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Number 24

PERUVIAN INDUSTRIALIZATION WITHIN THE GLOBAL  
MULTINATIONAL ECONOMY, 1968-1976

by Laura Guasti  
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## ABSTRACT

### Peruvian Industrialization within the Global Multinational Economy, 1968-1976

The impact of the international system on the industrialization program of the Peruvian military regime from 1968 to 1976 is examined within the perspective of the global context of multinational corporate operations. The framework used is the interplay between the military government's actions via its industrialization policies, the responses of international corporate actors, and the change the interplay created in the relative negotiating strengths of the respective actors.

The government-multinational corporate interplay is examined within the mining/petroleum and manufacturing sectors. The impact of the interplay is analyzed in conjunction with domestic financial sector policies in relation to the changing negotiating strengths of the military government and international banks through the period of the recession and the major changes made in the regime's industrialization program.

The analysis concludes that the means chosen by the Peruvian military government to restructure the economy for industrialization, and the responses of international manufacturing and extractive corporations to the means, were important causes for the increased direct impact of international banks on the Peruvian government, the Peruvian economy, and the direction of Peruvian industrialization. The analysis further concludes that the roots of the increased negotiating strength of international manufacturing corporations and international banks within Peru can be traced to the military regime's emphasis on the use of advanced technology within its industrialization strategies. The emphasis resulted in the government creating a large requirement for those resources most concentrated in the hands of international corporate groups while simultaneously challenging the nature and interests of international corporations.

The paper concludes with a discussion of the implications of the Peruvian experience for further Peruvian industrialization and for other Third World societies in the process of industrialization.

PERUVIAN INDUSTRIALIZATION WITHIN THE  
GLOBAL MULTINATIONAL ECONOMY, 1968-1976

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The paper will examine the impact of the international system on the Peruvian experience from the perspective of the global context of multinational corporate operations within which the military regime was attempting to restructure the economy to promote industrialization. The analysis focuses on the 1968-1976 period. I would suggest that this is the crucial period to examine in order to understand the recession and later events because it was the original industrialization policies, and the dynamics they set into motion, which provide the core explanation of the regime's, and the economy's, weaknesses and openness to the impact of international events and actors from 1976 onward. The focus of the analysis is on the interplay between the military government's actions via its industrialization policies, and the responses of international corporate actors, and how this interplay led to a change in the relative negotiating strengths of the respective actors.

The paper begins by examining the original industrialization policies and goals for the major economic sectors. The positions of international corporations within the Peruvian economy by 1968 and the challenges to them created by the industrialization policies are then examined. Differences among international corporate actors in needs, dynamics, and orientations to industrialization are next explored. The industrialization policies, responses of the international corporations, and consequences for the regime's industrial goals are analyzed in greater detail for the mining/petroleum sector and manufacturing sector. The impact of the corporate/government interactions and policies for the domestic banking sector are then examined in relation to the changing interplay between the government and international banks, which led up to and included the recession and the major changes made in the industrialization policies. Broader implications for Peruvian industrialization of the above dynamics and changed corporate/government power relationships are discussed. Finally, the implications of the Peruvian industrialization attempt for other Third World countries are explored.

The Peruvian Industrialization Program

Within a year after coming to power, the military regime initiated a series of policies that ultimately comprised a broad economic program. There were two major goals to the program:

- 1) to industrialize the economy fully, which required overcoming the obstacles to industrialization that had existed prior to 1968;
- 2) to achieve national economic autonomy, which included having the major benefits of industrial growth accrue to Peruvian manufacturers, to enable them to consolidate into a strong industrialist class.

The basic aspects of the government's industrialization program were a) to stimulate growth in agricultural production and redistribute income in the agrarian sector; b) to acquire control over the financial sector and reorient credit distribution to support industrial growth; c) to increase mineral and oil production and expand refining and processing capacities; and d) to stimulate intermediate and capital goods production, and create linkages between manufacturing and extraction.

The mining/petroleum sector was the key sector of the military government's industrialization plans. Rapid growth in the production of both raw materials and processed goods was of primary importance for two purposes: to provide increasing amounts of inputs for Peruvian manufacturing in the medium to long run; and to provide a rapidly growing volume of exports which, in the short to medium run, would earn the large amounts of capital and foreign exchange needed by industry to pay for its imported inputs as its own rapid growth was effected.

Simultaneously, a broad agrarian reform was to redistribute income from the landowners to the agrarian labor population, to enable the latter to comprise a major part of a larger, growing domestic market for industrial goods. At the same time, increased agricultural production would serve to increase foreign exchange earnings from export crops and satisfy the internal demand for foods. The creation of the Andean regional market was to provide a fast-growing market in the short to medium run, as the first stimulus to industrial expansion.

While greater foreign exchange earnings and larger markets were being provided, industrial expansion into real intermediate and capital goods production, as well as progressively higher domestic content in industrial production, would be stimulated to establish linkages within industry and with extraction. By these means, the dynamic growth of a wider, autonomous, and integrated Peruvian industry was to be achieved.

However, implementation of these changes, and the channeling of the benefits of the changes and the industrial growth primarily to Peruvian manufacturers, required that the economic strength of international corporations present in Peru be challenged and that their operating orientations and practices be changed.

#### International Corporations Within the Economy, and the Challenges of the Industrialization Program

By 1968, international corporations had established important oligopoly positions within the Peruvian economy, particularly in the two key sectors: mining/petroleum and manufacturing. Multinational mining corporations controlled 72 percent of Peruvian mining/metallurgic production, 90 percent of mineral refining, and 80 percent of mineral exports.<sup>1</sup> Two international mining corporations alone (Southern Peru Copper Corporation and the Cerro de Pasco Company) accounted for over one-third of all Peruvian exports. Similarly, multinational petroleum corporations produced over 65 percent of Peruvian crude oil and accounted for over two-thirds of existing refining capacity.

Within the manufacturing sector, international corporations, while representing only 14 percent of the manufacturing enterprises in Peru, accounted for 40 percent of the fixed assets and 44 percent of the value of production.<sup>2</sup> International corporate presence was higher in certain industrial sectors. International corporations controlled over 50 percent of the production in 13 manufacturing sectors, of which all but three were intermediate and capital goods producing industries.<sup>3</sup> In addition, international banks,<sup>4</sup> through branches and minority or majority ownership of Peruvian commercial banks, controlled over 70 percent of Peruvian commercial banking.

Within mining, the most important of the extractive activities, the activities of the international corporate subsidiaries had been associated with two important problems for industrial growth. The first was the absence of domestic linkages between mining and manufacturing. There is some evidence that international corporate practices resulted in reduced demand for domestically manufactured inputs in mining. At least one of the major international mining subsidiaries purchased less than 50 percent of its inputs locally before 1968.<sup>5</sup> In such cases, intermediate and capital goods were supplied by the parent corporation and imported into Peru. Mining production was therefore integrated with overseas markets and manufacturing activities through the subsidiary's corporate network.

Similarly, because most mining production was exported, the domestic availability of primary materials as basic inputs for Peruvian manufacturing was low. Domestic industrial consumption of total mining production was approximately 5 to 8 percent.<sup>6</sup> The absence of major linkages between mining and manufacturing was one important cause of the necessity to import most industrial inputs (see below), as well as a contributing factor to the reduced domestic market for manufacturing.

Second, as a result of the high import content of Peruvian manufactures, the stability and growth of Peruvian industry had become directly reliant on the export performance of the major extractive products, especially mineral products. Yet the international market values of these export products were comparatively low, because the minerals were largely exported as ore concentrates, rather than as refined metals.<sup>7</sup> With the exception of iron, most of the ore concentrate export production was connected to the overseas smelting and refining activities of parent corporations. Profits from refined metals thus accrued overseas to the parent corporations. This reduced both the foreign exchange earnings available from mining production for imported manufacturing inputs, and the capital available locally for the expansion of mining production or related industries. Thus, the most important problems created by the enclave character of international corporate mining were the multiple limitations for industrial growth presented by the lack of processing, refining, and metallurgical industries within Peru.

