CLUSTERS AND COMMODITY CHAINS:
Firm Responses to Neoliberalism in Latin America

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TAKING THE WHEEL: AUTO-PARTS FIRMS AND THE POLITICAL ECONOMY OF INDUSTRIALIZATION IN BRAZIL. By Caren Addis. (University Park, PA: Penn State University Press, 1999. Pp. 257. $47.50 cloth, $18.95 paper.)

DYNAMIC AGROINDUSTRIAL CLUSTERS: THE POLITICAL ECONOMY OF COMPETITIVE SECTORS IN ARGENTINA AND CHILE. By Gabriel Casaburi (London: MacMillan, 1999. Pp. 234. $65.00 cloth.)

FREE TRADE AND UNEVEN DEVELOPMENT: THE NORTH AMERICAN APPAREL INDUSTRY AFTER NAFTA. Edited by Gary Gereffi, David Spener, and Jennifer Bair. (Philadelphia, PA: Temple University Press, 2002. Pp. 368. $74.50 cloth, $24.95 paper.)

INDUSTRIALIZATION AND PRIVATE ENTERPRISES IN MEXICO. By Taeko Hoshino. (Chiba, Japan: Institute of Developing Economies JETRO, 2001. Pp. 142. N.p.)

THE HANDBOOK OF LATIN AMERICAN TRADE IN MANUFACTURES. Edited by Montague Lord. (Williston, VT: Edward Elgar, 1998. Pp. 336. $195.00 cloth.)

Latin America experienced a paradigm shift in both theory and policy during the 1990s. It could be argued that this opened a new chapter in Latin America's evolution, particularly in terms of forming new relations with the world economy (Gwynne and Kay 2000). Following the neostructuralist debate, one important issue today is how competitive advantages can be generated and created—at the scale of both the nation-state and the firm. In this context much has been written on developing competitive advantage in firms and states in the world's core economies (Porter 1998), but relatively little on Latin America. Much of this literature concentrates on high technology sectors (Storper 1997). However, even books that have focused on how to develop competitive advantage in small, resource-based economies have not extended their horizons beyond Scandinavia (Maskell et al. 1998). Therefore, there

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would appear to be serious research gaps in the study of a more grounded political economy in Latin America in the early twenty-first century. It could be argued that new conceptualizations are required, particularly in regards to links between governments and firms.

Since the late 1980s most Latin American countries have introduced wide-ranging free-market reforms, liberalized markets, and have opened their economies to the forces of international competition. Now that most of these reforms have been completed, new problems have emerged for which the free-market recipe offers less help. It could be argued that imperfect markets, poor infrastructure, deficient educational systems, and weak governments are making the transition to open and competitive economies very painful (Stiglitz 2002). Many sectors are succumbing to new competitive pressures, and many firms, especially the small and medium-sized enterprises (SMEs), are finding the global marketplace a very hostile territory.

There is a surprising lack of research about how Latin American firms deal with and relate to these new competitive pressures. A number of books (Casaburi 1999; Gereffi et al. 2002; Pietrobelli 1998) have appeared over the last five years, many reflecting the results of a wide variety of case studies of how manufacturing firms have adapted to neoliberal policies in Latin America. This review will not only refer to these but also attempt to set out a framework for further research. It will first examine firm responses to neoliberalism before investigating the relevance of the concepts of commodity chains and clusters—with a particular focus on agro-industrial firms and local development.

FIRM RESPONSES TO NEOLIBERALISM IN LATIN AMERICA

The character of firms in Latin America has evolved considerably since the implementation of the structural changes linked to the adoption of neoliberal reform in the 1990s. Although the neoliberal reforms did not aim at promoting specific firms, neither were they meant to be neutral. For example, export-oriented firms were supposed to perform better than those geared to domestic markets. Firms within certain sectors were also favored by much greater investment in the postreform period. Thus, in all Latin American countries, firms within the telecommunications sector needed to invest massively in order to modernize during the neoliberal period. In the key Latin American countries, investment by firms in capital-intensive manufacturing sectors also tended to be dynamic, as with firms specializing in cement, steel, petrochemicals, and chemicals (Stallings and Peres 2000).

