

EXTERNAL ECONOMIC RELATIONS AND THE PROCESS OF DEVELOPMENT

A LATIN AMERICAN VIEW

by

Prof: Osvaldo Sunkel, Facultad Latinoamericana  
de Ciencias Sociales, Santiago,  
Chile.

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A LATIN AMERICAN VIEW<sup>(1)</sup>

Although I ~~used~~ to be an optimist, I must now strike a pessimistic note. I also fluctuate, it seems, as does Professor Meier, but our cycles apparently do not coincide. I ~~am~~ rather pessimistic of the possibilities for development in Latin American, i.e. for the improvement of the living conditions of the poorest half of the Latin American population. I agree with Professor Meier that we have learned a lot during these last twenty years but we may not have learned the most important things. I would like to suggest that one of the most important things which some have not learned is precisely the fact that it is not possible to continue to analyse the economic development process independently from the analysis of economic development policies. Professor Meier makes a distinction between what he sees as the nature of the process of development and the policies for development. He says, "Well, there were wrong policies in the past, but we have now learned a lot and if the new and more correct policies are followed in the future then we will have a better development process." I suggest that one cannot really make that distinction. We cannot understand the nature of the development process without a full explanation of the policies which have been followed and without an understanding of the national and international socio-political structures which condition the formulation and implementation of development policies. I don't think that one can continue to say, "Developing countries should follow such and such a policy, developed countries should follow this and the other policies, so that national and international market imperfections will disappear and resource allocation will be optimized." I think that a very large part of the problems faced in Latin America are due to the fact that those things called "market imperfections" in neoclassical analysis are precisely the essential institutional, structural, socio-political and cultural factors which explain the nature of underdevelopment and of the frustrating nature of the development process. We cannot hope any more to see market imperfections withering away just

