Export Oriented Industrialization:

State Policies and Contemporary National Production Systems;
Initiatives and Perspectives from Mexico, Chile and Argentina*

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Introduction

The underlying purpose of this research project is to examine three “mature” applications of the neoliberal economic policy agenda in Latin America. The three case studies were selected both for their homogeneity and their contrast. All three nations have experienced radical shifts toward the export-led model which have been sustained, enduring at least 24 years in the case of Mexico and longer for Chile (33 years) and Argentina (30 years). Each nation, however, has demonstrated a distinct pattern of Export-Oriented Industrialization, consistent with underlying historical conditions and dynamics which have given rise to distinct production systems and institutional patterns. The three nations encompass the possible range of size in Latin America—Mexico is a giant nation, Argentina an intermediate nation and Chile a small nation.

While all are treated under one geographic concept—Latin America—and each has adopted the neoliberal Export-Oriented Industrialization model, their distinct trajectories, histories and institutional arrangements demand an individual treatment of their underlying economic structures. Thus, rather than impose a single arbitrary methodology in analyzing these national economies (one that would create the appearance but not the substance of “neutrality/objectivity” in the research method) the approach here has been dictated by the underlying conditions in each nation which have given rise to distinct bodies of research material, interpretations and data.

In pursuing a critical heterodox macroeconomic approach to the subject of industrialization the idiosyncratic nature of the national research agendas—and the institutions that underlie these efforts (or impede them)—is taken as a given. In each nation certain research questions are pursued in specific ways, often to the neglect of other equally significant issues. Thus, for example, in Mexico a vast literature attempting to portray the maquiladora industry as an entry-level industrial process with high potential for upgrading of skills, production processes and technological spin offs, has been present for decades. In Argentina, in contrast, researchers examining industrialization trends have incorporated many of the research issues and questions associated with the field of Industrial Organization—an approach to analysis that scarcely exists in Mexico (or Chile). Meanwhile, in Chile, there is almost a complete absence of critical, heterodox economic analysis. The universities have largely been purged of all approaches to analysis save that of the neoclassical/neoliberal view. Here, themes, data and a viable body of research literature objectively analyzing underlying conditions, structures and trends scarcely exists. In most instances pursuing questions that are considered “non-fundamental” in terms of the neoclassical/neoliberal approach requires research unconnected with the materials, questions and data that are examined by economic institutions—government agencies, privately-funded think tanks and universities. In Chile this is the legacy of the ideological offensive of neoliberalism that has been all but complete. The self-destruction of the military government in Argentina in 1983 prevented something similar from happening in Argentina. In Mexico the neoliberal agenda was instituted without the complete marginalization of critical perspectives.

The following three sections of this paper take up the issue of the forms and effects of Export Oriented Industrialization, first in Mexico, then in Chile and finally in Argentina. The underlying research for this project began in January 2003 in Chile, with subsequent sustained periods of work in Mexico, and to a limited degree in Argentina. The work presented here on Argentina is to some degree provisional, with a major portions of the planned research yet to be completed. The final section of the paper attempts to draw some comparative lessons from the three national experiences with the neoliberal, export-oriented, experiment.

I. Mexico

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1 This section on Mexico was co-written with Raúl Delgado Wise
Mexico is seen as the great exception in Latin America: It is viewed as the nation that has achieved the most advanced form of Export Oriented Industrialization, purportedly arising from the successful transformation of the economy into a competitive manufacturing center based on intermediate and advanced level products. In contrast to this construct, in this section a new theoretical formulation of the Mexican economy—the labor export-led model—is presented. In spite of the prevailing presumption that the neoliberal model is merely a trade-enhancing process, the underlying objective of the neoliberal/NAFTA structure—its inner “rationality”—is the export of cheap, largely poorly-trained labor through the linkage and combination of three mechanism: the maquila industry, the disguised maquila sector and the emigration of Mexican labor to the U.S.

In brief, the maquila sector does not entail an export process as the term is commonly conceived. Rather, untaxed inputs of materials, machinery, equipment, technology, design and operational organization from the U.S. are physically placed in Mexico and combined into a production system; a small quotient of cheap Mexican labor (in terms of market-determined values) is mixed with these other components in the process of manufacturing transformation, and then the recomposed product is either immediately shipped back to the U.S., or diverted briefly into the disguised maquila sector. The disguised maquila sector has the same production system as the maquilas, but involves larger, more complex, capital-intensive and technologically sophisticated levels of production. Typically, we can locate, for example, the numerous foreign-owned Mexican-based autoparts companies in the maquila sector, where they both export some output to the U.S. market and send much of the rest to the giant auto producers, who use the maquila-made parts as inputs, but carry-on production with the same tax subsidies and the same export-market objectives as the maquila firms. These processes constitute the indirect export of cheap labor, with this labor actually embodied in the exported products. Emigration, on the other hand, is the direct export of labor, but in all three instances Mexico is not really exporting goods because the only Mexican-made value/input in this complex transnational process is (with only minor exception) cheap labor.

The most determinate factor in terms of analyzing Mexico’s version of Export Oriented Industrialization is to be found in the policies adopted by the U.S. as this nation has sought to confront the new structural forces arising from the present era of intense national economic rivalry among the northern nations. The one policy initiative of major note, of course, has been NAFTA—but NAFTA was only one part of a series of agreements, informal accords and economic policy changes that have both opened and subordinated México in an indiscriminate manner to U.S. economic interests.

For Mexico the impact of these policy changes document the deepening of a process of disarticulation; one where a significant division is to be found between the maquilized sectors and the remainder of the economy. The net result is an economy that lacks continuity, autonomy and dynamism. It is one where the productive apparatus has been dismantled and reassembled to fit the structural requirements of the US economy, leaving México in control of certain low value-added resource-based activities, and a range of other rentier pursuits in tourism, finance and real-estate. Instead of advancing its productive apparatus, México is falling further behind (relatively) because in essence the labor export-led model is structurally designed to transfer Mexico’s economic surplus away from its potential positive usage. The process of subordinated integration fails to advance the productive apparatus of the economy through investments in expanded research, development and technological applications, through the development of more complex supplier/commodity chains with endogenous participation, and through public sector infrastructural investments designed to rapidly improve Mexico’s quality of education, public health and an autonomous industrial base. Symbiotically, the Mexican elite (in its economic and political dimensions) co-exist with and facilitate the perceived structural dimensions of the restructuring process as delimited by US economic interests. In this process, certain benefits
befall this elite, while they carefully maintain their option of engaging in devastating capital flight—or deploying the threat of capital flight—to preserve these benefits.

**The Orthodox/Neoliberal/ Washington Consensus/ Vision of NAFTA**

In contrast to the cheap-labor model presented below, in Mexico and throughout the world there is a perception—carefully nurtured by the Mexican government—that Mexico’s economic restructuring centering the economy on the growth of foreign transactions (Exports + Direct Foreign Investment) in accordance with the NAFTA accord and neoliberal restructuring has yielded tremendous results. Authorities frequently cite the following: (1) Between 1991-2000 exports grew at an annual average rate of 16.3%, forming the leading sector of the economy. (2) Maquiladora exports were the most dynamic of all, growing at an annual average rate of 19.6%. (3) Manufacturing exports rose from less than 25% of total export in 1982 to over 90% in the late 90s, (4) Mexico has become Latin America’s top exporter and has risen to 7th place in the list of trading powers in terms of foreign trade [exports + imports] (Leon Gonzalez and Dussel Peters, 2001 653.) Overall, in this new model the export/GDP ratio rose from less than 10% in 1988 to over 25% in the late 1990s (with over 90% of these export flowing into the US).

**A Bitter, Contrasting Reality: The Saga of Emigration**

The widely-disseminated vision portraying Mexico’s restructuring as a resounding success stands in sharp contrast to the explosive growth of emigrants—to the degree that Mexico has now become the principal country of emigrants in the world. Further, neoliberal restructuring was conceived as the very antidote to emigration, with proponents asserting that the workings of the “free trade” arrangement would lead to Mexico specializing in labor-intensive activities that would absorb the idle and underutilized labor force. Instead, few jobs in the formal sector, and even fewer jobs of a permanent nature, have been created, forcing as many as 3/4th of the annual new entrants into a “free to choose” scenario wherein the options consist of entering the informal sector as a house servant, a street vendor or something similar or emigrating to the US. Indeed, emigration has become such a powerful current that 31% of the municipalities in Mexico are now suffering from depopulation.

**The Onset of Stagnation?**

After a three year recession (2001-2003) when per capita income growth was negative, México’s economy rebounded in 2004 (GDP growth of 4.4%) and is estimated to finish 2005 with a credible, if unremarkable 3% growth rate (Becerril 2005, 12) But, this growth is certainly not due to any positive effects from manufacturing. Manufacturing growth for 2005 is anticipated to be only roughly 1.4% above levels achieved in December 2004, while the overall manufacturing sector’s exports are insufficient to pay for manufactured imports—the sector faces an anticipated trade deficit of $20.4 billion for 2005 (Zuñiga and Rodriguez 2005, 24). Thus, even while Mexico’s economy enjoys a modest two year expansion, the manufacturing sector remains stagnant, and its failure to cover the cost of manufactured imports means that in the highly-touted area of the foreign sector, overall manufacturing performance is serving to reduce Mexico’s standard of living and GDP.

Consider, for example, the case of wages in the manufacturing sector: In relation to real wages received in December 2000, mid-2005 wages are on average 24% lower (Bendensky 2005, 25). But, real average wages overall in 2000 were only 72.5% of their level in 1982 (Unger 2002, 3). If the maquila sector (or more broadly the export sector) had the effect that its proponents pretend—positing manufacturing export-led development as a viable strategy for Mexico—one should anticipate that real wages would have some positive correlation with the rate of growth of exports and the rise in the Exp/GDP ratio in the 1982-2005 period. Yet, the correlation is negative, and this correlation has lasted long enough to discard the perception that it is somehow an anomaly. Instead, the negative correlation, in fact, is the positive expression of the underlying
premise of the labor export-led model—Mexico’s static comparative advantage rests in the exportation of (cheap) labor, either via the maquilas and national firms that export because they use inputs from the maquilas (or maquila-like tax-avoidance schemes and subsidies), or via migration. Thus, the model cannot, and does not, offer “development” in the most basic sense to its broader population, because it cannot. All the benefits of economic growth are either being exported via transfer prices, repatriation of profits, sumptuous salaries and benefits paid to high-level transnational firm employees, payment of interest on foreign debts and/or high incomes, ample profits, rents and interest payments received by Mexico’s technocracy, its political class and the owners of the giant Mexican conglomerates.

