CHAPTER 3

The Accumulation Regime

The accumulation regime is one of the most important concepts of the regulation perspective, together with the mode of regulation. The accumulation regime is defined as "The totality of the regularities that insure a general and relatively coherent progression of capital accumulation which lessen or spread out in time the distortions and disequilibria that permanently emerge from the process itself" (Boyer 2015: 61; own translation).

Every type or form of capitalism is characterized by a specific mode of accumulation. This mode includes the productive structure of a country: what it produces, how it produces it, and the manner in which it redistributes its gains between profits and wages. A country may orient its economy fundamentally toward manufactures or commodities; both have been discussed in the literature as having significant impacts on social organization. The other aspects of the mode of accumulation are **the manner in which** production is achieved and **how the benefits of production are distributed** between the different sectors of society. The manner in which production is achieved can be either extensive or intensive; when growth is obtained through the mere extension of production, without a significantly changing the technology, the techniques, or the organization of labor, accumulation is extensive; in contrast, when the organization of production is transformed through innovation, the integration of technology, a different way of organizing work, in sum through an increase in productivity, we talk of an intensive mode of accumulation. The third feature of the accumulation regime is the mode of consumption. It can be

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Table 3.1 Mode of accumulation

	International outsourcing	*Socio-developmentalist*	*Rentier/liberal*	*Rentier/redistributive*
Productive structure	Low added value manufactures (assembly)	Commodities and manufactures	Commodities	Commodities
Mode of accumulation	Mainly extensive/intensive in some specific sectors	Extensive/intensive	Extensive	Extensive
Mode of consumption	Profit-led growth	Wage-/profit-led growth	Profit-led growth	Wage-/profit-led growth
Character	Disarticulated productive structure	Intent to articulate external and internal markets	Articulated upon the external market	Articulated upon the external market

Source Own elaboration

strongly or weakly related to the production of the capitalist system. It is weakly related when consumption is basically assured by an agricultural sector, characterized by a small mercantile production and rentier relations. It is strongly related in Fordism, a system that distributes productivity gains and extends consumption to the workers themselves; which means that as the salaried sector grows, the way of life of workers is transformed and is increasingly dependent on the production of the capitalist sector (Boyer 2015: 61–62). Fordism is a virtuous circle where what is produced and the manner in which it is produced engages in a process of redistribution that leads to increasing demand of the workers, which in turn stimulates innovation and productivity growth.

Table 3.1 synthesizes the mode of accumulation of the four types of capitalism, making references to the specific countries that have served to formalize them.

3.1 The Productive Structure

The literature analyzing the consequences on its sociopolitical organization of what and how a country produces is considerable: Cardoso and Faletto (1969) point to the relationship between what a country produced during colonial times and the existence of a national bourgeoisie who, eventually, allows the country to industrialize. Engerman and Sokoloff (1997) connect climate and productive structure with

socioeconomic organization, as well as with equality and industrialization; Evans (1995), Amsden (2001), Kay (2002) link rentier productive structure with the character of the State, and consider that the wealth of nations in primary products usually leads to a depredatory State that translates this source of economic power into political power, either through authoritarianism or clientelism. Karl (1997) and Hausmann and Rigobon (2003) tie productive structure to democracy, as rentier economies tend to favor authoritarianism or weak democracies. From a macroeconomic perspective, Boyer (2015), Bresser-Pereira (2012), Salama (2012) analyze the negative relation which exists between all types of rentier economies (commodities, agricultural, financial, housing) and development, as rentierism promotes non-productive investments. In addition, exporting commodities is directly related to the incapacity to industrialize, to the Dutch disease, and even to de-industrialization.

The VoC also considers a relation between a particular productive structure and the institutional conformation existing in a specific society, although in this case it is institutions that influence what a country produces, rather than the opposite. Liberal economies tend to produce manufactures that depend on radical innovation, such as information technology, new materials, biotechnology, pharmaceuticals, semiconductors; this is due to their flexibility, risk investments, general education. Coordinated economies tend to specialize on products that depend on incremental innovation, such as machines, vehicles, engines, civil engineering; this is due to their stability, long-term/patient investment, specialized education and training (Hall and Soskice 2001: 42–43). Although we do not preclude the structuralist point of view which considers that, in certain situations and to a certain degree, what a country produces determines its sociopolitical conformation, we are more in line with the VoC school in thinking that it is the institutional (in our case the sociopolitical) configuration that determines specific productive patterns; this idea will be the basis of the rest of the book.

Following the French regulation school, we define the mode of accumulation as what is produced, how it is produced, and the way created wealth is distributed. Thus, the first fundamental division between the Latin American economies is whether what is produced is mainly commodities or manufactures, or a combination of both. The first case is that of the rentier economies, while the other two are more complex economies.

In Table 3.2, we can clearly see that in five countries: Bolivia, Chile, Colombia, Peru, and Ecuador, exports are extremely concentrated in commodities: 57% of the total of Bolivia's exports are natural gas and

Table 3.2 The principal exporting products (2014)

	Argentina (%)	*Bolivia (%)*	*Brazil (%)*	*Chile (%)*	*Colombia (%)*	*Ecuador (%)*	*Mexico (%)*	*Peru (%)*
1	Oilseed cake (18)	Natural gas (52.3)	Iron ore (11.6)	Refined copper (24)	Crude oil (48.4)	Crude oil (52.6)	Crude oil (9.2)	Copper ores (21.1)
2	Lorries and Trucks (5.8)	Zinc ores (8.5)	Soya beans (10.4)	Copper ores (22.3)	Coal (12.1)	Bananas (10.5)	Passenger motor cars (8.2)	Refined copper (5.7)
3	Soya beans (5.7)	Silver ores (6.3)	Crude oil (7.3)	Fish (6.1)	Coffee (4.7)	Crustaceans (10.2)	Motor car parts (5.8)	Meat and fish (4.1)
4	Maize (5.3)	Oilseed cake (6)	Sugar (3.3)	Blister copper (4)	Flowers (2.6)	Prepared fish (5)	Trucks (5.5)	Zinc ores (3.6)
5	Soy bean oils (5.2)	Crude oil (5.1)	Poultry (3.2)	Wood pulp (3.4)	Petroleum derivatives/ polyethylene (2.2)	Flowers (3.7)	Statistical machines (5.3)	Lead ores (3.1)
6	Cars (4.6)	Tin and tin alloys (3)	Oilseed cake (3.1)	Wine, grapes (2.4)	Bananas (1.6)	Cacao (2.4)	Televisions (4.3)	Natural gas (2.8)

Source Own elaboration with data from Cepalstat

oil and 25% minerals; 52% of Ecuador's exports are crude oil and 20% bananas and crustaceans; Chile exports copper ores and refined copper for 48% of the total; Colombia's exports are basically crude oil (48%) and coal (12%); finally, minerals comprise 34% of Peru's exports. In Table 3.3, we can see that these rentier countries depend much more (three times in average) on mining and agricultural products than the other four. In three of the rentier economies (Chile, Peru, and Bolivia), mining (including gas and oil extraction) represents between 11 and 16% of GDP. In contrast, in the other three countries, Argentina, Brazil, and especially Mexico, exports are more diversified.

Nonetheless, when one looks at the productive structure one can see that it is more diversified. While Bolivia's value added is based on 16% on mining, 14% on manufacturing, 12% on financial intermediation, 4% on construction. For Chile, mining represents 14% of its GDP, manufacturing another 11%, construction 6%, and financial intermediation a very high 23%. In Peru, mining represents 14% of its economy, 14% manufacturing, 11% financial intermediation, and 8% construction. In Ecuador, mining is 11%, manufacturing 13%, financial intermediation 16%, and construction 11%. Finally, Colombia seems a more balanced economy as mining represents 8% of GDP, manufacturing 12%, construction 9%, and financial intermediation a very high 23%, like Chile. When one includes agricultural products, commodities represent between 15% in Chile and 30% in Bolivia of total GDP. Thus, although exports are totally dependent on commodities in these countries, the internal economy is more diversified.