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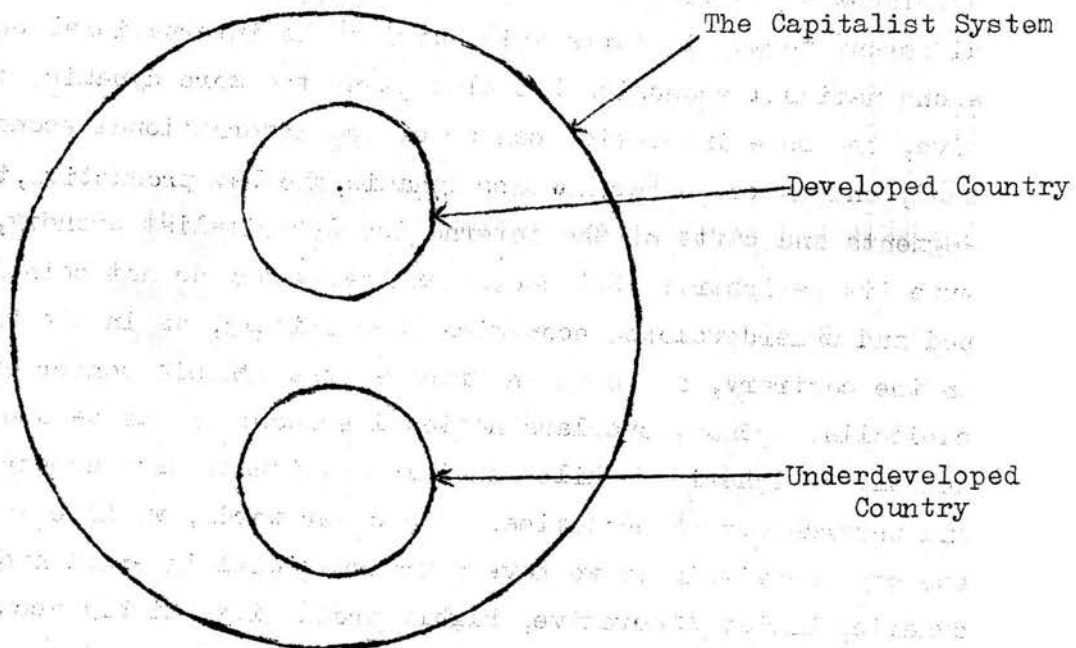
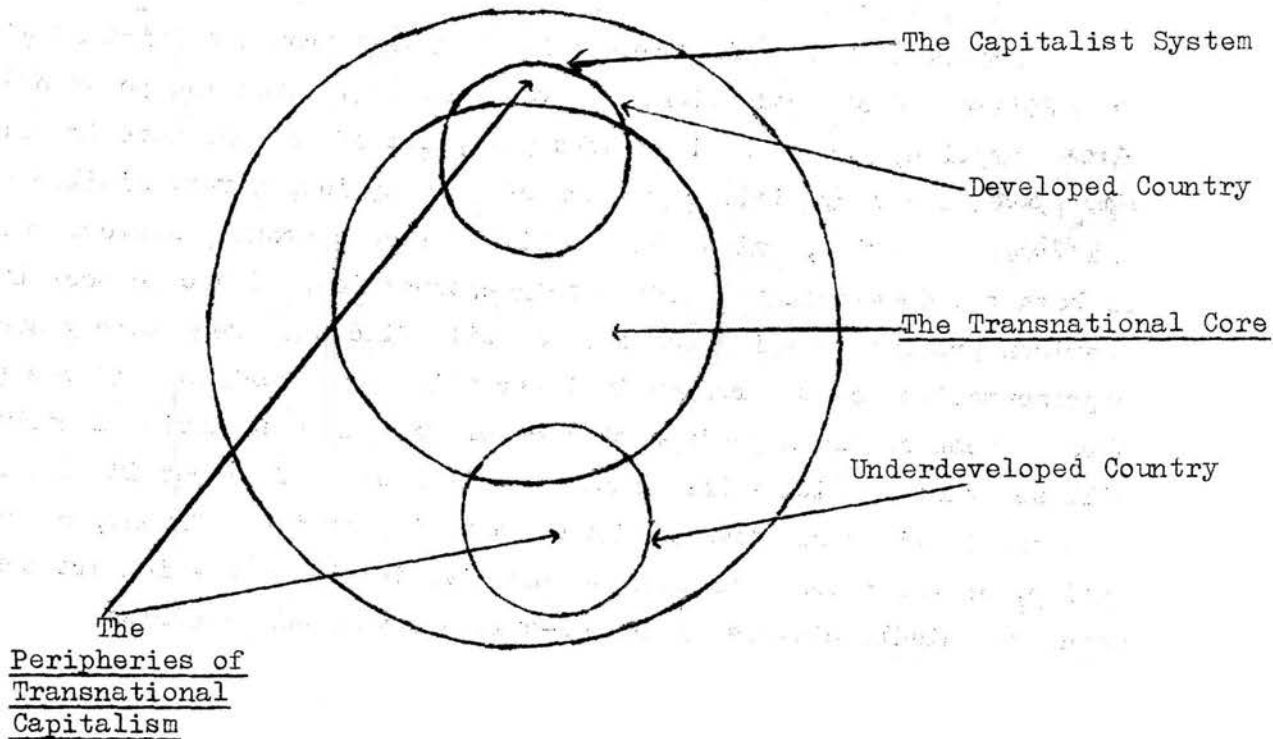
because some intelligent foreign advisers and some well-meaning politicians will try to exorcize them. I think we have to start revising our analytical tools and try to understand the nature of the power system which produces a large part of these "market imperfections" and which makes them an inevitable part of the development process and of the problems which are associated with that development process.

I am, therefore, in a very difficult position here. The title of this first morning's session is "External Economic Relations and the Process of Development: a Framework for Discussion", and Professor Meier has simply stated in the first part of his paper, "The framework for discussion is correct. Neoclassical economic theory is correct." And, from there he proceeds to the analysis of the policies which from that point of view were wrong in the past and which must be corrected in the future. I have a very difficult problem, because I think that it is the framework for discussion which is wrong. I must try, therefore, in this very short period of time, to suggest an alternative framework for discussion. I will not be able to go into a detailed discussion of policies, because I think what we need most is an alternative framework for analysis in order to be able to discuss policies in a different and more meaningful way.