THE MAQUILA SECTOR: THE INDIRECT EXPORTATION OF LABOR, PART I

The maquila sector constitutes the starting point in the examination: It has by definition been associated with manufacturing exports and in many formulations it has been linked to the concept of cheap, unprotected and essentially non-unionized labor. In the 3,000 + maquiladora firms that primarily cluster along the US–Mexican border are employed over 1,200,000 maquila workers who generated 55% of Mexico’s manufactured exports in 2004 (Bancomext, 2005). Essentially, the maquila industry imports its inputs—components, parts, design, engineering, etc. (overwhelmingly from the US) combines these various inputs with cheap production labor (pay per day in 2005 ranged from $4 to $10) and a slight element of technical labor, assembles the finished products and primarily re-exports these products into the US economy.

In Figure 1, below, it can be seen than the maquila sector’s value-added constitutes a declining share of the total value of the gross production (sales) in that sector. Thus, in spite of the overall growth in maquila employment in the NAFTA era, and in spite of the rise in the total value of Mexico’s maquila exports, Mexico retains a smaller and smaller relative share of the economic benefits for these activities even as the costs in terms of aggregate physical effort rises—the ratio drops from 18.2% in 1988 to only 8.2% in 2003—a decline of 55%. In terms of opportunity costs Mexico also gives up more relatively every year—which is to say that if Mexico had a viable developmental strategy it could either extract a larger share of the benefits of the maquila industry, or engage in a national process of upgrading which would eventually lead to a viable national development project based in other forms of manufacturing activities. Also of note in Figure 1 is the essentially static level of national integration into the maquila sector as indicated by the coefficient of integration (national inputs/gross production). The data presented in Figure 1, however, exaggerate the degree of national linkage between the maquila industry and the national production system: Roughly 60% of the national inputs in 2003, for example, derived from the service sector in terms of cleaning, accounting, packaging and shipping and similar activities. Only 3% of the national inputs are component/manufacturing inputs.

In spite of the quantitative data which has repeatedly demonstrated the futility and negativity of the maquila industry, a significant cadre of Mexican researchers, continues, up to the moment, to furnish qualitative studies of so-called “second and third generation” maquila firms that, according to this body of research, hold the potential for the many externalities posited by the New Growth Theory (Cypher 2004; Dutrénit and Vera-Cruz, 2005, Lara, Arellano and García 2005, Villaviencio and Casalet 2005). However, none of these studies has ever presented convincing quantitative data suggesting that in the aggregate the maquila sector is anything more

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2 For details on many qualitative points regarding the maquilas see (Cypher, 2004).
3 Maquila firms are also present, to a much lesser degree of concentration in many of the interior States, 78% of output occurs in the border region.
4 The New Growth Theory of the 1980s posited impressive dynamic effects from greater trade and foreign investment, particularly positive externalities due to learning effects, technological diffusion and the applications of new forms of production and administrative organization.
than a cheap-labor assembly operation with virtually no backward or forward linkages to Mexico’s production system. Nor, in spite of many efforts to do so, have these studies ever established a significant dynamic trend sufficiently large to change the fundamental (cheap dispensable labor) nature of the maquila industry.

Once thought to be a serious generator of employment (as well as a source of skill-upgrading), the maquila sector has ceased to create new jobs, with employment, in August 2005, 16% below levels achieved in August 2000. When the maquila sector was

Figure 1. Mexico: Coefficient of National Integration (in percentage terms)

Source: INEGI (Instituto Nacional de Estadística), Cuentas Nacionales de México y Capdeville (2005)

Growing (in employment terms) between 1994 and 2000, jobs created paid 52% less than non-maquila manufacturing, while living costs for the maquila workers clustered along the US/Mexican border were considerably higher than in other interior states (Cypher 2004, 362). In short, and in spite of the rosy predictions of an indefatigable cadre of Mexican researchers, the maquila project was never a national development strategy, and is even less so today.

THE DISGUISED MAQUILA SECTOR: THE INDIRECT EXPORTATION OF LABOR, PART II

It is common to find a twofold division of Mexico’s manufacturing sector, which now accounts for roughly 85% of all exports—“maquila manufacturing” and “non-maquila manufacturing”. Yet, within the “non-maquila manufacturing” sector as much as 38% of export output, or more, is undertaken via temporary import incentive schemes that grant the same subsidies and fiscal exemptions to firms engaging in exports as those that are designated as maquiladora plants (see Figure 2).

A significant and rapidly growing volume of production is generated by the maquila firms and then sent to the large transnational corporations (TNCs) throughout the interior of Mexico which incorporate maquila-made parts and components into finished manufacturing products—often of a sophisticated nature, such as autos—which are then exported, primarily into the US market.
Utilizing a broad range of subsidies and policy stimulants, the disguised maquilas produce 45% of all manufacturing exports (Capdevielle 2005, 564-565, Dussel 2006, 83-85). Frequently, this movement of inputs from the maquila firms to the larger TNCs constitutes “intrafirm transactions” since through joint-ventures or direct ownership the large TNCs control many maquila supplier firms. U.S. intrafirm transactions for imports in the auto and electronics sectors—the two largest export sectors for Mexico—stood at 75.9% and 67.5%, respectively, in 2002 (Duran Lima and Ventura-Dias, 2003, 59).

These indirect maquilization activities employ at minimum 500,000 workers, representing approximately 37% of all non-maquila manufacturing workers who are normally assumed to be working in the national manufacturing sector 5 (Capdevielle 2005, 568). Workers employed in the indirect labor export “disguised” maquila sector have somewhat higher skill levels, have some likelihood of better representation of their labor rights via their unions, and are generally paid at least 50% more than direct maquila workers because their productivity levels are much higher, because they have legacy union representation from the ISI era and also because the major TNCs generally accept a policy of industrial relations wherein payment of subsistence wages is not a goal (Cypher 2004, 363.). Nonetheless, workers are paid meager wages given the fact that their productivity often approximates levels found in the (Northern) industrial nations—frequently the South/North wage differential (Mexico/U.S.) will be in the range of 1:7 in the indirect maquila sector, and nearly double that gearing ratio in the maquila sector. Thus, the ILO has found that for Mexican manufacturing workers overall (maquila +non-maquila) in relation to U.S. manufacturing sector workers in 2003 the ratio was 1:11. (Howard, 2005, 2). Throughout the NAFTA period wages in the indirect maquila sector have fallen by more than 12%, while in the maquila sector, in spite of some rising productivity, they have increased only 3% or less—3% of the lowest paid maquila workers daily wage was 12 U.S. cents in 2005 (Cypher 2004, 363).

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5 We are referring to formally registered workers as defined by coverage under the social security system as tabulated by the Secretary of Labor. All maquila workers are included in the formal manufacturing labor force.
Deindustrialization

In the disguised maquila sector nationally produced inputs/components have fallen from 32% in 1993 to 22.6% in 2004 (Cadena, 2005, 13). In essence export firms outside of the maquila sector are progressively deindustrializing, leaving only the value of Mexican labor as the determining component of value-added as 77% of the inputs into the production process are imported. When Mexican-made inputs are extinguished the impact is not limited to destroying supplier firms and jobs, but also the complex set of socioeconomic relationships and skills that have accumulated over decades. Once this web of relationships has been swept away only long-term, systematic industrial policy can reverse the deindustrialization/deskilling effects. As the giant firms emphasize greater subcontracting they also demand large levels of output with higher quality and performance standards, and production processes that require greater levels of capital-intensity, thereby eliminating thousands of Mexican firms, resulting in their often turning to other TNCs as suppliers. One study estimates that of the 600-800 first tier suppliers in the auto sector and the 10,000 second tier suppliers in 2001, only 25-100 first tier suppliers and 2,000-4,000 second tier suppliers would remain in 2010 (Mortimore and Baron 2005, 10). Mortimore and Baron note that in this process, increasingly it is US first tier suppliers—subsidiaries of US transnationals that are dominating the autoparts industry (Mortimore and Barron, 2005 19). Enhancing outsourcing has collateral benefits in that the U.S. transnational firms can sidestep or fragment unions by shifting significant portions of production input production to captive suppliers—this has been well-documented at the giant Volkswagen plant in Puebla that primarily exports finished autos to the U.S (Juarez y Babson 1999).

As these effects continue the significance of the ‘informal’ sector (workers without benefits or standard on-the-job forms of protection) increases: In 2000 24.9% of the labor force was relegated to the informal sector—in mid-2005 the percentage had rise to 28.3% indicating that an additional 2.21 million workers had descended into this category (Fernandez-Vega, 2005, 28). (Adding the underemployed, the unemployed and informal sector activities accounts for nearly 40% of all Mexicans of working age who would normally be counted as part of the labor force in an industrial nation.) Overall job growth has been negative from 2002 to late 2005.

Given the fact that inputs into the maquila and disguised maquila sectors (aside from labor) are primarily imported or limited to small additions of value-added in the service sector, employment multiplier effects via forward and backward linkages have been minimal. Instead, the institutional policies that undergrid the export-led model—neoliberal market fundamentalism, a tax regime that favors the temporary importation of inputs, subsidies of various types—all tend to narrow the market demands for Mexican labor. Meanwhile, the prevailing restrictive macroeconomic policies coupled with an open/unrestricted trade policy have resulted in a disproportional growth in imports. This combination of policies has given rise to a near stagnate economy when viewed from the perspective of the rate of growth of per capita income: Between 1980 and 2003, per capita income increased only 0.5% per year, between 1988-2003 the level was a unimpressive 1.4% per year—far below the nearly 3% rate achieve from 1940-1980 under a policy of state-led development (Cypher, 1990, Dussel 2006, 77). Further exacerbating the situation, the growth in productivity in the non-maquila manufacturing area (which includes the disguised maquilas, the source of major dynamism in this area) has failed to lift wages (figure 3).
This effect, in turn, has undermined whatever possibility might exist for growing wage payments to serve as a catalytic factor in terms of the growth of the internal market.⁶

![Figure 3. Mexico: Manufacturing productivity and real wages](chart)

**Sources:** INEGI/STPS, Monthly Industrial Survey (EIMI, Economic Information Bank (BIE), *Indicadores Económicos de Coyuntura*

Note: Productivity and wage data cover both production and non-production workers.

All of the above serves to reveal the fact that the export-led model employed in Mexico is characterized through its low capacity to create national employment, the counterpart of which is the blooming of the “informal” sector which has accounted for roughly 50% of the growth in employment in recent years.⁷ As a direct result of the failure of the model, between 1984 and 2004 the number of households registering at either the poverty level or the extreme poverty level rose from 12,970,000 to 15,915,000 (Cypher, 2005; Dussel 2006: 87). Furthermore, this situation has been the nurturing ground for the explosive international migration process that currently characterizes Mexico.

