Industrialization and structural change of the periphery in the global world

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Abstract

After the worldwide consolidation of the neoliberal ideas in the early 1990s the space for industrial policy in underdeveloped countries has been extremely cut from their economic policy agenda. Developed countries, especially the United States, have placed at the centre of the international negotiations the liberalization not only of commodities but, especially, of capital, regardless of its use. With the increasing importance of both financial institutions and global (regional) value chains managed by Transnational Corporations (TNCs), the main aim was to minimize the transaction costs for the internationalization of production in order to guarantee their profitability on the international scale. According to their view the main way to achieve development is through free trade and the participation in Global Value Chains.

The WTO (World Trade Organization) has been functional to this aim, although with a view to achieving a global consensus on free trade, some issues had been pulled out of the negotiations. This create some space for industrial policies, that is, what Alice Amsden (2002) labelled as “hidden protectionism”. Through public procurement, government contracts, promotion of technology and applied sciences, some developing countries like China and India have achieved a high level of industrialization. Since the 2000s, the rise of China and the failure of the international negotiations within the WTO to eliminate this protectionist measures have brought about a strong reaction from TNCs. In this regard, developed countries, on behalf of the TNCs, have been promoting free-trade agreements that go well beyond the WTO’s formal regulations, the so-called WTO-plus and WTO-extra free-trade agreements.

The main aim of this paper is to discuss the possibilities for industrial development in developing countries, especially in Latin America, with a view to stressing the constraint imposed by the current system of rules that regulates international trade.

Key words: Globalizations, Free Trade Agreements, International Negotiations, Industrial Policy.

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Introduction: Industrial policy or free trade? That is the eternal debate.

Before analyzing the actual possibilities for industrial policy, given the constraints on the economic policy space imposed by the system of international rules and regulations, it is important to understand some salient features of the structuralist theory and the context in which these ideas were abruptly replaced with free-trade theories.

After the World War Two, prominent works in economic development were published. A common characteristic emerging in these works is to stress the importance of the transformation of the productive structure of the economy in order to achieve economic development. Even more, most of them agree that the key determinants of the accumulation processes in the backward economies will greatly depend on the structural features of such economies.[2] Certainly, these ideas were encouraged by both the incipient processes of industrialization in the backward areas of the world and the experience of the planned economy in the former USSR.

Among the main theoretical contributions, it is possible to identify several types of analyses, with different emphases on the various aspects of the accumulation mechanisms; however, all of them acknowledge the existence of labor unemployment, as well as the asymmetrical determination of income distribution. Post-war development theories consider that capital is both inefficient and scarce relative to an abundant supply of labor, and that free trade is not a successful strategy to transform the productive structure and boost development (Olivera 2011). It is worth pointing out that these development theories have not been the only approaches within the heterodox tradition. It will also be seen that some of the post-Keynesian, neo-Ricardian, and post-Marxian theories have all contributed to growth theory of a more general character (*i.e.*, they are not only meant for the study of developing countries). The structuralist approach within the development theories has been mainly focused on the paths to transform the productive structure of the economy as the only way to achieve economic development.

Changes in international markets originating during the interwar period triggered off the incipient, though significant development processes, particularly in Latin America. The two World Wars, together with the economic slump of the 1930s, reshaped the economy, society and politics on a global scale. As far as the economic sphere was concerned, both unequal exchange and market closure strongly inspired developing economies to rethink their own economic role in the world economy as well as their economic structures. Deep changes

[2] See Lewis (1954), Rosenstein Rodan (1943), Nurkse (1953), Hirshmnan (1958), Prebisch (1950), Singer (1950), Furtado (1959), among others.

in international trade patterns arose out of these new circumstances, as well as changes in the international division of labor. The industrialization strategies adopted in many developing countries are broadly known in the discipline as the *Import Substitution Industrialization*. In this context, following the World War Two, some Latin American economists started to focus on the study of the specific structural features that impinge on the economic development in the region.