Although Argentina, Brazil, and Mexico also export commodities (the first two do so in large proportions, while in Mexico only oil is a very significant export product), these activities represent a much lower proportion of added value: between 4 and 7%. While Argentina produces less mineral products, it has a relatively high production of agro-products, which amounts to a total that comes close to that of the rentier countries. In both Brazil and Mexico, commodities have a lower weight in their economies. In these two countries, value added is more diversified; Mexico has the highest rate of value added in manufactures, together with Argentina, both around 17%. However, there is an evident contrast between the very high percentage of Mexican manufacturing exports and the relatively low value added of manufacturing; this is a clear indicator of an assembly model, with low value added activities. The fact that Brazil has a very high public administration value added has the effect of reducing the proportion of all the other sectors. In fact, if one

Table 3.3 Percentage of value added by sector of activity (2016)

	Argentina	*Bolivia*	*Brazil*	*Chile*	*Colombia*	*Ecuador*	*Mexico*	*Peru*	*Uruguay*
Agriculture	8.0	12.3	5.2	3.8	6.6	10.5	3.3	6.7	8.1
Mining	3.9	16.4	3.5	14.4	8.5	10.7	5.7	13.7	0.3
Manufacture	17.2	14.0	12.1	10.9	12.3	13.0	17.5	14.3	14.6
Electricity	1.6	2.9	2.8	3.8	3.6	1.9	2.2	2.0	3.5
Construction	4.7	3.9	6.7	6.4	9.4	10.8	7.5	6.3	8.0
Commerce	16.9	11.6	11.4	12.1	12.9	12.3	18.8	15.8	15.5
Transportation	7.8	11.4	10.0	10.1	6.7	8.2	10.2	10.1	10.9
Financial intermediation	15.7	12.0	15.6	22.5	22.7	16.4	22.6	11.0	23.8
Public administration	24.1	21.3	32.7	16.1	17.3	16.2	12.3	20.0	19.7

Source Own elaboration with data from Cepalstat

"puts in parenthesis" the value added by public administration in the three countries and re-calculates the proportion added by all the other activities, the value of the manufacturing industry in Brazil attains 18%, while that of Argentina reaches 23% and that of Mexico 20%. Part of the explanation of the large public administration of these countries is that they have a very extensive and relatively high (compared to the other Latin American countries) national social protection system (pensions, education, health, housing); we will discuss this issue at greater length in the last chapter of this book.

The countries with the smallest public administration are Mexico, Chile, and Colombia, with around half of value added of Brazil; Mexico is the lowest, with a mere 12%. In Chile, Colombia, Mexico, and Uruguay, financial intermediation occupies a significant proportion of the economy, around 23% of GDP. In this manner, we can characterize the more liberal countries, irrespective of whether they are rentier or not, as having a weak public administration and depending on high financial intermediation. By contrast, redistributive countries have low financial intermediation and high public administration (in this respect, Peru's productive structure looks more like a redistributive country).

When one now looks at the population employed in each sector of activity regardless of the value added, as expected, the proportion of people occupied in the industrial branch is higher in Argentina, Brazil, Chile, and Mexico and lower in the rentier countries. When one focuses on more specific data, this situation is even clearer; in Argentina, Brazil, and Mexico, the percentage of workers in the manufacturing branches is similar: 12% for Brazil, 13% for Argentina, and 16% for Mexico. As we have already mentioned, although the fact that Mexico is such a large manufactures exporting country is not well reflected by the amount of added value manufacturing represents due to the special characteristics of the *maquiladora* (assembly) industry, but it shows relatively more in the number of people working in this activity. However, in a more global comparison, the numbers for all the countries of Latin America pale with respect to those of the BRIC countries; in 2008, Russia had 32% of its population occupied in industry (including construction), while in China it was 27% (Goldstein and Lemoine 2013: 41) (Figs. 3.1 and 3.2).

The specialization of the different countries is much clearer when one looks at the structure of their exports. Above, in Table 3.2, unsurprisingly, we can see that the six most important export products of the rentier countries are as expected all commodities, they comprise more

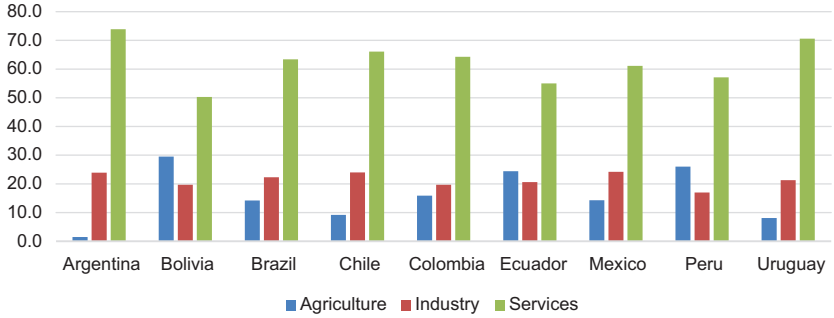

Fig. 3.1 Structure of total occupied population, by main sector of economic activity (2014) (*Source* Own elaboration based on Cepalstat)

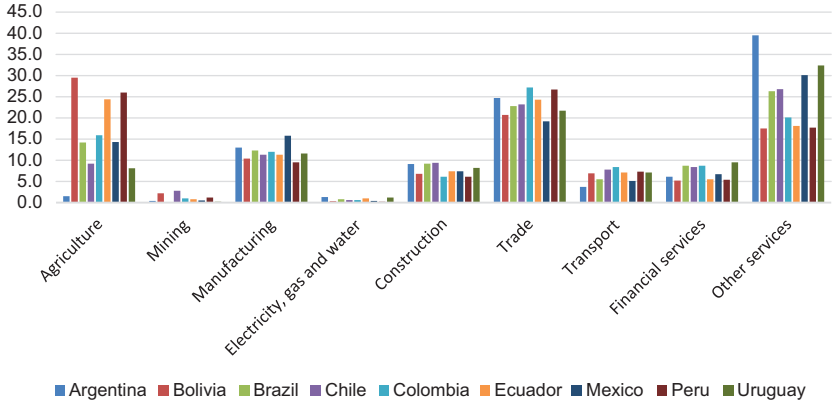

Fig. 3.2 Structure of total employed population, by main sector of economic activity (2014) (*Source* Own elaboration based on Cepalstat)

than 50% of the total. When we look at the countries that we consider as developmentalist, Brazil and Argentina, although commodities amount to less than 50%, they are thus still considerably high, however these countries are more diversified: in fact, in the case of Argentina, the second exporting product is trucks and the sixth cars, with 5.8 and 4.6% of the total exports, respectively. Unexpectedly, in the case of Brazil, no manufacturing product is in the six principal exporting products, which may be a result of what the critics of developmentalism in this country (Bresser-Pereira, Salama, Marques Pereira and Bruno)

have called premature de-industrialization. These data can lead us to affirm that all the countries of Latin America are to a lesser or higher degree rentier. This with the exception of Mexico that exports mainly manufactured products; after its first exporting product, oil at around 9% of the total, the rest are cars, car parts, and electronic devices. However, the Mexican State, which until 2015 had the monopoly of oil exploitation, is definitely rentier as it depends heavily on the resources of oil exports.

On the other hand, Mexico's conversion into a manufacturing power and the continuous growth of this sector of the economy is due to the arrival of an increasing amount of subsidiaries that supply with spare parts the main foreign enterprises installed in the country, especially in the automobile and electronics industries. While most Mexican analysts have signaled low salaries and low social protection costs as the main pull factor for FDI, according to the UNCTAD, **nearshoring** is a very significant element due to the advantage of "…bringing products into the United States market more quickly." This factor is "… boosted by the rapid growth of labor costs in China and the volatility of rising fuel costs, which have made the shipment of goods across the Pacific less attractive" (UNCTAD 2013: 61). The UNCTAD considers that the exchange rate is … "an additional factor, with the yuan's appreciation against the dollar and euro in the past several years." Significantly, the Mexican growth is heteronomous; it is mainly due to the interests of the MNC to complete their supply chains and can thus be shaken up by external factors over which the Mexican government has no control. On the other hand, as manufacturing in Mexico is merely the last link of a global supply chain which is specialized in adding labor and low added value activities, "Mexico still lags behind China in terms of location choice for manufacturing. China offers the important advantage of deeper supply chains than Mexico, where international companies have trouble finding local suppliers for parts and even for packaging. Unlike in China, where the Government identifies 'pillar industries' and supports them, smaller companies in Mexico that are eager to start or grow businesses and establish linkages with foreign companies, suffer from a lack of affordable access to financing" (UNCTAD 2013: 62).

