metal products, machinery and equipment | Other industries | Secondary sector |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Argentina (1985-1989) | | | | | | | | | | | |
| Total (1989) | 9 565.2 | 2 138.9 | 3 411.5 | 772.6 | 178.1 | 75.8 | 1 171.0 | 1 092.1 | 711.5 | 104.0 | 7 422.9 |
| Destination: ALADI (%) | 24.9 | 26.6 | 13.7 | 17.0 | 50.4 | 56.4 | 17.6 | 41.7 | 55.4 | 56.4 | 24.6 |
| Destination: U.S.A. (%) | 12.3 | 6.3 | - | 31.6 | 12.7 | 16.4 | 15.3 | 20.6 | 10.6 | 27.8 | 14.1 |
| Destination: Rest of world (%) | 62.8 | 67.1 | 86.3 | 51.4 | 36.6 | 27.2 | 67.1 | 37.7 | 34.0 | 15.5 | 61.3 |
| *Growth in exports (%)* | | | | | | | | | | | |
| Total | 13.9 | (-365) | 42.8 | 41.0 | 194.2 | 381.4 | 150.0 | 10.7 | 27.9 | 494.2 | 47.8 |
| To ALADI | 60.8 | 9.2 | 81.2 | 68.1 | 164.0 | 390.6 | 137.0 | 43.4 | 125.8 | 866.3 | 87.7 |
| To U.S.A. | 15.3 | 91.7 | 2.3 | 136.2 | 167.4 | 719.4 | 94.6 | (-43.3) | 1.0 | 347.6 | 9.7 |
| Brazil (1985-1991) | | | | | | | | | | | |
| *Exports* | | | | | | | | | | | |
| Total (1991) | 25 593.9 | 3 823.5 | 7 658.0 | 2 065.4 | 882.6 | 174.2 | 2 685.8 | 3 810.5 | 4 443.2 | 47.7 | 21 767.6 |
| Destination: ALADI (%) | 8.7 | 4.7 | 0.8 | 5.8 | 10.5 | 30.4 | 7.5 | 12.9 | 20.5 | 22.2 | 9.4 |
| Destination: U.S.A. (%) | 27.1 | 9.6 | 24.0 | 56.7 | 26.4 | 35.8 | 24.7 | 30.5 | 32.1 | 35.0 | 30.2 |
| Destination: Rest of world (%) | 64.2 | 85.7 | 55.2 | 37.5 | 63.1 | 33.8 | 67.8 | 56.6 | 47.4 | 57.2 | 39.6 |
| *Growth in exports (%)* | | | | | | | | | | | |
| Total | 23.5 | 67.2 | (-38.1) | 31.6 | 122.5 | 76.2 | 113.1 | (-23.4) | 46.2 | 148.7 | 14.3 |
| To ALADI | 121.8 | 94.5 | 3.5 | 115.3 | 151.5 | 109.5 | 201.6 | 88.2 | 137.5 | 653.0 | 124.2 |
| To U.S.A. | (-8.4) | 124.4 | (-67.9) | (-2.1) | 69.5 | 0.3 | 17.3 | (-43.7) | 32.2 | 307.0 | (-15.9) |
| Chile (1985-1990) | | | | | | | | | | | |
| *Exports* | | | | | | | | | | | |
| Total (1990) | 8 521.7 | 2 363.4 | 827.1 | 112.9 | 668.5 | 23.5 | 3 910.5 | 365.2 | 124.3 | 11.2 | 6 043.6 |
| Destination: ALADI (%) | 11.9 | 13.9 | 14.5 | 24.0 | 22.8 | 14.4 | 4.4 | 41.3 | 40.5 | 36.6 | 11.2 |
| Destination: U.S.A. (%) | 16.7 | 22.6 | 12.9 | 50.3 | 7.6 | 64.6 | 13.6 | 21.0 | 36.5 | 39.2 | 14.7 |
