BIG BUSINESS AND "DEPENDENCIA"

A LATIN AMERICAN VIEW

By Osvaldo Sunkel

The winds of economic nationalism are blowing strong in Latin America. This is evident in the nationalist and progressive régime in Peru, the rise and fall of the leftist government in Bolivia, the changes of policy in conservative countries like Colombia and Argentina and the spectacular election of a socialist government in Chile. There are also the numerous acts of nationalization in various countries, most of which have gone largely unnoticed, while others like the nationalization of petroleum in Peru and Bolivia, natural gas in Venezuela, aluminum in Guyana and copper in Chile have reached the headlines. Furthermore, there are restrictive foreign investment statutes unanimously endorsed by the Andean Pact nations, the limitations of various kinds imposed on foreign subsidiaries even in countries, like Mexico, otherwise favorable to foreign investment, the unaccustomed incisiveness of the Latin American protest against President Nixon’s New Economic Policy voiced in the meetings of the Special Co-ordination Commission of Latin America, the Inter-American Economic and Social Council of the Organization of American States and the World Bank-International Monetary Fund Annual Conference, as well as the formal withdrawal of Argentina from the Inter-American Committee of the Alliance for Progress.

This last act, which does not come from a socialist Allende or a nationalist General Velasco Alvarado but from the conservative General Lanusse, marks the final collapse of the Alliance for Progress. Based on the assumption of cold-war confrontation, the Alliance was designed ten years ago to stop Castro’s influence and win friends in Latin America. Now both the Alliance and the cold war are over, and there have been neither communist nor capitalist victors. The politico-ideological confrontation has been replaced to a large extent by an economic confrontation between the national interests of Latin America and those of the United States. The recent burst of nationalism is in fact a reaction to long-term and increasingly intolerable dependence on foreigners. The development strategy of industrialization as a
substitute for imports was supposed to free the economy from its heavy reliance on primary exports, foreign capital and technology. It has not only failed to achieve these aims, but has in fact aggravated the situation and nature of "dependencia."

In its initial period, from 1930 to around 1955, the strategy stimulated the growth of a significant manufacturing industry and of the corresponding national entrepreneurial class. But subsequently industry was taken over to a large extent by foreign subsidiaries, with the result that much of the benefit expected from industrialization has gone abroad in payment for capital equipment and in a transfer of profits, royalties and other financial payments. This has effectively denationalized and eroded the local entrepreneurial class. Although the massive penetration of foreign firms has accelerated growth rates, especially industrial, it has also accentuated the uneven nature of development: on the one hand, a partial process of modernization and expansion of capital-intensive activities; on the other, a process of disruption, contraction and disorganization of traditional labor-intensive activities.

Disguised and open unemployment—that process of internal polarization and segregation which has been termed "marginalization"—has therefore been rising; together they account for levels estimated at over 25 percent, and they are still increasing. Owing to this and to the fact that the development strategies pursued aimed at the formation and strengthening of a reliable middle class, income seems at least as heavily concentrated in the hands of the wealthy as it was 20 years ago, allowing them consumption levels and patterns similar to those of the middle classes of developed countries, while the gap between high and low incomes in towns and in the countryside appears in most cases to have widened.

Things obviously went wrong with the development policies and strategy pursued after the Second World War. In a nutshell, the essence of its logic was that rapid economic growth could be achieved by protecting and stimulating industry, which eventually, and with the aid of appropriate government action, would induce the modernization of other sectors of the economy. This, in turn, would improve the social conditions of the people, more or less following the pattern of the industrial revolution in Western Europe and North America.

Apparently something important had been overlooked which
hindered both the implementation and even an adequate understanding of the process. In the conventional approach to underdevelopment, the unit of analysis has always been the national economy in isolation, treated as if it existed in an international vacuum. Myrdal, Singer, Nurkse, as well as Prebisch and numerous economists from underdeveloped countries and U.N. agencies such as the Economic Commission for Latin America and the United Nations Conference on Trade and Development (UNCTAD) have emphasized the significance of the foreign trade structure of these countries—raw material exports and manufactured imports—as causing instability, stagnation, deteriorating terms of trade and balance-of-payments difficulties. They have also pointed to foreign financing and technical aid as having a significant influence on the rate of growth and the equilibrium of the underdeveloped economy.