If we now look at the composition of the exports (Fig. 3.3), we have a similar image. The rentier countries, represented here by Colombia, export mostly raw materials, up to 60%, some intermediary goods, and finally consumer goods, almost no capital goods are exported. On the other side of the spectrum, Mexico exports mostly capital goods (around 50% of the total), as we have seen cars, car parts, and electronic

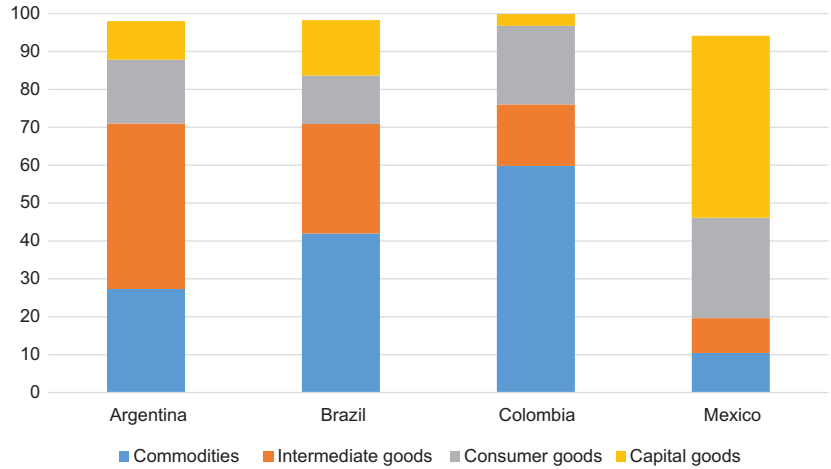

Fig. 3.3 Structural composition of exports (*Source* Own elaboration based on the Atlas of economic complexity/Harvard University)

equipment, consumer goods, as well as a low proportion of intermediary goods and raw materials. The other two countries that we have called developmentalist, have a different composition of their exports—a very large amount of raw materials for both Brazil and Argentina, intermediary goods that are the majority of what Argentina exports, and a lesser amount of consumer and capital goods that are the most valuable in terms of value added. This graph gives a fairly clear difference between these three types of economies.

Other data, founded on whether exports and imports are based on natural resources, labor intensive, scale intensive, engineering-science based, constructed according to the criteria of Nassif et al. (2015), regarding the composition of exports and imports, give us a similar picture. While the rentier countries (that are not included) mainly export products based on natural resources, and some that are labor intensive, in Fig. 3.4, where we have the case of Mexico and Brazil, we can see that only Mexico exports a significant proportion of products that are scale intensive and engineering-science based. This figure also allows us to discover a very significant characteristic of the Mexican productive structure which is that the country simultaneously exports scale intensive and engineering science-based products and imports these kind of products in an even larger proportion. This can be interpreted as the proof that what the Mexican

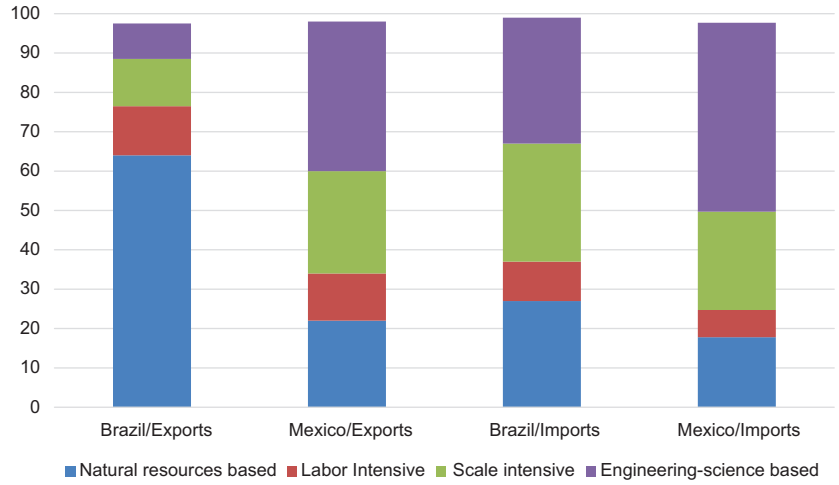

Fig. 3.4 Proportion of exports and imports by type of product (*Source* Own elaboration based on the Atlas of economic complexity/Harvard University)

industry does is import most of the more sophisticated products, assembles and re-exports them. In the case of Brazil, analysts that have discussed the mode of development this country implemented during the beginning of the 2000s have concluded that the end result has been an ever-growing dependence of this country on natural resource-based exports, larger than that of the 1980s and 1990s, something that seems evident in this same graph (Table 3.4).

In fact, the next tables show how until 1980 (Table 3.5) and even until the mid-1990s (Table 3.6), Brazil was more advanced than Mexico both in terms of the proportion of value added in manufacture and of the type of value added. And in fact, manufacturing industry was quite stronger in Brazil than in Mexico at the end of the 1970s, before the crisis that hit all of Latin America. The Brazilian manufacturing sector had increased its share from 1947 to 1980 from 19.3 to 31.3%. In the 1970s, it grew considerably, by 5% (Nassif et al. 2015: 1313). This in contrast to what happened in both Mexico and Argentina. In Mexico, during the 1970s, not only manufacturing did not grow, but it slightly reduced its weight, going from 26.1 to 25.1%. Another indicator of the strength that the Brazilian manufacturing sector had achieved in the wake of the crisis is that while in 1964 the percentage of manufactures in exports

Table 3.4 Value added composition, year 1994

	Argentina	*Brazil*	*Chile*	*Colombia*	*Mexico*	*Peru*
Value added composition	%	%	%	%	%	%
Intensive in engineering (metal mechanics / electro-electronics)	17.6	23.8	8.6	10.6	12.6	5.2
Transportation equipment	13.4	8.7	2.0	6.7	11.1	3.6
Subtotal	**31.0**	**32.5**	**10.6**	**16.3**	**23.7**	**8.8**
Intensive in labor	22.3	20.7	19.7	25.5	20.7	31.0
Intensive in natural resources	46.7	46.8	69.7	57.2	55.6	60.2
Total	**100**	**100**	**100**	**100**	**100**	**100**
Structural change index	0.31	0.31	0.65	0.36	0.31	0.68

Source PADI Industrial Dynamics Analysis Program from Cepal [https://www.cepal.org/software/padi/padinuevo.ppt]

Table 3.5 Value added of manufacture (%GDP)

Country	*1960*	*1970*	*1980*	*1990*	*2000*	*2010*
Mexico[a]	20.2	26.1	25.1	23.4	22.9	20.4
Brazil[b]	25.6	27.4	31.3	20.7	17.2	14.6

Sources
[a]Romero Tellaeche (2014: 89)
[b]Nassif et al. (2015: 1314)

in Brazil was 14%, it had reached 57% by 1980 (Nassif et al. 1316). In contrast, Mexico's manufacturing exports amounted to around 25% of the total in the 1980s (Romero Tellaeche 2014: 30) and began booming in the 1990s with NAFTA. Another indicator of the advance of the Brazilian manufacturing industry with regard to the Mexican, up

Table 3.6 Value added composition (1970–1994)

	Argentina			*Brazil*			*Mexico*		
	1970	*1990*	*1994*	*1970*	*1990*	*1994*	*1970*	*1990*	*1994*
Value added composition	%	%	%	%	%	%	%	%	%
Intensive in engineering (metal mechanics/ electro-electronics)	15.6	14.3	17.6	18.8	22.9	23.8	13.3	12.3	12.6
Transportation equipment	9.9	8.5	13.4	9.9	7.0	8.7	5.5	9.5	11.1
Subtotal	**25.5**	**22.8**	**31.0**	**28.7**	**29.9**	**32.5**	**18.8**	**21.8**	**23.7**
Intensive in labor	30.6	24.1	22.3	26.5	24.2	20.7	26.5	22.5	20.7
Intensive in natural resources	43.9	53.1	46.7	44.8	45.9	46.8	54.7	55.7	55.6
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source PADI Industrial Dynamics Analysis Program from CEPAL (https://www.cepal.org/software/padi/padinuevo.ppt)

until the middle of the 1990s, is the comparison between the composition of value added among manufactures with respect to their composition regarding engineering, labor, or natural resource components (Table 3.6). While until 1995 the proportion of Brazilian manufactures in engineering components was 32%, in the case of Mexico it was only 23.7%. All this to say that at the wake of the crisis that began with the Mexican default on its debt in 1982, Brazil's manufacturing industry was much stronger, diversified and competitive than the Mexican one, as can be seen comparing both tables.

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The divergence of the trajectory of Mexico, Brazil, and Argentina in the 1970s and 1980s. If we go back to the period of import substitution industrialization, we can see that although the three main countries that industrialized the most followed similar trajectories, there were already significant differences between them before the 1990s, when ISI was abandoned. Since the mid-1980s, there was a bifurcation of the trajectories of Mexico that abandoned completely ISI; Brazil that continued with ups and downs; and Argentina that oscillated between an open economy and a developmentalist one (Bizberg and Théret 2012).