Before neoliberal reform, the process of industrial expansion in Latin America had been engineered through a distinctive institutional structure of firms, often known as the triple alliance (Gwynne 1985). This was because key firms involved in industrialization could be divided into three groups—state firms, national private companies, and transnational corporations (TNCs). Taeko Hoshino (2001) labels national private companies as indigenous, and his book examines how these enterprises grew within the framework of import-substitution industrialization in Mexico before the 1980s reforms. His argument about the increasing need for economies of scale and firm concentration emanates from case studies on the beer, steel, baking, nonferrous metals, and auto-parts sectors.

The historical development of the auto-parts sector in Brazil within the context of strong government protection is the main focus of Caren Addis's (1999) study. Her analysis focuses on the changing interaction over time of two of the key actors in Latin American industrialization within import substitution—the TNC assemblers (such as Ford and General Motors), on the one hand, and the large number of national auto-parts firms, on the other. The most interesting political economy contribution is to show that the Brazilian automobile industry, due partly to SME pressures, had a much more horizontal and less Fordist structure than equivalent industries in the core economies of North America and Western Europe.

By the 1980s and the beginnings of neoliberal economic policies, Addis argues, these auto-parts firms could be classified in three groups: a small number of peak suppliers, most of them already subsidiaries of TNC assemblers or TNC parts producers; an intermediate echelon of national firms characterized by a high rate of reinvestment of profits; and a lower echelon composed of firms that considered auto-parts production one of many activities needed to diversify risk and maintain family income (163–70). By 1989, exports of auto parts were dominated by the TNC assemblers with 85 percent of auto-parts exports from Brazil being classified as intra-company trade. It can be inferred from the analysis that neoliberal reform would have significantly reduced the lower echelon of auto producers and made TNC assemblers and TNC parts producers even more dominant in auto-parts production and trade.

Looking more widely at the industrial structures of Latin America, neoliberal reform was to have a significant impact on the previous framework of the triple alliance. Widespread privatization was to reduce massively the number of state firms in most countries—particularly those involved in feedstock industries, such as steel and petrochemicals. Many strategic oil and mining companies would still remain in state hands after reform, such as the copper-producing Corporación Nacional del Cobre (CODELCO) in Chile or the oil-producing Petróleos Mexicanos (PEMEX) in Mexico. Furthermore, among large private firms, TNC subsidiaries gained ground in relation to large domestic corporations. TNC subsidiaries were responsible for much of the investment growth, particularly in mining and telecommunications. The privatizations, the liberalization of regulations that prevented foreign firms from investing in many sectors, and the globalization of important industries combined to strengthen the position of TNCs after neoliberal reform.

Labor productivity in manufacturing gained ground in certain key countries during the 1990s, such as in Argentina and Brazil (Stallings and Peres 2000, 62). However, in other countries productivity declined. As a result Latin American labor productivity in manufacturing firms was much lower than for equivalent firms in the United States in 1996—ranging from as low as 15 percent of U.S. levels in Peru to as high as 67 percent in Argentina. Within some Latin American countries, the gap between the productivity of large firms and that of SMEs narrowed, but the performance between countries continued to be extremely dissimilar (ibid., 61).

Technological advance has occurred mainly among larger firms. The growing significance of imported capital goods and the construction of technologically advanced plants by foreign firms resulted in an even greater foreign influence in the generation of technology and innovation. In line with the neoliberal model, the state reduced its involvement to improve technological capability at the national level, and local enterprise did not always step in to fill the void (Pietrobelli 1998).

Reforms did not solve, and quite probably increased, two problems associated with the nature of firms in Latin America. First, investment continued to be concentrated among large enterprises that have not shown the capacity to develop backward and forward linkages with smaller firms. This has made the development of localized clusters of technologically dynamic firms (so important in peripheral economic spaces in Europe) much more difficult to achieve (Casaburi 1999; Storper 1997). Secondly, local supplier chains were destroyed by the quest for competitiveness through increasing imported inputs. Agro-industry was probably an exception here (Casaburi 1999) but it was characteristic of firms in other export-oriented industries, particularly in the northern Mexican border area (Gereffi et al. 2002; Kenney and Florida 1994; Vellinga 2000). Although these processes have led to greater localized specialization and higher efficiency, they have not necessarily become vehicles for deepening local economic growth and have led to the persistence of the external constraint on manufacturing growth.