New studies of “dependencia” in industry and related sectors have led to a greater recognition of its nature and effects. To begin with, local development and modernization are seen not in isolation but as part of the development of an international capitalist system, whose dynamic has a determining influence on the local processes. Therefore, foreign factors are seen not as external but as intrinsic to the system, with manifold and sometimes hidden or subtle political, financial, economic, technical and cultural effects inside the underdeveloped country. These contribute significantly to shaping the nature and operation of the economy, society and polity, a kind of “fifth column” as it were. Thus, the concept of “dependencia” links the postwar evolution of capitalism internationally to the discriminatory nature of the local process of development, as we know it. Access to the means and benefits of development is selective; rather than spreading them the process tends to ensure a self-reinforcing accumulation of privilege for special groups as well as the continued existence of a marginal class.

In other words, this approach considers the capitalist system as a whole, as a global international system, within which national economies—nation-states—constitute sub-systems. These are not completely separated from each other but partially overlapping, owing to the fact that national economies interpenetrate each other to some extent in terms of productive facilities, technologies, consumption patterns, ideologies, political parties, cultural activities, private and government institutions. According
to this approach, it is no longer possible to assume that under-development is a moment in the evolution of a society which has been economically, politically and culturally autonomous and isolated.

The present international panorama of countries at different levels of development is not simply an aggregate of individual historical performances; the development process is not simply a race which started somewhere before the industrial revolution and in which some countries reached advanced stages while others stagnated or moved slower. The "dependencia" analysis maintains that one of the essential elements of the development of capitalism has been, from the outset, the creation of an international system which brought the world economy under the influence of a few European countries, plus the United States from the late nineteenth century onwards. Development and under-development, in this view, are simultaneous processes: the two faces of the historical evolution of the capitalist system.

II

During the colonial period, in order to extract the precious metals and obtain the tropical products needed by the metropolis, Europeans interfered with existing social relationships and re-organized local economies on the basis of slavery and other forms of forced labor. This created the basis for agrarian structures and institutions which have survived in some form until today. During the nineteenth and first half of the twentieth century, the industrial revolution in Europe and later in the United States created a world economic system where Europe and the United States invested heavily in the production of food and raw materials in the rest of the world, while specializing at home in the production of manufactures. In Latin America, to the agrarian colonial heritage was added specialization in the export of staples and raw materials and with it another set of socio-economic and political structures and institutions, including the new dominant élites.

The breakdown of the nineteenth-century model of international economic relations during the two World Wars and the Great Depression opened for Latin American economies the period of import-substituting industrialization. This meant, in the larger countries of the region, the formation by the middle of the 1950s of a significant manufacturing sector, complete with
its entrepreneurial class, professional and technical groups and industrial proletariat, as well as the necessary and ancillary government and private financial, marketing and educational agencies.

But during this period, while Europe was being ravaged by war and economic crisis, the U.S. economy developed into the most powerful center in the capitalist world and expanded into the economies of both developed and underdeveloped countries, bringing about very substantial changes, particularly in the latter. At the same time the U.S. economy experienced important changes in its internal structure. Government intervention expanded considerably within the United States, accelerating growth, reducing cyclical fluctuations and contributing to a fantastic development of science and technology; all this helped produce large business conglomerates. Vast economic, technological and therefore political power has enabled the multinational corporation, through the control of the marketing and communication processes, to induce consumers and governments to buy the products which it is technologically able to produce in ever-growing quantities. Within certain limits it is thus able to plan the development of consumption.

These institutional developments in the United States are reflected abroad as the new multinational corporations spread throughout the international economy. Their activities follow a fairly definite pattern: first, they export their finished products; then they establish sales organizations abroad; they then proceed to allow foreign producers to use their licenses and patents to manufacture the product locally; finally, they buy off the local producer and establish a partially or wholly owned subsidiary. In the process a new structure of international economic relations is emerging, where trade between national firm Z of country A and national firm Y of country B is replaced by the internal transfers of firm Z to countries A and B, while firm Y vanishes from the picture.