The establishment of international corporate manufacturing subsidiaries within a limited and slow-growing internal market also had been associated with important problems for continued industrial growth. First, the

combination of a limited market and the use of relatively more advanced, and frequently more capital-intensive, technology by international corporations had resulted in their subsidiaries being largely assemblage plants rather than full-scale production facilities. This, in turn, had led to international corporate production within Peruvian industry having a high import content,<sup>8</sup> while the important positions of corporate subsidiaries within the manufacturing sector had resulted in a high import content for Peruvian industry as a whole. Further, because the subsidiaries' imported inputs were supplied by the parent corporations, the production of the subsidiaries was integrated into their corporate networks rather than with other domestic industries.

Second, the international corporations concentrated their investments in the intermediate and capital goods sectors.<sup>9</sup> It was also in these sectors that the corporations established their strongest oligopoly positions. However, most of the corporate production in the two sectors was not in fact intermediate and capital goods, but final consumer goods.<sup>10</sup> The result was that no important real intermediate and capital goods production occurred within Peruvian industry. This characteristic of international corporate production, together with the high import content of production, contributed to the lack of integration within Peruvian manufacturing.

Third, the tendency to overprice imports,<sup>11</sup> together with the payment of royalties and management fees, and the remission of profits to parent corporations, resulted in subsidiary profits largely accruing overseas to the parent corporations, rather than being available for reinvestment or new investment within Peruvian industry. In addition, the transfer of capital overseas resulted in increased pressures on the Peruvian balance of payments.

Finally, because of the important, and frequently oligopolistic, market positions of international corporations within manufacturing, industrial growth, and particularly the expansion of the industrial base into intermediate and capital goods production, would be likely to benefit the international corporations more than it would benefit Peruvian industrialists.

Adequate information on international bank practices in Peru before 1968 has not appeared. One could infer characteristics of their practices from general tendencies in overseas international bank operations. Because banks went overseas to follow their major corporate clients,<sup>12</sup> the tendency has been for overseas international bank branches and affiliates to lend preferentially to the overseas subsidiaries of the major clients. This has occurred, first, because the resources of the international corporations result in their being perceived as better lending risks when compared to local enterprises. Second, the local bank subsidiaries or branches prefer to continue servicing the local subsidiaries of major corporate clients (rather than competitor local enterprises) in order to retain the global business of the parent banks' major clients. One could therefore infer that, within the Peruvian banking sector, the credit controlled by

international banks was directed preferentially to international corporations (and when in partnership with Peruvian entrepreneurs, to the manifold activities of the agro-exporters), rather than to Peruvian manufacturers. This would also imply that credit for industry was directed largely to final consumer goods production, and not to financing the growth of real intermediate and capital goods production.

In order for the military government to overcome these industrialization problems within the major economic sectors, it had to reorient the enclave focus of extraction and the high concentration of industrial production in final consumer goods, as well as redirect credit toward new manufacturing activities. In order for the government to carry out these structural changes, and enable Peruvian manufacturers to benefit preferentially from them, the operating orientations and/or oligopoly positions of the international corporations in the sectors had to be changed.

The military government did not intend to eliminate international corporate presence in these sectors. This was made clear not only from the specific content of the original policies for the sectors, but by the fact that the achievement of the first Five Year Plan, for 1971-1975, was predicated upon the acquisition of \$700 million in new investments by international manufacturing and extractive corporations. Rather, the government intended to subordinate international corporate investment and activities to the national goal of rapid autonomous industrialization.

The specific means that the government chose to change the orientations of international corporate operations and subordinate international corporate activity to national goals were:

- 1) to control and/or take over the central managerial activities of international corporations in the mining/petroleum sector.
- 2) to limit the growth of international manufacturing corporations, transfer control over central managerial activities to Peruvian entrepreneurs, and control technology contract practices.
- 3) to reduce and limit international banks' access to domestic savings and their control over the distribution of credit.

There are a number of indications that the government perceived that these policies would not negatively affect the international corporations in major ways, nor seriously undermine the possibilities for cooperation between the government and the corporations. President Velasco stated in a speech in July 1969:

Latin American development needs foreign capital.... It also is advantageous to them [the foreign investors] to come. There is, in consequence a reciprocal advantage that should be clearly and justly changed for the benefit of both sides....<sup>13</sup>

A year later he said:

... it will be equally important to accord treatment to possible foreign investment that, without ignoring their rights, subordinates them to the interests of the member countries so that they constitute a factor of support to independent development....<sup>14</sup>

Moreover, as indicated above, the government considered it feasible to plan to receive \$700 million in new investments from international corporations during the first five years in which the policies were being implemented.

What the means chosen by the government represented, however, were direct challenges to central corporation prerogatives and the basic motivating dynamics of the international corporations, because they were attempts to take over managerial control, limit the corporations' economic strength and market positions within their sectors, and limit the benefits from the corporations' own activities that accrued to themselves.

The international corporations developed different responses to these challenges. The differences in response can be traced to the types of economic activity the corporations were involved in, and the different corporate orientations, needs, and internal dynamics that resulted. In short, the responses to the government's challenges differed according to the kinds of corporations involved.

#### Differences in International Corporate Orientations

One of the clearest differences among international corporations in orientations and requirements for growth is that between international corporations in manufacturing and international corporations in extraction. There are a number of specific reasons for these differences. First, for international corporations in extraction, Third World countries are important primarily as sources of raw materials to be extracted and exported, not as markets for the corporations' products. For international corporations in manufacturing, Third World countries are important as existing or potential markets for their products.

Second, extractive corporations internationalized on a large scale, and developed international corporate structures, on the basis of raw material sources, while manufacturing corporations internationalized on a large scale on the basis of markets. While both extractive and manufacturing corporations originally went overseas to expand their market positions,<sup>15</sup> extractive corporations primarily have been concerned with supplying the need for raw materials in the industrialized markets. When extractive corporations diversified their buyers and internationalized their markets, they did so largely in terms of selling to manufacturers based in various industrialized countries, not to manufacturers based in Third World countries. Where the products of the international extractive corporations have been used in Third World manufacturing, the products have reached the Third World in large part through the intermediary of parent international manufacturing corporations.

Therefore, the real markets for international extractive corporations are in the industrialized countries, while the basis for extractive corporations' broad international expansion and for the development of international corporate structures was the internationalization of raw material sources. Manufacturing corporations, on the other hand, established international corporate structures by internationalizing their markets to a greater extent than have the extractive corporations, by directly entering into the markets of Third World countries, as well as those of industrialized countries.

Third, the fundamental basis for the continued growth of international extractive corporations remains the availability of, and access to, existing and new raw material sources. The basis for the continued growth of international manufacturing corporations is the availability of, and access to, growing markets for manufactured goods.

From these situational differences between the corporations come important differences in interests. The global growth of the extractive corporations, and the maintenance and expansion of their oligopolistic market positions, is not directly related to industrial growth and the growth of markets in their source countries. This includes countries where the corporations already are extracting, and countries which the corporations can enter to acquire new raw material sources.

The global growth of manufacturing corporations, and the maintenance and expansion of their oligopolistic international market positions is, however, directly related to actual and future industrial and market growth in countries where the corporations already manufacture, or which they can enter to acquire new markets. As a result, it could be expected that international manufacturing corporations would support structural changes in Third World economies that would remove obstacles to industrialization created by the existing structure of export extraction, because of the benefits that industrialization and the creation of larger markets could provide for the corporations' own growth.

International extractive corporations could be expected to oppose such structural changes because of their interest in maintaining their existing export extractive activities and access to raw materials, in the face of uncertain indirect future benefits to them of industrialization in such societies, and direct immediate costs for them of restructuring export extraction.

On the other hand, international manufacturing corporations could be expected to oppose efforts to achieve industrialization autonomously, or to create a strong indigenous industrialist class, because this type of industrialization would reduce the benefits of industrial and market growth going to the international corporations, and create new competitors in the local markets. Thus, while international manufacturing corporations could be expected to support industrialization in Third World countries, they also would want to derive the greatest benefits from Third World industrialization.