This approach is based on the seminal works by Raul Prebisch, the first secretary of the Economic Commission for Latin America and the Caribbean between 1950 and 1963 (ECLAC). In “The Economic Development of Latin America and Its Principal Problems”[3], Prebisch shows how the principle of comparative advantages (based on relative factor scarcities), and therefore free trade policy, is not valid for developing countries, especially in Latin America.

As is well known this principle establishes that, if each economy specializes in the production of goods that use more intensively the factor of which it is relatively abundantly endowed with, then international trade would be more advantageous for all the participants in the exchange than it would in case of autarchy. As a result, the less developed economies, whose productive structure is principally specialized in primary goods, would be able to reach similar levels of wealth as in the developed economies. As Prebisch remarks, this has not been verified for most developing countries:

> The enormous benefits resulting from increased productivity have not reached the periphery in proportion to those obtained by the population of these great countries [of the centre]. This explains the outstanding differences found in the standard of living of the masses of these two groups and the manifest discrepancies in their capacity to capitalize […]. There is therefore an evident disequilibrium, a fact which, whatever its origin or justification, destroys the basic assumptions of the schema of the international division of labour. (Prebisch 1950, 2).

According to Prebisch, the slow and irregular spread of technical progress in the world has caused the emergence of two groups of countries: the rich and most developed countries[4] – the *center* – and the poor and less developed countries – the *periphery*. The *center* is characterized by a high and continuous flow of technical progress, which has allowed these countries to develop a highly-diversified economic structure (since it covers a

[3] This work was originally published in English in 1950, while the Spanish version was not printed up until 1986, by *Desarrollo Económico*, vol. 26, no. 103.
[4] Namely OECD countries.

broad range of activities), which is also roughly homogenous because the several economic sectors show similar levels in labor productivity. On the contrary, the countries of the *periphery* have found a place in international trade as primary goods producers (*i.e.* primary products and natural resource-based manufactures). Their economic structures are characterized by being highly-specialized, particularly in primary goods, but also heterogeneous, since they have high labor productivity levels in the sectors they are specialized due to an inflow of technical progress, but in all the remaining sectors productivity levels are very low. Furthermore, this heterogeneity in sectoral labor productivities produces persistent wage gaps and segmented labor markets across the different sectors, as exemplified by the industrialization experience after War World II.

Likewise, in the *periphery*, heterogeneity is strongly associated with structural disguised unemployment, underemployment and informal employment. In fact, while activities with normal labor productivity can create employment, those industries with low productivity levels, which comprise the largest number of sectors and employ large numbers of workers, are associated with low wages and underemployment. In addition, economic specialization drives the whole economy to significant external disequilibria, since the elasticity of demand for imported capital goods on the part of the *periphery* is persistently higher than the elasticity of demand for primary goods on the part of the *center*.[5] Thus the productive specialization emerging from the international division of labor forces developing countries to concentrate their efforts on sectors with scarce elasticity of demand, poor job creation, very few linkages within the economy (normally considered as enclave sectors), and slow spill-over effects both on growth and technology.

This is the main concern raised by Prebisch as well as by other Latin American economists. One significant way to overcome this divergent situation worldwide, according to this approach, is by industrializing the periphery. To achieve this goal, ECLAC proposed: [6] (i) to strengthen the industrialization process by Import Substitution (ISI); (ii) to implement a land (or agrarian) reform, since concentration of landed property checks the industrialization process; (iii) to maintain, stimulate and improve state interventionism, with policies focused on fostering industrialization and development; and (iv) to promote Latin American integration in order to overcome market restrictions and thus to enlarge the scales of production.

[5] The explanation for this difference in elasticity levels is intuitive. Unlike imported consumption goods from the centre, imported capital goods from the periphery are fundamental to carrying out the productive process in these economies; then, due to the pressure exerted by this necessity even when income falls the purchase of this kind of goods by the developing countries does not tend to decrease as much.

[6] As documented in Nahón, Rodríguez Enríquez and Schorr (2006, pp. 338-340).