I will start by paraphrasing the title of this conference, "Latin American-U.S. Economic Interactions". According to neoclassical international trade theory, all interactions are equal; but according to the framework which I would like to suggest, some international interactions are more equal than others. Now I would like to use two simple graphs which are not very conventional in economics, and briefly try to state what I believe to be a more significant framework for analysis. The basic assumption of the first graph - and here I agree with Professor Meier - is that one should look at the international system as a whole rather than simply looking at national development in an isolated way, as has been usually done in the analysis of development problems. Let us assume then that the larger circle in Graph 1 represents the international capitalist system, which is the only one we are interested in now; and let us assume that the two smaller circles inside the larger one represent one so-called developed country and one so-called underdeveloped country: two national subsystems within the international capitalist system.

This is the conventional representation of the international capitalist system as divided between developed and underdeveloped economies. This may be useful for some purposes, but in order to understand development problems it may be more correct, more useful, to think in different terms; in terms which divide the international economy not only among national economies but also among the more dynamic, the more productive, the more innovative center of the international economy, on the one hand, and on the other, the less dynamic, the less productive, the more stagnant segments and parts of the international capitalist economy, which constitute its periphery. But center and periphery do not coincide with developed and underdeveloped economies respectively, as in the Prebisch model. On the contrary, as shown in Graph 2, the dynamic center or core of the capitalist economy overlaps national economies, has become transnational; and the peripheries, while remaining national, also appear both in developed and underdeveloped economies. In other words, we have an international economy and within it we have a transnational internal nucleus of a highly dynamic, highly innovative, highly productive, highly accumulative character. This core is transnational in the sense that it overlaps with national economies as well as in the sense of being the essential part of the global system. The growth of this transnational core has transformed the international capitalist system into the transnational capitalist system.

Let us look at this transnational system from the point of view of consumption and of production. If you look at it from the point of view of consumption, you will find (certainly, all of you who have traveled extensively) that a very similar pattern of consumption, a very similar pattern and level of living, exists in the higher income groups, sectors and areas of both the developed and underdeveloped countries. I see no poor Latin American present in this session; you will find them very rarely among representatives of the region in international gatherings. If one goes through some of the magazines that cater to this transnational market, you will see that publicity has found beautiful ways of expressing the fact that there exists one transnational community of the affluent, of the innovative, of the people who consume and live in the ways which are common among the middle classes of the so-called developed countries.

GRAPH I : THE INTERNATIONAL SYSTEMGRAPH II : THE TRANSNATIONAL SYSTEM



If, on the other hand, you look at the peripheries of the transnational system, you will find that some of the sectors of developed countries are as miserable, compared to the rest of their country, as the majority of the population of the underdeveloped countries. For instance (and this is an experience I had not had before) I have just been traveling through the United States by train. I suggest that you should do that for a change and you will see a quite different United States; you will see the poorer side of the United States, very different from what you see when you fly from one modernistic airport to the other, or when you go by superhighways.

If you now look at this transnational system from the productive side you will find that its dynamic core, the transnational productive structure, is formed by the conjunct of a small number of large transnational corporations, with headquarters in the developed and subsidiaries in the underdeveloped countries. This is the essential nature of the Second Industrial Revolution about which Professor Meier was speaking: the worldwide specialization of manufacturing production which is taking place through the institution of the multinational corporation. The multinational corporation specializes in the production of software and new production goods in the developed areas, and in the various stages of assembly of the final goods in the underdeveloped areas, taking advantage - among other factors - of the low-wage labor which exists in these economies, as a consequence of their large peripheral areas. This process is known as "worldwide sourcing". The specialization of production within the transnational core is the basis of the dependency relationship between developed and underdeveloped countries. But although the conjunct of transnational firms constitutes the infrastructure of the transnational system, the dependency relationship is reinforced through a superstructure of international institutions. It is their function to set up the rules of the transnational behaviour, watch over their implementation and promote the ideologies of transnationalism. In other words, the whole set of bilateral, regional and worldwide institutional arrangements between countries which constitute the system of international organizations tends to reproduce and reinforce, at the superstructural level, the process of transnationalization described before.