**Implications of Export Oriented Industrialization for Mexico**

The vast restructuring of the Mexican economy via the NAFTA process could not, and did not, occur without the consent and active participation of the “political class” and Mexico’s industrial elite. The business elite supported the indiscriminate opening of the economy not because they necessarily were convinced of David Ricardo’s theory of comparative advantage or the applications of the New Growth Theory to International Economics. Rather, the large conglomerates (grupos), particularly those based in Monterrey, had always held a neoliberal/anti-state view. The stagnation of the 1980s in Mexico had forced many of them to seek growing

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⁶ In actuality the situation is even more restrictive given that 77% of maquila activity remains along the U.S. frontier where a considerable portion of workers consumption is diverted into the U.S. economy, further undermining whatever potential multiplier effects might be anticipated through rising wage payments.

⁷ The estimated “jobs déficit” in Mexico (jobs created minus [jobs needed to employ school dropouts + high school graduates + university graduates]) stated on an annual basis has been estimated at -500,000 per year, on average, from 1988-2003 (Dussel 2006: 75).
markets in the international economy. Closest and cheapest to export to is the vast U.S. market. But, in the 1980s many of the grupos faced legal difficulties as they were accused and convicted of dumping by US trade authorities. In other instances they faced non-tariff trade barriers or other hurdles that the U.S. adroitly placed in the way of would-be foreign competitors. In their struggle to find ways to expand production in the 1980s the largest conglomerates eventually became convinced that a new bilateral trade agreement (NAFTA) could circumvent the legal hurdles to access to the vast US market. These conglomerates, however, were specialized in the production of one or a few key potential exports, all with a common denominator: Low value-added products such as cement, minerals, beverages, and undifferentiated intermediate-goods industrial products, such as steel or plastics, were their specialties. Expanding the output of these products has benefited the grupos, but not Mexico. The expected spin-offs of learning and technological deepening have never occurred. Instead, the grupos modernized as they expanded their sales by importing new, cutting edge machinery and equipment. If there were any “learning” or technological spin-offs from this process, they occurred in Europe, the US and Japan where the new technologies were created.

According to neoliberal/neoclassical economic theory the spread effects of “learning” and “technological know-how” would penetrate to small and medium-sized suppliers as the giant firms were compelled to share their knowledge, while forcing supplier firms to adopt high quality control standards, just-in-time delivery procedures, etc. This however never occurred in the Mexican production system, partly because the Mexican producers have a relatively low level of technological know-how and are not prone to diverting their profits into long term (and often unfruitful) research into advanced technological processes and products. Primarily, however, it is the secretive vertically-integrated nature of the conglomerates that has nullified the naïve scenarios of the neoliberal/neoclassical economists: The grupos do no spin-off their know-how to suppliers. They tend to create their own tightly-controlled suppliers. The grupos also tend to import inputs of higher technology, or buy other inputs from other large national grupos. When they do resort to a supplier network these small and medium sized suppliers normally are incorporated into the web of international production at the lowest possible level of production—labor-intensive simple products with low quality levels and production standards. No “learning” is transmitted, no modern forms of production are needed and no “spread” effects occur (Pozas 226-227). In a study of one of the major conglomerates’ supplier relationships Maria de los Angeles Pozas found that 60% of the value of industrial inputs came from subsidiaries within the vast complex of the grupo itself, 35% of the inputs were either supplied by other grupos—or, in the case were inputs had a high degree of technological sophistication, by TNCs—leaving a mere 5% of inputs—the least complex and the lowest value added products—to be supplied by small and medium firms (Pozas, 226).

Implications for México

- In its essence the labor export-led model gives rise to a process of disaccumulation, as the economic surplus is transferred abroad, depriving Mexico of potential multiplier effects and spread effects through forward and backward linkages. Surplus transference has taken many forms including, net transference of profits, interest income, licensing fees and disguised profits through transfer pricing and intrafirm transactions in the maquiladora and disguised maquila firms.
- Net transference also entails the derived benefits from education, health care, and the nurturance of children to maturity. An impressively large fund of social capital created in Mexico is then transferred to the U.S. as emigrants produce in the U.S. while the costs of their formation are paid in Mexico. Substantial levels of spending by the Mexican State on education and health care are essentially subsidized inputs into the US transnational production system.
- To the above transfers should be added the subsidies and lost tax revenues that the Mexican government has permitted to continue up to the moment. Firms operating in the maquila and
disguised maquila sector pay no tariff charges, they are exempt from the value added tax, and, at least for the maquila sector in 2000 the value of subsidies received exceeded taxes paid to the degree that these firms had a net profit tax rate of -7.2% (Dussel Peters, 2003, 334, Schatan, 2002).

- Inside Mexico the labor export-led model has involved collateral cost in terms of deindustrialization and rising unemployment, along with deskilling as industrial workers are forced to shift to the informal sector or to underemployment—in effect dismantling much of the productive apparatus of Mexico.

The above points convey a synthesis of the process of asymmetric subordinated integration in Mexico—a process to a great degree accelerated by NAFTA and the neoliberal policies that formed the framework for the NAFTA accord. And, at the same time, they capture the passivity and emptiness of the state policymaking process in Mexico—the adoption of a neoliberal “horizontal” stance where there will be no intervention to attempt to direct production by way of the creation of new forms of dynamic competitive advantage, or to forestall processes that are clearly undermining Mexico’s production base. Instead, the Mexican state has adopted a posture wherein it is assumed that the dynamic external effects of new forms of production orientated toward the foreign market will bring automatically—through “the forces of the market”—a positive restructuring of Mexico’s production system.

II. Chile

Cuadro I, below, traces the pattern of Chile’s manufacturing sector from the 1940s to 2002. The pattern is distinct—with the exception of a brief interlude that essentially modestly lags the general boom of the 1987-1997 period—the manufacturing sector has been stagnant or nearly so since 1970. The decline in the growth rate in the 1997-2002 period was even more marked than the slowdown in GDP growth. In short, manufacturing was a lagging sector in the 1987-97 boom which was led by the export of commodities, particularly in niche markets (off-season fruit, wine, salmon, lumber products). When those sectors reached their limits of expansion in 1997 investment slowed and the short-run push to incorporate Chilean manufacturing into the boom largely abated. (The 2003-2005 boom is almost totally explained by the jump in mineral prices, particularly copper—which has more than doubled.)

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Fuentes: División Conjunta, CEPAL/ONUDI de Industria y Tecnología; Carlos Alvarez, “La Corporación de Fomento de la Producción” en CEPAL, La Transformación de la Producción en Chile (Santiago, 1993) p.
In the following four sections the trajectory of Chile’s economy—with reference to the industrial sector—is taken up beginning in 1973.

Incoherent restructuring

At the outset of the military dictatorship (1973) the State operated within the confines of an “emergency” situation (Huneeus, 2001: 296). In framing economic policy the two dominant policymakers were Fernando Léniz—Economic Minister—and Raúl Saéz serving as the Minister of Economic Coordination. Neither Léniz nor Saéz were neoliberals: Saéz, in fact, was certainly a key—if not the key—policymaker in Chile’s peak developmental institution, CORFO (Saéz 1994a, 1994b). CORFO—Corporación de Fomento de la Producción—(discussed below) had been since 1938 the principal protagonist in Chile’s Import Substitution Industrialization strategy (ISI), while Saéz had long been associated with ISI, CORFO and the policy of State-Led development.

Seeking to consolidate his political power, General Pinochet outmaneuvered his military rivals and formed the “second government” in July 1974 through April 1978 (Huneeus, 2001, 297). This “government” was marked by the dominance of military leaders in positions of power—24 of the 38 ministers appointed to govern were military professionals. Most were strong nationalists, they had been supportive of formative institutions such as CORFO and they held to a vague developmentalist ideology which highlighted the formative role of ISI strategies in the economy.

Immediately, Pinochet appointed the first of the Chicago Boys, Jorge Cauas as ministro de Hacienda. This was followed by the appointment of Sergio de Castro as ministro de Economía—an extremely powerful Chicago School critic of current government policy—in April of 1975. de Castro’s appointment came shortly after what was considered a watershed economic conference in March—headed by Milton Friedman and Arnold Harberger—wherein the Chicago Boys introduced their proposal (also supported by the IMF and World Bank) to impose a “shock treatment” consisting of a drastic reduction of the money supply, a policy of privatization, opening to the international market, deregulation and the shrinking of the State sector (Kangas 2003, 2).

Saéz remained briefly as Minister of Economic Coordination, yet he had effectively criticized the government’s human rights record in April 1975. In June of 1975 Saéz protested an early and demonstrably corrupt privatization of the textile firm Panal (Huneeus 2001,400, 413). Subsequently, he moved laterally to help set up what would become the key non-profit, semi-public/semi-private developmental institution of the Pinochet period, Fundación Chile. [Fundación Chile is described below] Saéz was one of the few members of the technocratic elite

8 Panal was one of the largest and most important textile firms in Chile—the textile sector employing more manufacturing workers than all others through most of the 20th Century. In 1978 it was privatized. In opposition to Pinochet’s repressive Labor Law of 1979, the Panal workers staged one of the first and strongest strikes in 1980. This strike and the indiscriminate opening to cut-throat foreign textile firms resulted in the bankruptcy of Panal, and the merger of the company in 1980 into Machasa. More generally, the magnitude of the corruption involved in the many privatizations remains, as of this writing a lively issue yet to be resolved, with recent revelations of Pinochet’s son-in-law role in the acquisition of major properties at subsidized prices that involved hundreds of millions of US dollars. By the 1990s the textile industry, while still a significant employer in a fragmented production process, was of little consequence in terms of the macroeconomy and the Chilean “grupos” as discussed below.
whose misgivings of the dictatorial regime were tolerated. His credentials could not be dismissed by the brash Chicago Boys. His critique of the corrupt privatization process of Panal was prescient: Later estimates of 41 of the 68 firms privatized by the Chicago Boys by 1978 showed that the buyers had received a subsidy of 48 percent (approximately $615 million US dollars in 2003) in buying these firms below their estimated assessed asset value (Foxley 1980: 18-19). In all there have been 725 privatizations—the 30 largest of which generated a subsidy of over $6 billion (USD) to their buyers (Gutierrez 2005: 33).

