REVIEW ESSAY

LATIN AMERICA AND THE INTERNATIONAL ECONOMY

Reuber, Grant L. with H. Crookell, M. Emmerson, and G. Gallais-Hamonno. PRIVATE FOREIGN INVESTMENT IN DEVELOPMENT. London: Oxford University Press, 1973. 371 pp. $17.75.

Urquidi, Victor L. and Rosemary Thorp, eds. LATIN AMERICA IN THE INTERNATIONAL ECONOMY. New York, Toronto: John Wiley and Sons, 1973. 430 pp.

Vaitsos, Constantine V. INTERCOUNTRY INCOME DISTRIBUTION AND TRANSNATIONAL ENTERPRISES. London: Oxford University Press, 1974. 198 pp. $16.00.

I

In reviewing these three books I shall examine some old and some new aspects of international economic relations. Two of the books (Urquidi and Thorp, 1973; Vaitsos, 1974) deal with Latin America, while the third (Reuber, 1973) is a general analysis. It is worthwhile noting that in addition to the subjects of permanent interest, such as the benefits and drawbacks of private foreign investment in economic development, there has been a change in the topics taken up by the economists, and this is confirmed by Urquidi and Thorp in their introduction. The change is not just a passing fashion, for as ECLA observes in its most recent *Economic Study* (1974), from the 1960s on many myths have been exploded.

AUTHOR'S NOTE: This article was written when the author was at the Institute of Latin American Studies of the University of North Carolina, Chapel Hill. It does not in any way commit the institutions with which he is now associated.

New York Times (1970) September 21.
——— (1969a) May 22.
——— (1969b) May 16.
——— (1967a) October 16.
——— (1967b) April 20.
——— (1966) November 2.
——— (1965a) August 20.
——— (1965b) August 20.
Newsweek (1964) August 24.
North American Congress on Latin America (1972) New Chile. New York.
——— (1971) "Latin America and Empire Reports." Vol. 7 (November).
PETRAS, J. (1972) "Chile No." Foreign Policy 7 (Summer): 132-159.
——— (1970) Politics and Social Forces in Chilean Development. Berkeley, Los Angeles and London: Univ. of California Press.
——— and R. LAPORTE, Jr. (1971) Cultivating Revolution: The United States and Agrarian Reform in Latin America. New York: Random.
PIKE, F. and B. BRAY (1960) "Vista of catastrophe: the future of United States-Chilean relations." Rev. of Pol. (Spring): 393-418.
ROGERS, W. D. (1971) "United States investments in Latin America: a critical appraisal." Virginia J. of International Law 2 (March): 246-256.
SANTA MARIA, D. (1971) "Perspectives on Spanish American legal norms governing mining controls." Virginia J. of International Law 2 (March): 177-192.
SAUNDERS, R. (1969) "Chile and its copper." AUFS Report.
SCHLESINGER, A. (1965) A Thousand Days. Boston: Houghton Mifflin.
SIGMUND, P. E. (1970) "Backlash in Chile." Commonweal (August 7): 8.
THOMPSON, A. (1969) "A study of Chile." Unpublished report prepared for Nelson Rockefeller.
Time (1968) January 5.
——— (1967) January 27.
Times of the Americas (1972) April 18.
——— (1970a) March 8.
——— (1970b) February 25.
——— (1970c) February 4.
——— (1969a) June 18.
——— (1969b) April 8.
——— (1969c) January 15.
U.S. Department of Commerce (1971) "Foreign economic trends: Chile." Washington, D.C.: Government Printing Office.
United States News and World Report (1965) April 26.
——— (1964) September 14.
Wall Street Journal (1969) October 6.
——— (1964) "Chile prices running wild and Grunberg family is caught in the bind." (August 6): 1, 8.
WALTON, R. J. (1972) Cold War and Counterrevolution. New York: Viking.
WOLPIN, M. D. (1972) Cuban Foreign Policy and Chilean Politics. Lexington, Mass.: Heath Lexington.
World Wide Information Service (1972) "Chile 1972." New York.

A few examples are the myth of export substitution as the way to economic development, a myth that was to some extent linked to the "ECLA doctrine" itself; the myth of common interests uniting the Western Hemisphere, which was called into question by the Latin American countries in their Viña del Mar Declaration (1969) and officially dissolved when they created a Latin American body, SELA (Latin American System), that excluded the United States and incorporated Cuba; and the myth of the almighty dollar, which ended on August 15, 1971 when President Nixon suspended the convertibility of the dollar and devalued it, not only violating a number of international agreements (protested by no one) but, by his tacit recognition of the end of the supremacy of the dollar as the international currency, ushering in the crisis in the international monetary system that still exists.