Let me add, incidentally, that I believe that this kind of vision of the contemporary relationship between developed and underdeveloped countries also helps to explain the way in which development and underdevelopment have been evolving historically. In other words, the same framework for analysis can be applied to the colonial period when the Spanish and Portuguese Empires linked segments of the economies, societies and cultures of the Iberian Peninsula to parts of the Latin American economy, society and culture through a central network of mercantilistic institutions, arrangements and policies, leaving the greater part of both regions as peripheries within the imperial system. The nineteenth-century type of relationship between Great Britain and Latin America and their respective specialization in exports of manufactures and food and raw materials can also be usefully examined with this kind of approach; international investments, migration and trade playing the central role in this specific historical period, and generating simultaneously a new international core and national peripheries both in Great Britain and in Latin America. What has happened over time is that this developing central core has been expanding, but it has expanded more and it has developed larger parts of the society, economy, politics and culture of the now so-called developed countries. In the so-called underdeveloped countries of today its growth has been restricted, concentrated, limited to privileged activities, regions and social groups, without much incorporation or integration of the peripheral activities, regions and social groups, and sometimes even contributing to their further disruption and marginalization.<sup>(1)</sup>

One final word about the global picture presented so far. The market imperfections and failures between developed and underdeveloped countries mentioned by Professor Meier are to a large extent the result of the structure of dependency relationships between these two kinds of countries, which are a historical outcome of the way in which the international economy has been organized essentially by the developed-dominant countries and their dominant international socio-economic and political interest groups. The internal market failures and imperfections are very largely the consequence

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(1) The ideas presented above in highly synthetic form have been elaborated by the author in a number of publications, but mainly in: "Transnational Capitalism and National Desintegration in Latin America", Social and Economic Studies, Institute of Social and Economic Research, University of the West Indies, Vol. 22 N°1 March 1973, Mona. Kingston, Jamaica.

of the kind of partial and concentrated development which has taken place in our restricted segment of the underdeveloped society and which has transformed but not developed (on the contrary: disrupted, disorganized, underdeveloped) the other peripheral social sectors and economic activities of the underdeveloped countries.

In the second part of my presentation I want to concentrate on this internal network of relationships between the local manifestation of the transnational core and the peripheral activities and social groups. To facilitate my presentation I will make use - in a graphic and rather loose fashion - of an analytical framework similar to the well known Leontieff input-output table 2. The conventional Leontieff table (Graph 3) has basically three parts: part "A" represents productive activity as a network of transactions of inputs and intermediate outputs among different branches of economic activity (agriculture, mining, industry, banking, etc.); part "B" represents the distribution of the income paid to entrepreneurs, owners of capital, employees, workers and government in the form of profits, rents, dividends and interest, wages, salaries and taxes in retribution for their participation in the productive process, also by branches of economic activity; part "C" represents the way in which the income earners spend their incomes on the various kinds of output of finished goods and services produced by the different economic activities, classified according to whether the goods and services are used for consumption, investment, by the government or for export. The great advantage of this table is that it represents in an integrated way three essential aspects of the economic system: the structure of production, income distribution and the pattern of expenditure, each one disaggregated by branches of economic activity.

The basic criteria for classifying the branches of economic activity in the Leontieff model is one of technological homogeneity. But as is well known, and as I have suggested in the first part of my presentation, a fundamental characteristic of the so-called underdeveloped countries is the co-existence and interrelationship of a segment of the transnational core and the national peripheries. And this heterogeneity runs through each branch



GRAPH 3

AN OUTLINE OF THE LEONTIEFF INPUT -  
OUTPUT SYSTEM

	Agriculture	Mining	Industry	Trade	Transportation	Banking	Etc.	Etc.	Etc.	Consumption	Government expenditure	Investment	Exports
Agriculture													
Mining													
Industry													
Trade													
Transportation				A							C		
Banking													
Etc.													
Etc.													
Etc.													
Profits													
Dividends													
Interest													
Rent				B									
Wages													
Salaries													
Taxes													

of economic activity: the gamut extends from local-primitive-traditional on the one extreme, to transnational-modern on the other, passing various shades of national modernity, as much in industry, agriculture, mining, transportation and banking, as in commerce and government services. We must therefore get away from the conventional dualistic models, which identify modern with urban and industrial, and traditional or primitive with rural and agriculture. Particularly in the relatively more developed countries of Latin America this conceptualization is misleading, because it cannot grasp the heterogeneity of technological levels and social relationships within the various sectors of the economy, rather than among them.