As a consequence, free-market forces and/or national policies are gradually superseded by the multinational firm's plan. It is estimated that for the decade 1960–70 around a fourth of all manufacturing exports from the United States were intra-firm transfers, and this proportion is rising quickly. Moreover, while previously only the international primary product market was an oligopoly, this is now also becoming true of the international
market in manufactures. For the underdeveloped countries this means that outside control, formerly applied only to their exports, is also increasingly exercised over their imports. Lastly, the intervention by government agencies in the developed countries, which paved the way for business expansion in their national markets, now is being repeated internationally, as these agencies intervene increasingly in “world markets”—which is really a euphemism for other countries’ markets—to support and protect the expansion of their firms.

The greatly extended economic role of the state takes essentially two forms: direct, bilateral, government-to-government relationships on the one hand, and international, multilateral economic organizations on the other. The bilateral relationship between a dominant and a dependent country corresponds closely to mercantilistic formulas. The dominant country tries to establish, enlarge and preserve exclusive privileges for its business interests, granting in exchange support of various kinds to the local social groups with which it is associated. The instruments of domination in bilateral relationships are well known: tied loans, technical aid, preferential arrangements with regard to transportation, communications, foreign investment, tariffs and so on. The multilateral relationship consists of a maze of international economic organizations. Some would like to see these set up in a hierarchical system, with organizations like the World Bank and the International Monetary Fund (IMF), where developed countries have a decisive influence, at the top. Regional organizations like the Organization of American States (OAS), which exist within one hegemonic system, and organizations among the developed countries such as the European Community would be kept independent from outside influence. World organizations where each country has one vote would be relegated to a rather weak position, much as are the organizations among underdeveloped countries of one region, the Latin American Free Trade Association (LAFTA) and the Organization of African Unity (OAU). Meanwhile, it has not been possible to create a formal global organization of underdeveloped countries—only the informal UNCTAD group, originally 77, now over 100.

Efforts to reorganize international relations to correspond to the transformation in the structure of the world economy have been clearly discernible in recent reports dealing with interna-
tional coöperation. This is not surprising, since it should be the function of the superstructure to provide the ideological rationale for the system, as well as to lay down the rules of the game and provide the institutional means for policing its implementation. The following quotation constitutes a good statement of an apologist for these trends:

The international corporation is acting and planning in terms that are far in advance of the political concepts of the nation-state. As the Renaissance of the fifteenth century brought an end to feudalism, aristocracy and the dominant role of the Church, the twentieth-century Renaissance is bringing an end to middle-class society and the dominance of the nation-state. The heart of the new power structure is the international organization and the technocrats who guide it. Power is shifting away from the nation-state to international institutions, public and private. Within a generation about 400 to 500 international corporations will own about two-thirds of the fixed assets of the world.*

III

Following the transformations that have occurred in the new centers of the capitalist world—the U.S., European and Japanese economies—the system of international economic relations has experienced fundamental institutional and structural changes. As a consequence, the internal economic, social and political structures of the dependent underdeveloped countries have also experienced fundamental transformations. These transformations are the main factors behind the rising nationalism in Latin America.

As mentioned earlier, the large expansion of the U.S. multinational corporation in Latin America really gained momentum around the mid-1950s; but only in the late 1960s did it reach the stage of the wholesale process of buying up local firms and integrating affiliates closely with headquarters and with each other. A study of the operations of 187 transnational corporations in Latin America shows that while in 1945 there were only 74 of these firms with manufacturing subsidiaries in the region, in 1967 the number of their subsidiaries in the region had increased from 182 to 950, and the total number of subsidiaries from 452 to 1,924.*

This process has profoundly affected the Latin American

economy and society. While in the earlier period foreign investment in these countries manifested itself mainly in primary production and public utilities, in the postwar period extractive subsidiaries grew from only 38 to 56. The fundamental impact has therefore been in the manufacturing and related sectors, which have expanded considerably since the 1930s. In their growth they were faced with the need of starting almost from scratch to obtain a specialized labor force, highly qualified technicians, entrepreneurs, equipment, raw materials, financial resources, organizations for marketing, distribution, publicity, sales and credit, as well as technical ability to carry out all these tasks. In the process of industrial growth and diversification, these countries have been increasingly incorporating these elements from foreign sources.