The Chicago Era—Radical Neoliberalism (1975-1982)

From 1975 onward the influence of the Chicago Boys grew—but was tempered to some degree by the developmental attitudes of the military leaders who occupied many ministries, at least until 1978. As the degree of autonomy in defining economic policy steadily increased for the Chicago Boys the economy moved ever closer to the precipice of economic breakdown. Financial speculation was rampant. Fueled by a variety of hidden State subsidies—most particularly the assets acquired through the corrupt privatization process—the largest and most powerfully connected of the grupos nacional de poder used Ponzi-style techniques to build “new economy” firms linked to real estate, finance and foreign trade. In 1974 the largest two grupos were Cruzat-Larrain and BHC, holding 11 and 18 firms, respectively. By 1977 these conglomerates held 85 and 62 firms, respectively. These top grupos held 37% of the assets of the top 250 firms by 1978, while the inclusion of the next two largest grupos (Matte and Luksic) brought the level of concentration of the top four to 49% of the assets of the top 250 firms (Silva 1997, 160). By the 1990s the grupos (along with a number of large foreign-owned firms) comprised that top 1% of all Chilean firms that accounted for 75% of all sales and 95% of all exports (Castillo y Álvarez 1998, 286). During the 1970s and 80s a fundamental restructuring of the grupos occurred as some of the “traditional” grupos collapsed (e.g. Cruzat-Larrain) while others gained power (e.g. Luksic). Still, the fundamentally non-competitive structure of the economy remained and was strengthened by the mid-1990s: The large grupos accounted for 30% of the GDP, with the five largest in control of the 100 largest firms in the nation (Castillo y Álvarez 1998, 287). While some observers suggested that in this process of restructuring a new “entrepreneurial culture” had emerged, a detailed study by Mario Castillo and Raúl Álvarez found that the changes made in organizational structures in Chile were shallow, denoting primarily new capabilities in marketing and commercial techniques (Montero 1997; Castillo y Álvarez 1998). In the more crucial areas, such as the training, equipping and motivation of the labor force they found profound stagnation or the reintroduction of more retrograde methods. This point was subsequently borne-out in a series of industrial case studies of labor relations and work processes in Chile (Winn, 2004). Likewise, Castillo and Álvarez found that Chile’s business elite were disinterested in advancing there production processes and their products:

[There is] …a strong tendency for these firms to have their central focus on short-term results, assigning a low priority to the analysis a improvement of [production] processes; also we can verify a underutilization of the available machinery, equipment and technology that could be used to modernize production processes. In the area of innovation, even though the opening of the economy would seem to suggest an acceleration of technological transfers…generally such transfers are limited to products wherein the application is made to commercial activities alone, leaving the issue of technological advancement in general at a low level. When technological changes are introduced at the level of the production process it is frequently the case that this involves the mere “upgrading” of existing equipment and machinery, whereas genuine innovation is an exception. (Castillo y Álvarez 1998, 290).

Deindustrialization proceeded rapidly, while the economy grew and admirers from abroad with a Chicago School orientation proclaimed Chile a “miracle”. Yet, by 1981 Chile had a commercial trade deficit of $2.7 Billion (USD) which represented 71% of the value of exports. Foreign debt exploded during the hard Chicago Boys era—debt service alone absorbed 49.5% of
the value of exports (Loveman 2001, 289, 293). Like Mexico in late 1994, the inevitable collapse arrived and GDP fell by 14.3% in the course of 1982 while the unemployment rate reached above 30 percent.

**Adaptive Neoliberalism 1984-1989**

By 1984 a hesitant recovery began, but under a completely different policymaking regime. Instrumental in this reconfiguration of Pinochet’s state apparatus were the yet militant sectors of labor which had begun to initiate mass-based protests at the societal level on May 11, 1983 (Klubock 2004, 228). Some of the largest financial grupos had been—to the surprise of many—swept away with the crisis, along with some of their closest cronies in government including the core Chicago Boys. In their stead came economists who paid homage to the core concepts of the Chicago Boys, but who used their power and influence to restructure the economy toward an array of new export industries based in commodities. Meanwhile peak business organizations, particularly the powerful CPC (Confederación de la Producción y el Comercio) regained much of their historical influence. Eduardo Silva describes the new configuration:

On the state side, the system of interaction [between large business and policymakers] now featured a mixture of experienced, well trained, career bureaucrats in financial agencies that still stood at the apex of the hierarchy of economic bureaus. Between 1984 and 1985 some businessmen occupied the top positions in the financial and economic ministries. The available evidence suggests that Pinochet did this to recover the loyalty of business elites, and to keep an industrial faction from joining the moderate opposition. …after …1985 the top economic policymakers of those principal agencies were almost exclusively drawn from the ranks of experienced, technocratic, flexible, civil service officers. …Beneath them, however, prominent businessmen headed the sectoral ministries (Economy for Industry and Commerce, Agriculture, Mining, and Public Works) (Silva 1997, 166).

No longer were clientelism, personal ties and political threats the main forms of nexus between the State’s and top policymakers and the financial elite—a fluid linkage that had previously defined the parameters of the radical neoliberal model. The peak business associations sought and received forms of State intervention that were broadly used in the era of ISI—‘drawback’ schemes of tariff exemption to facilitate the new orientation toward commodities-based exports for the emerging new industrial sectors, housing subsidies for the construction industry, price floors for the ex-hacendados and medium-sized farmers as well as for the copper mining industry. In response, private investment rose steadily in the non-financial sectors. Yet,

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9 “Many of the key Chicago Boys...had links to a narrow range of internationalist conglomerates that tended to concentrate their holdings in financial intermediation, companies that were internationally competitive and trade. Key economic ministries and institutions, such as Finance (top of the hierarchy), Economy, the central bank, and the budget office, were headed by men who had close ties to the Cruzat-Larrain , BHC and Edwards conglomerates. These links gave the top directors of the these international conglomerates—especially Cruzat-Larrain—privileged access to policymakers. That access allowed them to discuss policy reforms with the policymakers; and according to [Juan Villarzú—budget director from 1974-75] the directors of privileged conglomerates participated with increasing frequency in key policy meetings, and that clique eventually froze out all opposition to their views” (Silva 1997, 159). “They had been either executives, advisors, or members of the professional staff of those conglomerates before taking office, and most returned to those positions after they left government service. Significantly, these were the same conglomerates that had organized business resistance against Allende…and collaborated with the military in the conspiracy to overthrow [him]” (Silva 1997, 159).

10 Created in 1935, this confederation unites the pinnacles of private sector power via 6 underlying associations. The three most powerful are (1) the venerable National Agricultural Society (1838)—the collective voice of the landed oligarchy in bygone times and now that of the agroexport elite—(2) the National Mining Society—the voice of the dominant sector of Chile—and, (3) The Society of Industrial Development (SFF)—the ascendant organization in the 1890-1970 period.
the rentier ethos was only damped-down—when the opportunity arose in the 1980s and 1990s to acquire another round of privatized firms, the looting (saqueo) of public assets continued apace: Between 1985-89, 30 large parastate firms were privatized, with the subsidy to the private sector estimated to be in excess of $1 Billion (USD) in the year 2000 (Mönckeberg 2001, 22).

“Democratic” Neoliberalism 1990-2005

Indications of an economic boom began to emerge in 1986. In 1987 per capita income was the same as in 1981, but by 1998 it was 88 percent higher. By 2002 Chile had the highest average per capita income in Latin America. Workers, however, enjoyed average wage increases of only 53 percent 1987-98, and, because of wage losses that lasted for 22 years [1970-1992], 1998 wages were only 29.5 percent higher than in 1970. From 1970 to 1998, in contrast, average per capita income rose 105.3 percent (Banco de Chile 2001: 32, 50). By 1997 a triumphalist attitude had swept Chile. The message seemed to be that if a nation stuck to the precepts of neoliberal economics (through a difficult period of “transition”) the economy would eventually soar. Nonetheless, the model was exclusive, wages lagged very far behind the growth in average per capita income, as did the rate of growth in employment—forcing a rise in the so-called informal sector.

Thus, when the Democratic regimes commenced, under the Concertación alliance of center-left parties, a sustained economic boom was underway—Chile was favorably compared to the “tigers” of Asia, and commonly proclaimed as a “model” for Latin America. How to explain the long boom became a serious pursuit for many, including some specialists who had long been critical of the neoliberal model. One popular interpretation held that a new “Schumpeterian” strata of entrepreneurs had emerged alongside the structural change signaled by the emergence of the new commodities-based export industries (Montero 1997). Certainly, exports had soared throughout the boom—they were the leading sector. But, much of the sectoral shift to exports had been achieve prior to the boom. The export/GDP ratio had risen from 12% in 1970 to 30% in 1985, but it remained at that ratio or lower through 1995 (V. Silva 2001, 12). Oscar Muñoz guardedly endorsed elements of “new entrepreneur” thesis—while also emphasizing the constructive role that State policies had played since the 19th Century in creating a new industrial bourgeoisie:

A diferencia de los grupos económicos de la década de los años 70, que se organizaron sobre la base de algunos bancos, estos nuevos grupos se basaron en empresas industriales [basado en commodities--JMC], comerciales y de servicios de larga tradición.

Se trata de avances hacia una mayor profesionalización de la gestión, introduciendo técnicas modernas de información y de planificación estratégica.

Las funciones tradicionales de la gestión [cambiaron]…. Aparecen innovaciones como la búsqueda del mercado nacional e internacional, el control de calidad para adecuara a los estándares internacionales, el uso de la sub-contratación y la mayor atención a los servicios al cliente.

En síntesis, las reformas económicas en Chile han estimulado el desarrollo de una nueva cultura empresarial, que rompe con las visiones clasicas que caracterizaron a los empresarios (Muñoz 1995, 49).

Clearly, there was (and is) some substance to the claim that a new and more professional class of managers has emerged in some sectors. Nevertheless, the question remains as to whether these necessary changes have been widespread and irreversible. When the bloom faded in 1997, with per capita income rising only 3.4 percent between 1998 and 2002, while unemployment stayed above 9 percent, Concertación economist had no policy response. The “Schumpeterian” entrepreneurs where seemingly no longer to be found. Some call this period a slowdown, while small business owners refer to it as a recession, but stagnation might be a more accurate term. Export growth clearly stagnated—exports in 1997 in dollar terms were $17 billion and virtually identical ($17.4 billion) in 2002—as did per capita income.
One of the most telling indicators of the “new entrepreneur” hypothesis—and its corollary, the new “professionalized” macroeconomic policymakers—was the return of massive capital flight in 1998 and 1999. In fact, capital flight—equal to 11.4 and 11.8 % of GDP in 1998 and 1999, respectively—was higher than in any other years of the entire neoliberal era (Bener and Dufour 2004, 38, and Table 3). Under pressure the “new” entrepreneurs appeared no different than the “old” predatory entrepreneurs. The “new, professional” economic policymakers were powerless, and silent, regarding the predatory practices of the grupos nacional de poder which had drained the circuits of capital as never before in modern times. Chile had gained notoriety in the 1980s for its imposition of capital controls on short-term financial flows. But in the 1990s those controls were eliminated.