Since according to this approach the state must play an active role in the development process, one of its main duties should be to strengthen and diversify the industrial sectors through direct subsidies and protection of infant industry, in order to reduce the specialization in agricultural production and the heterogeneity that characterizes these economies (in the Latin America, industrialization has been mainly centered during the 1950s on the machinery-producing sector). However, this boom of development ideas based on state intervention and high wages have found its end together with the end of the Keynesian Golden Age in the United States and the beginning of the collapse of the Soviet Union. In the 1970s, in the international sphere major changes came together with the so-called Thatcher – Reagan era. Together with this shift in the geopolitical scenario, the ISI strategy followed by most Latin American countries starts to show some severe issues due to the increasingly need of financial flows (see Diamand 1972) in order to overcome the external constraint (*i.e.*, the increasing need of foreign currency to meet the increasing import requirements for industrialization). However, since the domestic industries were not capable of being competitive on the international market, the outcome was a huge indebtedness process that ended up in the Latin American debt crisis in the 1980s.

Supporters of this rebirth neoliberal ideas underlined that the main reason for the flaws of the ISI strategy in Latin America, vis-a-vis the Asian experience, was precisely the high state intervention and the lack of an outward looking strategy (see, for example, Bhagwati and Krueger 1973; Balassa 1988; Bhagwati 2002). However, as Chang (2009) has shown, the development process in South Korea was far from a neoliberal free market strategy, being characterized by strong state intervention. Also, these supporters more often than not overlooked to mention that, unlike the East Asian countries and Japan, Latin American countries did not benefit from the international inflow of finance by the huge flows of trade and capital with the United States, in the context of the Cold War conflict (Medeiros and Serrano 1999); (more on this below).

Since the beginning of the neo-liberal era in the late 1970s, the policy space has been drastically reduced in developing countries. Industrial policies as part of the political agenda in developing countries have been shrinking as globalization progressed (Olivera 2011; Herrera 2011). The main target has been the state-driven ISI processes, as well as commercial policies involving tariff protection and direct subsidies to production. Even Latin American institutions, such as ECLAC, which had been characterized since their foundations by their concern with structural factors as determinants of the development process, were affected in the 1970s and 1980s by this ‘neoclassical counter-revolution’ (as several authors called it, *e.g.* Toye 1993).

Unlike development theorists, orthodox economists supportive of the theory of comparative advantages have argued that free trade policies are the only way to achieve both sustained economic growth and growth convergence between dissimilar economies. Even if this idea could appear to be an old concept, we can also find it behind the current set of statements being used to hold the same policy suggestions. Nowadays this debate was rekindled under new clothes, although sharing the same old essence. In the beginning of the past century, free trade supporters underlined the inefficiency of tariff protection as a development strategy. Today, they argue that the best way to achieve development is by participating in the global value chains. To be "included" into these new international vertical integration processes, developing countries should have to pursue traditional free trade policies, based on the comparative advantage principle, good governance and investment agreements.

Is free trade the best strategy to achieve development?

If we analyze the historical evolution of the core economies during capitalism, we can observe that except for short periods economic convergence did not prevail among the regions of the world. The main exception could be certainly the golden age (1950-1970) in which the Cold War, with the Keynesian policies in the western developed countries and the USSR policies in socialists countries directly or indirectly influenced the industrialization processes in developing countries. As Nayyar shows:

> "By 1870, the share of 'The West' in world population had already increased to one-third while that of 'The Rest' had already decreased to two-thirds. And, by 1870, the share of 'The West' in world income had risen to 57 per cent while that of 'The Rest' had fallen to 43 per cent. For the world economy, the significance of 1870 is clear. The international division of labour had changed. The beginning of a divide between what are now described as industrialized countries and developing countries in the world economy was visible." (Nayyar 2013, 16)

> "Between 1950 and 1980, the share of developing countries in world population rose from 67 per cent to 74 per cent, while their share in world GDP stopped its decline and rose from 27 per cent to 32 per cent. […] This was a clear reversal of the trends in growth during the period from 1820 to 1950 when 'The West' fared so much better than 'The Rest'." (Nayyar 2013, 51)