In effect, when in the 1970s, Latin America faced one of its recurrent balance of payments crises, Brazil and Mexico started to diverge. While Brazil continued to industrialize up to the mid-1980s and has de-industrialized since the 1990s, as it turned to commodities, Mexico de-industrialized in the 1970s and 1980s, and then reversed trajectory under an outsourcing model during the last three decades. Brazil, then governed by the military, who based their legitimacy on continuous economic growth, adopted import substitution of intermediary and capital goods in order to reduce its external dependence. Mexico's fate was to find vast oil reserves and become an important exporter. Although during the 70s the Mexican State also tried to deepen import substitution, investing in steel and heavy industry, such as railcars and machinery, it discovered huge reserves of oil that made it possible to opt the "easy way." This fact, together with the huge amounts of external credit the Mexican government acquired, allowed the governments of the PRI to delay the transformation of its import substitution scheme (Pereira and Théret 2004).

There was also a political rationale for this decision. Mexico arrived to the 1970s under the PRI regime, a civilian-authoritarian regime that depended on its control of the popular organizations and its revolutionary legitimacy. It was an inclusionary-authoritarian-corporatist regime in contrast to the military-exclusionary regimes of the Southern Cone. Due to the challenge posed by the student movement in the late 1960s and the labor movement in the early 1970s, the regime was more concerned with political stability than with the viability of the economic system (Bizberg 2004). The discovery of oil reserves and the possibility of acquiring debt seemed to be a perfect solution to the dilemma of how to deepen the import substitution model, while continuing to redistribute and give concessions to its protected entrepreneurs. Although the Mexican State tried to do both, it basically ended up doing the latter while expanding its oil exporting platform and its debt. Because the Mexican State set distribution rather than economic growth as its priority during the 1970s, its economic structure and its dependence on oil and debt became stronger, leading to a very fragile situation in 1982 that obliged it to abandon its role as an actor of development much more radically than the Brazilian State did.

The 1982 crisis put the industrial bases of the Latin American countries again at stake. In the case of Mexico, it disclosed the weakness of its industrial base and the fragility of a redistributive mode based on oil exports and debt. When in 1981 oil prices plunged and interest rates soared, Mexico suspended payments on its debt and recurred to the IMF that imposed draconian measures. The financial catastrophe and the recipes of the international financial institution convinced many of the Mexican leaders that the country had to abandon import substitution and orient its economy

toward the external market. In the span of one *sexenio*, Mexico radically opened its economy and abandoned industrial policy with practically no social or political opposition. The new export-led growth model led to an exceptional expansion of the *maquiladora* industry and the assimilation of other exporting industries to outsourcing, once the government abandoned the idea of enhancing the integration of local production to sectors dominated by foreign capital, thinking that this would happen automatically under the pressure of the market forces.

This model directed Mexico to a process of increasing its proportion of manufacturing exports, although with a rationale that did not integrate productive chains but on the contrary destroyed them (Dussel Peters 2006). A process some have named export substitution, where products that were exported beforehand are now imported, such as textiles, toys, while other products that were imported, such as cars, electronic devices, are now exported, but where the components of these products are imported.

Brazil followed the contrary path. The economic scheme implemented by the military was accelerated growth with no wealth distribution (Hermann 2005a). This mode of growth reached its limits at the beginning of the 1980s when the financial international context reversed (Hermann 2005b). At that moment, Brazil had to depend on its own resources in order to confront the disequilibrium created by economic growth under extremely unequal wealth distribution. This situation eventually led to rampant hyperinflation as the redistributive conflict could not be controlled in the context of a democratization process where social forces were very active and had no intention of accepting to pay for the adjustment (Pereira and Théret 2004). The divergence between both countries reversed in the 1990s and 2000, in part due to the re-primarization of the Brazilian economy, but also because, with NAFTA, Mexico became an exporter of manufactured products, with an ever higher content of technology.

In contrast to both of these countries, Argentina abandoned import substitution in 1978 (Canelo 2009), a situation that endured until the beginning of the years 2000. The military that ruled Argentina from 1976 to 1983 had as their main purpose to extricate popular pressure from politics in order to "depoliticize" the State. The fact that the labor movement in both countries was deeply entrenched in the political system explains in part the virulence of the military as well as the predominance of political over economic rationale. The Argentinean military opened the economy, reduced the weight of the State, and limited redistribution. Argentina responded to the balance of payments crisis of the 1970s with the imposition of a new economic model (for Argentina: Rapoport and Collaborators 2005: 600–701).

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We will talk further ahead on the reasons of this evolution, suffice it for now to mention the fact that many countries in Latin America suffered a re-primarization process, provoked by the increased demand of raw materials by China. Something that had a significant impact on the rentier countries who deepened their dependence on these products, while in the case of the more industrialized countries, they reversed course: most notably Brazil and Argentina.

Nonetheless, we have to tone down what we have been saying up to now. In the first place, exports do not express what happens to the whole internal production, especially in a country the size of Brazil. Although its exports and to a certain extent its economy in general have been increasingly dominated by commodities, only 8.8% of the value added of the Brazilian economy is dependent on agriculture, mining, and oil extraction. Thus, in contrast to the rentier countries, most notably Bolivia, Chile, Ecuador, and Peru, exports do not define what happens with the entire economy of this country, it is more differentiated. The same can be said of Argentina and to a certain extent of Colombia. This is the reason why we can see that, although moderate, there has been a growth of manufacturing in all these countries. Nonetheless, Mexican and Brazilian manufacturing growth has been very slow, and in the case of the latter, it has been slowly descending from 2010 onward. In the case of the rentier countries, growth of the manufacturing production is an effect of the surge of commodities, its consequence on the growth of internal demand, and the fact of the low industrial base of these countries, more than a catch-up effect of industrialization. The country that saw the highest increase in manufacturing production was Argentina, due to the very great devaluation of its currency resulting from the end of convertibility and the boost of internal demand, together with the under-utilized installed industrial capacity due to the deep economic crisis of the beginning of the years 2000, but also as a result of industrial policies that oriented manufacturing toward new *niches* (Santarcángelo et al. 2017) (Fig. 3.5).

In the case of Mexico, it is necessary to make it clear that the boom of exports has not been accompanied by a significant increase in GDP growth, as the export platform is disconnected from the rest of the economy; it is in many respects an enclave. In fact, exports have grown continuously faster than the rest of the economy. This is evident if we consider that the rate of investment in Mexico is low, less than 20% of GDP annually (Ibarra 2008; Puyana and Romero Tellaeche 2009;

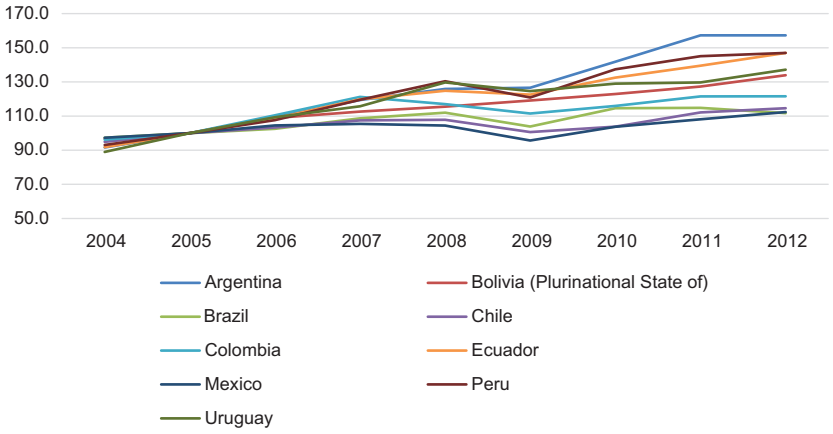

Fig. 3.5 Manufacturing production index (*Source* Own elaboration based on Cepalstat)

Guillen Romo 2012). If we look again at Fig. 3.4, although Brazil also has a low investment rate, similar to the one of Mexico, it imports 30% of engineering science-based products that include machinery and other capital equipment. While the differential between capital exports and imports in Mexico is 10%, in Brazil it is 20%, meaning either a higher amount of acquisition of equipment in the latter or imports of higher value added. In the case of Mexico, due to the advantages of NAFTA and its regional content rules, many companies that assemble in Mexico have recently set up plants of their suppliers in the country.