This lack of links between large enterprises and small local firms in export-oriented activities has not only led to limited cooperation and information exchange between firms at the local level but would have also produced negative impacts on local employment growth, given that small firms and microenterprises have accounted for more than 100 percent of net job creation in most Latin American countries during the 1990s. Barbara Stallings and Wilson Peres (2000, 64) note the contrast between

Mexico and Chile in terms of the contribution of large and small firms in job creation in the 1990s. In Mexico the growth in TNC assembly firms in the northern border area meant that medium- and large-scale enterprises were the main providers of manufacturing employment (Gereffi et al. 2002). In contrast in Chile, where agro-industry and fish processing were two key export-oriented sectors (and in which small-scale suppliers have been important), small enterprises provided the main contribution to employment growth (Schurman 2001).

COMMODITY CHAINS: CAPITAL MOBILITY AND GLOBAL NETWORKS

In the global economy of the early twenty-first century, unskilled labor remains relatively immobile, particularly between the economies of the core and semi-periphery (Gwynne, Klak, and Shaw 2003). However, in contrast, capital and technology have become even more mobile. Gary Gereffi (1994) has argued that in order to achieve the level of functional integration required for the globalization of economic activities, three forms of international capital are needed. These are industrial, commercial, and financial capital; each produces a particular type of global network. In Gereffi, David Spener, and Jennifer Bair's volume (2002), the focus is very much on industrial capital and its changing relationships in the North American apparel industry. Over the last two decades, firms in the Mexican apparel industry have had to react not only to the imposition of neoliberal economic policies by the federal government but also to Mexico's inclusion in the North American Free Trade Agreement. In order to survive, many Mexican producers have had to shift from producing for local markets to manufacturing for the U.S. market.

The book's underlying philosophy and methodology is similar to that developed in Gereffi's (1996) earlier work on Mexico, in which he argued that in order to adequately analyze the economic and social networks involved in a commodity chain, both forward and backward linkages must be analyzed in terms of the commodity flows to and from each industrial node (as between locations in the United States and Mexico; the relations of production, that is, the type of labor utilized at each particular stage of the commodity chain (such as professional, skilled or semi-skilled, and male or female); and the dominant mode of organization of production at each particular node, including the level of technology used and the size/capacity of the production unit.

Unfortunately, this theoretical framework is not further developed in Gereffi, Spener, and Bair's work, but the book nevertheless provides a range of research in terms of global shifts in production, the increasing importance of global networks of supply and demand and the impact on geographical locations—or what geographers would call "place"

(Bebbington 2003). One part of the book focuses on the changes in apparel production and networks in the U.S. garment industry. From the point of view of this review, the sections which examine the apparel industry in the U.S.-Mexico border region and the Mexican interior are most useful. For example, the chapter by Jorge Carrillo, Alfredo Hualde, and Araceli Almaraz on the apparel industry in Ciudad Juárez and Monterrey notes that firms participating in networks *without* local backward linkages tend to be more flexibly competitive in the new free-trade environment. In contrast, locally linked firms tend to suffer from a number of disadvantages, including technological and organizational limitations and a lack of forward linkages to the international market. Thus, this case points to the crux of the dilemma for policymakers in Latin America: the more embedded a firm is in local supply networks, the less likely that firm is to compete effectively on the global economic stage.

Those Mexican apparel firms that survived often did so because they became inserted into global commodity chains. In this way, many firms became subcontractors for U.S.-based manufacturers and retailers or for larger Mexican producers. It is curious that Gereffi, Spener, and Bair do not develop this theme. In previous work, these commodity chains have been referred to as buyer-driven (Gereffi 1996). These chains occur in industries in which retailers, designers, and trading companies are fundamental to the development of decentralized production networks that can incorporate a variety of export-oriented locations. A distinct type of TNC, such as Nike or Levi Jeans, lies at the core of such buyer-driven commodity chains. They design and market their own brand/products, but are only indirectly involved in their manufacture. Essentially they are manufacturers without factories, at the center of a highly flexible and global network of production, distribution, and marketing.