With the beginning of the globalization, the results have drastically changed. If we analyze the evolution of GDP per capita in recent years, it is apparent the rise of the gap between developed economies and developing countries (except for the case of South Korea). Since the rebirth of free trade policies, the results were far from positive for developing countries, especially in Latin America and Africa. Several empirical studies have shown that for this period there has not been a correlation between economic growth and trade openness (Rodriguez and Rodrick 1999; Rodrick 1997; Moguillansky and Bielchowsky 2001; Di Maio 2008)

However, the effects were very different among developing countries, and in most cases it had to do with the kind of liberalization processes that each economy has followed. As Shafaeddin has shown in his study of the processes of liberalization between 1980 and 2000:

> "In several countries, mostly East Asian newly industrializing economies, rapid export growth was also accompanied by fast expansion of industrial supply capacity and upgrading. In these countries, after they had reached a certain level of industrial maturity, trade liberalization took place gradually and selectively. By contrast, the performance of the remaining countries, mostly in Africa and Latin America (majority cases), was not satisfactory. These countries embarked, in the main, on a process of structural reform in 1980s, including uniform, across-the-board and often premature trade liberalization. They further intensified their liberalization efforts in the 1990s. Consequently, half of the sample countries, mostly low-incomes ones, have faced de-industrialization." (Shafaeddin 2011, 19)

It is important to notice that, the South Korean miracle was not only the result of the implementation of market friendly policies and good entrepreneurial skills, but also of forceful state-driven policies designed to pick up the winner companies and of the aid provided by the United States. As mentioned above, Medeiros and Serrano (1999, 134-135) studied how, in the context of the cold war with the USSR, the USA followed a "development by invitation" strategy with countries located in disputed geographical areas, such as Korea, Japan, China in Asia, and Germany in Europe. The strategy consisted in ensuring both massive capital inflows and external markets for the country's exports. The transformation of the productive structure in East Asia was the result of strong state intervention coupled with USA aid in order to overcome the external constraints.

Quite differently, Latin America did not benefit from this collateral effect during the Cold War period, and the results were not so great in terms of economic growth. However, if we consider the historical experience of these countries, it is evident that in order to achieve economic development it is necessary to transform the productive structure, as the structuralists have long held. Unfortunately, the industrialization strategies implemented during the Golden Age and in East Asia were based on economic policies that are no longer available, given the limitations that the regulatory frameworks of international relations impose.

In the next sections, we will analyze how the international trade and productive development policies have been built under the new regulatory framework created during globalization.

Globalization, free trade and the WTO

In the last few decades, we have witnessed a profound transformation in the methods of production and technologies. After the end of the golden age and the abandonment of Fordism together with the collapse of the USSR, the accumulation model has drastically changed. From a strategy based on domestic demand and high wages, developed countries move to a strategy focused on external markets and the internationalization of the productive processes by offshoring parts of the production to lower-wages economies. Goods are produced essentially by Global Value Chains (henceforth, GVCs) spread all over the world and led by Transnational Corporations. These CGVs, promoted by the TCNs, have represented one of the greatest transformations in the world economy after the industrial revolution. The multiplication and success of this new mode of production has been possible thanks to the reduction of international transport costs, the advances in information and communications technologies, and trade liberalization. As Nayyar (2013) pointed out, a result of this transformation is an almost permanent increase in the share of international trade in economic activities. In particular, developing countries' share of world trade has been rising mainly since the late 1980s, achieving in the lasts years the 45 per cent of total world trade (Nayyar 2013, chap. 5). The rate of increase in international markets was even higher than economic growth. One result of the social division of labor is the increase in the share of intermediate goods in international trade flows. As Medeiros & Trebat (2017, 14) have argued: "GVCs expanded rapidly after 2000, and this coincided with an increase in the technological sophistication of developing country exports and higher rates of GDP growth". However, this technological improvement has not being equally distributed within the economies. Bianchi and Szpak (2013) have studied that the productive segmentation that emerges from the internationalization of production generates the conformation of an international division of labor between the center and the periphery that evidences the technological asymmetry that prevails among them. As a result, central countries have deepened specialization in those segments of production, commercialization and marketing with higher technological sophistication, while the countries of the periphery focused on the production of intermediate goods with little value added (as in the case of Mexican "maquiladoras", see Sargent and Matthews 2008). In this connection, the phenomenon envisaged by the structuralist theorists has not been reversed itself, but rather evolved. Developed countries have focused on the service sectors (marketing, financial services, R&D) and the production of high technological components while the less developed countries, once again, have had to use their competitive advantages, specializing in the assembly of products and the production of parts with low value added. In this way, less developed countries are under a constant pressure to keep their wage levels low and to keep their economies open to foreign competition, both for trading imports and exports and for the establishment of branches of the TCNs in their territories.