It is also during this recent period that the Third World countries have agreed on mechanisms for using their supply of raw materials as an economic weapon. These mechanisms, which have been successful in the case of OPEC, are a new factor to be considered in the future of international economic relations; together with the fall of the dollar and the divergence of Western Hemisphere interests, they represent a challenge to the key position of the United States. Further new elements have been generated by the domination of international economic relations by transnational enterprises. And, finally, on an analytical level, there has been a change in Latin American studies from a "structuralist" to a "dependency" approach, which sometimes seems to be a reformulation of the "center-periphery" analysis introduced 25 years earlier by Prebisch-ECLA (see Amin, 1975: 659).

The foregoing topics would appear to furnish an adequate framework within which to examine these books. I shall center my attention on private foreign investment, transnational enterprises, import substitution, trade policy and exports, and technology.

II

Although all three books discuss private foreign investment, Reuber's book, as its title would indicate, is almost exclusively concerned with this subject. Under the auspices of the OECD, the author and his collaborators have employed the conventional neoclassic tools for their task. It is a typical cost-benefit analysis focused on private foreign investment in the manufacturing sector of the developing countries. According to Reuber's figures, $40 billion, representing a quarter of total worldwide direct investment, are located in the developing countries, and $12 billion of this amount are invested in the manufacturing sector. Since this analysis does not include the more "traditional" investments in the extractive industries and public utilities, it identifies (pp. 8-9) only three categories of investment: export-oriented investment, market-development investment, and investment actively initiated and subsidized by the host country.

While distinguishing between the political, social, and economic "effects" of the investment–in both the investing country and the host country–Reuber concentrates on the economic; this is undoubtedly a weakness in a discussion of so controversial an issue. He recognizes, for instance, that if even developed countries like Canada and Australia are worried about consequences, it is to be expected that the developing countries, with less economic power, should be still more apprehensive.

Apparently these "suspicions" are independent of ideology. For example, last year many people in the United States were alarmed by the possibility of investment from abroad by the owners of petrodollars and, for essentially political reasons, various sectors called for regulatory legislation.[1] The two pages that Reuber devotes to this point are insufficient. He does not even list the main arguments, and those that he does mention (p. 17) are really infantile: "In the political world, politicians and officials may find their power inhibited by having to deal with foreign investors who are less firmly within their grip and whose horizons frequently are international rather than national. Moreover, foreign investment is likely to be seen by out-of-office politicians as bolstering the strength of their in-office opponents." Nor does he utilize any of the extensive literature on the subject.

The same criticism might be levelled at his analysis of foreign investment trends. Why was it initially concentrated in the extractive activities? What are the implications of the United States replacing the countries of Europe as the principal investor abroad? Why has there been a mounting interest in investment in the manufacturing sector? What is the significance of the fact that since the 1950s private investment has been mainly directed to the developed countries?

In order to analyze in depth, the author chooses to ignore these questions and limit himself to the microeconomic variables. He begins by specifying (p. 17) what "benefit" means: "The net economic benefits (total benefits *minus* total costs) of foreign investment are equal to: the productivity of the imported capital *minus* the direct cost of the imported capital *plus* the 'external' benefits of the imported capital *minus* the 'external' costs of the imported capital." As the author makes clear, the first part of the equation refers to the investor as such, and the second to society as a whole.

The rest of the book breaks down and analyzes the equation. For this purpose, the author uses not only secondary and already existing information, but also the findings from a detailed survey of 80 private investments originating in the United States, Europe, and Japan, and located in Latin America, India, the Far East, and so on. On the basis of this survey, he analyzes how and why the investment decision is taken and he goes on to examine the effects of the investment in the host country with respect to taxation, growth of product, level of employment, productivity, transfer of technology, and the like. It is a painstaking analysis that leads to a clear and incisive presentation of the positive effects of private foreign investment. This conclusion could almost have been predicted from the start, given the type of questions asked, the methodology used, and the theoretical arsenal supporting it. The entire study is conducted at a level of microeconomics that barely touches on capital flow and its impact on the balance of payments and that does not even consider a number of other questions.