Because of these differing interests, the two international corporate groups are likely to experience different consequences when Third World countries attempt to industrialize. Moreover, the two corporate groups are likely to have different impact on the success of industrialization attempts. The nature of the differential impact will be a function of the specific industrial policies adopted, and the specific characteristics of the society seeking to industrialize.

International banks are in a pivotal position between these two broad corporate groups because of the close business ties that exist between the international banks and both types of international corporation. First, the international banks have financed the international operations and growth of both types of corporation, and there has been a direct connection between the dynamic world-wide growth of international corporations and that of international banks.<sup>16</sup>

Second, international banks have large holdings of corporate stock through their portfolio and trust fund investments. They are, therefore, among the owners of international manufacturing and extractive corporations. As large shareholders, they also are regularly consulted by corporate management and have influence on major corporate policies.

Third, there are interlocking directorates among international banks and corporations. This provides international banks with the opportunity to influence the decisions of international corporations more directly, and better coordinate banking and corporate interests.

As a result, international banking and corporate interests are closely related. The growth of each serves to support the growth of the other. The banks, therefore, have a direct stake and interest in promoting the world-wide growth of the activities of both types of international corporation. And the role of the international banks can become pivotal when differences of interest between international manufacturing and extractive corporations become accentuated, as in the cases of industrialization in raw-material-producing Third World countries.

In addition, the international banks can play a direct role in industrialization efforts, because the banks' financial resources can be made available for industrialization programs via lending to governments. The banks' direct role has been facilitated in the 1970s by, among other factors, the growing availability of petrodollars to the banks for recycling to Third World countries. As a result, the international banks also can affect, and be affected directly by, efforts to industrialize.

Within this context, the responses of international extractive and manufacturing corporations and international banks to the military regime's industrialization policies will be examined in the following sections.

#### Responses of International Corporations in the Mining/Petroleum Sector

The original policies of the military government established an important entrepreneurial role for the government in the mining/petroleum sector. In petroleum extraction, the government established service contracts with international oil corporations. The corporations agreed to cover the costs of the exploration and development of petroleum deposits, and to divide the petroleum extracted with the state enterprise, Petroperú, according to sharing formulas that ranged from 50/50 to 44/56. Petroperú was responsible for the marketing of its share of the petroleum, and for the exploration, development, and operation of the deposits it retained.

Eighteen oil corporations originally agreed to operate in Peru under the service contracts. In December 1975, however, 13 of the oil companies, claiming failure to find oil in their concessions, terminated their contracts and abandoned the concessions. At this time, the government was facing an increasingly serious balance of payments deficit and an approaching foreign exchange reserve deficit. The government perceived a critical need for renewed inflows of investment capital and increased petroleum production that would provide greater foreign exchange earnings, as well as supply more of the internal demand for oil in the face of rising world petroleum prices. Within six months of the departure of the international oil corporations, the government announced that new oil exploration contracts would be issued which would provide fewer restrictions to the corporations than the original service contracts.<sup>17</sup>

In mining, the marketing of minerals and copper refining were reserved exclusively to the government, via the newly created state enterprise, Mineroperú, while the rights to refine other minerals were to be extended as government concessions. The government also took the responsibility for setting rapid exploration and development schedules for mineral concessions, and obligatory investment and production levels for all mining activity. Further, mine concession contracts were to be issued only for five years, with the government retaining the option to take control of the mines at the expiration of the contracts. In addition, the existing mineral depletion allowance was replaced by a reinvestment allowance that set a monetary upper limit to the amount of tax-free reinvestment capital available to mining enterprises. The impact on international mining corporations of the change to a reinvestment allowance was to make it necessary for international corporate subsidiaries that wished to carry out major expansion programs to borrow capital from their parent corporations, rather than rely solely on capital earned within Peru.

The consequence of the first three measures was that the government assumed central managerial functions of the international corporations that had given to the parent corporations the ability to control and coordinate corporate activities. More importantly, the changed terms of operation essentially meant government determination of the rate of corporate growth.

The international mining corporations responded to the government policies in three ways, two of which, essentially, were to abandon mining in Peru. First, in the face of government-set deadlines to begin the exploration and development of deposits, all but two of the international corporations which held unworked mineral concessions relinquished them to the government to develop directly through Mineroperu.

Second, two of the three largest international mining corporations operating in Peru, the Cerro de Pasco Company and Marcona Mining Company, chose to abandon their existing mining and processing activities. Within three years after the original policies were issued, both the Cerro and Marcona parent corporations began negotiations to sell their subsidiaries' activities to the government.

The two corporations chose to relinquish their subsidiary activities because of the particular impact of the government's policies on their corporate operations. Cerro used less advanced mining technology than the other major international mining corporations in Peru, and its remaining major advantage in mining was its ownership of the sole copper refinery in Peru. Within the previous decade, Cerro's profits had fallen by 50 percent.<sup>18</sup> From about 1968 onward, it did not make replacement investments in its existing mining facilities nor new investments, and its fixed assets experienced an accelerated depreciation.<sup>19</sup> As a result, the government's obligatory investment schedules were contrary to Cerro's investment decisions, while the government's monopolization of copper refining threatened Cerro's remaining major advantage in its Peruvian mining operations.

Marcona had diversified its activities into the more profitable area of shipping, and in 1971 experienced losses in its iron mining activities. Consequently, while initially accepting the government's policies in 1970 to carry out an earlier planned expansion of iron production, Marcona within three years apparently decided that further investment in iron mining would not be profitable. Thus, the government's policies promoting major expansion of mining production would force both corporations to invest in areas they evaluated as less profitable.

During the first five years of the regime, only one international extractive enterprise, IPC, had been expropriated. Government statements and the original policies for mining indicated that the government had not intended to expropriate international mining subsidiaries. However, during the periods of protracted negotiations, Cerro and Marcona demonstrated uncooperative or illegal behavior which apparently was perceived as directly challenging the government's legal sovereignty. This pressured the military government into a position in which, rather than purchasing, it chose to expropriate the two mining subsidiaries, with an unwillingness to pay compensation.

Third, the remaining major international mining corporation, Southern Peru Copper Corporation, retained its existing mine and one of its mineral concessions. Southern had neither diversified nor experienced losses in its mining activities. To the contrary, as one of the most technologically advanced of the international mining corporations in Peru, its mining activities had proven very profitable, and prior to 1968 it had already expressed an interest in developing one of its two other concessions.

However, Southern wished to develop its concession under the older terms of mining operations. With the assistance of pressure from international lending agencies and banks, in relation to the renegotiation of the existing external debt,<sup>20</sup> Southern acquired a contract that exempted the concession from some of the major new measures that would be issued within four months by the government.<sup>21</sup>

The cumulative results of the interplay between the military government and the international corporations was that the government expanded its entrepreneurial role considerably beyond the level originally intended, and replaced the international corporations as the primary entrepreneur within the sector. The government succeeded in taking over most of the investment and managerial responsibilities of international extractive corporations, especially in mining, as well as the direct operation of a number of major mines and most existing oil fields. Through state enterprises, the government also took control of basic industries, to directly provide basic inputs for manufacturing. Once assuming entrepreneurial control, the government initiated a number of projects in mining and basic industry to achieve the desired growth in production.

However, there were a number of costs to the extensive expansion of the state entrepreneurial role that occurred because of the interplay between the international corporations and the government. Major delays were experienced in the expansion of mining production, as the government

negotiated to acquire technical and other expertise that it lacked, and experienced difficulty in acquiring financing.<sup>22</sup> The delays not only slowed the achievement of industrialization goals, but had the larger, less obvious, consequence of leaving the government and the economy more vulnerable to the impact of the oil price rises and inflation in the prices of other imports after 1973, because the greater foreign exchange earning ability that had been planned for that period was not achieved.