Figure 3.8, further down, is very clear in this respect. We can notice how, in the case of Mexico, the backward linkages are very dependent on imports, up to 32%, the highest in Latin America, similar to other outsourcing countries of Asia: Malaysia, Thailand, Vietnam, and China. Although the indicators for China and Mexico are similar, they just say a small part of the story, because while in Mexico this integration to the international chain has had no impact on upgrading the economy, the way in which the Chinese State has imposed its rules to international companies has led to a very successful and rapid upgrading process. China is partly an outsourcing platform like Mexico or the other countries of Asia we have mentioned, however it is fast becoming a very successful manufacturing country producing high technological products

like planes, trains, satellites, and robots. In fact, even Brazil, which in this same graph looks like an economy that has a very low integration to international value chains, has a number of high-tech sectors like aeronautics (it is home of the third largest exporter of commercial airplanes: Embraer), oil drilling (it is one of the specialists in the exploitation of deep water oil wells), and biotechnology (one of the first producers, with India, of generic medicines and an innovator in the use of sugarcane to produce fuel) (Schneider 2013).

3.2 Mode of Production

In Fig. 3.6, we see that productivity in Latin America has grown, in general terms, very slowly. As a consequence, the gap (Fig. 3.7) between these countries and the developed economies and certain developing countries like India and China continues to be very large. According to the regulation theory, while a rentier economy bases its growth on extension, as it does not depend on innovation and modification of the techniques of production, other capitalistic forms depend on the intensity of production, on the increase of productivity and innovation (Boyer 2015: 63).

This may be explained by the fact that, to a certain degree, all Latin American economies are either principally or partly rentier: the case of oil and other mining products in the case of Mexico; of agricultural, mining, and oil in the case of Brazil; of agriculture in the case of Argentina.

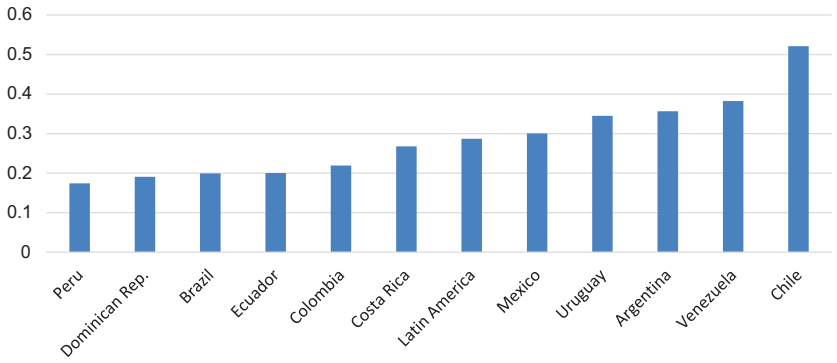

Fig. 3.6 Average growth of labor productivity 2003–2016 (*Source* OCDE 2016: 2)

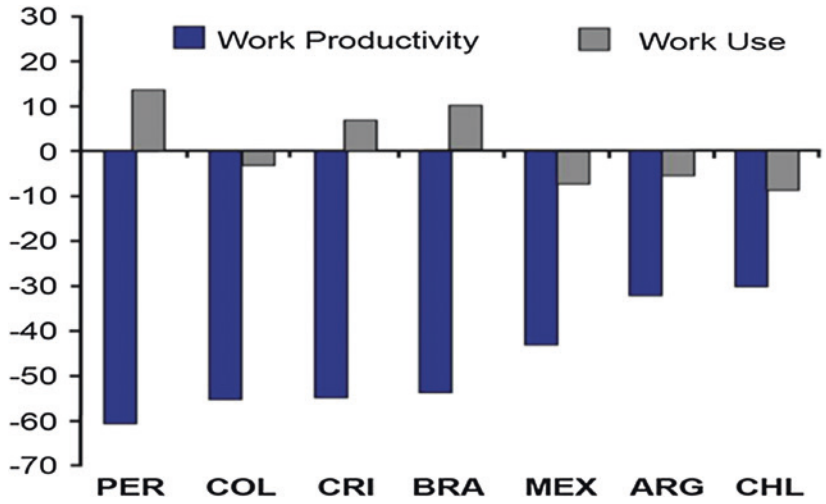

Fig. 3.7 Percentage difference of productivity with the OECD average, 2013 (*Source* OCDE 2016: 2)

Finance can also be considered a rentier activity, and this is the case in Mexico, Brazil, Argentina, and Chile; all of them have a very high proportion of value added due to financial intermediation (Boyer 2015). On the other hand, because the international outsourcing capitalism is a manufacturing model that is highly dependent on imports of the most sophisticated and higher value added parts, productivity growth is low; Mexico has had the lowest productivity growth of all Latin America. It thus also depends more on extension of investment than on innovation and productivity increases. The difference between these three countries and the fully rentier economies is that in Mexico, Brazil, and Argentina there exist "islands" of highly productive sectors, like the automobile in Mexico, airplane, biotechnology, and oil drilling in Brazil, automobile and agrochemicals in Argentina; while the rentier economies are almost totally dependent on an extensive mode of production.

In addition to productivity, the manner in which each productive structure is linked to the global value chains is another very significant indicator of the productive structure, of the mode of production. While a country like Mexico is closely integrated to the global value chains, because it is very open, it is nonetheless integrated with very low

internal added value. Other countries, we have considered as developmentalist, are less integrated, because their productive structure is more oriented toward their internal markets, such as Brazil and Argentina in Latin America, and India and Turkey in Asia. It is also true that the rentier countries are less integrated to the global value chains because they only export commodities. "These countries may have lower upstream participation levels, both because of the nature of their exports (natural resources and services exports tend to have less need for imported content or foreign value added) and because larger economies display a greater degree of self-sufficiency in production for exports. They may also have lower downstream participation levels because of a focus on exports of so-called final-demand goods and services, i.e., those not used as intermediates in exports to third countries" (UNCTAD 2013: 134).

In the case of Mexico, in the same way as Costa Rica and other outsourcing economies, the foreign value added is very high because they must import essential inputs of the manufactures that they export, which they do not produce. "While developing countries (25 per cent) have a lower share of foreign value added than the world average (28 per cent), their foreign value added share is significantly higher than in the United States and Japan – or than in the EU, if only external trade is taken into account. Among developing economies, the highest shares of foreign value added in trade are found in East and South-East Asia and in Central America (including Mexico), where processing industries account for a significant part of exports. Foreign value added in exports is much lower in Africa, West Asia, South America and in the transition economies, where natural resources and commodities exports with little foreign inputs tend to play an important role. The lowest share of foreign value added in exports is found in South Asia, mainly due to the weight of services exports, which also use relatively fewer foreign inputs" (UNCTAD 2013: 126).

Another study done by the OECD, that also goes beyond a simple index of integration of a country in the global value chains in order to characterize the specificities of this integration, considers two forms of value chain integration: backward and forward participation in GVC. While a high backward participation index means a high level of integration of imported products and thus less national added value, high forward integration means high integration of domestic products into exports and thus a higher domestic added value (see Fig. 3.8).

This study mentions that Mexico and Costa Rica, as well as other Central American countries, which we have considered within the

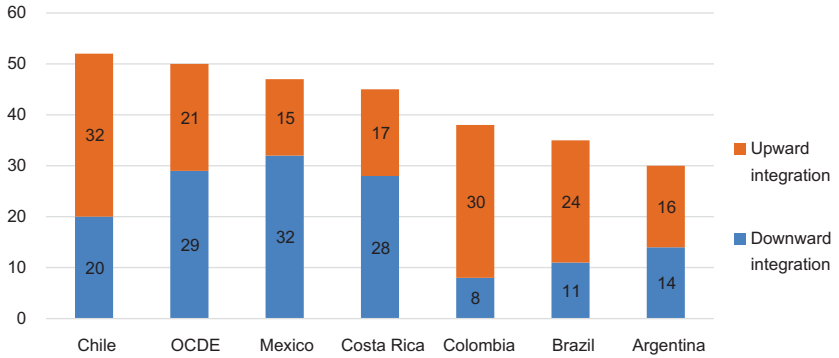

Fig. 3.8 Upward and downward integration into global value chains of some Latin American countries. In percentages of national exports, 2011. *Note* The downward integration corresponds to the foreign value-added incorporated in a country's exports; the upward integration, to the domestic value-added that is used in the exports of other countries (*Source* OCDE 2016: 4)

outsourcing model, are countries that have a strong backward, but weak forward participation; this is because they are specialized in exporting manufactures constituted of intermediate parts that are assembled in the country (Cadestin et al. 2016: 15). For Mexico, "…foreign content is particularly high in exports of computer, electronic, electrical and optical equipment, vehicles and transport machinery and other manufacturing sectors; foreign content accounts for more than 50% of gross exports and exceeds the rest-of-the world averages" (ibid.: 17). This is an average figure, but in some cases, such as the *maquiladora* industry, that constitute around 60% of all Mexican exports, foreign content is even higher, of more than 95% (Ibarra 2008). Even in the automotive industry, although the suppliers have relocated their production in Mexico as inter-industrial integration is very high (Mendoza Cota 2011) and they can take advantage of NAFTA, imports of intermediate parts are significant and the integration of domestic production is very low, between 10 and 25%, according to Manuel Montoya Ortega, director of Automobile cluster of Nuevo León,[1] although other authors consider it to be around 50%. One of the reasons of this situation is that "…very few, if any, of

[1] http://www.elfinanciero.com.mx/empresas/necesaria-mayor-integracion-nacional-en-industria-automotriz.html.

the SMEs in the second and third tiers have been able to leverage their links to GVCs as springboards for their own internationalization. Market pressures and the introduction of international standards do encourage suppliers to improve both product and processes when they first join GVCs, but the use of modularization (driving suppliers to produce standardized components) limits access for the lower-tier suppliers to the new information, knowledge and activities of assemblers and top-tier suppliers" (UNCTAD 2013: 161).