In this respect, the French Davis chapter and subsequent discussion that appear in the book edited by Urquidi and Thorp are much more enlightening. Even though the paper does not have a consistent direction, it is an attempt to set forth the basic points for an analysis of foreign investment in Latin America. Granted that every analysis must initially establish the importance of private foreign investment, its importance is secondary in the growth of gross domestic product. According to French Davis, to raise the growth rate of GDP in Latin America by 1 percent requires an injection of capital two and a half times the present rate. With this question cleared up and foreign investment placed in proper perspective, the analysis can be continued.

Private foreign investment should be considered according to the sector to which it is directed and the final purpose of the product which it generates, as well as the various effects it will have on the country's economy. It may be in primary or extractive activities, manufacturing or services, and its product may be intended for foreign trade or the domestic market. In the latter case, it should be asked whether the product substitutes an import, how indispensable it is, and so forth.

Similarly, qualifications are necessary in considering import substitution, where it should be determined what proportion of the final manufactured product has to be imported. It often happens that terminal industries requiring the importation of a large number of parts and components are established in the developing countries. Whatever the net savings may be, it amounts only to the value added in the host country and not to the total value of the substituted import. This kind of "growth" usually creates rigidities in the balance of payments, because it is difficult to eliminate and/or reduce the importation of the intermediate goods necessary for the manufacture of final products, due to the economic and social consequences implied by such a measure.[2]

Without these qualifications and considerations, it would be impossible to analyze the effects of private foreign investment on the balance of payments as regards the growth rate of the new capital flow needed to compensate the loss of foreign exchange in the form of previous interest and dividend payments by the developing countries. Reuber uses just two pages for this point, which he makes without reservation although he mentions some of the theoretical discussions it has aroused; and he dismisses (p. 38) the argument of net transfers because "they neglect the effects of foreign investment on domestic savings, output, employment, exports and imports, or, alternatively, rest on very special and highly implausible assumptions."

This is the kind of analysis that greatly weakens Reuber's thesis and limits its usefulness. He "demonstrates" the benefits enjoyed by the developing countries on the basis of assumptions which are accepted by "conventional wisdom" and which make possible a predictable result. No other hypothesis is admitted, either because he does not want to go into the political aspects, which are beyond the scope of the study, or because other arguments rest on "implausible assumptions."

Referring to the way in which foreign investment can be analyzed, Carlos Díaz Alejandro (1970: 319) has written: "The methodological choice often reflects the student's bias: those out to show the foolishness of direct foreign-investment opponents tend to start from nonhistorical competitive models; those interested in exposing direct foreign-investment evils find history more congenial." Reuber's book is a prime example of the first type of study.

III

Vaitsos has made an excellent contribution to the vast literature on the transnational enterprise. His book, originally presented as his Ph.D. dissertation at Harvard University, profited enormously from the author's work in the secretariat of the Andean Group, which allowed him to collect a large part of the empirical evidence he uses.

Starting out with the well-known facts of the growth of the transnational enterprise and its displacing action on a global scale that embraces the Third World, Vaitsos goes on to describe the impact of this. There is a clear difference between the behavior of a transnational enterprise that invests to produce for the domestic market of the host country and one that invests to produce for the external market. The latter has no interest in the host country except as national legislation may affect foreign capital.

On the other hand, the former is involved in the performance of the entire economy of the country in which it makes its investment. It is not only concerned with laws regulating foreign capital, but also with economic policy, income distribution, consumer capacity, rates of inflation and employment, exchange rates, and so on, because all these elements will affect its volume of production and therefore its profit levels. When its investment is oriented to the external market, the enterprise is largely indifferent to the host country; when its investment is in a project to produce for the domestic market, it takes an active interest in promoting those policies that favor it. An understanding of this is essential to an understanding of why the two kinds of foreign investment behave so very differently. In Latin America—as in the rest of the world—foreign investment was initially export-oriented (except for foreign investment in public utilities), and this was the kind of private investment that predominated until the Great Depression. In the 1950s, with the beginning of investment to produce for the market of the host country, the investor became actively interested in influencing the economic indicators of that country. Whereas the executives of the United Fruit Company or Anaconda are not overly concerned with the economic condition of Central America or Chile, this would not be true of the Volkswagon executives in Brazil for whom the national economy is crucial to the sale of their product.

Undoubtedly, a good part of the debate on the transnational enterprise is due to this difference between the various developing countries. There have always been enterprises with interests in many countries; today, however, these interests act on a much larger scale to use pressures and bribery,[3] because the number of variables on which they have to take action is also much larger.