The input-output table has only to be rearranged to show the structural heterogeneity of these economies. If it is true that in each branch of economic activity we can find different categories and levels of technology and organization, we can rearrange the table bringing together under these different homogenous categories the corresponding segments of the various economic activities. The criteria for establishing these categories will be a socio-political one, rather than the technological one of the Leontieff system; although the latter one may be maintained within the socio-political categories.

For the purpose of this discussion I will distinguish four main categories within the economic system: a) the foreign-controlled sector (not necessarily identical with foreign property); b) the public sector; c) the national-modern sector; and d) the primitive-traditional sector (Graph 4). Each one of these sectors will be subdivided by branches of economic activity: industry, mining, agriculture, etc. as in the conventional Leontieff system. Submatrix  $A_{11}$  will then represent the network of transactions among the foreign subsidiaries in the different sectors of the economy; submatrix  $A_{22}$  will represent the transactions among the government-owned activities in the different branches of the economy; submatrix  $A_{33}$  will represent the transactions among the national-modern entrepreneurs; and submatrix  $A_{44}$  the transactions among the primitive-traditional producers of the various branches of economic activity.

If the economy is a very primitive one, most of the transactions will find place in submatrix  $A_{44}$ . If a foreign mining or agricultural activity has been established, there will be little transactions within submatrix  $A_{11}$ , not much in  $A_{14}$  as those activities are fundamentally for export, and not much in  $A_{41}$  either, as most of their inputs are foreign. The government sector will be small, with little interaction among public activities ( $A_{22}$ ), almost

nothing being bought by the public sector from the foreign sector except imports provided by foreign marchants ( $A_{12}$ ), but quite a lot of public services being provided to it ( $A_{21}$ ). In this kind of primitive primary-exporting economy, there would also be very little of national-modern enterprise ( $A_{33}$ ), and therefore not much relationships of this sector with the other sectors.

The last thirty or forty years of import-substitution-industrialization in Latin America have changed such a structure quite a bit. A national-modern sector developed, the public sector expanded considerably and the foreign subsidiaries eventually penetrated most economic activities, while the primitive-traditional sector has remained very substantial. The foreign controlled sector has emerged as the leading force in the economy, gradually filling submatrix  $A_{11}$  as it spreads through the different branches of the economy and becomes increasingly integrated and cohesive. The foreign controlled sector also becomes gradually the main supplier of the other productive sectors of the economy; the public sector ( $A_{12}$ ), the national-modern sector ( $A_{13}$ ), and even the primitive-traditional sector ( $A_{14}$ ). Being constituted by a few relatively large firms, vis-à-vis a relatively large number of medium-sized and small buyers, the foreign controlled sector finds itself in a monosonistic position. Sector  $A_{11}$  also becomes a major buyer of the production of the other sectors of the economy ( $A_{21}$ ,  $A_{31}$ , and  $A_{41}$ ) developing an oligopsonistic position with respect to them.

The public sector grows substantially but mainly as a producer of the goods and services needed for the expansion of the foreign sector and the national-modern sector. This explains the considerable difficulty in achieving integrated planning and coordination of public sector policies in Latin America, which has been frequently attempted without much success during the last decade. The national-modern sector also expanded considerably, particularly during the Crisis and World War II decades, and during the 50's. But during the last decade, the formidable expansion of the transnational core of the capitalist economy, referred to before, has ~~meant~~ the wholesale penetration of foreign subsidiaries into all ~~branches~~ of economic activity in the Latin American countries. This has frequently ~~meant~~ the absorption of the local national enterprise into the multinational corporation or its disruption and displacement by the foreign subsidiary. The gradual erosion of the national entrepreneurial sector goes pari passu with the expansion of

## HETEROGENEOUS DEPENDENT ECONOMY

Foreign  
Control

Public  
Sector

National-  
Modern

Primitive-  
tradition-  
al

CONSUMPTION BY SOCIAL GROUPS	GOVERNMENT EXPENDITURE	INVESTMENT	EXPORTS
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incomes  
payed by  
social groups

employment  
by  
social groups

average per capita  
incomes per socio-  
economic group

the foreign controlled sector, and at least in terms of employment - or rather underemployment - with the growth of the public sector and the primitive-traditional sector. The replacement of the national-modern by the transnational technology and organization gives place to the incorporation of some professional and skilled man-power into the transnational sector while displacing the rest, some of which will be incorporated into the public sector while the majority will be pushed into the primitive-traditional sector or remain unemployed. The primitive-traditional sector itself is of course under heavy pressure, as it suffers the disruptive effects of the wholesale introduction of new technological processes, goods and services, and of new forms of organization.