From the nineteen-thirties through the early nineteen-fifties, particularly in the larger countries, immigrants and local entrepreneurs provided most of the skilled personnel; capital and financing came mainly from public sources, both national and foreign; know-how and technology were acquired through the purchase of licenses and technical assistance. All these producers contributed to the formation and strengthening of private entrepreneurship and industry. But in recent years there has been a reversal of these trends. Subsidiaries of foreign firms have provided a complete package of entrepreneurship, management, design, technology, financing and marketing. This has been the local counterpart of the institutional transformations indicated earlier in the mature capitalist countries and in the international economy.

On a more general level, import-substituting industrialization constitutes another way of setting the underdeveloped economies within the framework of a reorganized world economic system. The new system is formed, as before, on the basis of dominant (developed) economies and dependent (underdeveloped) economies, increasingly linked to each other through growing transnational interlocking of production structures and consumption patterns.

In the plants, laboratories, design and publicity departments, as well as in the planning, decision-making, personnel and finance organizations that constitute its headquarters—always located in an industrialized country—the transnational corporation develops: (1) new products; (2) new ways of producing
those products; (3) the new machinery, equipment and innovative methods necessary to produce them; and (4) the publicity needed to create their markets. In the underdeveloped country, the corporation establishes the subsidiaries necessary for the marketing, assembling or routine production of those goods. The import-substitution process of industrialization has therefore become the corporation's strategy for penetration of foreign protected markets, supported by external public and private credit, international technical assistance and ideological advice in respect to development policies and strategies.

Let us look at some of the economic effects of this process through the words of Professor Harry Johnson:

The corporation . . . has no commercial interest in diffusing its knowledge to potential native competitors, nor has it any interest in investing more than it has to in acquiring knowledge of local conditions and investigating ways of adapting its own productive knowledge to local factor/price ratios and market conditions. Its purpose is not to transform the economy by exploiting its potentialities (especially its human potentialities) for development. . . . The main contribution of direct foreign investment will be highly specific and very uneven in its incidence.*

A. O. Hirschman, on his part, has pointed out that direct private foreign investment, by taking over local firms and displacing local entrepreneurship, may be harming the quality of local factors of production. Moreover, given the "complete package" character of subsidiaries, the foreign contribution may not be complementary but may instead be competitive with local factors of production, retarding or preventing their growth, and therefore decreasing the quantity of local inputs. His conclusion: "Private foreign investment is a mixed blessing, and the mixture is likely to become more noxious at the intermediate stage of development which characterizes much of present-day Latin America."*

The massive expansion and branch-plant nature of direct foreign investment has in fact some highly negative effects. In the first place, there is the process of vertical integration between the subsidiary and the headquarters. This means that flows of

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goods, finance, technology, etc. generally take place within firms, which have a natural tendency to prefer their own branches or affiliates as partners in any transaction, even if the country's interests are different. Their tendency is not to integrate with local suppliers or to share or adapt their technology, as Johnson points out. Furthermore, there is usually a market-sharing agreement among headquarters and the various subsidiaries and affiliates, which often means that branch plants are not allowed to export. Even the integration process in LAFTA or the Central American Common Market gives the subsidiaries located in the member countries a further opportunity to diminish the position of national firms.

Secondly, subsidiaries within one country tend to integrate horizontally, to conglomerate among themselves. Gaining control of finance, credit, markets and publicity means a considerable capacity to influence consumption patterns, not only of the higher income groups which can afford their goods, but also of lower income groups by way of the "trickling down" effect, thereby completely distorting their consumption patterns.

The control of the commanding heights of the economy also means, of course, the capacity to influence the allocation of resources in the public sector, frequently in the direction of providing the infrastructure needed for subsidizing the expansion of the foreign subsidiary. It also implies the capacity to acquire significant financial resources, private and public, with which to finance local expansion and foreign remittances, almost without the need of net additional foreign capital. In fact, between 1963 and 1968 only nine percent of the total funds used by the Latin American subsidiaries of U.S. corporations came from abroad. This, together with their negligible contribution to exports, inevitably leads to a serious balance-of-payments problem.

In the third place, foreign subsidiaries are usually able to extract oligopolistic profits from the exploitation of consumer and supplier markets. Moreover, as they keep most of their international transactions within the boundaries of the firm, there is a strong tendency to remit excess profits by manipulating the prices, kinds and quantities of these transactions.