Furthermore, unlike the traditional situation of the developing country, today the technical know-how that is "exported" is presumed to be as important or more important than the capital and, in many cases, even vital. This is not the place to recapitulate and to give figures on the implications of technological advances in the business world. What I should like to stress is that, although technology has always been a factor—obviously it exists in traditional investment—today it plays a major role. Since the developing countries have almost none, they buy it. At this point, technology, or the mechanisms by which it will be transferred, becomes as important to the foreign firm that will produce goods for the host-country market as the transfer of capital, for it gives rise to the world of royalties and patents. It is in this world that the transnational enterprise has made great progress, both in technological advances and in ways to profit from control of the know-how needed by the developing countries. To judge by the figures, it would appear that the more a country industrializes, the more of its foreign exchange goes to pay for royalties and patents.[4]

When a technology created and designed to produce for a large market is transferred to a developing country, it usually leads to the formation of monopolies and oligopolies. Vaitsos (p. 13) gives as an example Chile, where "in a sample taken of foreign-owned manufacturing subsidiaries, 50 percent had a monopoly or duopoly position in the host market. Another 36.4 percent were operating in an oligopoly market where they had a leader's position. Only 13.6 percent of the foreign subsidiaries in the sample controlled less than 25 percent of the local market." This aspect of the transfer of technology will be dealt with later.

Vaitsos is especially concerned about the effect of this situation on the bargaining power of the host country and the foreign investor. Because private foreign investment includes in most cases a transfer of both capital and technology, it constitutes a "package" that already determines the production function of the firm. As Vaitsos (p. 92) says, "The process of direct foreign investments and/or technology commercialization in the developing countries studied, contained in itself the creation of monopoly conditions in the host economies. Hence the effective profitability of foreign investors reflects not only the possible returns from increased efficiency but also, and in some cases more importantly, the monopoly returns accruing from such market conditions."

These monopoly conditions in many developing countries are not even threatened by possible competition, which in such a small market would be absurd, or by imported products, which are kept out by tariff barriers raised either because of balance of payments difficulties or economic policy decisions. Thus, the transnational enterprise is not only powerful in itself but it also enjoys the security of a privileged monopoly position.

For this reason, Vaitsos analyzes the distribution of the increased income generated by the transnational enterprise when it invests in the developing country. What are the mechanisms through which payments are made to the different factors of production? In his search for an answer, the author shows that neoclassical theory is inadequate because its assumptions have little to do with reality. In chapter 2 he studies the way in which growth theory deals with the flow of production factors which, in turn, generate an increase in income. If these production factors come from different countries, payments made to them automatically determine intercountry income distribution, provided there is no interference with the free movement of factor flows.

Nonetheless, the real world is far removed from the one described in text books. Vaitsos' objective is to study the real world and, in my opinion, this is his chief merit. In the chapters that follow, he describes the mechanisms through which the transnational enterprises operating in the manufacturing sector of the Andean Pact—which are the subject of his study—obtain their profits.

A detailed analysis is made of the contracts of technology commercialization, for this is where the "comparative advantage" of the transnational enterprise is found today. There are two clauses that seem to occur most frequently: one establishes the obligation to buy certain intermediate and/or capital goods from the parent corporation; and a second prohibits the subsidiary from exporting to other countries. In all the cases studied, the tie-in clause results in very high rates-overpricing (from 100 percent to as much as 500 percent); the export restrictive clause, which appears in more than 80 percent of the contracts examined, permits the parent corporation to reserve markets for future expansion. The economic policy of most of the Latin American countries stresses the need to diversify exports and/or to promote the export of nontraditional products, preferably manufactures; but it would seem that the execution and implementation of this policy is actually in the decision-making centers of the transnational enterprises located in the United States and Europe.

There are many other clauses: personnel to be hired; markets, prices, and quality of what the firm sells; sources, prices, and quality of the intermediate goods to be bought for producing the licensed item. These clauses are so numerous and detailed that very little is left to be decided by the local firm.

Furthermore, the mechanism of transfer pricing usually becomes very important for transnational enterprises that are integrated vertically. In the final analysis, this permits the enterprise to choose in which country it will pay its taxes, because by juggling the sale price of its products among its affiliates, it can induce "losses" or "profits" in the operations of any one of them. Although in this matter the inadequacy of existing theoretical tools is more than equalled by the lack of empirical knowledge about these practices, Vaitsos' analysis manages to provide a satisfactory rough approximation.