Being a node in the blue-jeans commodity chain has transformed the northern Mexican town of Torreón, as Gereffi, Martínez, and Bair (2002) demonstrate. Torreón's blue-jeans firms have transformed themselves in a few years from producers for the domestic market to what is called "full-package exporters" in the apparel industry, working as partners with U.S. "lead firms." As a result, apparel employment rose from 12,000 jobs in 1993 to 75,000 jobs by 2000. Nevertheless, the impacts on local development must not be overemphasized. The authors argue that Torreón apparel firms do not have the institutional support associated with industrial districts in core economies, and no jeans firm has been able to move into the most profitable activities in the apparel chain, namely design and marketing.

The buyer-driven commodity chain is characteristic of much of the export-oriented manufacturing of Latin American firms. Local production is geared to labor-intensive, consumer-good industries such as garment, footwear, toys, and consumer electronics. In the Mexican case production is subcontracted by the TNC to a number of different firms, often located in a "cluster" as in Torreón. Firms supply either the finished product or a component product that forms part of the wider productive network of the TNC. The specifications, to which the finished product and component firms must rigidly adhere, are supplied by the retailers or designers that order the goods. The economic surplus within buyer-driven chains is accumulated and concentrated within the TNCs and their core-economy head offices in terms of the research, development, and marketing of the brand-name product and its associated image. Through the maintenance of the complex capital and information flows, the TNCs are able to exert control over how, when, and where the manufacturing will occur and how much profit is accumulated at each stage of the commodity chain.

CLUSTERING AND LOCAL DEVELOPMENT

A major question concerns how places within Latin American countries will be incorporated into the global economic system as globalization deepens. We previously noted that commodity-chain literatures see increasing interdependence between global and local firms. However, such geographical spread is complemented by functionally tight-knit supply chains that link buyers and suppliers at the global scale. To what extent is their being inserted into one of these global supply chains beneficial for producing firms in Latin American countries—and for the localities in which they reside?

At this point it is useful to briefly mention literatures of local development and industrial clusters. Some clustering literatures envisage "success" at the local level as now being built through increased interdependence between related firms and business enterprises and their incorporation into networks of trust-based relationships. The networks are envisaged as forming strongly territorial local "clusters" (Braczyk et al. 1998; Storper 1997; Maskell et al. 1998; Porter 1998). Such an interpretation of place-based "success," based on mechanisms of economic and social inclusion within spatial and network processes of growth is, however, open to debate (Taylor 2001).

Unlike many commodity-chain literatures, clustering can neglect unequal power relations between firms, and the constraint these place on the way firms do business—empowering some and disempowering others (Taylor 2000). Thus, studies of local industrial and economic growth in Latin America (and other developing regions) offer only partial support for these networked models' growth (Humphrey 1995; Nadvi and Schmitz 1994). From research in Pakistan and Brazil, Hubert Schmitz (1999) has highlighted clustering and trust as foundations for growth. In the specific context of leather commodity chains, local cluster relationships have been seen as "thickly" constrained by corporate and institutional networks and constantly being reconstructed (Wølneberg 2002).

Ulrik Vangstrup (2002) examines local clusters and the experiences of domestic knitwear firms in central and western Mexico. Contrary to the emphasis that the industrial-districts and clustering literatures place on the importance of dynamics within the cluster for SMEs, Vangstrup's case studies demonstrate that it is the external links of each firm to global commodity chains that have been critical in allowing firms to develop successful export programs. Vangstrup found that contacts with foreign (and especially U.S.) buyers were more important than the advantages provided by membership in a producer association or location within a cluster of related firms. Thus, how firms relate to the economic and social processes inherent within commodity chains and clusters could be seen as a key indicator of whether Latin American firms can successfully restructure and survive within the context of a competitive world economy.