| Destination: Rest of world (%) | 71.4 | 63.5 | 72.6 | 25.7 | 69.6 | 11.0 | 82.0 | 37.7 | 23.0 | | |
| *Growth in exports (%)* | | | | | | | | | | | |
| Total | 138.2 | 121.7 | 82.2 | 1 169.3 | 101.3 | 1 343.7 | 147.3 | 159.2 | 220.6 | 5 312.5 | 140.8 |
| To ALADI | 92.2 | 167.5 | 216.9 | 3 064.2 | 52.4 | 387.2 | (-11.2) | 255.7 | 185.4 | 9 015.6 | 67.9 |
| To U.S.A. | 88.0 | 96.9 | 43.2 | 2 668.0 | (-8.7) | 1 692.4 | 49.3 | 292.9 | 419.4 | 7 354.7 | 82.8 |
| Colombia (1985-1991) | | | | | | | | | | | |
| *Exports* | | | | | | | | | | | |
| Total (1991) | 7 268.5 | 4 171.4 | 316.6 | 1 014.1 | 197.8 | 124.0 | 195.5 | 711.7 | 268.5 | 211.2 | 3 039.5 |
| Destination: ALADI (%) | 15.2 | 6.7 | 36.6 | 13.8 | 41.4 | 39.8 | 10.3 | 38.7 | 43.0 | 8.1 | 26.8 |
| Destination: U.S.A. (%) | 38.3 | 42.7 | 13.8 | 37.9 | 42.0 | 35.8 | 13.3 | 39.4 | 17.7 | 23.9 | 32.5 |
| Destination: Rest of world (%) | 46.5 | 50.6 | 49.6 | 48.3 | 16.6 | 24.4 | 76.4 | 21.9 | 39.3 | 68.0 | 40.7 |
| *Growth in exports (%)* | | | | | | | | | | | |
| Total | 107.9 | 84.6 | 91.3 | 469.6 | 138.1 | 234.8 | 183.7 | 19.3 | 287.4 | 606.5 | 145.8 |
| To ALADI | 294.1 | 383.0 | 543.1 | 208.9 | 150.3 | 603.6 | 3 470.0 | 269.2 | 218.1 | 413.7 | 266.7 |
| To U.S.A. | 142.9 | 171.0 | (-9.6) | 343.0 | 186.9 | 124.4 | 86.7 | 13.8 | 355.1 | 2 119.3 | 101.6 |
| Venezuela (1985-1991) | | | | | | | | | | | |
| *Exports* | | | | | | | | | | | |
| Total (1991) | 14 776.5 | 7 877.4 | 180.3 | 64.9 | 62.2 | 115.1 | 1 269.3 | 4 949.8 | 247.7 | 9.0 | 6 898.4 |
| Destination: ALADI (%) | 7.8 | 4.4 | 14.1 | 14.6 | 9.2 | 9.4 | 19.1 | 8.8 | 27.1 | 26.6 | 11.6 |
| Destination: U.S.A. (%) | 52.7 | 61.3 | 13.0 | 32.6 | 22.2 | 43.1 | 20.0 | 50.3 | 42.1 | 51.1 | 42.9 |
| Destination: Rest of world (%) | 39.5 | 34.3 | 72.9 | 52.8 | 68.1 | 47.5 | 60.9 | 40.9 | 30.8 | 22.3 | 45.5 |
| *Growth in exports (%)* | | | | | | | | | | | |
| Total | (-7.8) | (-0.1) | 97.6 | 600.9 | -1.7 | (-38.2) | (-31.6) | (-14.3) | 54.8 | 458.5 | (-15.2) |
| To ALADI | 61.3 | (-5.6) | 143.6 | 7 867.2 | 49.8 | 10 141.1 | 218.2 | 91.0 | 186.8 | 489.0 | 133.5 |
| To U.S.A. | 7.8 | 56.1 | (-38.2) | 254.2 | (-61.7) | (-65.0) | (-6.0) | (-76.1) | 29.8 | 444.9 | (-28.3) |