Since the beginning of the so-called globalization in the early 1990s, two intertwined facts have turned apparent. On the one hand, capital flows have been largely raised from stock markets and from foreign direct investment (FDI). On the other hand, policy recommendations have insisted to move toward a free trade world, which is perfectly suitable with the needs of TNCs. As Chang (2003) remarks: "In 1995 the Uruguay Round of talks by the GATT (General Agreement on Trade and Tariffs) resulted in worldwide tariff cuts, tougher restrictions on trade-related subsidies, strengthening of trade-related intellectual property rights, and, most importantly, the transformation of the GATT into the more powerful World Trade Organization (WTO)" (Chang 2003, 267). Therefore, according to the WTO tenets, since this set of rules are necessary "to level the playing field", all countries should drastically cut their tariffs on an average level and, coupled with other agreements, should guarantee free trade of goods, services and capital. On this regulatory framework, three particular agreements meet with TNCs' needs which eventually reduce the industrial policy space: investment (TRIMS), property rights (TRIPS) and subsidies (WTO 2003).

Through TRIMS agreement governments cannot discriminate among local and foreign firms either by enforcing national origins of inputs, or by limiting the volume/value of imported products on the grounds of export capacity of the firm, or by limiting the access of the foreign firms to foreign currency to purchase imported inputs. The TRIMS agreements do not limit the possibility for the state to demand some R&D levels, a minimum percentage of state participation, the creation of joint ventures and skilled workers trained by domestic institutions. However, given the structural constraints for developing countries it would likely be hard and expensive for them to use these measures to promote industry development.

The TRIPS are perhaps the most controversial agreements from a long run perspective, since they allow for the monopoly of technological use. The agreement guarantees the protection for intellectual property rights to enhance technological innovation, transfers and dissemination, authors' copyrights, trademarks, geographical indications, designs and industrial models, patents (preventing the production, use, selling and import by outsourcing firms for 20 years), framework for designed integrated circuits, protection for undisclosed information. This treaty is clearly disadvantageous for developing countries, since their production of inventions and patents is much lower than in central economies. Therefore, the agreement limits the access to technology and medicines for developing countries. It is notorious that trade liberalization does not matter for TRIPS.

The agreement on subsidies and countervailing measures forbids every type of direct subsidy like those used during the ISI period. Governments cannot subsidize any enterprise, industry or sectoral production as a prize for its exporting performance or for the uses of domestic inputs for its production (which is the commonly known import substitution subsidy). The only subsidies allowed for are those of non-specific kind, like subsidies aimed at promoting R&D, environmental and regional subsidies (*i.e.*, the agrarian common policy in the European Union is allowed within the WTO regulations).

As Chang pointed out, developing countries were the great losers of the negotiations of Uruguay Round, "(…) in the name of 'levelling the playing field', the Bad Samaritan rich nations have created a new international trading system that is rigged in their favour. They are preventing the poorer countries from using the tools of trade and industrial policies that they had themselves so effectively used in the past in order to promote their own economic development—not just tariffs and subsidies, but also regulation of foreign investment and 'violation' of foreign intellectual property rights" (Chang 2007, 62). In fact, among the main results, the reduction of tariff was mainly of primary and agricultural goods, while the protection for manufactured products is maintained (in 2001, during the DOHA round the discussion around the reduction of tariffs for non-agricultural products started but no agreement was reached). Then, developing countries end up paying more in tariffs than developed economies due to the kind of product they trade. In addition, the drop in tariffs in proportional terms implied further drops for the periphery in absolute terms (they started in high tariff levels) and the burden of reducing the public budget for a developing country is greater than for developed ones, preventing government from improving public policies. Most of the policies allowed by TRIPS, TRIMS and Subsidies are indeed accessible only by rich economies. To finance R&D, environmental improvement, innovations, and/or to create joint ventures, public budgets should be higher than those that developing countries commonly can afford to. Finally, the treaties signed up and the norms and regulations behind WTO tend to consolidate the international division of labor, deepening the specialization patterns according to static comparative advantages.