Why this occurred should be set in a larger context: In the late 1990s the peak business organizations, particularly the CPC had adopted a much more aggressive stance in opposition to initiatives of the State than existed during the period of “pragmatic neoliberalism”. Within the CPC were two other extremely powerful business peak organizations—SOFOFA (Sociedad de Fomento Fabril, or SFF) and SNA (Sociedad Nacional de Agricultura). The SFF had once been strongly associated with CORFO’s ISI policies and broadly supportive of the initiatives of the 1940-60s to stimulate industrial, particularly manufacturing, development. The SNA had been the organization of the hacendados, and was now the organization of the remnants of the ex-hacendados and the new agribusiness elite. By the late 1990s, in the face of the dominance of the center-left coalition of Conciertación, the CPC shifted to the right and Chile’s political polarization became much sharper: By 1999:

The hard right defenders of the military government’s legacy now dominated both right wing politics and large-scale business elites. [And], the balance of power with the employer organizations had shifted to the hard-line elements of the Industrial Society (SFF). Over the past ten years, the SFF had grown increasingly dissatisfied with its subordination in the CPC and the CPC’s willingness to compromise with Renovación Nacional [a conservative party] and the Conciertación…In fact it briefly broke with the CPC in the late 1990s. By 2000 the SFF had rejoined the CPC and gained ascendancy within it (E. Silva 2002, 350).

In spite of the fact that it was commonplace to praise the “objective” macroeconomic management of the economy, the technocratic elite running the State apparatus in the economic areas were, apparently, powerless to challenge the unprecedented capital flight that occurred in 1998 and 1999. The degree to which the policymaking elite was limited by the agenda of the right became the subject of a mocking editorial in Agustín Edward’s extremely influential newspaper, El Mercurio. The Chicago Boys had made their public debut in the editorial pages of El Mercurio in the 1970s, and Edwards continued to offer the editorial pages to adamant neoliberals such as Hermógenes Pérez de Arce who proclaimed in late 2003:

Como ustedes no saben, pero debieran saber, la derecha en el mundo lo ha ganando casi todo:…la contienda ideológica, … la supremacía económica del sector privado y el control politico de gobiernos propios y de signo contrario. En este último hemos sido geniales, porque allí donde no tenemos explícitamente el poder, logramos hacer que los gobernantes izquierdistas pongan en vigor nuestras políticas. (Pérez de Arce 2003, 3).

Industrial Policy in the Developmental State

The best available sustained examination of the broad range of Industrial Policies and ISI polices has been presented by Alice Amsden (Amsden 2001). Latin American nations, Chile included, were generally unable to shift from a relatively passive general ISI framework to an active and agile Industrial Policy. Industrial Policy, unlike a general ISI strategy, demands both embeddedness and autonomy of the State. These specific elements of Industrial Policy are examined in detail by Ha-Joon Chang and can only be discussed peripherally here (Ha-Joon Chang, 2003). Perhaps the most important underlying component of the Developmental State is the capacity to engineer a strategy switch. Strategy switches require a State to define, express and
execute a “proyecto país” and to be flexible enough to realize that any created comparative advantage will eventually prove to be inadequate. When the nation begins to experience diminishing returns the State must be able to abandon a previously encouraged sector—it must fulfill the “sunset function”. This is achieved through a broad range of strategies designed to encourage a (largely) orderly transition from one area of emphasis to another. In the aftermath of the coup in 1973, Chile abandoned its manufacturing core, but it did so without regard to the effects of this structural change. The lasting effect is that Chile does not have a viable manufacturing sector, and this means that it cannot derive the productivity enhancing externalities that flow from a viable manufacturing sector—the essence of Verdoorn’Law, which Chile has ignored (Verdoorn 1998).

The military dictatorship under the guidance of the *Chicago Boys* engineered a predatory strategy switch—developing manufacturing had been the core of the State’s ISI policy. Hence, to destroy the socioeconomic framework that the neoliberals claimed was the central reason for Chile’s relative economic backwardness—allegedly inefficient State-Owned Enterprises and supported private-sector manufacturing firms associated with a dynamic unionized labor force—the neoliberals privatized without regard to the macroeconomic context and they opened the economy to lower cost international producers without regard to the dynamic effects to Chile’s emerging industrial/manufacturing base. This helped insure that Chile’s technological capabilities, with some notable exceptions, remained nearly non-existent (discussed below).

Tables I, below, traces the recent trajectory of the manufacturing sector: In Chile this relationship is often presented in an unclear manner, with much emphasis placed on the growth of “industrial” exports—actually commodities that have undergone some, often minimal refining processes. Table II, below presents data on the key export sectors:

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**Table I. Chile: degree of industrialization: Manufacturing Sector/PIB**

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<thead>
<tr>
<th>Year</th>
<th>Manufacturing Sector/PIB</th>
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<tr>
<td>1950-1987 (1977 prices)</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>20.8%</td>
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<tr>
<td>1960</td>
<td>22.3%</td>
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<td>1970</td>
<td>24.7%</td>
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<td>1975</td>
<td>21.5%</td>
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<td>1980</td>
<td>21.6%</td>
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<td>1987</td>
<td>20.8%</td>
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<tr>
<td>1987</td>
<td>17.6% (1986 prices)</td>
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<tr>
<td>1990</td>
<td>17.5%</td>
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<tr>
<td>1995</td>
<td>16.2%</td>
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<tr>
<td>2000</td>
<td>14.4%</td>
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<tr>
<td>1996</td>
<td>17.5% (1996 prices)</td>
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<tr>
<td>2000</td>
<td>16.3%</td>
</tr>
<tr>
<td>2002</td>
<td>16.0%</td>
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Net Changes within the above periods at constant prices:

- 1970-87 3.9% PIB
- 1987-1996 2.0% PIB
- 1997-2002 1.5% PIB

**Total Net Decline of the Manufacturing Sector 1970-2002: -7.4% PIB**

Source: (Banco de Chile, 2001)

Note the last category—a slightly higher level of processing designates that the natural resources have been converted into “manufactures”. With this sleight-of-hand, Chilean policymakers began to portray Chile not as a deindustrialized nation but rather as a nation with a growing “manufacturing” sector—based in raw materials. Thus, to those who did not understand the
new categories, Chile was viewed as a nation that was successfully achieving export-led growth not in raw materials, but in “manufacturing”. Note also that by 1985 the shift to First Stage Processed Natural Resources was no longer a leading sector driving growth. Essentially, the same effect is to be found in Second Stage Processed exports after 1995—a jump from 11% of exports in 1985 to 22 percent in 1995 occurs. The 1998 number in this category suggested that growth continued; however, it did so at a much slower rate (the average share for 1990-94 was 20% and this rose modestly to 23% in the 1994-98 period.

Efforts to stop the slowing of the rate of growth of Second Stage Processing became a major theme in the 1990s as many economists stated their belief in the continuance of the 1987-97 boom based on “La Segunda Fase Exportadora”. As proposed, Chile would diversify its exports, emphasize more the Second Stage process, increase value-added and enhance the indigenous technological component of these commodity-based exports—this new step would also entail the rapid development of linked service components in these exports. As proposed this constituted an effort to articulate a new “proyecto país”. This vision stood in contrast to several other attempts to articulate a “proyecto país”—but it was the one proposal that implied a strategy switch with only marginal changes to the socioeconomic base of Chile (Muñoz 2001, 17-66). But, in the course of the 1990s nothing of any great note was done to alter the production system of the economy—instead, the grupos nacional de poder shifted some of their resource activities out of Chile and they moved into the service sector seeking rapid returns. The difficult, capital-intensive, technology-intensive process of pushing their activities up the value chain did not appeal to the grupos. Instead (Figure IV, below) they virtually stopped investing, and (as mentioned) they engaged in massive capital flight beginning in 1997. (Indeed, capital flight rose to over 11 percent of GDP in 1998 and 1999, roughly twice the level reached in the crisis of 1981-83.) At least one economist had predicted that for internal reasons, the Chilean economy had reached its own self-imposed limits. Graciela Moguillansky in The End of a Cycle of Expansion? argued that the large Chilean financial-resource-processing groups which dominate the economy had exploited and exhausted the easy resource processing opportunities handed to them by the government through policies and programs created decades ago. Figure 1 demonstrates Moguillansky’s hypothesis, strongly suggesting that the current stagnation is a function of a rentier orientation on the part of the industrial/financial grupos (Moguillansky 1999, Moguillansky 2003, Castillo y Alvarez 1998). (A direct measure of the role of the grupos is expressed in the fact that one percent of the firms accounted for 78.6 percent of all

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<tr>
<td>Copper (%)</td>
<td>54</td>
<td>47</td>
<td>40</td>
<td>34</td>
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<tr>
<td>Primary Materials</td>
<td>19</td>
<td>18</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>First Stage Processed Natural Resources</td>
<td>14</td>
<td>24</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Second Stage Processed Natural Resources and Other Manufactures</td>
<td>12</td>
<td>11</td>
<td>22</td>
<td>27</td>
</tr>
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</table>

Source: (V. Silva 2001, 13)
In theory, the large forestry companies and others involved in resource-processing could expand/upgrade their exports, but Moguillansky’s work demonstrated that these groups were risk-adverse and rentier oriented. They had no intention of making the long term investments in machinery and equipment, personnel and technological research and development and marketing that would be necessary to develop, for example, a strong, dynamic furniture-making sector. The same criticism was raised by the vice-president of Chile’s Institute of Mining engineers and by the Association of Metallurgy Industries which argued that Chile needed an industrial policy (state intervention) to move from a situation where only 1 percent of the copper produced was turned into processed and manufactured copper-based products. Both forestry and mining have great potential in terms of expansion into high-value-added activities. Both would demand the massive participation of a trained, skilled industrial labor cadre—including workers and managers to make capital goods and intermediate inputs. Support for these sectors—quite logical from the standpoint of development economics—would entail the return of the working class to a central role in the production process. And, that would bring the unions of the working class back into the political arena—thereby bringing back the distributional/participatory struggles most feared by the financial/economic/political/religiously/military elite of Chile.

In short, while the growth trajectory until the late 1990s was strong, when Chile reached a moment for a strategy switch the neoliberal economic apparatus of the State did not exhibit either the necessary autonomy or embeddedness needed. The State did not challenge the draining of the circuits of financial capital via capital flight, as the grupos nacionales de poder once again revealed their shallow and essentially rentier profile.