**Source:** Prepared by the author on the basis of official figures.

intensive manufactures, while the foodstuffs, beverages and tobacco branch received some 5% of FDI. These two branches (primary commodities + foodstuffs) accounted for 37.4% of total exports of goods. In neither case did exports to ALADI represent more than 15% of the total.

The most important branch in terms of exports of manufactures was basic metal industries, which received only an insignificant percentage of FDI but accounted for over 60% of exports of manufactures. The total exports of this branch increased by US$3 230 million, but those directed to the ALADI market went down by US$21 million; the Latin American region absorbed less than 5% of the total and showed little dynamism.

The ALADI market grew a little more in the case of foodstuffs, beverages and tobacco, where total exports increased by US$418 million (82%) and exports to ALADI grew by US$82 million (216%).

The chemical products and metal products, machinery and equipment branches behaved quite atypically compared with the other countries analysed. The first-named branch absorbed less than 6% of total FDI and the last-named one less than 3%. Although they did not reach the threshold level of 5% adopted in this article, they have been included in the analysis because of their strategic role in all industrialization processes. Their respective shares in total exports were also small (4.2% and 1.5%). However, the ALADI market was the most important one for these branches, absorbing over 40% of their exports.

We thus see that these two branches had little weight (less than 4%) in the increase in Chile's exports of manufactures (this meagre figure may be compared with 54% for Brazil, 32% for Argentina, or even 16% for Colombia). Nevertheless, in the course of the period the chemical products branch increased its total exports by US$224 million (159%), while its exports to ALADI grew by US$108 million (256%).

### 4. Colombia (1985-1991)

In this country, total FDI in the production of goods has been strongly concentrated in the primary sector (50%). If natural-resource-intensive activities which receive more than 5% of the total FDI in goods production are added to this, the figure rises to 62.4%. Exports from these branches represented 64% of total exports of goods.

The ALADI market absorbed only a very small proportion of the exports of the primary sector proper, but it received a substantial share of natural-resource-intensive manufactures.

The branches corresponding to ISIC divisions 35 and 38 absorbed 31.6% of FDI, and their exports represented 13.3% of total exports. ALADI is a very important market for these exports, of which it absorbs some 40%.

The most important export manufacturing branches were leather products and textiles, which accounted for 33.4% of total manufactured exports, but as they only received 2% of total FDI they were not included in the figures referred to in the previous paragraph. The main market for these branches was not Latin America but the European Union, followed by the United States.

The Colombian chemical products branch behaved like the corresponding branches in Argentina and Brazil in terms of the destination of its exports. Total sales to the world as a whole increased by US$115 million (19.3%), while those to the ALADI market grew by US$201 million (269.2%). In the case of the metal products, machinery and equipment sector, total exports rose by 287%, while those to the ALADI market grew by 218%.

### 5. Venezuela (1985-1991)

In 1991, the Venezuelan primary sector only received 5.5% of total FDI. If the share of natural-resource-intensive branches of manufacturing is added to this, the figure rises to 37%. Altogether, these areas of activity generated 64% of total exports of goods, but in none of them was the share of the ALADI market greater than 20% of total exports.

In the branches of manufacturing corresponding to ISIC divisions 35 and 38, chemical products absorbed 34.9% of total FDI, while metal products, machinery and equipment accounted for 21.7%, making a total of 56.6% of FDI in the production of goods. In contrast with the branches referred to earlier, the main destination of these two branches was the United States, which absorbed 50.3% of total exports of chemical products and 42.2% of total exports of metal products, machinery and equipment.

The growth trends of the ALADI market for these branches were similar to those observed in the case of Argentina and Brazil, however. Total exports of manufactured chemical products went down by

US$823 million, which was only partly offset by the increase of US$209 million in exports to ALADI. Exports of metal products, machinery and equipment, for their part, grew by US$88 million (55%), while exports of these goods to ALADI grew by US$44 million (187%), thus accounting for 50% of the growth in exports in this branch.

Thus, although their absolute and percentage weight is only quite small, these two branches found a more dynamic market in ALADI than in the rest of the world. Indeed, even at a more general level, the exports of the branches accounting for most of total FDI grew more in the case of the ALADI market than in other world markets.

# V

# Integration, transnational corporations and intra-industry trade

This section presents information which supports the argument that intra-industry (Grubel and Lloyd, 1975) and intra-firm trade, especially in the metal products, machinery and equipment branches, is one of the main driving forces for the expansion of mutual trade among the large and medium-sized countries of South America. It also emphasizes, however, that in order to be sustainable this expansion process needs mechanisms to promote and balance that trade. In view of the leading role of the transnational corporations in these branches, the use of sectoral economic complementation agreements can be a fundamental mechanism for sustainable expansion. In the paragraphs below, an analysis is made of trends in intra-industry trade between pairs of countries in the branches which have received most FDI, and special reference is made to the agreement between Argentina and Brazil on the motor industry.