In fact, what happens in the case of Mexico is that "the value added of indirect exports – or supplier firms contributing domestic value added to exporters – remains predominantly with other TNCs located in host economies. For instance, the automotive industry, where lead firms develop close and complex relationships with suppliers, is characterized by mega-suppliers that can co-locate and co-produce with their customers on a global scale, taking prime responsibility for selecting and coordinating lower-tier suppliers. As a result, domestic value added may occur predominantly among TNCs. Evidence of TNC dominance in specific industry segments was found mostly among first-tier suppliers in the automotive industry, e.g., in the Czech Republic and in Colombia," and in this same industry and most others that dominate the productive structure of Mexico (UNCTAD 2013: 153).

In contrast to this outsourcing model, Brazil and Argentina "…record lower than average backward GVC participation across the majority of the sectors examined" (ibid.: 17). While backward linkages for Mexico and Costa Rica amount to 32% and 28% of foreign value added, respectively, for Brazil and Argentina backward linkages amount to 11% and 14% value added, respectively. Whereas the exports of China have a similar value added content than those of Mexico, however, as many studies have mentioned, this country is undergoing a fast upgrading process, while Mexico is not. Developed countries exports contain a similar value added content than that of Brazil or Argentina: USA-CAN (13%) and Japan (15%). The case of the European countries is interesting as the foreign content of their exports is much higher, similar to the Mexican, around 25%, which is explained by the effect of the European integration, as the countries of Europe incorporate spare parts from a great number of countries. Airbus airplanes are a good example: they are assembled in Toulouse with components coming principally from France, Germany, Spain, Italy and Great Britain.

While the domestic value added of the consumer products being expended internaly or exported by Mexico is known to be very low in most sectors, especially in household appliances, as they are mainly imported from China, in Brazil, the domestic value added of this sector is higher: the total share of domestic value added in the Brazilian household appliances is 61%. This is explained by the UNCTAD study: "... the Brazilian household appliances originates from within the industry—i.e., within the producing firm itself or from suppliers within the same industry—… In this industry, suppliers produce a variety of steel (semi-fabricates, laminates, bars and tubes), plastic or paper products, and the services sector accounts for 14 per cent of value added (providing business services, finance and insurance, information services and freight transport)" (UNCTAD 2013: 153). Another explanation of Brazil's relatively low downward integration rates in GVC is that, like other larger economies, such as India, Argentina, and Turkey, as well as the rentier countries, it exports high quantities of commodities which are used as intermediaries by third countries.

Finally, the rentier Latin American countries, but probably those of other continents too, have a rather low foreign content and a high forward participation: Chile (20% and 32%, respectively) and Colombia (8% and 30%, respectively) (see Fig. 3.8). This situation is due to the fact that they export few finished products, and they merely export raw materials. Thus, their integration in the world market results in little added value coming from the exterior, but on the contrary a high added value that is integrated by the exports of other countries.

Although in terms of productivity growth we were not able to find a clear relation between rentier, outsourcing, and developmentalist capitalisms, the relation between added value and these different types seems quite clear. While the outsourcing model has a high upward and low downward value added, the rentier economies have a low downward and high upward value added. What is common to both is their dependence on foreign value added, in the case of the first, foreign value that is added to its exports, and in the second, national value that is added by third countries. One may extrapolate both of these situations as extensive growth, because they depend on the expansion of investment rather than on innovation. The developmentalist mode is more internally oriented, less added value by foreign investment, thus more dependent on domestic investment, and possibly with more innovation and an intensive character of the growth regime, although this may not be necessarily so.

3.3 Mode of Consumption

Where the disparities between the different modes are definitely clear is in their mode of consumption. In the Latin American countries, and in peripheral capitalism in general, the mode of consumption previous to industrialization was definitely profit led, as it hinged on the appropriation of rent on the part of an oligarchy (in general an agricultural one). During ISI, a different mode of accumulation was intended; on the one hand, with industrialization, a more intensive mode of production was implemented in the largest countries of the continent. Concordantly, a different form of consumption was set up, based on redistribution through wages and social protection, a mode of consumption that led various authors to portray this mode of development as a peripheral or incomplete Fordism, as it only concerned a sector of workers of the economy and not their totality; nevertheless, the totality of workers was contemplated as its temporal horizon. Beginning with the lost decade, when import substitution was abandoned, a bifurcation of the trajectory of the different countries in the continent began that hinged on whether the proto-fordist model was totally abandoned or in partially preserved.

Some countries abandoned ISI to become producers of commodities, as they had been before industrialization. This situation included countries that had only faintly industrialized (Bolivia and Ecuador) or that had industrialized to a certain degree, but then deeply de-industrialized (Colombia and Peru). They specialized even more decidedly in the extraction of raw materials with the commodities super cycle led by the demand of China and India, in the first decade of the twenty-first century. Other countries became outsourcing platforms: mostly in Central America and one large country, Mexico. Finally, some countries tried to continue developing their industry: Brazil and Argentina, with mixed results. More related to the consumption mode, the countries that abandoned ISI completely also instituted a profit-led consumption mode, because they opted for an external market growth that required them to attract foreign investment. The countries that did not dismantle ISI completely (Brazil), or those that tried to retrieve this mode of development after the meltdown of their export-led economy (Argentina), tested a mixed model, combining internal and external market growth, and a wage (or redistributive)-led growth; or more exactly a compromise between wages and profits. The countries that abandoned ISI and became commodities exporting economies, imposed either a profit-led (Chile,

Peru, and Colombia) or a partial wage-led consumption mode (Bolivia and Ecuador). In the case of the developmentalist economies, the choice of wages vs profits was due to both an economic project based on the growth of the domestic market and the existence of an autonomous and active civil society, while in the case of the rentier economies a redistributive policy was the result of the upsurge of civil society, as we will discuss in Chapters 6 and 7.

The data on the wage share of GDP (Fig. 3.9) allows us to clearly distinguish between a mode of consumption based on profits and one based on wages. While the countries upon which we have based our formalization of socio-developmentalism (Argentina, Brazil, Uruguay) and Ecuador, among the rentier redistributive capitalisms, have seen this share grow, on the contrary Mexico, as well as the rest of the Central American countries that we have considered as outsourcing, and the rentier liberal Peru and Colombia, have seen how the wage share has practically plummeted. The case of Chile is interesting because although it is definitely a profit-led economy, it has managed to maintain stable the proportion between wages and profits; this is probably due to the fact that its economy has grown almost continuously and with little

