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Foreign capital in neo-structuralism: The subordinate internationalisation of Latin America

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Abstract. This article analyses the subordinate internationalisation of Latin American economies based on the foreign capital understanding in the Latin American neo-structuralism. We discuss the theoretical foundations of this tradition to examine the economic consequences of foreign capital share in the productive structure of these countries after liberalisation. We also identify new forms of susceptibility of Latin American economies through foreign dominance in domestic economic activities. There is an ambiguity in the role of foreign capital, which requires control and coordination to flourish. The State intervention is important to *i)* enable a positive insertion into global value chains, *ii)* to foster industrialisation, *iii)* to mitigate adverse effects of financial flows, and *iv)* to encourage investments against exogenous cyclical effects.

Key Words: foreign capital; neo-structuralism; development; Latin America; internationalisation.

El capital extranjero en el neoestructuralismo: la internacionalización subordinada de América Latina

Resumen. Este artículo analiza la internacionalización subordinada de las economías latinoamericanas a partir de la comprensión del capital extranjero en el neo-estructuralismo latinoamericano. Se discuten los fundamentos teóricos de esta tradición para examinar las consecuencias económicas de la participación del capital extranjero en la estructura productiva de estos países tras la liberalización. También se identifican nuevas formas de susceptibilidad de las economías latinoamericanas a través del dominio extranjero en las actividades económicas nacionales. Existe una ambigüedad en el papel del capital extranjero, que requiere control y coordinación para prosperar. La intervención del Estado es importante para *i)* permitir una inserción positiva en las cadenas de valor mundiales, *ii)* fomentar la industrialización, *iii)* mitigar los efectos adversos de los flujos financieros, y *iv)* fomentar las inversiones frente a los efectos cíclicos exógenos.

Palabras clave: capital extranjero; neo-estructuralismo; desarrollo; América Latina; internacionalización.

Clasificación JEL: O1; O5; B5; F2; F63.

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1. Introduction

Economic globalisation has brought new challenges to the development of Latin American countries. In contrast to the neoclassical vision of liberalising openness, the structuralist school of thought believes that state intervention is necessary to control, plan and manage the growing inflows of capital into the region, guiding a process of development through industrialisation. The dominance of the liberal vision has led these economies to a subordinate insertion in the global economy. Furthermore, the systematic integration of the neo-structuralist approach to foreign capital adoption post-economic opening remains incomplete. For this reason, this article updates the understanding of the role of foreign capital in the structuralist tradition, as it is an option originally constructed for the condition of Latin American countries and possibly capable of reordering the development trajectory through other forms of internationalisation.

Bielschowsky (2000) argues that structuralist economic thought, developed at Economic Commission for Latin America and the Caribbean (ECLAC), is unique in creating its own analytical approach. It emphasises the importance of social and historical conditions in understanding peripheral economies. The strength of structuralism lies in its historical-inductive method, which integrates structural aspects of Latin American economies to identify the roots of underdevelopment. Rodríguez (2009) highlights the inductive nature of this approach, where changes in reality reshape theoretical concepts. Structuralism's historical-structural method analyses specific economic structures shaped by time and space, each with its own unique and shared challenges (Vergnhanini and Biancarelli, 2020).

A fundamental theoretical framework has endured since the emergence of structuralist thought and remains relevant today (Bielschowsky, 2000). This framework includes the center-periphery system as a prerequisite for international integration, the necessity of industrialization to address the internal contradictions of growth, and the role of the state in peripheral countries to coordinate and implement policies aimed at overcoming underdevelopment. Within this overarching structure, the ideas developed by ECLAC were driven by practical efforts and interpretations of concrete conditions.

There are three basic elements of classical structuralism, already indicated by Prebisch (1949): *i)* the unequal distribution of technical progress in favour of the centre and to the detriment of the periphery, which characterises exactly the centre-periphery system and from which the deterioration of the terms of trade stems; *ii)* the tendency towards exchange rate crises and structural imbalances in the balance of payments; and *iii)* industrialisation carried out through waves of import substitution. From these elements, the need for industrialisation determined by external bottlenecks can be ruled out, since social dynamics obey primarily internal mechanisms (Tavares, 1972). However, autonomy over the creation and diffusion of technical progress remains under the control of the centre, and structural imbalances take on new forms (Biancarelli, 2019).