The expansion of the state entrepreneurial role also occurred at the cost of high capital requirements for the government, again much higher than originally planned, in order to achieve the goals of the industrialization program. The only viable source for the high level of capital was external borrowing. This meant that, in order for the government to expand the sector it had chosen as the impetus for dynamic industrial growth, it first had to reestablish and maintain a favorable relationship with international lending agencies and international banks.<sup>23</sup> This would place the military government in the position of being more open to the pressures and influence of international banks on national policy.<sup>24</sup>

#### Responses of International Corporations in the Manufacturing Sector

Unlike the policies in the mining/petroleum sector, the military government's original policies in the manufacturing sector did not seek to establish an important entrepreneurial role for the government. In this sector, the government's goal was to limit the growth of international corporations within the Peruvian and Andean markets in order to direct the benefits of industrial expansion to Peruvian industrialists. The government sought to do this through the creation of the obligatory fade-out joint venture for all international corporations manufacturing in Peru. Such international corporations were required to sign contracts with the government by which they agreed to reduce their ownership of Peruvian subsidiaries to 49 percent or less within a period of 15 years. Through pressure from the government, the fade-out joint venture requirement also was included in the Andean Code governing the Andean regional market.

In addition, the government established controls on transfer prices and royalty rates, as well as on technology contract practices between parent corporations and Peruvian subsidiaries, and between the former and Peruvian manufacturers. Such practices had served in the past to limit Peruvian industrial production and growth.

Further, all industrial enterprises, including international subsidiaries, were required to create an industrial community,<sup>25</sup> which would receive 25 percent of net profits annually. Fifteen percent of net profits would be reinvested in the enterprise until the industrial community owned half the firm's stock.<sup>26</sup>

Thus, the military government did not challenge international corporations in manufacturing in the same manner in which it challenged international corporations in extraction. Basic management prerogatives were left to international manufacturers to exercise. Nor did the government seek to replace international manufacturers within industry.

The fade-out joint venture was the major challenge to the international corporations. It would tend to undermine the corporations' control over internal policy-making, and would deny to the corporations the major long-term benefits of their investments and commitment of corporate resources. The corporations' future growth within the Peruvian and Andean markets would be restricted, and they would be forced to cede most of their market positions, and (ostensibly) their managerial control, to Peruvian manufacturers. At the same time, technology-contract and other controls challenged corporate growth strategies and decision-making prerogatives, including the ability to locate capital in the areas of faster growth within the corporate network.

The industrial community presented a somewhat different problem. The required transfer of half ownership to the industrial community, in combination with obligatory 51-percent divestment in 15 years, would seem to have been requiring the international corporations to divest to a single partner. This, in turn, might make retention of managerial control with 49 percent ownership more difficult.<sup>27</sup>

However, there was no time limit for transferring ownership to an industrial community. Moreover, there were a number of means available to preclude an industrial community from acquiring half control of its enterprise, although some of the means for avoiding acquisition of a single partner could also impinge on corporate prerogatives. For example, the annual reinvestment of 30 percent or more of net profits by the subsidiary owners to permanently preclude half ownership by the industrial community could prove incongruous with corporate strategies by pressuring the parent companies to have higher reinvestment rates in their Peruvian subsidiaries than called for by corporate plans for growth. In this case, an important corporate decision would in part be taken away from parent control. In addition, the required immediate placement of an industrial community representative on the board of directors created at least a potential for problems in managerial decision-making. The industrial community thus presented at least potential difficulties for international corporations.

In practice, the obligatory industrial community became a more immediate problem for international manufacturing corporations than the fade-out venture because of variation in the implementation of the policies. Most fade-out contracts were signed by 1974, but some 2,900 industrial communities were created by 1971. Most of these were in medium- and large-sized enterprises, the categories into which international corporate subsidiaries fell.<sup>28</sup>

Nevertheless, international manufacturing corporations (like Peruvian manufacturers) did have various means available to circumvent the potential difficulties of enterprise co-ownership with their labor force, ranging from the reduction of declared net profits to refusal to cooperate with industrial community representatives in providing information about the subsidiaries or access to accounting books. By such means, particularly the reduction of declared profits, the international corporations could avoid transfer of 50 percent subsidiary ownership to a single partner.

In terms of long-range problems and threats to corporate prerogatives and activities, the fade-out venture was the more serious problem. If the fade-out venture were implemented, there were no obvious means to circumvent forced divestiture and its attendant consequences, except partly by transferring ownership to a large number of Peruvian entrepreneurs. The major concern of the international corporations in manufacturing was the fade-out venture.

The response of the international manufacturing corporations to the government's challenges was not, as the international extractive corporations had done, to abandon their Peruvian activities. Rather, the international manufacturing corporations' response was to effect a holding action, and restrict investment and the expansion of their activities in Peru until the strength of the government's challenges could be ascertained, or diminished.

Between 1968 and 1976, international manufacturing corporations maintained generally low or negative levels of new investment, and limited investment to reinvestment in existing plants and stock.<sup>29</sup> This occurred in the face of strong incentives to promote high levels of industrial investment in priority areas that were provided by the government in its policies for the manufacturing sector. Because of the international corporations' important position within Peruvian industry, their response accounted for a major part of the low level of real industrial growth that occurred during the period when the government was seeking to carry out its program of rapid industrialization. Moreover, most of the international corporate reinvestment that occurred was directed to the non-priority industrial areas in the government's program.<sup>30</sup>

Nevertheless, the government placed considerable importance on the acquisition of international corporate investment in priority industrial areas. Essentially this required the attraction of new international corporations into Peruvian industry, but within the context of mandatory divestment in 15 years. The resolution in practice of what was an inconsistency in the government's policies, given international corporate motivations and interests, was sought through the use of special joint ventures between the government and international corporations. It was largely within the special advantages and guarantees of this type of enterprise that new international corporations entered Peruvian industry in the high priority areas.

Three special joint ventures were formed between the government and international corporations between 1968 and 1976.<sup>31</sup> In all three cases, the special joint venture status provided the international corporate partners with: 1) access to the fast-growing, newly opening regional market on a monopolistic or quasi-monopolistic basis; 2) the most generous tax and financial terms available within the government's industrial policies, making possible higher returns on investment; and 3) a long-term guarantee of the continuation of the ventures' high priority status and special benefits, via state participation that gave the government a direct stake in the success and growth of these enterprises. All were special advantages not provided to international corporations already manufacturing within Peru, or to Peruvian industrialists.

Nevertheless, even with special investment advantages, only three new corporate investments in high priority areas were acquired, despite the government offer between 1972 and 1976 of 16 joint venture projects. International manufacturing corporations largely refrained from making major new investments in Peruvian industry.<sup>32</sup>

Nor were the fade-out joint ventures implemented rapidly during this period.<sup>33</sup> It took four-and-a-half years from the issuance of the fade-out venture policy for almost all international corporations to sign the fade-out contracts.<sup>34</sup> In addition, there is variation in estimates of the extent to which corporate transfer prices, royalty rates, and technology contracts were effectively regulated.<sup>35</sup> The more detailed analyses available indicate that few changes in, or limitations to, corporate practices in these areas occurred.<sup>36</sup>

Thus, the military government did not succeed in changing the pattern of ownership in the industrial sector, in controlling or influencing the practices of international manufacturing corporations and their effect on Peruvian industry, or in achieving rapid real growth in privately owned industry in Peru. The high import content of production and low level of integration within industry and with extraction continued.

In response, the government came to assume increasing responsibility for new investments in industry, and for contributing directly to the desired industrial restructuring and high rate of industrial growth. This was done through the state enterprises that controlled the basic industries, and through the creation of new state enterprises, or the joint ventures with international corporations, to open new areas of industrial activity in Peru. This created even higher capital requirements for the government within the industrialization program. In addition, the failure to restructure industry or lessen to a considerable degree the impact of international corporate operating practices within industry meant that Peruvian industry was still vulnerable to the impact of economic conditions in the industrialized economies.

Thus, international corporations in extraction and manufacturing had different responses to the military government's challenges to their production orientations and interests. While most of the existing international extractive corporations in Peru, particularly the international mining corporations, abandoned their Peruvian raw material sources, the international manufacturing corporations did not abandon their Peruvian and Andean markets. Rather than leave Peru, the international manufacturing corporations reduced their investments to minimum levels until policy changes, or more advantageous new policies, were forthcoming.