Finally, the activities of subsidiaries in underdeveloped countries follow a definite life cycle. At the beginning the foreign firm may make a substantial contribution in capital, skilled personnel, technology, management, etc. But over time the cash out-
flow becomes larger than the inflow. Moreover, among the various alternative ways of obtaining external cooperation, direct foreign investment in the form of wholly owned subsidiaries is the one that has the smallest educational effect because of its policy of retaining its monopoly of skills and technology. It is only as a consequence of the process of the country's development that local personnel learn modern management and technological skills. Eventually, the corporation's net contribution to the development capabilities of the country becomes negligible or even negative. When the technology of the activities in which the firm operates becomes standardized and well known, the subsidiary becomes an "obsolete" form of foreign ownership from the point of view of its contribution to the resources, abilities and technology of the country.

IV

While these and other negative economic effects illustrate clearly the "mixed blessing" that private foreign investment represents, it is the socio-political consequences that are of far greater importance and of a much more explosive character. The massive penetration of subsidiaries of foreign firms into the industrial, financial, marketing and distribution activities has fundamentally changed the ownership pattern in most Latin American countries. Foreign firms have acquired a dominant position among medium and large firms in many if not all the main sectors of private economic activity. This implies a basic change in the social structure and the political system. As the economist Celso Furtado has pointed out:

   The process of forming a local entrepreneurial class has been interrupted. The best talents that emerge from local industries are being absorbed into the new managerial class. . . . National independent entrepreneurship is . . . restricted to secondary activities or to pioneering ventures which, in the long run, simply open up new fields for the future expansion of the multinational corporation. . . . The elimination of the national entrepreneurial class necessarily excludes the possibility of self-sustained national development, along the lines of the classical capitalist development.6

In other words, a significant part of the national bourgeoisie is being transformed into a private transnational technocracy, losing legitimacy as part of a national ruling class.

But Furtado's observation may be extended to all groups and social classes to gain a clearer perception of the crisis which is affecting the nation-state in Latin America. At the level of production, this crisis makes itself felt through the massive and extraordinarily dynamic penetration of the transnational firm with its subsidiaries and affiliates; at the technological level, by the large-scale introduction of highly capital-intensive techniques; at the cultural and ideological level, by the overwhelming and systematic promotion and publicity of conspicuous consumption capitalism; and at the concrete level of development policies and strategies, by the pressure of national and international interests in favor of an industrialization process aimed basically at providing consumer goods for the high-income groups.

This process of so-called modernization implies the gradual replacement of the traditional production structure, which is labor-intensive, by another of much higher capital intensity. Under these conditions, the process incorporates into the new institutions and structures the individuals and groups that are apt to fit into the kind of rationale which prevails there. It also expels those individuals and groups that have no place in the new productive structure or lack the ability to adapt to it. Therefore, this process not only prevents the formation of a national entrepreneurial class, but also limits and erodes the middle classes generally (including intellectuals, scientists and technocrats) and even creates privileged and underprivileged sectors within the working class, adding another serious difficulty to the creation of a strong labor movement.

In this process, some national entrepreneurs are co-opted as executives into the new subsidiaries; some professionals, forming part of the technical staff, and some specially trained employees are incorporated. The rest are left out. Part of the qualified labor supply will be brought in and the remainder excluded, adding to the growing problem of unemployment and underemployment. The effects of the disintegration of each social class have important consequences for social mobility. The marginal entrepreneur will probably be added to the ranks of small businessmen, or will abandon independent activity and become a middle-class employee. The segregated sectors of the middle class will probably form a group of frustrated lower-middle-class people trying to maintain appearances without much pos-
sibility of upward mobility and terrified by the prospect of proletarianization. The unemployed or underemployed workers will increase the numbers of those marginal to the economy and society, as in the lower middle class. Growing pools of resentment and frustration will certainly accumulate in both middle and lower classes.

Corresponding to this downward mobility there is also an upward mobility of a selective and discriminatory character. Some unemployed or underemployed are incorporated into the working class, some workers rise to the lower ranks of the middle classes and some sectors of the middle classes become small or medium-sized entrepreneurs. This upward movement probably tends to depress the wage levels, at least of unskilled workers and employees, and increases the anguish of the lower-middle and working classes.

Corresponding to this internal mobility is an international mobility between the internationalized sectors of developed and underdeveloped countries; these constitute in fact an international market for skilled labor. One side of this mobility is the outward “brain drain;” the obverse is the flow of experts and administrators sent into the underdeveloped countries to oversee the process of modernization and development described earlier. There may also be a flow of underemployed from Latin America in response to demands for low-salaried employees in developed countries.