Since the 1970s, the centre-periphery system has shifted its focus from trade relations to financial flows. New interpretations of the peripheral condition have emerged, primarily through the hierarchy of currencies in the international monetary system (Conti *et al*., 2014) and global liquidity cycles (Biancarelli *et al*., 2017). Additionally, there have been updates in balance of payments imbalances, particularly evident in Latin American countries that accumulated international reserves during the "pink wave" of the 2000s (Chiliatto, 2017) and embarked on de-dollarisation of their liabilities.

This article discusses the topic of new productive vulnerability. It is characterised by two complementary aspects. First, the impact on the domestic productive structure of peripheral countries due to international capital flows directed towards productive projects (Hiratuka and Sarti, 2016). Second, the evolving configuration of global production, organised in a fragmented manner across the world (Milberg and Winkler, 2013). This new context revitalises the historical-structural approach of ECLAC's economic thinking. The pivotal role of foreign capital becomes apparent in the formulation of development policies, whether through the promotion of industrialisation, strategies for integration into global value chains, or effects on the domestic macroeconomy.

Since the 1990s, with the economic openness in Latin America and the emergence of new challenges, classical structuralism has undergone updates to address the problems posed by financial and productive globalisation. This evolution has led to the emergence of economic concepts and policies known as neo-structuralism. Neo-structuralism is a theoretical approach that seeks to adjust, refine, update, and expand the framework of classical structuralism by incorporating new perspectives and challenges arising from globalisation. Originating as an adaptation of the traditional structuralist model, neo-structuralism offers an analysis of economic structures that accommodates the complexity of current global and regional dynamics, thereby reinterpreting the meaning of peripheral conditions.

Compared to classical economic structuralism, neo-structuralism stands out by *i)* addressing development within the context of globalisation and neoliberalism, placing greater emphasis on global dynamics and the role of regional economic integration, in contrast to the more national focus of classical structuralism; *ii)* incorporating contemporary economic theories, including aspects of post-Keynesian and neo-Schumpeterian schools; *iii)* giving greater consideration to social institutions and public policies in promoting economic development; *iv)* renewing the forms and possibilities of state intervention to guide a new and sustainable industrialisation within global value chains; and *v)* emphasising environmental sustainability and inclusive development aimed at reducing economic and social inequalities. This framework will serve as the theoretical basis for comprehending the contemporary global productive context and the effects of asymmetric internationalisation on Latin American development, particularly as influenced by foreign capital.

After this introduction, the second section of the article provides a brief overview of the classical structuralists' perspective on the role of foreign capital in development. This is important as there is a continuity rather than a rupture with neo-structuralism, making the historical antecedents significant. The third section examines the role of foreign capital within Latin American neo-structuralism, considering the evolving global productive configurations and the structural characteristics of production in these countries. In this analysis, the section explores explicit and implicit aspects of foreign capital within neo-structuralist concepts related to integration into global value chains, industrialisation, international finance, investment, and economic growth. The final section presents the conclusions.

2. Classical structuralism: The ambiguous role of foreign capital

Classical structuralism refers to the ECLAC's theoretical framework from Raul Prebisch's 1949 seminal work to the major capitalist transformations of the 1970s, which led to the rise of neo-structuralism in the early 1990s. Initially, structuralism focused on industrialisation policies aimed at achieving economic parity with central countries (Fajnzylber, 1983). This era promoted the integration of domestic economies and the development of the capital goods sector as a key production unit, supporting beneficial international integration and national market growth. However, due to peripheral conditions marked by low productivity, income, and investment, a chronic savings shortage became a significant barrier to industrialisation.

Foreign capital was considered essential for addressing the financial and economic dynamism gaps needed for capitalist development in peripheral regions (ECLAC, 1953, 1954 and 1957). The early ECLAC documents did not oppose foreign direct investment; rather, they viewed it as crucial for Latin America's economic growth. Foreign capital was seen as a strategic asset for a new development approach, aiming to strengthen national companies, particularly in industry, while also acknowledging potential negative impacts on the balance of payments. The goal was not to liberalise foreign capital flows freely, but to use them strategically to bolster the domestic economy through industrialisation, increased productivity, and technological advancement.