One of the greatest achievements of the creation of the WTO and of the TCNs has been certainly to combine the agreements that significantly limited the industrial policy space along with a dispute settlement system for which countries should be accountable. In this sense, the creation of the WTO can be thought as an instrument to reduce policy space and sovereignty.

DOHA: NAMA, IPR and Services

After the creation of WTO, the peripheral countries had to accept a greatest average tariff reduction and the de-regulation of FDI, which forbids any possible protection for local producers and actually enhance the possibilities for TNCs (Akyuz 2005), and the banning of direct subsidies for local producers. However, several issues remain outside the negotiations (as E-commerce, software, technological services, non-agricultural markets access, public procurement, among others) and "the existing (and prospective) rules of the WTO regime allow few exceptions and provide little flexibility to countries that are latecomers to industrialization" (Nayyar 2003, 78). This policy space was used by Asia and especially China to promote their industrial development in a sort of "hidden protectionism" in what Alice Amsden (2001) called "new mechanisms of resistance".[7] With the beginning of the new millennium, the process of internationalization of production has been extended and, with them, the needs of the TCNs. In 2001 a new round of discussions started in Doha, with the participation of 149 countries (including China) and in a few years discussions reached 157 countries after several ministerial meetings (Cancun 2003, Hong Kong 2005 and Geneva 2011, Bali 2013, Nairobi 2015 and Buenos Aires 2017). The main concern raised in the negotiations by developing countries has been the way in which the agreements signed in the Uruguay Round should be implemented, and the exceptions and differential treatments from which developing and least developed countries should benefit. According to Khor (2007), developing countries have argued that:

> "many of the existing WTO agreements are biased against their interests, and that this situation must be rectified in order to attain a more balanced multilateral trading system. Among their arguments was that the Agreement on TRIPS puts onerous burdens on the developing countries (raising the cost of consumer products such as medicines, and hindering innovation and technology upgrading); the Agreement on TRIMs prohibits investment measures such as local-content policy that are useful development tools; and the Agreement on Agriculture (AoA) has allowed the developed countries to maintain their high protection in this sector (through high domestic support and tariffs) while requiring the developing countries to liberalise their food imports, at the expense of food security and farmers' livelihoods" (Khor 2007, 3)

On the other hand, developed countries claim that the main issues should not concern development topics, but market access, in particular, to consolidate TRIPS by accessing non-agricultural markets (henceforth, NAMA) and liberalizing services.

[7] In her own words: "A resistance mechanism may be defined as a policy that upholds the letter of the law but not necessarily its spirit. The letter, as written by a new World Trade Organization, supposedly abolished subsidies, freed trade, and deregulated competition.(…) It was within the relatively gray area of safeguards and selective subsidies that the neo-developmental state nested its new policy regime.

While in the Uruguay Round there was an agreement regarding the reduction of tariffs, the discussion was always around average levels, leaving some space to governments to discriminate among sectors and products. As for NAMA, the countries have to bind all their industrial tariffs by massively cutting their industrial tariffs on a line-by-line basis. The argument is that this harmonization process is the only way to guarantee uniformity between tariff structures among countries in order to levelling the play field. To do that, developed countries have been discussing (although they have not got an agreement) about possible strategic formulas differentiated by the stages of tariff reduction, the sunset clauses, the final coefficient, and/or the extent of the reduction of the dispersion. There is not a unified vision even among central economies.