As a result of the different responses, the military government acquired direct control of Peruvian mining/petroleum output and direction of growth, but did not acquire direct control over final industrial output or the direction of industrial growth. Nor did Peruvian manufacturers acquire predominant control within industry.

The responses of the international extractive and manufacturing corporations in combination, however, led to a much wider state entrepreneurial role and much higher capital requirements for the government than

originally intended within the industrialization program. As a result of the government's expanded entrepreneurial role and higher capital requirements to implement the industrialization program, there was a great increase in the external debt. This was to place international banks in a new position of having important direct impact on major government policies, on the condition of the economy, and on the structuring of further industrial growth.

#### The Industrialization Program and International Banks

The key area in which the military government sought to establish its ability to orient Peruvian industrialization was the financial sector. Within this sector, the government sought to reduce the control of international banks and greatly restrict their growth.

In 1970, the government began to consolidate and expand existing state financial institutions, making the Banco de la Nación its prime financial agent. Exclusive government control over foreign exchange transactions was established, and the flow of credit was rechanneled from commercial banks to the state development banks.<sup>37</sup> Further, a banking and credit network, centering on the Banco de la Nación, was established and given control over the major portion of internal credit and its distribution. The network was created by acquiring control over three of the four major commercial banks. Of these, one had been minority owned, and one majority owned, by international banks.<sup>38</sup> In addition, the government restricted the activities of the existing branches of international banks,<sup>39</sup> set strict operating requirements for them, and prohibited the creation of new branches. By these actions, international bank presence and growth in the domestic financial sector was greatly reduced, and the government became the major controller of credit distribution within Peru.

However, the originally high capital requirements for the government set by the industrialization policies, and increased considerably by international corporate responses to those policies, created and then greatly expanded what was essentially a new role for international banks--as major direct lenders to the government.

The original Five Year Plan for 1971-1975, issued in 1970 before the impact of the international corporations' responses was felt, planned for the government's share of domestic investment to increase 56 percent by 1975, with investment in state enterprises to increase six-fold. Government investment was to be particularly directed to the expansion projects in mining and basic industry.<sup>40</sup> In addition to the programmed investment, the government would have to bear the costs of carrying out the agrarian reform and acquiring the basic industries.

The accomplishment of the government's industrialization goals, as explicitly stated within the Five Year Plan, was to be predicated on the government's acquisition of \$1.8 billion in international financing between 1971 and 1975. In mining alone, the government required \$421 million in international loans, to provide 36 percent of the forecasted investment.<sup>41</sup>

The original high international financing requirement was made necessary by the narrow resource base of the government. The restricted

domestic finance capital market was insufficient to provide the large amounts of capital needed by the government to carry out its projected structural changes and stimulate industrial growth.<sup>42</sup> Further, acquisition of international financing was necessary to avoid a deterioration in the balance of payments, by offsetting the effect of the \$7.5 billion in imports that the plan specifically required over the five-year period.<sup>43</sup>

One of the effects of the industrialization program's high international financing requirements was to cause a change in the form of entry of international capital into the economy. Rather than entering predominantly via direct investment by international corporations, the majority of international capital was to enter via international credits and loans. The \$1.8 billion in international financing was more than twice the amount of new international investment capital that was to be acquired between 1971 and 1975. As a result, the government would become the intermediary between international capital and Peruvian economic activities, in order to direct the major portion of externally acquired capital into priority production areas, and to select Peruvian entrepreneurs.

The responses of the international corporations in manufacturing and extraction to the industrialization program greatly increased the importance of access to international financing. As indicated earlier, the accomplishment of the Five Year Plan also had been predicated on \$700 million in new investments by international corporations. Instead, there was a net outflow of capital from the economy in the first four years of the Plan.<sup>44</sup> Government investment had to increase substantially to offset the loss or stagnation of international corporate investment.<sup>45</sup>

Thus, the failure of international corporations to provide the level of new investment planned for them by the government accelerated the change to international banks as the predominant source of new capital. This, combined with the government's reorganization of the financial sector, and its almost complete control over domestic credit, placed the government as the sole intermediary and negotiator with international corporate entities for the bulk of capital inflows.

The government's position as negotiator with international banks (with its original change to international loans as the major type of capital entering the economy) was the backbone of the government's economic power and control within Peruvian production in attempting to reorient it for the growth of industry.

First, it was the means by which the government financed its own entrepreneurial expansion into the major extractive activities, basic industries, and key industrial sectors. In this way the government could directly implement changes in the structure of Peruvian production and in the direction of growth of Peruvian industry, as well as affect the direction of change through government planning.

Second, the government's relationship with international banks was the primary means for establishing its economic strength in relation to Peruvian entrepreneurial groups and their economic activities (by controlling the distribution of domestic credit and the access to international credit).

Through its financial network, the government could determine which entrepreneurial groups, and which of their activities, would receive financing for operations and for expansion. The government thereby could have major control over which Peruvian entrepreneurial groups would increase in strength and be able to establish their economic predominance.

Thus, the financial activities of the government were the source of its strength in relation to Peruvian entrepreneurs, and the basis for its ability to restructure the Peruvian economy for industrialization.

However, although the basis chosen to establish the government's new role, in combination with international corporate responses to government policies, strengthened the government's position in relation to Peruvian entrepreneurs, they placed the government in a potentially vulnerable position in relation to international entrepreneurs. The government's acquisition of a central position in the economy, and its need for major amounts of international financing to maintain that position, placed it in a situation of strong direct reliance on international banks. This reliance was to compromise the military government's ability to make and enforce national economic policy when national policy conflicted with international corporate interests.

In the earlier years of the military regime, the government had come into conflict with international banks, in this case a consortium headed by Chase Manhattan Bank, over the financing of Southern Peru Copper Corporation's Cuajone project. In signing the concession contract, Southern had insisted that the government underwrite the project, which required the acquisition of \$400 million. However, in order to receive a \$200 million loan for Cuajone and prove "good faith," the government was indirectly required by the Chase Manhattan consortium to pay all outstanding expropriation claims for activities that had belonged to international extractive corporations based in the United States. This tacitly was understood to include IPC. Specifically, as a condition for issuing the loan, the Chase consortium insisted on a further loan guarantee and required that a loan be acquired from the United States Export-Import Bank. The Export-Import Bank, however, refused to give a loan until compensation was paid for the expropriated holdings of United States-based extractive corporations.

As a result, in February 1974 the Greene Agreement was signed between the United States and Peruvian governments. The military government agreed to pay \$76 million to the U.S. government, which would then distribute the money to the various expropriated corporations according to U.S. law.<sup>46</sup> With the signing of the Greene Agreement, the Export-Import Bank quickly made a small loan to Southern for Cuajone, and the Chase consortium loan followed within a few days.

Thus, the Chase consortium's loan requirement compelled the government to pay compensations it had stated it would not pay, and to commit part of its needed and scarce capital to profitless payments rather than to promoting further economic growth. In this way, international banks basically upheld the interests of international extractive corporations, but in a negative way. With one partial exception, the international banks did not promote the continuation of international extractive corporations' enclave

export activities, but provided funds to these corporations for reinvestment in more dynamic areas of extractive growth.

With the compensation settlement and the Cuajone loan in 1974, international credit channels were fully opened to the military government. The government's greatly increased borrowing over the next three years established its considerable indebtedness to international banks. Between 1974 and 1976, the amount owed by the government to international banking<sup>47</sup> institutions (both lending agencies and private banks) more than doubled.

During this time, the government was assuming its central position within the economy. By 1976, the state enterprises accounted for 52 percent of the added value of production within the major economic sectors, and more than one-quarter of all domestic production. The government was responsible for nine-tenths of exports, one-half of imports, and over half of investments. It had become the major entrepreneur in mining, fishing, basic industry, the financial sector, and the international marketing of essential products, including foods.<sup>48</sup> In addition, the government had taken direct responsibility for the most important new investments in extraction and manufacturing, including those that opened new areas of production. Thus, the core production activities, as well as the expansion of production, were the direct responsibility of the government.