COMMODITY CHAINS AND CLUSTERING IN AGRO-INDUSTRY

How do commodity chains and clusters interact for firms within resource-based sectors, such as those within agro-industry? In agro-industry critical links occur not only between firms, but also between firms and farmers or producers. Relationships between agro-industrial firms and producers (or those further downstream in the chain) can be organized in one of three possible ways: vertical integration, the spot market, or contract farming.

Increasingly, the dominant form of relationship between producer and agro-industrial firm at the global scale of supply is that of contract farming. This refers to the arrangement by which the buying firms sign contracts with individual producers before the agricultural season begins. These contracts specify different issues, including quantity, prices, quality, varieties, and time of delivery. The system generally involves some kind of assistance from the buying firms to the producers, such as credit and technology. According to Nigel Key and David Runsten (1999, 382), contract farming can be explained as "an institutional response to imperfections in markets for credit, insurance, information, factors of production, and raw product." In this way it could be argued that global agro-industry chains based on contract farming could be seen as more buyer-driven. Producers (the farmers) are highly constrained by the terms set by the buyers in the contracts that they sign. The buying firms are themselves responding to demands by consumers in other parts of the world, most notably locations in the advanced economies.

The search for complementarities between commodity chains and cluster development in agro-industry needs to focus on patterns of inter-firm cooperation. Gabriel Casaburi's work (1999) provides a logical and useful analytical framework that focuses on three types: cooperation among agricultural producers; cooperation between producers and firms in the agro-industrial chain; and collaboration that takes place within the institutional framework of business associations.

Focusing on Chile, Casaburi (1999) argued that the growth of export-oriented agriculture has acted to increase competition rather than cooperation. Cooperatives of large-scale farmers, such as COOPEFRUT in Curicó, decided in the 1980s to change from being cooperatives to being private companies in which cooperative members became shareholders in the new company. Meanwhile, medium- and small-scale farmers were not attracted to restarting cooperative arrangements in the 1990s after the decimation of such arrangements (through lack of state support) in the Pinochet era. The only examples of collaboration between producers has been linked to government initiatives. In the late 1990s, with the center-left Concertación government in power, policies gave assistance to agro-industrial companies in trying to raise quality standards of the small-scale farmers that supplied them. Overall, the shift to a free-market agriculture made producers distinctly individualistic and atomistic in their relations to their fellow producers. Competition rather than collaboration predominated (Casaburi 1999).

Meanwhile, the primary organizational relationship between producers and agro-industrial TNCs has been through contract-farming arrangements. The relationship between these actors can be conflictive, because they have opposing interests, particularly in terms of price. However, both actors are part of a global chain and need each other to grow and succeed in global markets. In Chile conflict between producers and downstream firms relates in particular to the type of contract, often known as the one-year consignment contract (Casaburi 1999; Gwynne 2003). In this contract, the producer agrees to transfer production to the exporting firm, which is in charge of providing additional services and selling the final product. At the end of the season, the exporting firm considers the final price obtained for the fruit; deducts a commission and all expenses incurred, such as shipping, insurance, and inspection, and then passes the remainder to the producer.

In such a system producers have at least two major complaints. First, they are the only actors in the production chain who run significant risks, since all other actors charge their costs-plus profits (Casaburi 1999, 120). When prices are low (as they were in 1987 and 1993), producers can find that at the end of the season they have lost money. Second, there is the issue of access to information, as producers may find it difficult to verify the final sales price (say, between exporter and supermarket or wholesale company). They have insufficient information to know whether or not the price they were first quoted was the actual price.

The relationship between producers and downstream actors is crucial for exploring the complementarities between commodity chains and clusters. The continued adversarial nature of the relationship does not bode well for the benefits of collaboration to be achieved. However, when Casaburi compared fruit growing clusters in Chile's Central Valley with Italian industrial districts, his analysis stressed the advantages of the global links provided:

> The exporting firms are also the privileged links between Chilean growers and the world markets, possessing key information about changes in demand, and informing producers of new fruit varieties or species that are in high demand, and old varieties in low demand. (122)

At the same time, business or producers' associations are very important institutional spaces within which interfirm cooperation can take place. Within countries, they can operate at a range of scales from the local, via the regional, to the national. In Chilean agro-industry, the key business associations represent producers and exporters separately (130). Collaboration between exporters and producers at the national level is minimal. Collaborative relationships between exporters and producers at the local scale are even less evident due to the lack of any institutional initiatives in these localities.