The influx of economic resources from central economies into peripheral ones had significant effects by aiding industrial diversification and expansion while raising concerns about external account weaknesses and balance of payments issues (Prebisch, 1954). Classical structuralist thought highlights three key points: *i)* the importance of foreign capital in funding major industrial and infrastructure projects, along with transferring technology and management skills from multinational corporations; *ii)* the risk of foreign currency shortages and external insolvency, potentially leading to currency crises and stalling development; and *iii)* the sectoral focus of investments, which could both strengthen strategic industries and deepen dependency on primary-export sectors. These challenges, particularly the need to "close" the balance of payments, are closely linked to attracting foreign currency to import the machinery and equipment crucial for industrialisation through import substitution.

It is important to highlight ECLAC's ambivalence towards the activities of multinational corporations in peripheral regions (ECLAC, 1954). On one hand, international corporations focused on the agrarian-export sector were seen negatively, as they threatened the balance of payments and did not support domestic market development through industrialisation. On the other hand, it was acknowledged that foreign companies could be beneficial if they facilitated financing, productive diversification, and the transfer of modern technology. Essentially, multinational corporations were expected to align with the national development plans of peripheral countries to contribute to domestic goals.

Simultaneously, Prebisch (1963) emphasised the fundamental importance of productive autonomy, asserting that peripheral economies must prioritise their own resources and consequently implement measures to bolster national enterprises. The author advocates, for instance, the necessity of restraining excessive profits and transfers by multinational companies, providing compensation to national companies for financial and technological disparities, and delineating priority sectors for foreign investment, with a specific focus on industrial export activities.

Aligned with the imperative of preserving national autonomy, foreign capital played a significant role in the early formulations of ECLAC, primarily because it provided crucial elements for enhancing the efficiency and dynamism of peripheral economic structures. Nonetheless, it is important to note that, in the process of aligning production with that of the centre, national private capital was envisioned as the principal driving force behind modernisation, serving as an endogenous nucleus for the generation and dissemination of technical progress. Consequently, it fell upon the state to coordinate the composition between national and foreign capital, while also planning its interventions and expanding incentives to strategic sectors (Colistete, 1990).

Structuralist ideas regarding foreign capital, introduced in the 1950s, gained further prominence in the 1960s. Even amidst the growth stagnation faced by some Latin American countries during that period, structuralist solutions continued to stress the need for foreign funding. The integration of social aspects specific to peripheral economies (Cardoso, 1993) –such as agrarian concentration, income inequality, and structural heterogeneity– along with the need to revitalise industrialisation policy (Tavares, 1972), which was increasingly hindered by import substitution challenges, highlighted the growing importance of foreign resources in advancing industrialisation. This approach aimed to reduce reliance on imported capital goods and lessen external vulnerability by internalising the dynamic sectors of hegemonic capitalist production. As basic industries were largely established, the importance of foreign capital escalated further to include more of the population in domestic markets, ensuring the continuity of development policies.

Guided by the historical-structural method, from the mid-1960s onward the transformations in the economic landscape of Latin American countries retained the essence of state-led industrialisation while also incorporating certain elements of structuralist thought. Some of these adaptations were introduced by dependency theorists (Cardoso and Faletto, 1970; Dos Santos, 2003; Marini, 1975) and the Campinas School (Tavares, 1972; De Mello, 2009).

Dependency theorists made significant contributions in sociology and politics; areas previously underexplored by ECLAC's methodology (Colistete, 2001). Cardoso and Faletto (1970) highlighted the crucial role of social groups and institutions in shaping the development path of Latin American countries. While agreeing with ECLAC on the importance of foreign capital, they stressed the political dimension of its relationship with peripheral economies. They argued that even with state support and coordination, the national bourgeoisie would be incapable of leading this process, as peripheral economies were perceived as elements of the capitalist expansion emanating from the centre. The internal and external connections of the peripheral bourgeoisie have a political manifestation that adhered to the dictates of the international production system, tending to perpetuate international dependence.