So far we have been looking at the simultaneous process of transnational integration and national disintegration as it takes place in the productive structure of the underdeveloped economy. But the same process will also explain some other structural characteristics of these economies. Let us look at income distribution and employment. In part B of our table we have the payments made by the various sectors of the economy to the social groups which participated in their production process. Rather than the traditional classification by factor shares which has no sociopolitical meaning, we shall use a classification representing significant social groups and classes. Furthermore, to the income-payments matrix, we add an employment matrix, with the same classification. Finally, dividing the income by the employment matrix, we would get a matrix showing the average income distribution by main social groups and economic sectors. The comparison of these three matrices would show some highly interesting results. A significant proportion of the income generated in this economy would be paid by the foreign controlled sector, but this sector would represent a minor share of total employment, yielding a very high income per employed person. A substantial part of this income would go abroad, as it is foreign owned, but the local levels of wages and salaries would still be comparatively high to the rest of the economy, tending towards the levels prevalent in the transnational core, particularly with respect to the technical and managerial transnational staff of multinational companies, but not for the more unskilled worker.



Income generated by the public sector would also be relatively large, as a significant part of government revenue is derived from the highly productive export sectors, and wages and salaries paid would be highly unequal. The organized middle class professionals and technicians, particularly in the more modern government activities, will have relatively high remunerations, while the less organized bureaucrats and workers in the more traditional government activities, where much underemployment is absorbed, will be very badly paid.

In the national-modern sector, which probably still generates the highest proportion of total income, inequality is probably at its worst, because the wage level is in this sector greatly influenced by the pressure for employment of the unemployed, and the very low-paid workers of the primitive-traditional sector. It should be remembered that this is relatively stagnant sector, and that the low level of wages is probably a condition for enterprises in this sector to remain relatively competitive with the foreign controlled sector.

Finally, the primitive-traditional sector will be characterized by generating a very low proportion of total income, while representing a very large proportion of the total active population. Here we will find the unemployed, underemployed and the miserably poor both rural and urban, but also some oligarchical groups.

It seems to me that a table of this kind would give us a much more suggestive picture of income distribution than the conventional tables of income distribution by factor shares or by size, which are normally used in economics. In fact, this presentation opens an interesting possibility of exploring the relationship between the productive structure and the social structure, or between the degree of development of productive forces and the corresponding social relationships of production, in Marx's terms. The social structure corresponding to the foreign controlled sector - transnational capitalism - , for instance, would be constituted essentially by a managerial and technocratic bureaucracy, partly foreign, and by a relatively skilled work force; no entrepreneurial class nor a proper proletariat. The public sector would essentially consist of a large traditional bureaucracy, with some technocratic groups in its more modern activities. The national-modern sector would show the more traditional picture of the conventional capitalistic society consisting basically of its entrepreneurial, middle

and proletarian classes. The primitive-traditional sector would on the contrary contain certain oligarchical groups, a large mass of small-owners (in agriculture mostly, but also in commerce, the artisan crafts, transportation, services) and a vast subproletariat both rural and urban. It seems to me that a "tableau socio-economique" of this kind, which allows the identification of social classes and groups by main sectors of the economy and by individual branches or economic activity within those sectors, offers a great potential for political analysis; for the integration of economic, social and political analysis; and therefore for the study and explanation of policy formulation and implementation.