The Chilean conglomerates have since the big downturn in investment beginning in 1996 continued to invest, but not in Chile. Instead, the commercial/rentier groups who have mastered a certain managerial model in wholesaling and retail have aggressively expanded into Peru and, particularly, Argentina. In so doing they have sidestep the question of the reconstruction of an industrial base—leaving Chile with a commodities-based model with little forward or backward linkages and an absence of innovative and technological capabilities. Meanwhile, the core triangle [CORFO+Fundación Chile+ProChile discussed below] responsible for the stealth development policy is no longer receiving financial support sufficient to create many new forms of comparative advantage.
Instead, Chile became devoted to signing as many trade agreements as possible—including the 2003 Free Trade Agreement with the US. This trade agreement, along with the soaring prices of copper, wood products and some other raw materials should allow for a year or two of strong growth. Nonetheless, Chile will return to what Jorge Katz referred to as the “stationary state”—meaning in this instance a “stationary” low growth rate which will allow for near stagnation of per capita income, as was the case from 1997-2002. As Moguillansky stressed, Chile’s financial/industrial groups are disinterested in technological modernization—in a study of 15 similar nations, the UN ranked Chile next to last in its index of technological capabilities, and 13th in terms of expenditures on research and development (R&D) by private firms.

**Proyectos de Acumulación**

Chile’s policymaking apparatus typefies that of the “Intermediate State” with “pockets of efficiency” demonstrating ability to achieve limited transformations in some sectors. Specifically, Chile has been able to realize many important “proyectos de acumulación through three key State institutions: Chile’s development path was established by CORFO (the state development agency) from the late 1930s onward. CORFO was responsible for the creation of the great bulk of Chile’s industrial sector from 1940 to 1974: A 1993 study pointed out that of the 20 top private exporting companies, at least thirteen had been created by CORFO (Alvarez, 1993).

For awhile under the dictatorship it seemed that CORFO’s mission was to assist the sell-off all the state-owned firms, and then disappear. But, CORFO continues to exist, and after the great crash of 1982-85 CORFO became more active in the funding and development of new firms that were geared toward the export market in the resourced based sectors. Furthermore, CORFO was responsible for the funding and creation of the forestry sector—a strategy that CORFO had advocated and supported for decades prior to the coup. Thus, while the Chicago School economists have portrayed the boom in forestry products (the largest export sector after mining) as a result of good policy and private initiative, the real story is that CORFO struggled to create a new comparative advantage. Private capital would not take the risks and lacked foresight to develop the forestry sector.

The same was true for the salmon industry (and fishing in general) as well as most of the developments in fresh produce and processed food: Rather than the invisible hand moving through market forces, the visible (but largely unknown) hand of Fundación Chile was responsible for most of this diversification by underwriting technological experiments and initial funding in these areas (Huss, 1991). Fundación Chile began in 1976, with the assistance of a prominent economist (Raúl Saez) who had headed CORFO for many years. Like many of the military leaders, Saez was contemptuous of the pretensions and ignorance of the Chicago School neoliberals. With CORFO under attack by this cadre, Saez moved laterally and gathered a group of experts who have achieved major changes in the productive apparatus of the Chilean economy. If we examined the causes of Korea’s or Taiwan’s or much of Asia’s recent economic development we would find incubating institutions like Fundación Chile—but these nations have consciously avoided neoliberal free trade policies. Instead of accepting the dictates of the market, they have sought to govern the market. In a similar vein one finds ProChile, a government agency created in 1974, designed to assist the private sector in locating and marketing to foreign markets. Today many of the activities of ProChile are coordinated with support programs fostered by CORFO. Although the “política camuflada” has been one of sizeable State intervention and

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12 Personal Interview, 3 de octubre, 2003 Santiago, Chile.
support for production—encompassing many other areas not discussed here—there is no one unifying concept behind the production promoting activities of the State.

III. Argentina

In recent years political-economic analysis of Argentina has primarily been restricted to conjunctural issues such as the renegotiation of the external debt, the impacts of the drastic repositioning of the exchange rate and the tumultuous political dynamics of the 2001-2003 period. Outside of Argentina there has been relatively limited analysis of issues pertaining to the sphere of production. Within Argentina, however, a vibrant core of researchers has kept a steady focus on some aspects of the sphere of production, particularly as it pertains to industrial structure and economic concentration of the grupos nacionales de poder económico (the conglomerates) and the transnational corporations (Azpiazu, 1998, 2005; Basaldo, 2000; Kosakoff 1998; Kosakoff and Ramos, 2001; Schorr 2004, 2005). In spite of the devastating purges which occurred during the military dictatorship (1976-1983), and unlike the current situation in Chile, many Argentine social scientists with a critical analytical heterodox orientation continue to provide careful research on the fundamental economic issues of the day. This work tends to resonate in the national press, in various forums, in frequently published accessible journals such as Realidad Económica. At the level of national policy, however, it is difficult to gauge the influence of the dissident political economists. Nonetheless, a crucial threshold was traversed when the economists from Plan Fenix were able to successfully place their ideas for the renegotiation of critical portions of Argentina’s foreign debt in the context of national policy (Plan Fenix, 2005). Whether and to what degree this momentum can influence the construction of a new development policy as it pertains to the sphere of production is an open question as of this writing. Certainly, events at the Summit of the Americas conference in Mar de Plata in November 2005 indicate that Argentina’s leadership has become well apprised of opposition to US version of the Free Trade for the Americas’ initiative. Crucial as this step may be for clearing the way toward new development policies it remains to be seen whether, and to what degree the current model of “the primarization of production” may be displaced.

Primarization

The primarization of production model became entrenched in the early to mid-1990s. It entails a strongly altered focus primarily by the Argentine conglomerates, although some large “independent” national firms and a portion of foreign capital are also deeply committed to the new model. The rise of the primarization model took place within the context of two other mega shifts in the productive apparatus of—widespread privatizations during the Menem era (1989-1999) and a deep process of “de-territorialization” that was partly driven by the privatization process and partly the result of the Argentine conglomerates’ decision to sell-off portions of their production systems to foreign buyers. The Argentine conglomerates spearheaded a shift in the production system back to the early 1900s when agro-industry was the leading sector of the

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13 A full survey of forms of Chilean State Intervention in the neoliberal era has yet to be written. See Enrique Román for a discussion of the scope and the financial commitment made to the State’s smaller development programs (many linked to CORFO) (Román 2003).

14 But its origins date from the military coup of 1976. The military had several targets, of which the active militant left was only one: At that time Argentina had some control over capital flight, wages were not determined by reference to some of the lowest to be found worldwide, unemployment rates were not particularly high and were viewed as a matter of state policy. In this historical context, the military sought to reduce the role of the State and to “restringir drásticamente el poder de negociación que poseían los trabajadores… fundamentalmente se apuntó a alterar de manera radical—y con carácter irreversible—la relación de fuerzas sociales derivada de la presencia de una clase obrera industrial acentuadamente organizada y movilizada, cuya fortaleza se potenciaba por su alianza histórica con ciertos sectores del empresariado nacional estrechamente vinculados a la expansión del mercado interno con eje en el sector fabril.” (Schorr 2005, 17)
national economy. The conglomerates, apparently, were shrewd in surveying their options during the privatization wave of the 1990s. The 1:1 peso to dollar exchange rate allowed them to sell off some of their less profitable operations to foreign buyers when Argentina was the chosen IMF model of the successful “emerging” economy. At the same time, overwhelmingly, the conglomerates did not have the technological/organizational depth to compete successfully for most of the privatized firms, and they were not interested in building this depth through long-term, disciplined investment. Instead the conglomerates opted for deepening their most profitable activities either in the massive agro-industry sector or in the production of industrial products with a very high quotient of primary materials, such as steel, aluminum, forestry products, chemicals and petroleum derivatives. The agro-industrial sector concentrated 31% of total industrial production in 2001—up from 26% in 1993 (Schorr 2004, 108). The process of primarization began in the 1980s under the Alfonsín government, which offered a variety of government incentives to firms that were inclined to emphasize the export of primary products or industrial/manufactured products with a low level of value-added and a high component of primary materials. The inspiration for this turn back to the late 19th and early 20th Centuries came from José Martínez de Hoz, the University of Chicago-trained economist who then served as Economic Minister. Martínez de Hoz rested his analysis on the theory of (static) comparative advantage, but behind this position stood the arch-conservatives’ deep hostility to a long tradition of state intervention that had been lead by a coalition of the national bourgeoisie and a variety of social movements—most particularly left/labor organizations starting in the 1920s (Spektorowski 2003). Above all, primarization implies an end to all the social forces that eventually culminated in the construction of the Import Substitution Model, which—in the Argentine variant more than elsewhere in Latin America—was conditioned by the demands of organized labor for a balanced distribution of the gains of productivity and economic growth. The primarization process merely gained greater currency in the 1990s, particularly facilitated by the inflow of external funds and the high level of liquidity in Argentina. The Argentine conglomerates—some partially/jointly owned by transnational capital—also availed themselves of options them available for foreign indebtedness. This transferred, in many instances, to new, state-of-the-art production plants in steel, aluminum, forestry product production, cement, etc. Capital-intensive plants, machinery and equipment made abroad meant that few Argentine workers, suppliers or technical/professional firms were involved in the economic restructuring of the national conglomerates. At the same time, Argentina’s ample resource base, coupled with the new production systems accumulated in the course of the 1990s meant that the national conglomerates were able to raise their exports in the agro-industrial sector and in the primary-materials intensive manufacturing sector at a rapid rate. With the commodities boom of the early 21st Century, this process has only accelerated. Indeed, “recovery” from the devastating crisis of 2001/2002 has occurred because Argentina is so well positioned to take advantage of this commodity boom—more so even than Chile which is whipsawed by the need to import oil and gas and near record high prices.