V

The crisis of the nation-state which has been outlined above also affects the main institutions of society: the state, the armed forces, political parties, the universities, the Church. In Latin America, different countries have reacted in various ways to this crisis. In Brazil, leading groups and classes seem to have accepted “dependencia” and marginalization as inevitable and necessary ingredients of the process of development and modernization. An increasing share of the ownership and control of national resources and activities is being turned over to foreign firms and the government apparatus is being put at their disposal. This means not only the provision of infrastructural investments necessary for their expansion, but also the political and police repression needed to suppress the growing reaction and resentment to advancing denationalization, widening inequality and
increasing marginalization. This development model could perhaps best be described as Dependent State Capitalism.

In other countries, owing to the different nature of pre-existing local conditions and other elements which cannot be analyzed here, certain social classes have reacted to the crisis by trying to oppose the above-mentioned trends. To do this they are trying to regain control over the economy. But this implies, in the first place, taking away the control of the state from the social groups which are more closely associated with the development strategy of Dependent State Capitalism. In the case of Peru this has been done by the nationalist elements among the military, and in Chile by a government elected with the support of large sectors of the working class and important sections of the middle class.

Having taken over the control of the state, these groups face three essential development tasks in correcting the main malformation inherited from the historical process of interaction with the international system: in the first place, this means transforming the agrarian structure, which is the fundamental root of inequality, marginalization and stagnation; second, using the primary export sector, which represents an underdeveloped country’s most important source of capital accumulation, to support the expansion of heavy and consumer industries; and, finally, the reorganization of the industrial sector, essentially in order to orient it away from satisfying the conspicuous consumption of the minority into satisfying the basic needs of the majority.

In this process of structural reform, many well-established local and foreign interests will be affected. If there are foreign investments in the agricultural sector, they will be affected by agrarian reform. If there are foreign investments in the primary export sector, whether agricultural or mining, they will be affected by the need to control these fundamental sources of foreign financing. If there are foreign investments in the industrial and related sectors, as there increasingly are, the reorientation of industrial policy will affect subsidiaries of foreign firms. As the present level of industrial development has rested to a large extent on the power structures built around the main local and foreign industrial and commercial monopolies and the banking system, they are also bound to be taken over by the state. This will mean nationalizations and renegotiations with foreign interests.

It is interesting to note that international public opinion has
more or less become accustomed to the idea that structural reforms are necessary in agriculture, so much so that underdeveloped countries are urged to go ahead with agrarian reform. If foreign interests are involved, there may be protests but they would be considerably attenuated by the recognized need for an agrarian reform.

Even in the field of primary export activities it is being accepted that our nations have the right to control their most essential resources, and that the policies of subsidiaries of foreign firms do not necessarily coincide with the best long-term interests of the country. It seems, as Hirschman points out, that at a certain level of industrial and general development, our countries are also beginning to reassert their own interests in the fields of manufacturing, commerce and banking, where the foreign penetration is now greatest. The conflict of interest with foreign private investment in these sectors will be more or less intense according to whether the country will choose a socialistic development path, as in Chile; some rather progressive variety of state capitalism, as seems to be the case in Peru; or some less well-defined and more moderate variety, as in most other countries.

Whatever the case, the era of "creating favorable business conditions for direct foreign investment" as a general policy seems to be coming to an end. But even then, as is seen more and more with the socialist countries, possible cooperation with foreign firms is not totally excluded, even though there will certainly be little place for wholly owned subsidiaries of foreign firms or private foreign investment of the traditional kind. What is opening up is a new era of hard bargaining and negotiations, of pragmatic and detailed considerations of specific cases, of weighing the conditions offered by Japan, Europe, the socialist countries and the United States, of building up alliances with countries with similar interests (the Andean Pact, the Special Co-ordination Commission of Latin America, the Organization of the Petroleum Exporting Countries), etc. In short, what we are seeing is the assertion of the national interest of our countries in their international economic relations. The aim is greater autonomy, in order to achieve development without "dependencia" and without marginalization. To achieve this goal, the asymmetrical nature of the present system of international economic relations must first undergo a thorough reform.