CONCLUDING THEMES

A Latin American perspective rather than a series of national perspectives would appear useful in examining how firms have responded to neoliberal reform. The long-term strategy for Latin American industrialization post-reform can be framed within at least two global trends in world trade. First, firms in the successful core economies (or global triad of North America, Western Europe, and Japan) are increasingly concentrating their activities on service- and technology-intensive exports.

Second, firms in Asia's newly industrializing countries (such as China) are basing their impressive trade growth on exporting cheap, labor-intensive products. As Latin American supermarkets and discount stores appear to be increasingly filled with imports from Chinese firms, one can ask what are the market sectors within which Latin American firms need to specialize and develop a competitive advantage. Montague Lord identifies only four sectors in which Latin American firms are more competitive than those in Asia—leather, footwear, fertilizers, and non-metallic minerals (1998, 2). In his edited collection written before the Latin American economic crises of the late twentieth and early twenty-first centuries, Lord was positive about the growth in industrial exports from Argentina, Brazil, and Mexico. Subsequent data reveals that Mexican, and to a lesser extent Brazilian, growth in manufacturing has been sustained and significant, but the Argentine record has been poor. Unfortunately, it is the Argentine record that has been replicated in most other Latin American countries—that is, a weak record in export growth among most manufacturing firms outside those that have specialized in the further processing of resources. It should be noted that even the relatively successful case of Chilean export growth has been mainly confined to processing resources in agriculture, forestry, fishing, and mining (Gwynne 1999).

Nevertheless, greater regional economic integration within Latin America (Bulmer-Thomas 2001) provides opportunities for firms to increase intra-regional manufacturing trade. With the possibility that the Free Trade Area of the Americas may be initiated in 2005, Latin American firms that have survived neoliberal reform and have achieved a certain degree of international competitiveness may identify pathways to further export growth.

What then are the key issues of political economy for firms in Latin America? One could develop the perspective of Casaburi, who argues that there are three issues or questions of political economy in terms of relations between governments and firms after liberalization. First, how can Latin American economies continue to benefit from the advantages of competitive markets without allowing too many firms to disappear because they are unable to compete? With the possibility of schemes of regional integration stretching to include North America, this remains a fundamental policy question. A further issue is how can the public sector boost firms' competitiveness without threatening the fiscal discipline imposed by neoliberal reform. Finally, what are the business strategies that would permit SMEs to successfully overcome both the dismantling of the paternalistic state and their own lack of resources?

A further question can introduce the dimension of firms and local development. In short, how do firms relate to commodity chains at the global scale and clusters at the local scale? Gereffi (1999) argued that strong connections are needed between local embeddedness and upgrading in order to improve the positions of firms in international trade networks. In a subsequent paper, Gereffi (2000) argued that the process relies on large national firms emerging in order to achieve such upgrading (as in the case of Taiwan) and cannot be reliant on the action of TNCs. In the context of manufacturing regions, he pointed out that upgrading in northern Mexican industrialization has been very much in the hands of TNCs and that local embedding and upgrading processes are distinctly lacking as a result. As we have seen, this has not necessarily had a negative impact upon the international competitiveness of small Mexican firms inserted into global commodity chains in the northern areas of Mexico (Vangstrup 2002).

There may be, then, some use in relating the analysis of global commodity chains and local clusters to dependency theory. The concept of disembeddedness within regions in countries of the semi-periphery could be seen as a reformulation of dependency theory's version of regional development in those countries—vulnerable and dependent on external capital, markets, technology, and, in particular, the decisions of TNCs. From our brief analysis, these themes of dependency and disembeddedness would seem to be as much a problem for agro-industrial regions as for those specializing in more technologically advanced forms of manufacturing.

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