Deindustrializing the Auto Sector

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15 Daniel Azpiazu argued in a recent publication that the privatizations were more thorough in Argentina than anywhere else in the developing world (Azpiazu, 2005, vol.1 & 2)  
16 During Alfonsín’s civilian government (1983-89) the industrial sector underwent a period of recomposition in the context of radical restructuring: “De hecho se generó un nuevo estrato de trabajadores constituido por los operarios ocupados en fábricas radicadas en la regiones promocionadas (en la generalidad de los casos estaban situadas en el interior del país). Estos sectores tienen un reducido grado de sindicalización—y muy escasa tradición gremial—y perciben, para igual calificación, salarios mucho más reducidos que los trabajadores de los centros fabriles nacionales. De allí que, sobre la base del muy reducido piso salarial fijado por el proceso militar, entre 1983 y 1989 el salario promedio real en la industria haya caído cerca de 20 por ciento “ (Schorr 2005, 25).
The one apparent exception to this primarization process is found in the auto sector where considerable government support was given to vehicle producers and auto-parts makers. Nonetheless, the auto sector went through a parallel metamorphosis in the course of the 1980s and 1990s: The shift was toward a more simplified process of production emphasizing assembly and massive production of basic parts. Thus, in a similar fashion to the changes occurring elsewhere, even the auto sector suffered a process of deskillings, technological atrophy and decline. The core industrial centers of Córdoba, Buenos Aires and Rosario were displaced by the new manufacturing centers based in simplified primary product processing. The geographical shift served to massively undercut the power of organized labor, meaning that the highly profitable new agro-industrial activities were to a considerable degree so profitable because the production model rested on the intensification of the labor process with productivity increases normally matched by either wage stagnation or decline. Between 1993 and 2001 productivity per hour in manufacturing increased by 42%, while wages declined by 8% (Schorr 2004, 118).

Adding to these tendencies, the degree of monopolization/oligopolization in Argentina has remained very high, and rising in the industrial/manufacturing sector—“highly concentrated branches of manufacturing” and “branches with an intermediate level of concentration” accounted for 79% of total value produced in the sector in 1973, 82% in 1984 and 83% in 1993, with results of the most recent industrial census not yet published (Azpiazu, 1998, 74).

The net effect of the triple tendencies of privatization, extra-territorialization and primarization is reducible to a vicious circle of deindustrialization/regressive distribution. Privatization, beyond the scope of this paper, has meant that the “social wage” has been undercut with social services and controlled prices eliminated in a radical process of deregulation/de-nationalization.

Extra-territorialization means more transfer pricing, more intrafirm production and exchange, more “asset-switching” instead of actual expansion of the capital stock in Argentina, repatriation of a greater share of profits and international transfers involving interest payments, licensing and technology payments, etc. Only between 1991 and 1998 the share of the 100 top firms in total manufacturing production increased from 37 to 46.5% while the relative weight of foreign firms in this sample rose from 34% to 62% (Schorr 2004, 157-160). Argentina once had some possibilities of developing a national innovation system, particularly in metal working, machine tools, the auto sector and the aircraft industries—primarily concentrated in Córdoba.

Today, rather than being a recipient of technological “spillover” effects (as the influence of foreign capital has rapidly risen) Argentina’s technological capabilities are in precipitous decline: 

Si bien es cierto que durante la década pasada se introdujeron nuevas tecnologías (tanto de productos como de procesos), aunque en pocas ramas y en un conjunto reducido de grandes firmas, el sector manufacturero local se ha transformado en importador neto de paquetes tecnológicos sobre los cuales prácticamente no tienen participación en su elaboración. Es más, a partir de los noventas muchas grandes empresas extranjeras que actúan en el ámbito fabril tendieron a externalizar sus áreas de ingeniería local, reemplazándolas por la incorporación de tecnología importada y casi sin desarrollo nacional alguno, lo cual disminuyó aún más los—ya de por si escasos—vínculos de estas firmas con el entramado local de proveedores y/o subcontratistas. En este sentido, las evidencias disponibles indican que las empresas foráneas han conservado en sus países de origen tanto la fabricación de bienes de capital de alta tecnología y valor agregada, como la casi totalidad de sus gastos en materia de investigación y desarrollo (Schorr 2004, 260).

**Deindustrialization: Argentina’s real crisis**

Like Chile, the dynamics of the Argentine economy now depend on the international marketing of “commodities” with a scarce level of value-added through minimal processing. All this constitutes “deindustrialization”, not merely in the simple sense of the share of GDP devoted to industry/manufacturing falling from 30% in 1975 to 15% in 2001 (Schorr 2005, 74), but in a deeper qualitative sense wherein the very structure of production leads to the rupture of...
production chains, backward and forward linkages and spillover and learning effects. Eduardo Basualdo has emphasized the double movement taking place in Argentina—first, a steady decline in the absolute number of industrial/manufacturing firms and employees:

Desde medianos de los años 70 se revela...una disminución en la cantidad de establecimientos industriales y en la ocupación sectorial (entre 1973 y 1993 desaparecen 15 mil establecimientos—15% del total—y son expulsadas 319 mil personas de la actividad—24% de los ocupados—). La regresión de la actividad, que había conducido durante la sustitución de importaciones, no circunscribe a los pequeños y medianos establecimientos fabriles, sino que además, afecta a las grandes plantas industriales. En efecto, las que ocupan más de 300 personas [la categoría más grande de empresas Argentinas—J.M.C.] disminuyeron muy marcadamente su personal ocupado (más de 200 mil personas, equivalente al 47% del total), como la cantidad de establecimientos (en 191 plantas industriales, es decir el 34% del total). (Basualdo 2000, 145).

The above calculations can be updated in the following manner: Between 1992 and 2001 the number of workers in the industrial sector fell by 30%, and an additional 9% in 2002 (Schorr 2005, 59). From the mid-1970s through 2002 industrial employment fell by 50% (Schorr 2005, 62). During the crisis period 1998-2002 the volume of industrial output fell 30% (Schorr 2005, 58). As industrial and other forms of “formal” employment have collapsed, the rise of the “informal” sector has ballooned—in 2003 42% of the workers employed in the manufacturing sector were “en negro”, working without social benefits and, presumably, without the limited protections of the official labor laws and work rules (Schorr 2005, 64).

More broadly, viewing the entire economy, the trends noted above in the manufacturing sector are consistent with tendencies that incorporate all sectors of workers: From the early 1970s to 2003 average salaries have fallen 60%, while between 1950-2003 the wage share of GDP has declined from approximately 50% to an estimated level of 20-25% (Schorr 2005, 74). This decline has not been monotonic: The 1990s, marked by the imposition of a rigid neoliberal model, were twice as regressive as was the military dictatorship (1976-83), in terms of the rate of decline of labors’ share in the GDP (Schorr 2005, 30).

Second, due to the prerogatives and preferences of rising foreign ownership or the organizational structures of the national conglomerates or the legacy effects of the 1:1 exchange rate system, the industrial/manufacturing system driven by Export-Oriented Industrialization has little impact of a positive nature on the remaining economy. Rather than being a source of ongoing dynamism within the economy, stimulating technological advancement and learning, presently the industrial/manufacturing sector has little impact on national productivity.

...la reestructuración industrial es acompañada por ... una profunda y generalizada regresión en términos del grado de integración nacional. Esta pérdida de importancia de los insumos fabricados localmente en el costo total se expresa en múltiples actividades, mediante la expansión que registran los procesos de ‘armado’ de los bienes finales, en base a la provisión de insumos importados. En otras ocasiones, en el estrechamiento del espectro de productos elaborados en las plantas industriales, las cuales los reemplazan por bienes importados que distribuyen y comercializan en el mercado local. (Basualdo 2000, 145).

All of the above had the effect, by 1994 of reducing the national margin of value-added in industrial production by 24% from levels achieved in 1985 (Basualdo 2000, 146). Alternatively, the anticipated Verdoon/Kaldor national productivity enhancing effects deriving from the manufacturing sector cannot appear, given the current structure of production. This is because the focus on production is limited to minimal transformation of commodities with the emphasis on importing machinery and equipment, technology and expertise. In some instances this occurs simply because transnational corporations have a strong interest in internalizing these high-value added aspects of production. In other instances the national conglomerates do not have such skills and depths at their command and they look to foreign markets to provide these inputs. Going to foreign markets could be cheaper in the short run, rather than buying national
inputs. Without state intervention encouraging national content, local producers cannot derive the learning effects, the economies of scale and the agglomeration effects that will serve, in the intermediate term to lower these costs—a point that is carefully taken in the context of many of the E. Asia developing nations (Cypher 2003). In the Argentine case, however, the 1:1 exchange rate for roughly a decade served to destroy much of the supplier base of the Argentine economy. The peso was highly over-valued under this scheme, meaning that dollar (or other hard currencies) priced goods were normally much cheaper, given quality and productivity differences, than Argentine-produced inputs. Hence, imports soared in the 1990s, and Argentina suffered a trade deficit that was covered by extreme foreign borrowing/lending, direct foreign investment (driven by the privatization process) and portfolio inflows.

Since early 2002 the exchange rate (peso/dollar) has hovered around 3:1—meaning that the dollar now is over valued. This, however, (unlike the neoclassical models of international trade popularly portrayed in intermediate textbooks) has not meant that either the national grupos/conglomerates or the transnationals are now buying a significantly higher portion of national inputs. Unlike the textbook examples where time and social context do not exist, in real historical time the crucial clusters of skills and webs of interactions between suppliers and producers has been largely destroyed—particularly in Córdoba (the heart of the industrial base), Buenos Aires and Rosario. Elsewhere in Argentina the skill base has not been rebuilt as firms shifted out of the old industrial core. Unlike the frictional, timeless neoclassical world the real world has exercised a devastating impact on Argentina’s capacity to move forward. The increasing degree of economic concentration also means that the risky finance to reestablish the supplier base does not adequately exist. Under the neoliberal model, the universities and schools in general are not well-positioned to rebuild the industrial working class, the engineers and other professional trained cadres needed to reindustrialize Argentina. In effect, market forces, even with a very favorable exchange rate as a stimulus, cannot overcome the historical destruction of Argentina’s production base. Further, of course, thousands of once viable firms that collectively provided the capability and flexibility needed within the production base were either eliminated during the 1:1 era of the 1990s, or swept-away in the crisis that began in 1999 and has lingered in many areas until the present (poverty rates are currently impacting nearly 45% of the population). Of course, in addition to all of the supply-side considerations connected with the production base of Argentina, the lack of a mass market (or effective demand) is an equally strong factor in presenting the structural conditions of deindustrialization. Without the mass market there can be little chance to achieve economies of scale or scope, and with limited investment opportunities (except in the export of commodities) there is little national learning or skill upgrading. What learning and upgrading that does occur benefits other producer nations that make the machinery, equipment and technologies needed to push commodity production to even higher levels.\footnote{There are, apparently, some indications in the agro-industrial sector that Argentine-based manufacturers are producing/adapting some state-of-the-art agricultural implements, machinery and equipment. These impacts, however, are limited in terms of affecting merely this one (albeit important) sector. It is not clear that this incipient industrial/manufacturing process is having a deep impact on the producer/supplier chain or that national content of parts and components is rising. Rapid state intervention in this area would be a logical policy, but the Kirchner government has not made any bold steps in this direction. Large producers—the transnationals and the conglomerates—are actively lobbying for a greater focus on commodity exports which would entail additional state policies of support. Small and medium sized producers (who still have a considerable political voice) may stand behind a reindustrialization program that could emphasize farm machinery and equipment production. The situation in terms of political-economic policy is extremely fluid in Argentina, but a political coalition focusing on the sphere of production has not, as yet, coalesced.}
Reindustrialization under the UIA model