## 1. Intra-industry trade between Argentina and Brazil

A good example of the foregoing is the recent evolution of intra-industry trade between Argentina and Brazil (table 3). This example is very significant because the bilateral trade link between these two countries is the most important of all the ALADI trade flows and is, of course, the basis for the expansion of MERCOSUR. The two branches of manufacturing which absorb most FDI are chemical products and metal products, machinery and equipment. The share of the first-named of these in overall mutual trade has been going down, but the share of the second has significantly increased.

Thus, in 1984 the share of this second branch in bilateral trade was 15%, but in 1991 it had risen to 26%: the most rapid growth observed at this level of disaggregation. This branch was also one of those which most significantly increased its coefficient of intra-industry trade: from 30.9% in 1984 to 63.2% in 1990 (Lucángeli, 1992 and 1993; Di Filippo, 1994).

A high and growing coefficient of intra-industry trade is a necessary, but not of itself sufficient, condition for the sustainable expansion of mutual trade. Thus, for example, in the chemical products branch the coefficient of intra-industry trade between Argentina and Brazil rose from 18.2% in 1984 to 67% in 1990, but over the same period the share of this branch in total trade between those two countries went down from 18.7% to 11.7%.

## 2. Intra-industry trade between Colombia and Venezuela

In both Colombia and Venezuela, the two branches of manufacturing which have received most FDI are chemical products and metal products, machinery and equipment. Trade in these two branches between these countries forms the bulk of their bilateral trade in manufactures, but the share of the first branch has increased, whereas that of the second has declined.

Thus, the share of metal products, machinery and equipment in mutual trade between the two countries went down from 20.1% to 11.3% between 1981 and 1988, but its coefficient of intra-industry trade rose from 37.9% to 94.2%.

Over the same period, the share of the chemical products branch rose from 21.2% to 48.6%, while its

TABLE 3

**Argentina and Brazil: Mutual trade in significant product groups, 1990** [a]
*(Thousands of current dollars)*

| SITC/Rev.2 groups | | Total trade | Intra-industry trade | Coefficient of intra-industry trade |
|---|---|---|---|---|
| 511 | Hydrocarbons, n.e.s. | 33 358 | 29 048 | 87.1 |
| 512 | Alcohols, phenols and their derivatives | 34 467 | 23 502 | 68.2 |
| 513 | Carboxylic acids and their derivatives | 19 275 | 11 028 | 57.2 |
| 514 | Nitrogen-function compounds | 21 097 | 15 914 | 75.4 |
| 515 | Organo-inorganic compounds | 20 681 | 18 508 | 89.5 |
| 522 | Inorganic chemical elements | 37 054 | 14 442 | 39.0 |
| 523 | Other inorganic chemicals | 18 119 | 7 956 | 43.9 |
| 531 | Synthetic organic dyestuffs | 5 669 | 3 046 | 53.7 |
| 582 | Condensation products | 11 212 | 8 792 | 78.4 |
| 583 | Polymerization products | 39 930 | 36 378 | 91.1 |
| 591 | Disinfectants, insecticides, fungicides, etc. | 19 464 | 15 364 | 78.9 |
| 598 | Miscellaneous chemical products, n.e.s. | 15 080 | 13 478 | 89.4 |
| 625 | Rubber tyres | 19 375 | 17 396 | 89.8 |
| 641 | Paper and paperboard | 32 159 | 27 508 | 85.5 |
| 652 | Cotton fabrics | 5 677 | 1 812 | 31.9 |
| 674 | Universals, plates and sheets | 19 720 | 13 302 | 67.5 |
| 684 | Aluminium | 9 597 | 8 678 | 90.4 |
| 695 | Hand tools | 12 317 | 4 176 | 33.9 |
| 713 | Internal combustion engines | 37 638 | 29 346 | 78.0 |
| 723 | Civil engineering plant and equipment | 10 222 | 7 292 | 71.3 |
| 728 | Other machinery and equipment, specialized | 9 296 | 4 396 | 47.3 |
| 741 | Heating and cooling equipment | 7 075 | 6 950 | 98.2 |
| 742 | Pumps for liquids | 11 444 | 8 684 | 75.9 |
| 743 | Pumps and compressors | 16 553 | 16 066 | 97.1 |
| 745 | Other non-electrical machinery and tools | 16 774 | 12 292 | 73.3 |
| 749 | Non-electrical parts and accessories of machinery | 16 120 | 11 762 | 73.0 |
| 752 | Electronic data processing equipment (computers) | 10 961 | 8 624 | 78.7 |
| 772 | Electrical switchgear and equipment | 5 161 | 2 516 | 48.8 |
| 775 | Household appliances | 5 849 | 4 984 | 85.2 |
| 778 | Electrical machinery and apparatus, n.e.s. | 14 467 | 11 468 | 79.3 |
| 784 | Motor vehicle parts and accessories | 96 297 | 90 286 | 93.8 |
| 882 | Photographic and cinematographic supplies | 16 952 | 6 472 | 38.2 |