The main implication of the adoption of a low and homogenous tariff structure is that it removes any possible strategy of differentiation between imports of inputs, intermediate goods, capital goods and consumer goods (including luxury goods). Also any strategy based on differential treatments to imports of manufactures according to the technological content in order to boost specific economic sectors has been removed. Therefore, by applying the NAMA framework, not only the space for industrial policy is reduced, but also the external constraint could be worsened further.

In the short run, the main effects could involve trade flows (due to the impact on the costs of imports and exports), the levels of production and employment of the sectors that highly reduce tariffs, and tax collection. However, the main problems involve their long term effects. Within NAMA, the specialization pattern for the periphery will be deepened. The possibilities of development and the transformation of the productive structure will be further reduced. As Chang holds, “there are strong theoretical and empirical arguments that show that the kind of tariff cuts proposed in the current NAMA negotiations are likely to damage the future of the developing countries. It may not be too much of an exaggeration to say that the developing country trade negotiators have to fight the developed countries’ NAMA proposals as if the future of their countries depended on it.” (Chang 2005, 102)

Following Akyüz (2005), in order to industrialize, developing countries do not need very high tariffs on average, since the protection scheme needed for the industrialization process could be designed by combining high tariffs in some sectors and low tariffs in others. This structure should be dynamic, according to the stage of the process of industrialization in which the economy happens to be. Therefore, average tariffs should not be higher than 25% in the early stages of industrialization. Akyüz finally concludes that developing countries should not leave their ability to discriminate among sectoral tariff levels. If peripheral economies have to accept the cut in industrial tariffs, they should only accept to target average level and not the entire tariff structure on a line-by-line basis (as in the Uruguay Round).

Going beyond WTO: Investment treaties and ISDS

As mentioned above, in 2001 a new round of negotiations started; however, after several years of discussions, no agreement has been achieved. Along with these failed attempts to advance in the liberalization of the economies, other phenomena have been perceived. First, a new player appeared on the international scene in a disruptive way. The rise of China and, to a lesser extent, other Asian countries, has brought into discussion the development and growth strategies of the periphery, and has rearranged the South-South relations. According to World Bank statistics, in 2016 China overtook the USA in terms of GDP (PPP)[8] and Chinese exports have indeed become a major economic engine. Second, some economies of the periphery have experienced important crises after a decade following the neoliberal policies raised by the World Bank, the International Monetary Fund and the WTO in the context of the Washington Consensus. This has stimulated great debates about the real benefits of free trade and the role of multilateral organizations.

The combination of these issues have brought about a strong reaction from North American TNCs that seek to secure their monopoly rents in products, activities and/or services that incorporate high technology. In that sense, developed countries, guided by the United States, have promoted free-trade agreements that go well beyond the WTO's regulations, with a view to eliminating the "hidden protectionism" mentioned. The bilateral agreements offered are more restrictive than the WTO ones. The goal of the so-called WTO-plus and WTO-extra free-trade agreements is to shrink even more the space for industrial policies, for the sake of leveling the play field. In particular, they target at public procurement, protectionist measures for manufactures (NAMA), licenses on hi-tech services related to software, internet and managing, environment and regulations on foreign investment.

Several bilateral agreements including WTO-plus and WTO-extra have already been signed and the United States promoted, until not long ago, the deepening of the mega regional agreements TPP (TransPacific Partnership) and the creation of the agreement between USA and the European Union, the TTIP (Transatlantic Trade and Investment Partnership). Certainly, both mega agreements are more focused on reducing non-tariff barriers to trade than on the traditional tariff reduction. In fact, the main discussion around the TTIP is the inclusion of an investor-state dispute settlement (ISDS). The obligation of ISDS implies a

[8] Purchasing Power Parity

total loss of sovereignty since legal disputes between TNCs and States are resolved in international courts. This is a major gain for TNCs, since with an investment agreement any investor (without distinguishing between productive, portfolio or speculative origin of FDI) could take an ISDS case against the government. The motivation could be either that TNCs consider that investment was harmed either because it suffered discrimination with respect to a local competitor or because the government changed the macroeconomic conditions compromising its gains and profits. Therefore, ISDS have severe implications: a) onerous implications, due to the costs of litigate in an international court; b) discouraging effects on the government by applying new economic policies, since it never knows if the effects of these policies can lead to litigation; c) loss of sovereignty (Khor 2015). To conclude, signing an investment treaty that includes ISDS implies handing over all power to the TNCs. In fact, instead of leveling the play field, TCNs would take advantage over their local competitors that cannot take ISDS cases against the government and would also benefit by dictating (indirectly) economic and social policies for the country hosting them.