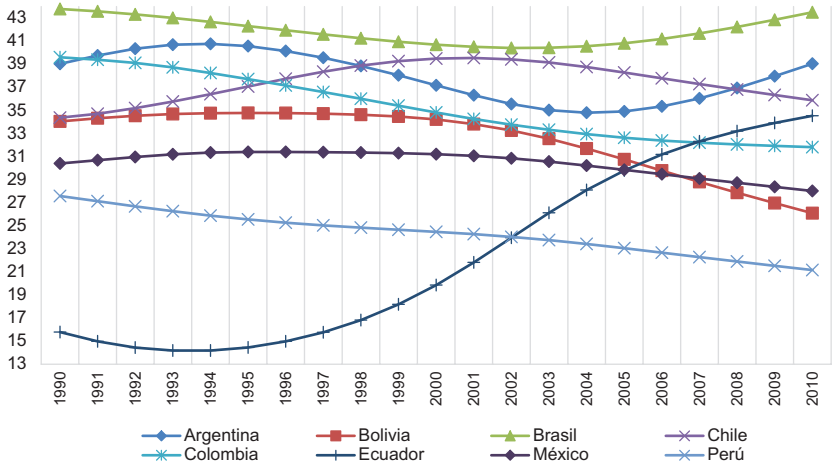

Fig. 3.9 Share of wages in GDP, 1990–2010 (*Source* Elaborated by Daniel Cerdas Sandí on the basis of the original data base of Alarco Tosoni, Germán, 2014)

inflation during the last 30 years; they have also reduced poverty and informality from 15% to 2%, and from 37% to 28%, respectively, since the 1990s (Amitrano 2017). It is a profit-led model that has even achieved to reduce inequality, although it continues to be very high. The case of Bolivia is paradoxical; it is a redistributive rentier capitalism but the wage share has been dropping drastically, as in the liberal rentier countries. This may be explained by the fact that it is a country that is divided into a region that depends on rents distributed by the government, while in the eastern part of the country (the *media luna*) there exists a very successful agribusiness sector that concentrates wealth. On the other hand, in this country, as we will see more in detail in the next chapters of this book, social policies have greatly expanded, but are still assistentialist; they are mainly focalized monetary transfers, similar to those of Peru and Mexico. The countries that have implemented minimum pensions, expanded non-contributory pensions, and implemented universal health systems, like Brazil, Argentina and Chile have seen and increase in the share of wages in GDP.

A study done on the relation between redistribution and growth in Latin America between 1990 and 2010 comes to the same conclusions with respect to the countries that we have typified as wage and profit led. Amitrano considers that Brazil, Argentina, and Uruguay can be considered as wage-led, while Peru and Chile are profit-led economies. His study is less conclusive in the case of Colombia and Venezuela, that are borderlines (Amitrano 2017: 164).

Typically, a mode of accumulation such as Fordism which existed in the developed countries between the end of the world war and the mid-1970s, where wages followed closely increases in productivity, is a wage-led growth, a capitalist model based on the increase of domestic demand, while a liberal mode of development, such as the one that has been implemented since the demise of Fordism is a mode based on offer, a profit-led growth (as defined by Stockhammer 2011). Both Brazil and Argentina, in the first decade of the 2000s intended a wage-led growth that faltered because demand grew faster than domestic offer, and the multiplicator was transferred to the external market by way of imports. On the other hand, an international outsourcing capitalism, such as the one implemented in Mexico, is based on profits, as it is a mode that depends on the gap between productivity and salaries (Palma 2005), where government maintains a downward pressure on salaries and social

Fig. 3.10 Mode of accumulation/consumption (*Source* Own elaboration)

protection (as the are considered as costs), as they are the basis of its competitive advantage.

On the other hand, the rentier model can either promote the concentration of profits or redistribute them, through wages and social transfers, what we have called a liberal rentier capitalism versus a redistributive rentier capitalism. Both of these rentier types are fragile and heteronomous, as they depend wholly on the price and the demand of commodities, which are determined by the international market. On the other hand, because there isn't a coherent or proactive industrial policy, as we have seen in Bolivia and Ecuador, redistribution does not lead to a growth regime, but basically to demand that is channeled toward imports; the resources that are acquired through the export of commodities, directly by State enterprises or through taxes and royalties, lead to an increase in demand, which is met through imports. In the case of the rentier liberal model there is no redistribution, as the emphasis is on profits, which may or may not be invested in the country, depending on the decisions of capital; the government merely sets the conditions for this investment which may or may not have a positive result. Figure 3.10 illustrates the relation between the mode of accumulation and that of consumption for our four types of capitalism.

The relation between socio-developmentalism and a consumer mode oriented toward wages is clearly seen in the cases of Brazil, Argentina, and Uruguay, where minimum salaries increase well above productivity and mean salaries, as we will see in more detail in Chapter 8.

The promotion of wage growth by the State is evident as the minimum salaries (that the State controls, and that have an impact not only on wages, but also on pensions and monetary transfer programs that are based on minimum salaries) increase more rapidly than those which are defined through collective conventions. In fact, the intention to elevate minimum salaries over average salaries responded to a will to reduce inequality and to limit the impact of increasing demand on inflation. The only country where both minimum salaries and the mean salaries went up is Argentina, which is most probably explained by the force of the unions in this country, something we will be discussing in Chapter 6 (Figs. 3.11, 3.12 and 3.13).

The case of Bolivia is an example of a rentier distributive capitalism where real minimum salaries increase at a rate similar to those of the socio-developmentalist mode, although their effects on the economy are not significant in terms of increasing the production of higher added value goods, as one can see by the fact that productivity barely grows. The next four cases go in the direction we have mentioned above, three liberal rentier modes that, except for the case of Chile, are consistent with the idea that liberal types are profit oriented. The case of Peru is the clearest, with salaries (both mean and minimum) well below productivity, something that is coherent with what we saw above in the case of

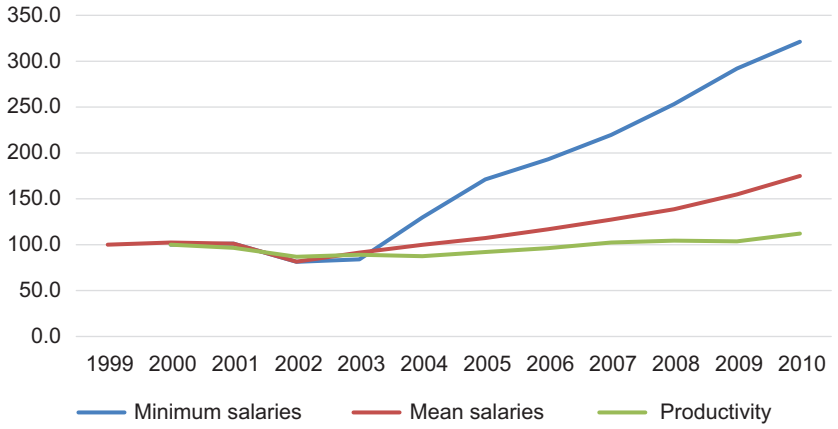

Fig. 3.11 Minimum salaries, mean salaries, and productivity. Argentina (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

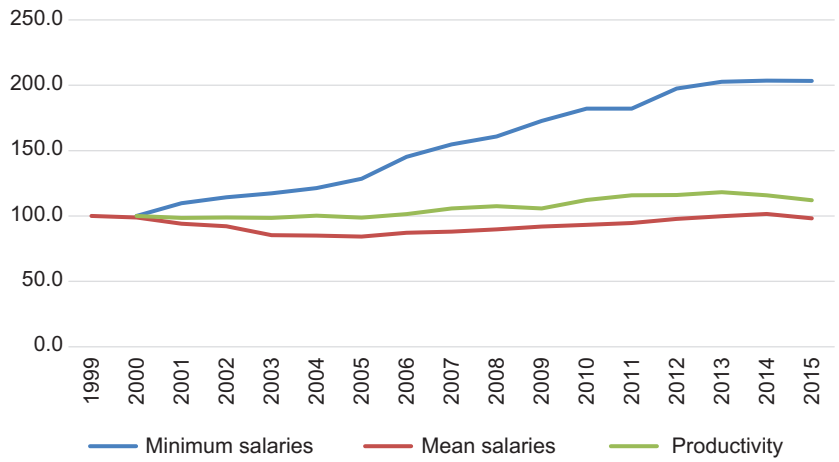

Fig. 3.12 Minimum salaries, mean salaries, and productivity. Brazil (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

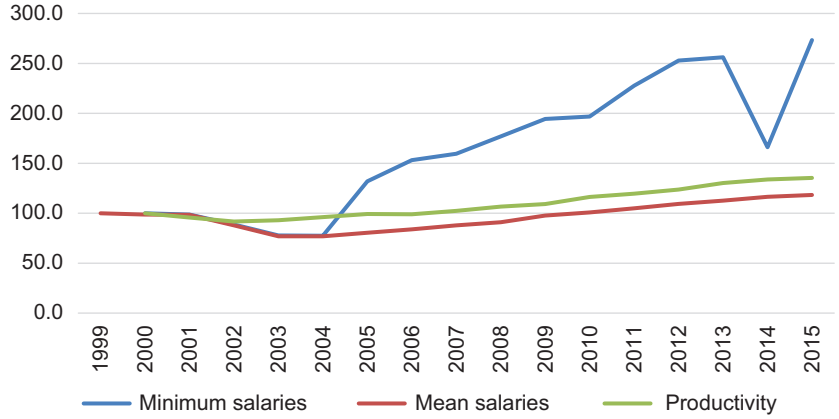

Fig. 3.13 Minimum salaries, mean salaries, and productivity. Uruguay (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

the participation of wages in GDP, that has been descending sharply in the last years, irrespective of the economic boom. Then, in Colombia, although productivity is not higher than salaries, they are very close to each other (Figs. 3.14, 3.15 and 3.16).