However, the state enterprises that had assumed the responsibility for these activities were not highly profitable enterprises which could self-finance their operations or projects. To the contrary, they had considerable capital requirements. In 1973, the nonfinancial state enterprises as a whole had a S/12 billion deficit, while the state financial enterprises had an additional S/21 billion deficit.<sup>49</sup> During that year, as a result of the more than doubled level of state investment since 1972, the state enterprises accounted for 38 percent of the overall government deficit. By 1974 they accounted for more than half,<sup>50</sup> again as the result of sharply increased new investments.

By 1973, 56 percent of the rapidly rising government deficit was financed by international financial sources.<sup>51</sup> The government relied heavily on international banks' willingness to provide capital in order to maintain the government's controlling power within the economy and in relation to Peruvian entrepreneurs. The larger result, because of the government's greatly increased direct and indirect control over Peruvian production and the major entrepreneurial role which the government had assumed in key extraction and manufacturing activities, was to establish the great reliance of the Peruvian economy, as well as the direction, quality, and pace of industrial growth, on international banks.

In this situation, the international recession that struck the Peruvian economy with considerable severity between 1975 and 1976 greatly magnified the degree of reliance of the government and the economy on international banks' willingness to provide capital, and the terms on which they wished to provide capital.

Because the military government had been unable to implement major changes in international corporate practices or positions within Peruvian industry, international manufacturing corporations continued to import a

high proportion of the intermediate and capital goods inputs needed for the manufactured goods they produced in Peru. This situation, combined with the corporations' continued oligopolistic positions in industry, and the continued importing of inputs by Peruvian industrialists via licensing arrangements with international corporations, continued to tie Peruvian industry closely to the inflationary trends in the international manufacturing corporations' home markets.

As a result, Peru literally imported inflation and its recessionary consequences from the industrialized countries. Prices for Peru's imported goods increased 16 percent in 1973, resulting in a 23 percent increase in the import account despite an increase in real terms of less than 7 percent. The sharp rise in the import account was almost three times the average annual growth rate of imports between 1970 and 1972.<sup>52</sup> The same year, the domestic inflation rate increased 13.4 percent, compared to an average annual rate of 5.1 percent between 1970-1972.

Among the consequences of the inflation were, first, the overthrow of President Velasco and his supporters, who had led the initial military government and been the authors of the industrialization program and most of the major structural changes being attempted. A major reason for their overthrow was the failure of their economic policies and programs to stem the inflation and prevent the economy from deteriorating. To the contrary, the numerous large investment projects connected to the industrialization program had exacerbated the inflationary situation that began in 1973.<sup>53</sup>

Second, the inflation had a severe impact on the Peruvian balance of payments. While the 16 percent increase in the price of imported goods had led to a 23 percent increase in the import account in 1973, the value of exports had grown by only 18 percent. By 1974, imports exceeded exports by \$403 million, imports having grown 85 percent and exports only 35 percent. In 1975, the trade deficit reached \$1.1 billion.<sup>54</sup> In that year,<sup>56</sup> imports grew by 35 percent,<sup>55</sup> while exports declined 7 percent in value.

By the end of 1975, foreign exchange reserves were reduced to \$100 million from a level of more than \$600 million in 1974, and by July 1976 the reserves had reached a deficit of crisis proportions, undermining Peru's ability to pay for its industrial and food imports.<sup>57</sup> The only means to resolve the crisis in the balance of payments and in the recessionary economy was to have major amounts of new inflows of international loans and direct investments.

During the first two and a half years of the recession, during which the government and the economy as a whole increasingly needed greater inflows of capital, international banks acquired a particularly strong position for insisting on the slowing down, stopping, or undoing of the government's industrialization policies that had sought to redefine the positions of international corporations in the Peruvian economy in ways unsatisfactory to international extractive and manufacturing corporations. International banks, with their strong direct and indirect ties to both types of international corporation, took advantage of the opportunity to influence the policies.

At the beginning of 1976, when the foreign exchange reserves still had a small positive balance but clearly were heading rapidly toward deficit, the government began to negotiate with a consortium of international banks, headed by Manufacturers Hanover Trust, for a major loan to cover the anticipated deficit and to meet the government's international loan obligations. The negotiations extended until the foreign exchange reserves entered into crisis deficit. At that point, the consortium "bailed out" the government by giving a direct loan of \$240 million under terms that required the government to make another unintended compensation for expropriated extraction activity, and gave to the international banks the role of directly overseeing a stabilization program for the Peruvian economy. This was a role that previously had always been carried out among all nations by an international lending agency, the International Monetary Fund.

As part of the loan provisions, the government agreed to compensate Marcona Mining Company for the iron mines that had been expropriated a year earlier under the Velasco administration, which publicly had indicated it would not pay compensation because of backlogs of unpaid taxes and tax fraud. The acquisition of the urgently needed loan was made contingent on the settlement of the unintended compensation agreement with Marcona,<sup>58</sup> which had wanted to divest itself of the iron mines and remain with a monopoly of the marketing and transportation of Peruvian iron ore exports.<sup>59</sup> The agreement between Marcona and the military government provided for a \$68 million payment to Marcona and Marcona's exclusive right to market and transport Peruvian iron ore exports. The \$68 million payment in part would come from the \$240 million loan from the international banks.<sup>60</sup>

Additionally, changes in government policies within an economic stabilization program were made a requirement by the consortium in order for the government to receive the loan. These changes included a reduction in state entrepreneurial expansion, a devaluation of the Peruvian currency, and an easing of the rules for international manufacturing corporate investment in Peru.<sup>61</sup>

In the last days of June and during July of 1976, the military government announced: 1) that the activities of the state enterprises would be reduced by \$149 million, which included a 25 percent reduction in capital goods expenditures; 2) that the government was supporting the easing of the Andean Code restrictions on international corporate investments in manufacturing within Peru and the Andean market; and 3) that the Peruvian currency had been devalued by 44 percent.<sup>62</sup> Simultaneously, the remaining members of the Velasco government, who had been major promoters of the industrialization program,<sup>63</sup> were maneuvered out of the Cabinet and into retirement.

A month later the \$240 million loan was agreed to, with a portion to be disbursed to the government immediately, and the remainder to be given at the end of the year, in order for the banks to be able to check on whether or not the government had effected a reduction in its entrepreneurial activity and made a change in the terms for international manufacturing corporations' activities. In November, the industrial community law was changed to reduce the maximum ownership share of the industrial

community to 33 percent, to distribute the shares to individuals rather than to the industrial community as a single entity, and to permit transfer of individual shares to nonindustrial community members. These changes eliminated the possibility of loss of managerial control in all medium- and large-sized industrial enterprises, including international subsidiaries.

Thus, the international banks again demonstrated their willingness to support the interests of international extractive corporations in a negative way, by providing funds, not for enclave export activities, but for re-investment in more dynamic areas of growth. More importantly, the banks demonstrated a clear willingness to support positively the interests of international manufacturing corporations, and to utilize the positions of influence they acquired to pressure against locally created obstacles to international corporate growth, orientations, and prerogatives within industry.

#### Overview and Implications for Peruvian Industrialization

The internal needs of the military government, which were created by the industrialization program it chose to initiate and magnified by international corporate responses to the program, maintained Peruvian production within the orbit of international corporate dynamics and impact, despite the government's goals of strengthening its own, and Peruvian industrialists,' control over production and their respective positions vis-à-vis international economic actors.

The means chosen by the military government to restructure the economy in order to industrialize and reduce the domestic influence of international entrepreneurs succeeded in lessening the impact of international extractive corporations, but did not lessen the impact of international manufacturing corporations, and increased the direct impact of international banks on the government itself, on the Peruvian economy, and on the future of Peruvian industrialization. Thus, the military government did not succeed in reducing the effects of international corporate dynamics on the Peruvian economy, but rather changed the international corporate group which would have the most impact domestically.