The policy space left and some concluding remarks

The transformation of the productive structure remains one of the pillars for economic development. However, most of the policies followed by western developed countries and Asian countries[9] are no longer available, given the restrictive system of rules and regulations imposed by international trade. In this regard, it is necessary to rethink the recommendations and results of the structuralist theories.

As long as bilateral or multilateral agreements including ISDS, WTO plus and WTO extra are not signed, there is some room for industrial policy within the framework of WTO regulations. In fact, the possibilities of indirect subsidies through investment policies in Science and Technology and through public procurement remained unrestricted, as well as the capacity of subsidizing industries or companies through services, including banking, insurance, and infrastructure. However, these are development strategies require certain levels of accumulation of capital and wealth that Latin American countries do not necessarily show. The risk of undertaking a development process based on policies of S & T promotion is very great and always end up focusing more on sectors with comparative advantages

In fact it is hard to think through any development strategy based on promoting the creation or consolidation of one internationally competitive sector which does not belong to the handful of branches already enjoying comparative advantages. As stressed by the structuralist authors, peripheral economies are mainly characterized by having comparative

[9] The flying geese strategy that generate the Asian miracles (see Akamatsu, 1962).

advantages in the commodities and/or low-tech economic sectors. If we consider the actual Latin America participation in the GVCs, the results are not very promising regarding the possibilities of upgrading and creating spillover effects into the economy. As Medeiros & Trebat pointed out, "(d)espite a relatively low participation rate in GVCs compared to Southeast Asia, Latin America is characterized by significant levels of FDI in natural resource sectors and manufacturing activities oriented toward internal markets and for export processing. (…) Latin American countries participate in global trade mainly as raw materials producers and assemblers of manufactured goods with high levels of foreign value-added. Generally speaking, South America falls into the first category, while Mexico and several Central American countries, such as Honduras, belong to the second." (Medeiros and Trebat, 2017, 28-29).

To explore this path to development, the state should promote either wage reductions and flexible labor conditions, or the development of commodities, which characterize themselves by having very few linkages within the domestic economy (see Olivera and Villani 2017). It is difficult to think that these policies could bring about a development process, since by shrinking the demand the outcome in terms of growth tend to be tiny and in terms of and income distribution tend to be harmful. The more so if Latin American goods should compete with Asian production, wages should be at minimum levels, considering the lack of technology and the regional productivity levels. At the same time, in the context of this specialization pattern the possibilities for upgrading (as those suggested by Gereffi 2014) by participating in GVCs are extremely low, while the costs due to the openness required by the association with the TCNs are extremely high.

To conclude, to promote structural change leading to economic development in Latin America the options cannot be limited to choosing either for the closure of international markets (given by the international regulatory framework) or for participating in TCNs-controlled GVCs (since the long-run effects of bilateral agreements on investment and NAMA would condemn the future of the development process itself). On the other hand, although not freed from potential problems and contradictions the only way-out which seems plausible is the Latin American regional association which could be based on their productive integration, as Prebisch and the CEPAL recommended in the sixties and seventies. In fact, the levels of complementarity among the most dynamic Latin American countries are quite low (Olivera 2010), so that a way to induce intraregional productive linkages could be though the coordination of industrial policies at both micro- and meso-economic levels, as well as though regional policies aimed at enhancing the infrastructure. In this regard, the creation of regional value chains could be an interesting strategy to increase the value added in production, improve the economic activity levels, increase job-creation sectors, ease the external constraint and consolidate the autonomy of the region, which is today absolutely necessary in this multipolar world.

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