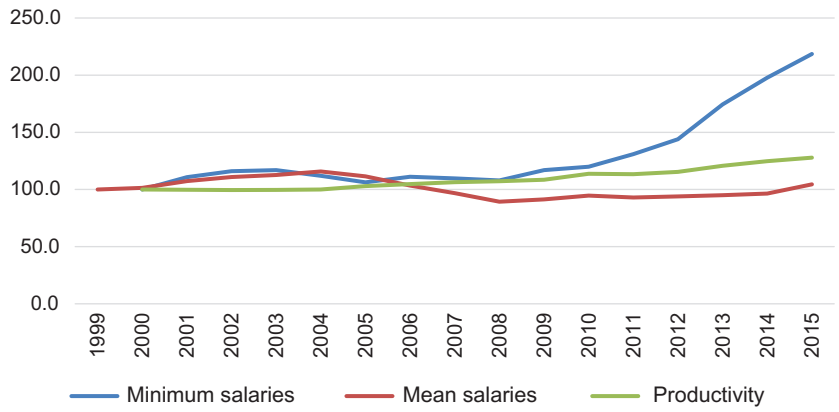

Fig. 3.14 Minimum salaries, mean salaries, and productivity. Bolivia (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

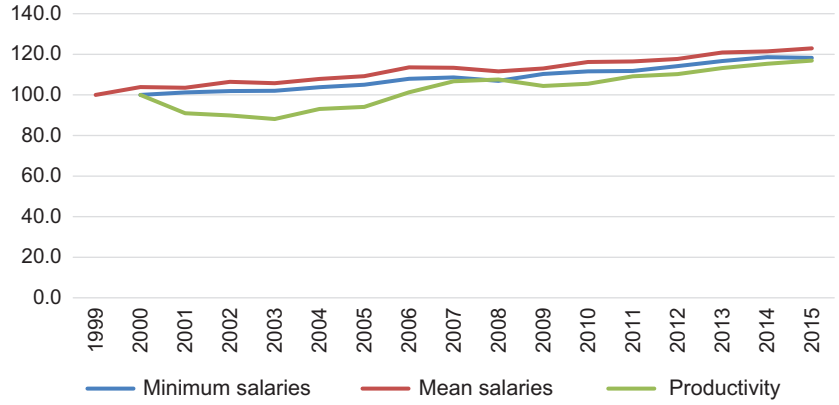

Fig. 3.15 Minimum salaries, mean salaries, and productivity. Colombia (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

The case of Mexico, an international outsourcing model, is based on what Palma has shown: although the general productivity is low, in some sectors it is very high. In fact, the gap between high productivity (to similar levels as those of the advanced economies) in certain exporting sectors (auto, auto parts, steel, petrochemicals) and relatively high (for the country) salaries in these same sectors, but low salaries with respect to

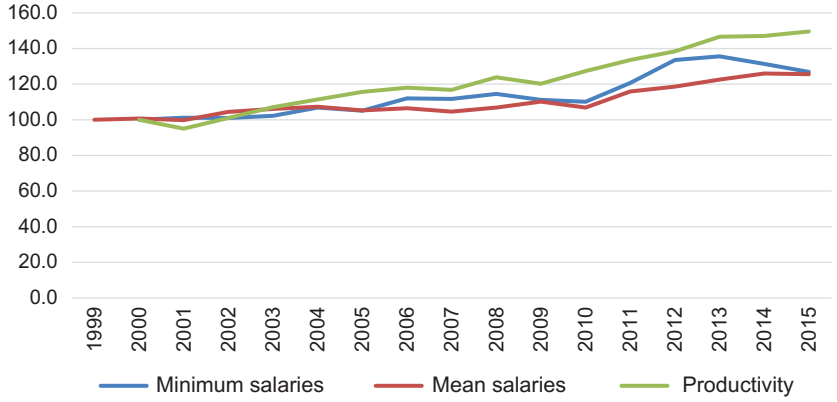

Fig. 3.16 Minimum salaries, mean salaries, and productivity. Peru (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

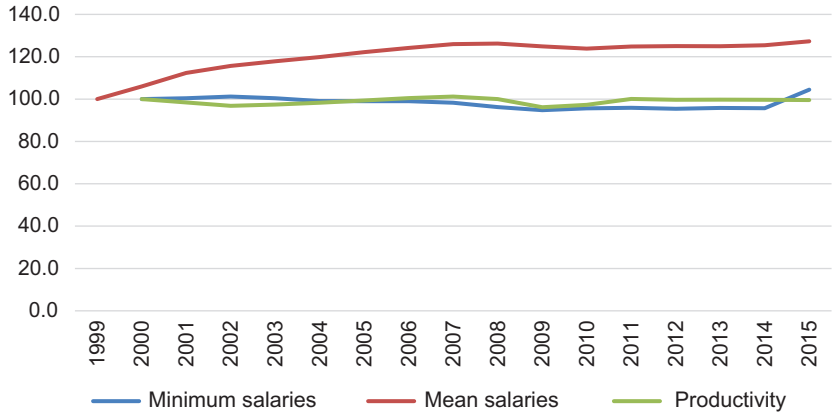

Fig. 3.17 Minimum salaries, mean salaries, and productivity. Mexico (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

the advanced economies where similar products are manufactured, gives the enterprises an exceptional competitive advantage (Palma 2005). The low minimum salaries are a way in which the State assures that the general wage levels remain low and that mean salaries are anchored although they rise faster (Fig. 3.17).

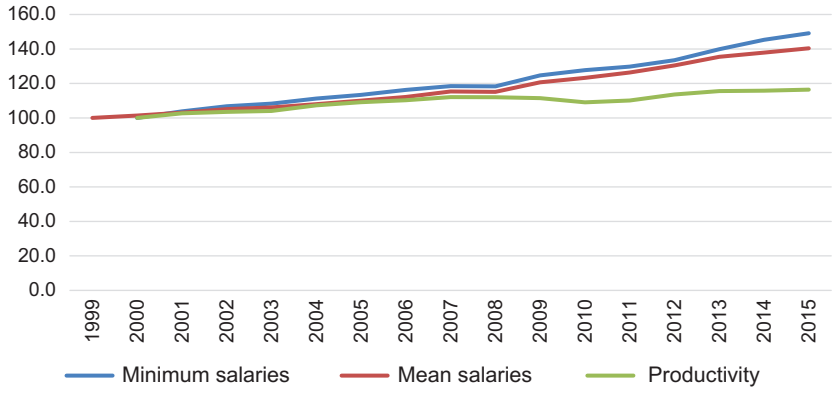

Fig. 3.18 Minimum salaries, mean salaries, and productivity. Chile (*Source* Own elaboration on the basis of CEPALSTAT (salaries) and ILO (productivity))

Finally, in Chile, growth of salaries is probably a direct effect of economic growth. Chile has been growing continuously for the last 30 years, and it has experienced a low of informal labor and of unemployment; salaries are thus a mechanic result of this process (Fig. 3.18).

As we will discuss in Chapter 6, the mode of consumption depends on the strength of the social actors (unions and social movements) and in their alliance with the State, on the embeddedness of the State and civil society, irrespective of what the countries produce and of their mode of production. Nonetheless, in the developmentalist economic model, redistribution is fundamental to increase the internal demand, so the pressure of the social actors coincides with a State-led project. While in those countries where civil society is strongly mobilized and/or organized, the mode of consumption is redistributive (Brazil, Argentina, Uruguay, Bolivia), in those countries where civil society is weak, they are profit led (Mexico, Chile, Peru, Colombia).

In Mexico, and in general in the outsourcing economies, not only the mode of accumulation is disarticulated between the parent companies and the subsidiaries, between the production of the parts and their assembly, but the consumption mode is equally disarticulated. In the case of Mexico, its economy depends heavily on the remittances sent by around the equivalent of 10% of the population that has migrated and of other resources coming from all kinds of illegal activities, including drug

smuggling to the USA, It also depends on cheap imported consumer products that are sold by the informal economy which are able to maintain low prices because they do not pay taxes, nor salaries (most enterprises are familiar firms), a rent for the local as they sell in the street; an economy that is complementary to the formal one.

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