The recession exacerbated the impact of international banks on national economic policy, but did not cause it. The causal relationship had been established prior to the recession, as a result of the industrialization policies chosen by the government and the reactions of international manufacturing and extractive corporations to those policies. The government had maintained an emphasis on the use of advanced technology, with its capital-intensive characteristics, within the autonomous industrialization program. This had occurred in part because of the choice to emphasize export markets for manufactured goods as the basis for the short-to-medium-term growth of industry. The choice led to the perception of the need to use advanced, capital-intensive technology within industry to establish the competitiveness of Peruvian manufactured goods in external markets.

The focus on the use of advanced industrial technology was an important cause of the industrialization program's emphasis on the expansion of the mining/petroleum sector and, to a lesser extent, of export agriculture--

expansion which was required in order to produce, in the short to medium run, the higher levels of capital and foreign exchange needed to acquire the advanced industrial technology unavailable domestically, as well as to repay the finance capital acquired from international sources and needed to initiate capital-intensive industrial projects. The expansion of the mining/petroleum sector in particular then also required the use of technologies largely unavailable within Peru, and set a larger capital requirement for the industrialization program, a requirement which also would have to be met through international sources.

The focus on the use of advanced technology thus led to an emphasis within the industrialization program on developing export extraction, rather than on developing food agriculture for the purpose of developing an internal market. This resulted in the government directing the greatest portion of its internally and externally acquired capital to the export-extraction and manufacturing sectors, and in the government's inability to direct major amounts of resources to the neo-subsistence labor population in agriculture. As a consequence, the industrialization program was unable to fulfill a major requirement for establishing an autonomous indigenous industry: the development of a viable internal market.

The larger result was to place the government in the position of requiring increased foreign investment in extraction and manufacturing, and extensive borrowing from international sources to acquire the advanced technology and capital for industrialization. Thus, basic choices made by the regime established the major importance of resources held by international corporations and banks in the industrialization program. At the same time, because the military government emphasized industrialization achieved autonomously, it also sought within the industrialization program to change the character of international corporate activities within Peru.

Therefore, the military government was challenging the basic corporate nature and interests of international corporations at the same time that it created a large requirement for precisely those resources most concentrated in the hands of international corporate groups: capital and advanced technologies. International corporations (particularly in manufacturing) and international banks thereby were placed in strong positions to influence the achievement of industrialization goals in response to government policies promoting economic autonomy which affected their own activities. They continued in the strong positions structured by the industrialization program, on into the period when an international recession seriously weakened the government's economic position and created the opportunity for direct, intensive pressure against the autonomy-promoting policies.

A number of implications for Peruvian industrialization can be derived from the new role of international banks as direct lenders to the government, a role that was the larger consequence of the industrialization program. As the international banks indicated in their actions with the government, they will directly promote the growth of international corporations in manufacturing, and also will promote the growth of international corporations in extraction, in areas that do not directly conflict with manufacturing corporate growth.

This implies that international banks will not oppose further industrialization efforts in Peru over the long run, if these efforts serve to benefit international manufacturing corporations' own worldwide growth. It implies that international banks will not support further industrialization efforts in Peru oriented primarily to benefiting and strengthening Peruvian manufacturers to enable them to consolidate their position as an industrialist class. The further implication is that it will be very difficult, if not impossible, for a Peruvian government to once again promote autonomous industrial development within the foreseeable future.

The larger implication is that Peru will industrialize over the long run, with the assistance of international banks, but that its industrialization will be structured into, and develop as a result of, the internationalization of production that is occurring through the global expansion of international manufacturing corporations.

There is, however, a counterbalancing aspect of the seemingly unidirectional impact of international corporate dynamics on Peruvian industrialization and on Peruvian actors. The new role of international banks as direct lenders to the Peruvian government developed during the period when direct lending by international banks to many LDC governments expanded rapidly. This occurred as a result of slowed economic growth in the industrialized economies in the late 1960s and early 1970s, and as the result of the petrodollar surpluses that were deposited with the banks after 1973.

The impact of the new wider, direct role of the banks has been to create large outstanding debts to the banks among the non-oil-producing LDCs, with little possibility of repayment apparent for the near future. Because of the serious recession and balance of payments crisis, Peru had been one of the Third World countries with the highest possibility of defaulting on international bank loans. Some concern has arisen that a single default by one LDC might lead to a series of defaults by others and produce a worldwide bank crash.<sup>64</sup> Therefore, the new role of international banks, in Peru and other LDCs, has created vulnerability for the banks as well, and potentially decreases the imbalance in negotiating strength between international banks and the Peruvian government in terms of industrialization and other national economic policies to be followed in the future.

#### Larger Implications for Third World Industrialization

Peru's experience with autonomous industrialization efforts provides implications for development in other Third World nations. The experience in Peru indicates that there is variation among international corporations in their responses to Third World efforts to eliminate structural obstacles to industrialization. In particular, it indicates that international corporations located in manufacturing have a positive and direct stake in industrialization attempts in Third World nations, insofar as these attempts can contribute to the further growth of the corporations' activities. It also indicates that, although international extractive corporations are

likely to conflict with Third World governments over measures to achieve industrialization, international manufacturing corporations are not likely to conflict with Third World governments over the achievement of industrialization per se, but over the distribution of the benefits of industrialization.

The experience also indicates that a reduction in the strength of one international corporate group within the economy, or in relation to the government, does not automatically result in an absolute reduction in the influence of international corporate dynamics on the economy and on government policies, with a resulting rise in autonomy, but might to the contrary lead to an increase in the influence of international corporate dynamics.

The experience of the military government in the industrialization program also raises the question of a possible dilemma for Third World societies that experience relative capital scarcity and pursue economic autonomy as well as industrialization: such countries can seek autonomous industrialization, thereby challenging international corporate dynamics, or they can seek industrialization based on capital-intensive, advanced technology, but they are unlikely to successfully do both. Within the existing international corporate environment, the search for greater economic autonomy and industrialization by Third World societies would seem to require a challenge to the prevailing assumption of Western technology and Western industrialization that industrialization must be connected to, and rely upon the use of, capital-intensive technology, which in turn is primarily available from international corporations. If Third World societies intend to challenge international corporate dynamics, they cannot simultaneously place themselves in the position of requiring those resources that have given the international corporations their greatest economic advantages.

- <sup>1</sup>Accounted for by Southern Peru Copper Corporation, Marcona Mining Company, and the Cerro de Pasco Company.
- <sup>2</sup>Eduardo Anaya Franco, Imperialismo, Industrialización y Transferencia de tecnología en el Perú (Lima: Editorial Horizonte, 1974), pp. 51-52.
- <sup>3</sup>Ibid.
- <sup>4</sup>The term international banks refers to private multinational banks.
- <sup>5</sup>The Cerro de Pasco Company. Janet C. Ballantyne, "The Political Economy of Peruvian Gran Minería" (Ithaca: Cornell University Latin American Studies Program, Dissertation Series No. 66, 1975), p. 76.
- <sup>6</sup>Ibid., p. 163.
- <sup>7</sup>Eighteen percent of copper exports were refined copper, while 13 percent were ore concentrates, and 60 percent were in the form of blister copper. Fifty-four percent of lead exports and 76 percent of zinc exports were as ore concentrates. The majority of iron exports were in pellet form. Ibid., pp. 78-79.
- <sup>8</sup>By 1968, those manufacturing sectors in which international corporations controlled over half the production were the sectors with the highest imports of intermediate and capital goods inputs. Anaya, p. 94.
- <sup>9</sup>Sixty percent of international corporations present in Peruvian industry were located in these two sectors. Ibid., p. 37.
- <sup>10</sup>See the study by Marie Beaulne, Industrialización por Sustitución de Importaciones Perú 1958-1969 (Lima: ESAN/Campodonico, 1975), especially pp. 141-144.
- <sup>11</sup>Anaya, p. 64, and Ronald Muller, "The Multinational Corporation and the Underdevelopment of the Third World," in Charles K. Wilbur (ed.), The Political Economy of Development and Underdevelopment (New York: Random House, 1973), p. 133.
- <sup>12</sup>Julien-Pierre Koszul, "American Banks in Europe," in Charles Kindleberger (ed.), The International Corporation (Cambridge: M.I.T. Press, 1970), pp. 273-289, especially pp. 276, 278-279.
- <sup>13</sup>General Juan Velasco Alvarado, Independence Day Speech, July 28, 1969, in Velasco, Voz de la Revolución: Discursos del Presidente de la República General de División Juan Velasco Alvarado 1970/1972, Oficina Nacional de Difusión de Sinamos, 2 vols. (Lima: Ediciones Participación, 1972), 1:64-65.
- <sup>14</sup>Velasco, Independence Day Speech, July 28, 1970, Ibid., 1:233.
- <sup>15</sup>See Raymond Vernon, Sovereignty at Bay (New York: Basic Books, 1971), pp. 28, 40, on the early existence of overseas markets for oil, copper, and aluminum corporations.