*Source:* Lucángeli, 1992.
[a] These "significant groups" correspond to SITC three-digit groups which registered a coefficient of intra-industry trade over 30 and total trade worth over US$5 million.

coefficient of intra-industry trade rose from 61.1% to 90.3% (Fuentes and Jaramillo, 1993).

### 3. Intra-industry trade between Mexico and Colombia

Trade between Mexico and Colombia has evolved in a similar manner to the preceding case, but in more extreme terms. In Mexico and Colombia, too, the two branches of manufacturing which received most FDI were chemical products and metal products, machinery and equipment.

The share of chemical products in total mutual trade in manufactures was 41% in 1981 and 77% in 1988. The respective coefficients of intra-industry trade were 11.7% and 13.4%, with a big trade imbalance against Colombia.

The share of the metal products, machinery and equipment branch in mutual trade in manufactures went down from 25.6% to 7.1% over the period in question, and the respective coefficients of intra-industry trade went down from 38.4% to 10.4% (Fuentes and Jaramillo, 1993).

### 4. Intra-industry trade and sectoral agreements: the motor industry in trade between Argentina and Brazil

The growth of mutual trade in a given branch may be accompanied by a decline in the coefficient of intra-industry trade, if the bilateral balance in that trade is upset. When this happens, the existence of sectoral economic complementation agreements may help to find balancing mechanisms that make possible sustainable growth in the long term. This is what seems to be happening between Brazil and Argentina in the metal products, machinery and equipment branch (ISIC division 38), especially in the case of the motor industry. The presence of transnational corporations seems to have played a key role in this process.

In the following paragraphs, we shall carry out an analysis at the SITC three-digit level,[2] covering 32 groups which in 1990 registered a coefficient of intra-industry trade over 30 and total trade over US$5 million (table 3). These groups accounted for two-thirds of total trade in manufactures. In the automobile parts group, where most of the capital is transnational, the coefficient of intra-industry trade was 93.8. Other groups with high coefficients were internal combustion engines and tyres.

In 1991-1992 these coefficients of intra-industry trade suffered a decline attributable to the growing imbalance in trade in manufactures between Argentina and Brazil. The biggest drop in the coefficient (by half) was in the metal products, machinery and equipment branch. This may be because in 1990 the motor industry had total trade of around US$150 million, of which US$120 was intra-industry trade. In 1991, trade in this branch trebled, but its index of intra-industry trade went down to 69 because Brazil's exports to Argentina grew much more than those of Argentina to Brazil.

In 1992 the motor industry trade imbalance became even more marked, and the coefficient slumped to only 40, with Brazilian exports worth US$900 million to Argentina, but only US$250 million in the opposite direction. More recent data from the same source –given in the Buenos Aires periodical *El Economista* on 22 April 1994– indicate a substantial trend towards a recovery in the trade balance between Argentina and Brazil, with a rise in the indexes of intra-industry trade. Thus, in the case of trade in manufactures in general, the coefficient stood at 50, which was very close to the peak value in the series, reached in 1990, while in the case of the motor industry the coefficient rose from 40 in 1992 to 76 in 1993. This recovery may be attributed to two main factors: first, the need to fulfil the commitments under the motor industry agreement between the two countries (an example of the important balancing role that sectoral economic complementation agreements can play), and second, the expansion in Brazilian demand for motor vehicles (Lucángeli, 1992 and 1993; *El Economista*, 1994).

# VI

## Promotion policies aimed at the transnational corporations

Generally speaking, it may be said that the effective competitiveness of a firm stems both from its own competitive advantages and from the surrounding conditions of a local and national nature determined by the country in which it is located (Porter, 1991; Dunning, 1993).

It is important to distinguish between these two sources of competitiveness, because of their different impacts on policy formulation. Thus, policies designed to encourage foreign investment will tend to concentrate on the creation of advantages of location, while policies aimed at promoting the internationalization of local firms must seek both to create advantages of location and to generate specific advantages of the firms themselves.