In summary, by examining the many forms taken by the profits of the transnational enterprise and placing this empirical evidence in a suitable framework for theoretical analysis, Vaitsos has made a significant contribution to the subject.

IV

For many years import substitution has been the subject of continual debate in Latin America. Since ECLA's coining of the phrase "inward growth through import substitution" through the now classic article of María da Conceiçao Tavares (1964), a lot of water has gone under the bridge. Although I cannot recapitulate the arguments here, I would simply like to point out that what is "new" is the general acceptance in Latin American countries that this process, in its original form, has reached an end. In fact, when the 1929 economic crisis produced a breakdown of the "outward development" (or primary-exporting) model, and the Latin American countries—or at least those that were most advanced economically—began to substitute part of their imported goods, especially manufactures, by national products, this was an economic rather than a political decision. Those who directed and implemented economic policy did not change their view of the economic process but were forced to respond in an unorthodox way to balance-of-payments deficits. It was impossible to maintain the previous model; either imports had to be prohibited through tariffs and other mechanisms, or the same result could be achieved by letting the exchange rate fall, which would favor the substitution of imports by national products. Substitution started with the imports that were "easiest" to produce domestically—nondurable and semidurable goods. Local capital and national entrepreneurship accepted the challenge. When this process could be sustained only by the support of certain basic industries, state participation appeared in the 1940s to provide steel and energy.

Again this decision was more the result of circumstances than of any "theory" or ideology. Since the national bourgeoisie either could not or would not (we shall not get into this argument), the state assumed the responsibility for creating the basic industries needed for sustaining industrial development. Nevertheless, this process came to a halt in the 1950s when, with no more "easy" imports to be substituted, it was necessary to go on to new goods like consumer durables, which required substantial capital, sophisticated technology, and skilled labor. The consequence was a crisis in development.

During this same period the transnational enterprises were emerging on a worldwide scale. Their interests converged with those of the Latin American countries at a time when the latter wanted but were unable to reactivate their industrialization, while the transnational enterprises realized that tariff barriers prevented them from simply exporting their finished product and that, in order to open up new markets, they would have to install themselves and produce within the countries. As Sunkel says in his excellent paper in the Urquidi-Thorp book (p. 18), "The import substituting process of industrialization has therefore become the corporation's strategy of penetration of foreign protected markets, supported by external public and private credit, international technical assistance and aid, and ideological advice with respect to development policies and strategies."

In other words, import substitution, which was initially a response to a form of dependency represented by the primary-exporting model, has been replaced by a deeper and more effective dependency. As the transnational enterprises advance they "denationalize" the industrial sector of the developing countries, thereby making these countries vulnerable in their balance of payments and more likely to adopt not only economic models satisfying the requirements of the enterprises (Muñoz, 1971; for a study of "traditional" transnational enterprises, see Moran, 1974) but also life styles that are not their own. In the process the national bourgeoisie is absorbed and transformed into a bureaucracy for the huge corporations.

Thus, it is often the transnational enterprises that are interested in promoting this "import substitution"[5] and their entrance on the scene has helped establish the transnational integration (and national disintegration) described by Sunkel. For this reason, the "new" import substitution, given the form it has taken, raises very complex problems and conflicts in the economic relations between Latin America and the developed capitalist world.

V

Discussions on trade policy and its effort on exports from the region are of long standing in Latin America. Therefore, it is not surprising that they reappear in various papers in the Urquidi-Thorp book, chiefly in the contributions of A. Maizels, S. Macario, and S. Arndt. Here the approach is conventional. On the one hand, Maizels explains the sluggish growth of Latin American exports on the basis of external determinants (e.g., the slow or uneven growth of the United States economy) and the emergence of new regions competing for the markets of the developed world. This slump in Latin America's share of world trade is cited by C. Reynolds (Urquidi and Thorp: 238), who says that "since the Second World War, Latin America's trade position with respect to the United States has progressively deteriorated, reflected in a loss of market shares for exports."

Following the Second World War a third of U.S. imports came from Latin America; but by the end of the 1960s this had fallen to 15 percent, only reflecting the world situation in which Latin America's share dropped from 12 percent to 6 percent between 1948 and 1968. It is small consolation to know that not just Latin America but all the Third World experienced a decline, a trend that is likely to continue. Between 1948 and 1968 the export growth rate for the developed countries was 7.9 percent and only 4.8 percent for the developing countries; there is no reason to believe this inequality will change in the future.