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- <sup>17</sup>Washington Post, August 29, 1976, p. A-10.
- <sup>18</sup>Felipe Portocarrero, "El Gobierno Militar y el Capital Imperialista," Cuadernos de Sociedad y Política 1:1 (1976), p. 28.
- <sup>19</sup>Ibid., p. 29.
- <sup>20</sup>See account by Shane Hunt, "Direct Foreign Investment in Peru: New Rules for an Old Game," in Abraham F. Lowenthal (ed.), The Peruvian Experiment (Princeton: Princeton University Press, 1975), p. 327.
- <sup>21</sup>It is clear that when the Guajone contract was signed with Southern, the major outlines of the changes for the mining sector already had been established. Within the contract the government anticipated some of the changes that would be made with the issuance of the Ley Normativa de la Industria Minera in April 1970. The stipulation that the government would control the marketing and refining of Guajone copper, and a mandatory investment and development schedule, were included in the contract. However, Southern would continue to use the old depreciation allowance, rather than the reinvestment deduction, and no provision was included for the possible reversion of the mine to the government after recovery of the initial investment. When the Ley Normativa was issued, the government simultaneously issued a resolution that exempted the contract from the requirement to adopt the reinvestment deduction. Dolph W. Zink, The Political Risks for Multinational Enterprises in Developing Countries with a Case Study of Peru (New York: Praeger Publishers, 1973), p. 88.
- <sup>22</sup>The first, and to date only, state-developed mine to begin production (Cerro Verde) did so three years later than the government originally had desired production to begin.
- <sup>23</sup>International credits to the Peruvian government had been restricted soon after the military took control in 1968, when it expropriated the International Petroleum Company.
- <sup>24</sup>Once assuming an entrepreneurial role in mining, the government had some success in attracting external corporations and consulting firms that had not previously been active in the sector. It was able to initiate the development of a mineral deposit under Mineroperu's control via a British/Canadian consortium. The government also was able to initiate projects in steel production, copper and zinc refining, and the development of a petrochemical industry. In all of the above cases, the government operated via consulting arrangements or by contracting out projects. In no cases through 1976, however, did the government succeed in getting an international corporation or investment group to enter as a partner in a mining/metallurgy venture, in order to share the investment requirements. All financial assistance received for the government's projects was in the form of external credits or loans that would have to be repaid.

## REFERENCES

<sup>25</sup>The industrial community was composed of all permanent workers in an enterprise, including white-collar workers and management.

<sup>26</sup>Ten percent of net profits would be distributed directly to the industrial community's members annually.

<sup>27</sup>Alfred Stepan argues that this was the important difficulty for international corporations created by the two policies in combination. Alfred Stepan, The State and Society: Peru in Comparative Perspective (Princeton: Princeton University Press, 1978), pp. 275-276.

<sup>28</sup>Ministerio de Industria y Turismo, Oficina de Comunidades Laborales, Estadística de Comunidades Industriales (Lima, n.p., n.d.), pp. 9, 88.

<sup>29</sup>Calculating depreciation at about 5 percent of GNP. E. V. K. Fitzgerald, The State and Economic Development, Peru Since 1968 (New York: Cambridge University Press, 1976), p. 30, and Ministerio de Industria y Turismo, Oficina de Estadística, El Capital Extranjero en el Sector Industrial (Lima, n.p., 1975), p. 31.

<sup>30</sup>Twelve percent of international manufacturing investments were in capital goods in 1973, versus 11 percent in 1971; 57.2 percent were in intermediate goods versus 57.36 in 1971; and 31 percent were in consumer goods versus 32 percent in 1971. Ibid., and Fitzgerald, p. 74.

<sup>31</sup>Bayer Industrial with Bayer, Tractores Andinos with Massey Ferguson, and Motores Diesel with Volvo-Perkins.

<sup>32</sup>The other important area of government policy that involved international manufacturing corporations was the government's reorganization of the automotive industry. The first round of the reorganization resulted in the closing down of eight of the 13 international subsidiaries that had been operating in the industry. The second round sought to separate auto, light truck, and heavy truck production, and apportion each on a monopoly or semimonopoly basis among four of the remaining five international subsidiaries. By 1976, this policy had not been successfully implemented. The international subsidiary chosen to have most of the auto market (Toyota) held only 21 percent of the market, while the subsidiary that continued with the largest market position (Chrysler, with 31 percent of the market) officially had been eliminated from that market. In addition, the original policies for a one-year fade-out venture and the rapid substitution of domestic content were repeatedly lowered and/or postponed.

<sup>33</sup>It is not known what delays or obstacles within the government itself may have led to the delay in issuing the guidelines and deadlines for the fade-out venture contracts.

<sup>34</sup>Stanley F. Rose, Business Operations in Peru (Washington, D.C.: Bureau of National Affairs, Tax Management Foreign Income, #329, 1975), pp. 26-27, cited in Stepan, p. 272.

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<sup>35</sup> See contradictory accounts in Anaya, pp. 94-95, and Fitzgerald, p. 297.

<sup>36</sup> See studies cited in Anaya, pp. 58, 68, 94.

<sup>37</sup> Jane S. Jacquette, "Revolution by Fiat: The Context of Policy-making in Peru," Western Political Quarterly 25:4 (December 1972), p. 655.

<sup>38</sup> Chemical Bank of New York and Chase Manhattan Bank, respectively.

<sup>39</sup> Access to domestic savings was restricted and the branches could not borrow from Peruvian banks beyond government-set limits. Ibid.

<sup>40</sup> Instituto Nacional de Planificación, Plan del Perú 1971-1975 (Lima, 1970), p. 23.

<sup>41</sup> Robert E. Klitgaard, "Observations on the Peruvian National Plan for Development 1971-1975," Inter-American Economic Affairs 25:3 (Winter 1971), 15, and Elizabeth Dasso, "Sector Minero," in Realidad Social Peruana, by Henry Pease, et al. (Lima: Universidad Católica, Estudios Generales, Letras, 1974), p. 21.

<sup>42</sup> Fitzgerald, p. 105.

<sup>43</sup> Klitgaard, p. 18.

<sup>44</sup> Fitzgerald, p. 68.

<sup>45</sup> This also was true to a lesser extent for generally low levels of new investment by Peruvian entrepreneurs.

<sup>46</sup> The military government refused to officially acknowledge that IPC would be included in the list of corporate subsidiaries for which payment would be made, but since the terms of the agreement left the disbursement of the lump sum to the discretion of the U.S. government, Standard Oil did receive compensation for its subsidiary.

<sup>47</sup> From \$1.5 billion to \$3.5 billion.

<sup>48</sup> Fitzgerald, pp. 35, 95, 117, and Dr. Luis Barua Castaneda, Ministro de Economía y Finanzas, televised speech, 17 January 1976.

<sup>49</sup> Fitzgerald, pp. 33, 49.

<sup>50</sup> Fifty-seven percent.

<sup>51</sup> Inter-American Development Bank, Economic and Social Progress in Latin America, Annual Report (Washington, D.C., 1974), p. 395.

<sup>52</sup> Ibid., pp. 390, 398.

<sup>53</sup> See New York Times, 2 May 1976, p. 10.