In short, the effective competitiveness of a firm will depend on its specific competitive advantages or

[2] United Nations Standard International Trade Classification, Statistical Papers, Series M, No. 34/Rev. 2.

inherent advantages (Dunning, 1993) and on the advantages of location due to the place where it is located. When a transnational corporation decides to establish itself in a given host country, it brings with it its own inherent advantages and expects to receive the advantages of location from the host country. Thus, countries must discover or create their own advantages of location to make them interesting to the countries which they selectively wish to attract. In this case, in addition to establishing sectoral restrictions on the least desirable types of capital, the selectivity mechanisms should seek to create advantages of location specially designed to attract the most desirable branches.

### 1. Export processing zones

The most direct way in which the governments of developing countries have tried to create advantages of location is through the establishment of export processing zones. With this aim, advantages of location for export-oriented manufacturing or assembly firms are created in a geographically limited area which is given extraterritorial status with respect to the rest of the country. These areas usually include installations and buildings which are offered for sale or lease to the firms in question. The set of special incentives offered for such firms includes tax and tariff exemptions; freedom from foreign exchange controls; exemption, automatic delivery or rapid processing of all types of government permits or formalities, including the granting of visas to foreign executives and managers; flexibility –or different rules– in respect of the application of labour laws; authorization to establish 100% foreign-owned firms; provision of physical, energy and communications infrastructure of higher quality than the national average or specially designed for certain production requirements, etc.

Around 75% of the export processing zones which exist in the world are devoted to the production of textiles, clothing or electronic goods, which are among the most dynamic activities in world trade.

The branches of production thus installed gradually increase their technological content as the export processing zones become more firmly established. Ultimately, some of these zones have been improving their telecommunications infrastructure in order to create advantages of location for data processing or computer-based activities (Jamaica, Dominican Republic and Costa Rica) or have even set up research and development installations (Taiwan, Singapore and South Korea).

Although these zones have not been developed to a very great extent in the ALADI countries, they have grown spectacularly in Mexico, Central America and the Caribbean, where they are an increasingly important element in the economy. In Mexico, which is the ALADI country where export processing zones have acquired the greatest importance, the assembly-type (maquila) activities which have grown up thanks to the preferential tariff arrangements granted by the United States now generate 41% of total exports, the corresponding figures being 30% in the case of Jamaica and 68% in the case of the Dominican Republic.

Strictly speaking, the installation of such zones means the creation of an extraterritorial enclave which, in principle, can benefit the host country through the generation of foreign exchange, the direct creation of jobs, the incorporation of foreign capital and advanced technology, or the training of local labour. The creation of linkages between the export processing zone and the rest of the national economy is often frustrated, however, by the fact that there is little or no capacity to spread these activities to the rest of the country.

Clearly, although this form of promoting FDI contributes to globalization, liberalization or even the development of hemispheric preferences (as in the relationship between Mexico and the United States), it is hard for it to spread its benefits to the rest of the national territory, and still less to promote regional integration among the other ALADI economies.

Transnational corporations prefer to set up operations in export processing zones when these offer them two types of advantages of location: first, lower costs of labour, energy or other factors or inputs, and second, proximity to a major centre of consumption, which reduces transport costs for reaching it and thus increases competitiveness. When firms located in an export processing zone enjoy tariff preferences for entering such a major market –as in the case of the special maquila arrangements granted to Mexico by the United States– the advantages of location increase enormously for the firms installed there. However, the aim of these firms is not to integrate themselves systemically into the production structure of the host country, because they prefer their special

extraterritorial status. They are only interested in taking advantage of very specific advantages of location as part of strategies designed to maximize their profitability within their own value-added chains.

In Latin America and the Caribbean, the importance of export processing zones is to be seen at the hemispheric level in the case of NAFTA, of which Mexico is already a member, or the preferential trade regimes that the United States has set up with Central American and Caribbean countries. These preferential trade arrangements call for two comments. First, they involve a significant component of managed trade, previously negotiated with the transnational corporations and designed to foster intra-industry trade, and second, they raise some queries regarding the benefits these agreements bring for the local firms participating in them. These two comments may be illustrated by examples taken from the functioning of maquila activities in the Mexican motor industry.