An adequate knowledge of the structure of income distribution would also be very helpful for the understanding of the patterns of private and public spending in consumption and investment. In part C of our system, we would for instance introduce the same classification of social stratification used for income distribution in part B, in order to distinguish groups of consumers. We would then get a distribution of consumer spending by social groups (workers, bureaucrats, managers, etc.,) and by economic sectors (foreign, national, etc.,). This table would clearly show how most of the expenditure of the social groups with higher incomes would be spent on goods and services produced by the foreign controlled sector, this being one of the factors which explains the dynamism of that sector. But as these social groups also constitute a political force, it would not be astonishing to find that public expenditure - particularly investment - is also fundamentally directed towards the provision of the economic and social infrastructure needed to promote the expansion of the transnational sector. And if that sector has the more dynamic demand as well as the support of the public sector, private investment will undoubtedly also flow mainly to the production of the kinds of goods and services characteristic of the transnational pattern of consumption. The national-modern sector will therefore have a strong inducement for the acquisition of foreign technology and trade marks, which, meeting with the expanding nature of transnational business, will naturally lead to the association of the local with the transnational enterprise, and eventually to the displacement of the local entrepreneur. The growing transnational sector, being in such a privileged situation - dynamic demand, government promotion, technologically advanced and in monopolistic positions - will extract high profits from both consumers, local producers and government. These profits need not show up in the balance sheets of

the subsidiaries, thanks to the practice of "transfer pricing", but will be enough to repatriate substantial profits while at the same time financing local expansion. The consequences for the balance of payments are clear, particularly if one keeps in mind that the export structure of these countries continues to be based on specialization of primary exports, while its imports and foreign payments of all sorts (royalties, technical assistance, profit remittances, foreign personnel, etc.) become increasingly dynamic with the growth of the local transnational sector.

The concentration of the whole system on the development of the transnational sector, together with the neglect of the national-modern and particularly the primitive-traditional sector, leads to a kind of disintegration of the national economy. We experience "development" simultaneously with "underdevelopment", as resources are extracted from the national-modern and the primitive-traditional sector - with the consequential disruption and stagnation of the latter - and funneled into the expanding transnational sector, with additional resources left over to contribute to the expansion of the global transnational economy. This development-underdevelopment process, rather than creating the kind of homogenizing spread efforts of the national economy which one would expect according to the neoclassical or macrodynamic theory, leads to quite a different sort of evolution, in which a part of the economy shows development - increase in income per capita, expansion of production, modernization, innovation, the adoption of highly sophisticated consumption and production technologies, etc. -, and draws into that part of the economy most of its spending, both public and private consumption and investment, while leaving the other part of the economy stagnant and disrupted, without any real sociopolitical capability of generating policies for its improvement. I would suggest that this process, which takes place essentially in underdeveloped countries, in fact, also takes place in developed countries. The stagnant areas in your developed countries are to some extent also explained by this kind of analysis: by the fact that while such a tremendous degree of spending both private and public swing to the most dynamic growth industries, there is very little left to be spent on the improvement of productive activities in the other part of the economy. Of course, the problem does not become as traumatic as in our underdeveloped countries because the developed part of the developed economy is its largest part, and you can have income redistribution

policies, which by taking away a little bit from the transnational sector can quite substantially improve the relatively small peripheral sector. In underdeveloped economies, on the contrary, the fact of a mere income redistribution from the small part of the economy which is highly productive to the rest of the economy does not have much effect, and most of the time only reinforces in the end the position of the middle-sector groups in the economy.

I must apologize for presenting a complicated and somewhat technical statement in such a loose way, without the necessary analytical rigour, but my problem is that I need an explanation of the processes which have been going on in Latin America which can link the kinds of policies which have been followed with the structural setup of the Latin American economy and society. I think that if we look at it in the way in which I have presented it we have a better grasp of the heterogeneous nature of the economic structure of Latin America. And that is the basis for the social structure of these countries, and this is in turn the basis for the political and power setup. And, it is the political power setup which explains the nature of the policies which the governments follow. I think that only when one looks at the global system in a way something like this that one truly understands it. I do not think that my particular scheme is necessarily the best way of looking at it, but this is the one I have been able to work out and I believe that I can understand the nature of the processes of development and underdevelopment which are taking place in Latin America much better with this kind of analysis ~~than with the more~~ conventional kind where a complete divorce is made between what is the economics of a society and what is the politics of a society. After all, it is the politics of a society which explains its policies and one important conditioning factor of a society's politics surely is its economic and social structure.