This reality is generally recognized to be a consequence of the international division of labor, and an attempt is being made to counteract it through a trade policy favoring the developing countries. Macario analyzes the policy in his paper and, as might be expected, he concludes that negotiations have made limited progress in the period from the creation of GATT in 1947 to the UNCTAD III session in 1972.

The failure of multilateral negotiations has led to agreements, such as the one the Mediterranean and African countries entered into with the European Economic Community, which can lead to a "verticalized" world with each developed country establishing a sphere of influence over its underdeveloped "counterpart." In such a "vertical division," the place of Latin America is clear.

Another, newer, element on the scene is the impact that transnational enterprises have on world trade flows. Here Vaitsos' study is significant, although he does not refer specifically to this point. Macario touches on it.

The steady deterioration of Latin America's trade position has had two results. First, there has been a mounting interest in trade and what lies behind it, whether "unequal trade" is an integral part of the capitalist system which dominates international economic relations or, rather, the natural outcome of trade between countries that export manufactures and countries that export primary commodities. To some extent, it is the old terms-of-trade debate seen from a different perspective.

The second result has been the discovery by various developing countries of their own economic force and their use of cartel-type mechanisms or control of specific raw materials. The example of OPEC does not have to be enlarged on.

These two results, not studied in the books under review, can be—especially the second—the starting point for a radical change in international economic relations. Whatever the past strength (or weakness) of the Third World countries in international forums, they were not listened to because they had so little bargaining power. I recall the marathon discussions in UNCTAD III when, having completed their round of negotiations, the "77" came to deal with the Group B (developed) countries. In the end a choice had to be made: in order to obtain a unanimous resolution binding on all the countries, it was necessary to yield until reaching what the Group B countries wanted to "give": otherwise, a resolution might be approved, but with the abstention of the "important countries." In short, there was no bargaining power.

The new situation in trade has opened up a new avenue. It remains to be seen if the developing countries can take advantage of their new bargaining power and use the new avenue to modify the historical trends of international trade since the Second World War.

VI

The impact of technology is discussed in all three books. We have already mentioned that Vaitsos emphasizes the importance of technology relative to the capital factor in the "exports" of the transnational enterprises. Reuber also examines the transfer of know-how as one of the effects of private foreign investment. The Urquidi-Thorp book includes a useful paper by J. Katz on the relationship between the payment of royalties and local expenditures on research, as applied to Argentina.

From the standpoint of economic relations, it would appear that the international market in technology—as pointed out by Vaitsos—is determined by the bargaining power of the participants and since it is in no way a perfect market, the decision often is only whether or not to acquire a new technology, with the terms of the purchase unilaterally imposed. Katz studies the cost of this transfer and its subsequent contribution to increasing productivity in the recipient country—in this case, Argentina—and his conslusions are by and large negative. In the discussion that follows the paper's presentation, Wionczek (p. 225) states that, in the light of information available from the rest of Latin America, "it became clear that it was essential to consider how far one could really consider subsidiaries of multinational corporations vehicles of technical progress."

This indicates that future research should investigate the "cost" of the transmission of technology—with the understanding that this "cost" include not only royalty payments but also a number of other hidden transfers abroad—and then to compare the cost with its contribution to growth.

Nevertheless, the core of the problem is that the developed countries spend vast sums on research, which is not possible for the countries that lag behind. The economically more advanced countries have always had a complete economic system; that is, they have produced not only their own consumer goods, but also their own capital goods. Obviously, they have produced their capital goods using the latest technology, which they themselves have developed according to their own needs and as appropriate to their economic systems. It may be labor- or capital-intensive depending on the relative cost of these factors, and it may be a technology for large-scale production to meet the demand of more than 200 million inhabitants (United States, European Economic Community, or COMECON) with per capita incomes of over $1,500 per year. Thus, when technology is transferred to poorer countries, production techniques are transmitted that are not suitable for the prevailing economic structures and that create all kinds of situations which are undesirable and even damaging to the developing countries.