Since the end of 1989, the Mexican authorities have done away with all restrictions on imports for the automobile parts industry, but in order for automobile manufacturers to import finished vehicles they must export vehicles or components of equivalent value. As we can see, this rule directly favours the growth of intra-industry trade and, within this branch, intra-firm trade in particular. In 1991 motor assembly firms were allowed to import new vehicles provided they could show that they had a surplus in their international trade, thus introducing a mechanism which is hardly compatible with the provisions of the Uruguay Round on trade-related investments. However, the position of the transnational corporations was strengthened by the decision to permit 100% foreign ownership of automobile part firms.

These are some examples of the managed nature of the motor industry agreements between Mexico and the United States. Thanks to these direct regulations, however, the index of intra-industry trade in the motor vehicle and motor vehicle parts industries, taken as a single sector, has reached extremely high levels. The signing of NAFTA has not brought about the liberalization of this sector; instead, the validity of these agreements has been extended for almost a decade.

The Mexican automobile parts firms involved in this process are showing some concern. To begin with, they are impeded in their search for new export markets, because the agreements which have been signed oblige them to export through their transnational partners who provide the technology. Secondly, as NAFTA enters fully into operation this opens up the possibility that the owners of the technology will prefer to produce in the United States –due to domestic trade union pressures or other reasons, for example– and to export directly to Mexico, thus liquidating the Mexican motor parts firms which are totally dependent on that technology. Thirdly, they fear the competition of the United States transnationals themselves: General Motors has 26 assembly plants in Mexico and plans to open others (Mattar and Schatan, 1993, p. 111 *et seq.*).

In the other ALADI countries –that is to say, the South American countries– the existence of export processing zones could have a negative effect on the progress of subregional integration schemes. Even assuming that the products of such zones are considered as coming from outside MERCOSUR or the Andean Group, their geographical proximity to those groups will increase their competitiveness because of the lower transport costs of the firms located there, which "export" within those areas. The fundamental aim of schemes like MERCOSUR or the Andean Group should be to harmonize and coordinate their members' rules on foreign investment, so that firms will set up operations and establish commitments within the expanded markets. In this way, the host countries will be able to take full advantage of all the externalities deriving from the entry of these firms: an objective which is partly frustrated when the firms decide to establish their plants "on the margin" of those areas in order to increase the trading competitiveness of their exports to markets which, thanks to the integration processes, are increasing in size and dynamism.

In order to prevent the establishment of export processing zones from becoming too much of a temptation for the least industrially developed countries in certain subregional schemes, the most highly developed members must formulate and adopt measures to support the participation of all members in an integrated form of industrial development based on intra-industry trade (Paes Saboia, 1993). Such support could be provided through cooperation in the establishment of infrastructure or industrial parks which would permit the creation of some advantages of location, together with sectoral economic complementation agreements to promote, among other objectives, technical training and financial backing.

## 2. Special arrangements. The motor industry in Argentina

In contrast with the examples given above, which present a hemispheric projection, in the Southern Cone of Latin America transnational corporations are making a decisive contribution to the expansion of intra-regional trade.

Within MERCOSUR, among the activities where there is heavy participation by transnational corporations, the motor industry of Argentina and Brazil is also subject to an agreement set forth in Protocol 21. Before we consider this matter, mention should be made of the regulations in force in Argentina for the motor industry, which are directly connected with that agreement.

As from 1991, and with a period of validity extending up to 1994, a set of regulations on the motor industry was adopted in Argentina which also applies to the transnational corporations operating in this sector, some of them in association with local capital. These regulations stipulate, among other things, the following: i) given maximum proportions of imported content for products manufactured in the country; ii) compensated trade commitments subject to annual or multi-annual programmes; and iii) minimum obligatory levels of content of products of the automobile parts sector, regardless of the annual exports of the terminal firms.

These rules match others in the motor industry agreement between Brazil and Argentina (Protocol 21), in which bilateral trade is regulated on the basis of company-level integrated programmes, with mutual trade quotas for vehicles and parts and exemption of this trade from customs duties. The aim is to secure balanced mutual trade and complementation of production in this area of activity: i.e., the expansion of intra-industry trade in the sector.

As in the case of the relationship between Mexico and the United States, these rules do not appear to be compatible with the recent agreements of the Uruguay Round on trade-related investment measures, which stipulate that foreign and domestic investors must be treated in the same manner and that all quantitative restrictions on trade –such as the obligation to export a given quota of production or to use domestic inputs– must be eliminated.