Beginning with the Asian Crisis of 1997, the Union Industrial Argentina (UIA)—the organized voice of the industrial/manufacturing business interests—commenced a campaign to champion a project of reindustrialization as a pivotal national economic strategy. The UIA campaign, which gained momentum through 2004, has nothing to do with a return to, or a variant of, the industrialization project that prevailed from the 1930s until 1976. Rather, the UIA project is based in the export of commodities—it is the expression of the primarization model, and it is presented as if it were the expression of the “national bourgeoisie” when in fact the UIA is dominated by both Argentine conglomerates with significant foreign participation and by foreign dominated conglomerates, such as the powerful group Technit—who Martin Schorr describes as the “…sustaining pillar of the UIA both in terms of political formulations and economic importance” (Schorr 2005, 43). In the turbulent and complex years 2002-2004 the “reindustrialization” project of UIA has gained currency, even among the disaffected who operate on the fringes of policymaking, such as some academics. Schorr is particularly critical of UIA’s project, not merely because of its attempt to lock-in even more the retrograde primarization model, but particularly because the UIA has adopted a cloak of nationalist and to some extent populist legitimacy through its proclamations. Consider, for example, the following statement by the owner of the grupo nacional “Macri” which originally appeared in the national press on August 7, 2004:

En Argentina actual estamos necesitando de líderes que convoquen a Nuevo Acuerdo, ofreciendo prioridad de proyectos al empresariado nacional… si no se encuentra [una solución] en el liberalismo ilimitado, irrespecto, sin reglas de juego… Nuestra solución no es el neoliberalismo, cuyos consecuencias son…: vaciado del Estado, extranjerización de la economía, marginalidad de las fuerzas empresariales y productivas [y]…injusticia social. …si no nosotros no [empezamos] a crear una burguesía nacional, nunca [podemos] romper con ese mecanismo perverso que permite que los que vienen desde afuera se lleven toda la riqueza…En síntesis no hay modelo de país sin un empresariado nacional. Schorr 2005, 45).

The “reindustrialization” project of UIA, as “nationalist and progressive” as it may seem, is anchored in the “strong dollar” (3:1 exchange rate) which has greatly favored the export of Argentina’s agro-industrial sector and its primary materials processing firms, most with ample foreign influence by way of joint-ventures, strategic alliances and Direct Foreign Investment. Further, it is based in the low-wage/high informality/low unionization model that has existed and grown over the last 30 years. This means that, within the context of the UIA’s reindustrialization project, there is no inclusion of the mass of the population and no recognition of the vital role of aggregate demand if Argentina is to have a genuine inclusive national reindustrialization project. Further, the reindustrialization project, which has more to do with maintaining the status quo that is currently unfavorable to financial interests that dominated in the 1990s, advocates the deepening of modest forms of state intervention which have favored the production of some household durables, capital goods, including tax breaks for investment in machinery and equipment and the construction of infrastructure needed for the expansion of industrial production. These modest steps, however, fall far short of the needed industrial policy, and are all consistent with the goals of the groups/conglomerates—both foreign and domestic.18

IV. Some Conclusions

18 Martin Schorr sketches out a reasonable set of alternatives to the “national bourgeoisie” project of reindustrialization drawing particularly on the work of Adlfo Dorfman and Fernando Fajnzylber, while highlighting a particular form of industrial policy that could fit the structural parameters of Argentina’s economy (Schorr 2004, 273-289).
The over-riding conclusion is that the term Export Oriented Industrialization begs the question concerning the pattern of economic activity taking place in Mexico, Chile and Argentina. In each nation a deep process of deindustrialization has been consolidated, while exports have increased. Deindustrialization must be understood not merely in terms of simple macroeconomic measures—such as the share of GDP devoted to industrial activities—but rather in terms of a qualitative set of relationship that serve as prime indicators of the likelihood of broad-based economic development: The degree of forward and backward linkages, the impact on product and process upgrading, the likelihood of technological spin offs and learning effects, along with cumulative causation circles between firms and government entities that set up synergistic or agglomerative externalities, and—most important—the stimulus toward deeper forms of research, development and application of scientific advances as applied to the production process. In all three nations, the hoped-for dynamic effects of export-oriented production have failed to appear. With few exceptions—such as programs fostered by Fundación Chile—the three nations have not taken steps to make the hoped-for effects tangible. Indeed, all have adopted a passive approach, consistent with the ahistorical neoliberal vision that “market forces” will automatically solve dynamic problems if the economic fundamentals are in place. This has not happened: In fact, the reverse has occurred, as demonstrated above, and the nations are continuing to deindustrialize in the context of primarization.

Primarization, however, has taken distinct forms in each nation. In Mexico it is more accurate to describe the situation as one of sub-primarization with Mexico specializing in the export of cheap labor assembly embodied in (sometimes advanced) products that are shipped into Mexico for temporary processing. There is no evidence at the macro level that the waves of Direct Foreign Investment in Mexico have carried with them any of the substantial externalities suggested in the neoclassical/neoliberal literature. Consistent with the other nations examined, the Mexican grupos/conglomerates have made their (profitable) peace with the new model, reserving for themselves certain niche markets where they minimally process primary materials with state-of-the-art production systems imported from the industrial nations. Mexico is locked into a cheap labor export model where no initiatives are forthcoming regarding the creation of endogenous technological capabilities. Even worse, Mexico’s direct export of labor (immigrants) has reached the level where annual remittances from these exiles rivals the trade surplus generated by the maquiladora industry. While exports over the long term continue to grow, the steady erosion of the national production base means that imports inevitably grow faster and Mexico generates chronic trade deficits. Coverage of these deficits through the acceptance of Direct Foreign Investments, portfolio flows and foreign debt have failed to generate a viable development strategy as these flows have not generated the stimulating effects predicted in much of the neoclassical literature.

In Chile the positive results to be found in the 1987-1997 period arose primarily from a “legacy” system created in the ISI era, wherein key resource-dependent industries were created through active State participation. With the exception to some degree of the wine-making sector, Chile’s big successes in the boom period originated with massive government programs, some dating to the late 1940s. Chile, however, failed to move to the next level after 1996, and the rentier oriented grupos/conglomerates have fundamentally moved on to Peru, Argentina and elsewhere. Moving to the next level would have involved deep commitment to higher levels of value-added production, and this would have entailed sustained investments in science and technology as well as creating the capacity to produce a limited range of capital goods and intermediate industrial inputs. This in turn would have necessitated a sustained commitment to a medium-skilled industrial labor force, which would have opened the door once again to labor’s participation in industrial relations, national objectives and national income. Chile’s entrenched economic and political elite would much prefer to gamble on the terms of trade in the world market. Whatever misgivings some sectors of the Chilean elite held in the slump years of 1997-2002 have now been erased by over two years of one of the strongest commodities-based boom
Chile has ever enjoyed. Meanwhile, behind what is basically a copper boom, the sands of time are running out even faster on Chile’s niche strategy based in producing commodities with a high income elasticity of demand. The salmon industry (and aquaculture in general) face diminishing returns due to contamination in their fisheries. The “kiwi effect”—over planting of kiwis driving down the price to unprofitable levels—awaits most of Chile’s niche agricultural products as other nations mimic Chile’s ag innovation. Even the wine-making industry is very vulnerable. Argentina’s vast producing capacity is now rapidly coming on the market, and other nations are increasing supply at a rate that will outstrip the growth in demand.

Ironically, Argentina may prove to be the nation that moves decisively beyond the confines of the neoliberal construct. Like Mexico in 1994/95 and Chile in 1991/83, the all-out pursuit of the neoliberal agenda ended with a devastating crisis that spanned the 1999-2002 period and has not ended yet in many areas of the Argentine economy. Unlike Mexico and Chile, however, political power and legitimacy has not been retained by the advocates of neoliberalism in the aftermath of the crisis. Argentina’s current uneven recovery is based in static comparative advantage in areas of low to modest valued added forms of production. More so than Mexico, Argentina has the potential to turn these currently favored activities into forms of dynamic comparative advantage: First, Argentina continues to contain deep reserves of human capital, including crucial scientific capabilities. Second, the now largely disused metal-fabricating industries of Rosario, Buenos Aires and Córdoba could be revived: Synergies between the vast steel making and aluminum fabricating industries and the metal-working industries could be pursued. Incorporation of the labor force into a new model of accumulation would mean that these industries could sell to a strong domestic market as well as to Mercosur and beyond. Argentina’s broad holding in oil, gas and petrochemicals could also constitute a developmental pillar wherein backward linkages from the metal producing industries could be forged. Agro-industrial expansion could be tied to nationally produced capital goods, once again with the potential of achieving economies of scale through marketing via Mercosur and beyond. Shipbuilding could utilize the output of the oil, gas and petrochemical sectors as well as the metal-producing firms. These efforts could easily be combined with a renewed emphasis on vehicle production. All these activities are of an “intermediate” level of production in terms of technology and science—meaning that providing the high value-added components, parts design, etc. to make these industrial activities viable is within reach of the current set of skills of the cadre of trained engineers and scientists. Furthermore, Argentina has retained a deeper and more versatile range of small and intermediate suppliers/producers who could and the elasticity needed to pursue a broad range of dynamic competitive advantages in industry.

As mentioned in the body of this paper, the UIA is using nationalist and anti-neoliberal rhetoric to urge a deepening of the current static comparative advantage option that has greatly rewarded exporters who earn in dollars and pay their workers (virtually nothing) in pesos. Argentina’s greatest obstacle, perhaps, is not the combined weigh of the transnational firms and the Argentine conglomerates who are now luxuriating amid the commodities boom. Rather, having fallen so far for so long, the Argentines are very cautious regarding any new step which could prove to be false. President Kirchner’s caution is nationally endemic. Caution, however, is not (necessarily) paralysis. Kirchner’s recent attempt to engage on the issue of capital flight (by imposing some modest capital controls in June 2005) stands in sharp contrast to policy trends in Chile and Mexico. In elections in the Fall of 2005 Kirchner’s allies make great advances, creating a larger margin for policy action. Certainly, of the three nations considered here, the potential for a constructive break with neoliberalism is the greatest in Argentina.

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Argentine