Still more serious, the technological gap tends to widen progressively.[6] Technological advances and the dizzying pace of new discoveries offer no hope that the developing countries can ever catch up. Therefore, at present the developing countries are less interested in producing their own technology than in adapting imported technology to their own needs. This process of adaptation involves research on the one hand and negotiations to obtain the technology transfer on the other. In the capitalist countries a high percentage of research is conducted by the large private corporations. In the developing countries the "large private corporations" are simply subsidiaries of parent firms located in Europe or the United States, and these subsidiaries do little or no research. It becomes a matter mainly—as shown by Vaitsos—of purchasing technology. The best solution is to buy "turn-key" factories, where no adaptation of technology is required. The developing countries still have a lot to learn about bargaining. This is made clear by Vaitsos (p. 140), especially in chapter VIII, when he states: "For developing countries, the opportunity cost of technology in the process of its commercialization (not its imputed value) can be determined only through the knowledge of available alternative sources of supply and their respective prices." Since knowledge of alternatives is usually nonexistent, technology becomes a new element of weakness for Latin America.

VII

In commenting on the main topics of the books under review, I find that at least two topics are conspicuous by their absence—the consequences of the international monetary crisis and the new power enjoyed by the weak—but this absence is not due to neglect. The books by Vaitsos and Reuber are concerned with other questions. The Urquidi-Thorp book discusses the more crucial developments of the early 1970s, which was before these events took place and shows how rapidly international relations change. Therefore, there are now new subjects for study: the emergence and consolidation of authoritarian societies in Latin America as a way of maintaining structures that are protested by increasingly large sectors of the society; the appearance of new forms of inter-American relations, which are expressed institutionally through SELA; and finally, the debate between the developed world and the Third world. It remains to be seen if this debate will produce a confrontation or a consensus. Private foreign investment, transnational enterprises, the new nature of dependency, the transfer of technology—in brief, the new patterns of economic and social development—will necessarily be affected by the results of this great debate, which will continue through the remaining 25 years of this century.

—*RICARDO LAGOS ESCOBAR*
Institute of Latin American Studies
University of North Carolina
at Chapel Hill

Translated from the original Spanish by
Marjory Mattingly Urquidi

NOTES

1. Almost three dozen legislative proposals dealing with this issue were presented in the U.S. Congress. For an article meant to "calm" these fears, see Rose Sanford (1975).

2. In the past, many Latin American countries, confronted with emergency situations in their balance of payments, prohibited the importation, for example, of electronic articles, automobiles, and the like. Today, thanks to private foreign investment, many of them have assembly plants for such products. It is hard to imagine any government prohibiting the importation of the parts and components necessary for these industries, for this would mean shutting them down.

3. A new development has been the admission by the executives of important transnational enterprises (Exxon Oil Company, Gulf Oil Company, Northrup Corporation, United Brands—the successor to United Fruit) that bribery is a common business practice, whether in small or large countries, Honduras or Italy.

4. This is shown in the recent United Nations study, *Multinational Corporations in World Development:* Mexico pays the equivalent of 15.9 percent of the value of its exports in royalties (200 million dollars); Argentina, 7.9 percent (127.7 million dollars); Brazil, 3.4 percent (59.6 million dollars); and Colombia, 5.3 percent (26.7 million dollars).

5. Vaitsos says in this regard: "The manner by which import substitution was implemented by host countries found in various cases a strong supporter and inducer in the case of the transnational firms. Infant industry arguments were, thus, used not only for domestic factors of production but they were effectively extended to apply such infancy to enterprises like General Motors, ICI, Mitshubishi, Phillips International, and the like, which dominate national industries" (p. 123).

6. It is a known fact that at the end of the nineteenth century a relatively small Latin American country like Chile could manufacture complete steam engines without importing a single screw. There has not been much technological progress in this field, but nonetheless, today Chile is absolutely incapable of producing steam engines.

REFERENCES

AMIN, Samir (1975) La acumulación en escala mundial. Buenos Aires, Siglo XXI.

DIAZ ALEJANDRO, C. (1970) "Direct foreign investment in Latin America" in Charles P. Kindleberger (ed.) The International Corporation. Cambridge: MIT Press.

MORAN, T. (1974) Multinational Corporations and the Politics of Dependence, Copper in Chile. Princeton: Princeton Univ. Press.

MUÑOZ, O. (1971) Crecimiento industrial, estructura del consumo y distribución del ingreso. Santiago de Chile: Institute of Economics, University of Chile.

SANFORD, R. (1975) "The misguided furor about investments abroad." Fortune 91, 5: 170ff.

TAVARES, M. C. (1964) "Auge y declinación del proceso de sustitución de importaciones en el Brasil." Boletín Económico de América Latina 9, 1 (March).