With regard to the rules on the motor industry, a recent study on this sector from the standpoint of the Argentine economy (Chudnosky, López and Porta, 1994, pp. 37-39) states that: "The export performance of the motor industry is the result of the sectoral regulations in force since 1991. For the terminals, the incentive to keep on producing lies in maintaining their leading position in the Argentine market. Thus, it is generally agreed that if imports had been completely liberalized in this sector, local production of finished vehicles would have practically disappeared (or would only have persisted in the form of assembly activities). If this had happened, much of the market now supplied by the terminals installed here would have been taken over by other producers, especially from Asia. Although the firms concerned have worldwide trading networks that could supply the Argentine market with vehicles from other subsidiaries manufactured at lower cost, the higher cost of local production is more than offset by a market share much higher than they would have in a system of supply based on imports. This appraisal of the situation is borne out by the fact that two of the terminals are controlled by Argentine associates who are obviously prevented from supplying the local market from other locations. In fact, the sectoral regulations in force not only secured the continued operation of the existing terminals but also encouraged the return of a United States terminal which had withdrawn in the late 1970s and aroused the interest of several Japanese motor firms which have announced plans to set up plants in the country".

With regard to the impact of the existence of MERCOSUR on this system, the same study says: "It is important to note that MERCOSUR is functional for this industry in Argentina only as long as a special system of managed trade persists; in other words, it is not the general programme of tariff reductions for intra-area trade which is the key factor, but the sectoral scheme governing trade between Argentina and Brazil".

What is needed, then, is to strike a reasonable balance between respect for the most recent rules of the Uruguay Round on trade-related investments and the industrial policy mechanisms which have shown themselves to be of decisive importance for promoting trade among the ALADI countries. Obviously, the idea is not to keep up hidebound forms of protectionism by force, but to avoid the premature adoption of liberalization measures which would prevent the firms already installed in the region from recovering their competitiveness and would be fatal for such important industrial branches as those referred to in our example.

# VII

## Summing-up

By way of a brief summing-up of some of the basic findings of this study, we may highlight the following points:

Trade among the ALADI countries has grown with exceptional vigour so far in the 1990s. This greater vigour already began to be noted in the second half of the 1980s, in the form of a gradual increase in the share of ALADI in the exports of the member countries of that scheme. The most dynamic branches have been metal products, machinery and equipment (ISIC division 38), chemical products (ISIC division 35) and foodstuffs, beverages and tobacco (ISIC division 31).

It is in these same branches that most of the transnational productive capital in Latin America is located. Of the three, however, it is in the metal products, machinery and equipment branch –and especially in the motor industry– that the link between the growth of trade among the ALADI countries and the strong presence of transnational capital is most marked. Something similar has occurred in the case of Mexico, but at the level of intra-hemispheric trade, with regard to the structure of its exports to the United States.

In the motor industry, which is the clearest example of the above-mentioned features, there is a very noticeable presence of arrangements and agreements which go far beyond mere trade liberalization and include a major element of preferential trade which comes very close to the limits of the multilateral trade rules accepted by GATT or even perhaps oversteps them. Thus, these arrangements are not restricted to the promotion of levels of mutual trade liberalization which exceed the corresponding global levels, but actually include explicit forms of protection of the activities of transnational corporations and trade flows regulated by the agreements in question: for example, by demanding a certain equilibrium among the trade balances of the firms protected by them, as a condition for the equilibrium of the mutual flows that determine the existence of intra-industry trade.

These features are clearly visible both in the arrangements established for the motor industry between Argentina and Brazil and in the Mexican free zones subject to maquila arrangements. In this latter case, they have resulted in special trade, industrial and fiscal policies for the officially extraterritorial areas in which export processing zones are installed.

These mechanisms have shown themselves to be suitable for promoting both intra-hemispheric and intra-regional trade, with flows which, because of their high income elasticity of demand and the intra-industry nature of their production and trade, may be sustainable in the long term.

A central issue in future open regionalism strategies will be the identification of the most suitable means of attracting FDI without giving rise among the member countries of a given integration scheme to struggles for such capital which may end up harming the interests of all of them. The information collected on the motor industry suggests that the countries concerned managed to attract and retain transnational productive capital not just through economic liberalization but also through special arrangements agreed between the enterprises involved and the members of a given integration scheme.

(Original: Spanish).

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