Dos Santos (2003) and Marini (1975), also dependency theorists, approach the issue from a Marxist perspective, focusing on the systemic integration of peripheral economies into global capitalism. They argue that the primary role of peripheral economies is to generate absolute surplus value for core countries. While labour exploitation in core countries is driven by industrial development with advanced technology, focusing on relative surplus value, peripheral countries engage in less prestigious activities –such as agriculture and simpler manufacturing– where absolute surplus value is more easily extracted. From this perspective, foreign capital is seen as a tool for subordinating peripheral markets to the interests of central economies, typically by outsourcing less significant, more exploitable activities. Thus, development through foreign investment is viewed as unattainable, as it reinforces dependency.

The Campinas School's contribution to the structuralist debate revolves around the concept of late capitalism (De Mello, 2009) and the dominance of internal accumulation dynamics over external ones (Coutinho and Belluzzo, 1998). This view sees the integration of peripheral economies into the global economy as lagging. Consequently, Campinas School theorists stressed the development of the capital goods industry as key to overcoming Latin America's underdevelopment. In line with classical structuralists, they recognised the need for the state to regulate the alliance between state capital, national private capital, and foreign capital, with particular emphasis on the latter due to the insufficient domestic technical and economic foundations needed for independent industrialisation.

Therefore, in classic structuralism and its early developments, foreign capital is seen as a crucial strategic element for addressing the economic shortcomings of peripheral regions and promoting industrialisation and development. Although there are differing views on how foreign resources should be integrated, there is a consensus that, if utilised, foreign capital must be strategically managed to drive structural transformations through industrialisation, emphasising development while preserving the importance of domestic industry and national economic autonomy.

3. Foreign capital in neo-structuralism: Opening and liberalisation

The 1990s brought about significant transformations in the material conditions of peripheral economies (Bárcena and Prado, 2019). Globalisation and neoliberalism imposed policies on peripheral countries that were notably detrimental to development: a return to the theory of comparative advantages, unbridled liberalisation of foreign accounts, reduction in fiscal expenditures and state intervention, privatisation of public enterprises, and the dominance of domestic markets by multinational corporations. Neo-structuralism emerges as a theoretical response to the new conditions imposed by global neoliberal capitalism.

While classical Latin American structuralism, which arose in the 1950s and 1960s, dealt with a historical context marked by protectionism and the pursuit of import substitution, neo-structuralism responds to a scenario of economic openness, globalisation, and integration into international markets, from the 1990s onwards. Neo-structuralists recognise the inevitability of economic liberalisation and global integration but seek policies that promote the economic and social development of Latin American economies within this context (Bárcena and Prado, 2016).

A key distinction in neo-structuralist responses to external conditions lies in the productive dimension (Bielschowsky and Torres, 2018). Classical structuralism prioritised national industrialisation, advocating import substitution policies to reduce Latin American economies' dependence on core nations. In contrast, neo-structuralism, recognising the inevitability of deep economic integration, focuses on integrating Latin American economies into higher-value segments of GVCs. This approach is viewed as an opportunity to add value to local production, diversify the productive base, and enhance global competitiveness, rather than merely protecting entire productive chains of nascent industries in peripheral countries.

Regarding FDI, neo-structuralism acknowledges the vital role of international capital in economic development but advocates for a strategic approach to its management (Torres, 2019). Unlike the structuralist period, which often sought to limit such investments, neo-structuralism argues that the state should regulate and channel FDI into sectors that promote innovation, technology transfer, and the creation of skilled jobs. This approach aims to support industrialisation and sustainable development.

In the fiscal and monetary domains, classical structuralism considered exchange rate control and restrictions on capital flows as crucial for maintaining economic sovereignty and protecting nascent industries (Rodríguez, 2009). In contrast, neo-structuralism operates within a framework of increased financial liberalisation, where the challenge is to manage capital flow volatility and exchange rate pressures without hindering economic growth. The neo-structuralist approach involves implementing counter-cyclical macroeconomic policies and institutional regulations that promote financial stability while also advancing social inclusion and sustainable development (Bielschowsky, 2009).

Following Ocampo (2019) and Bielschowsky (2019), Latin American neo-structuralism is characterised by several key features. Firstly, Fajnzylber (1990) emphasises the shift from traditional protectionism to "protectionism for learning". In light of new global production structures, protectionism should not merely shield domestic production but also support internal protection while facilitating external integration. Peripheral countries should strategically engage in international trade, using protectionist measures to absorb technological advances from the centre, while simultaneously advancing domestic industry to enhance global competitiveness.

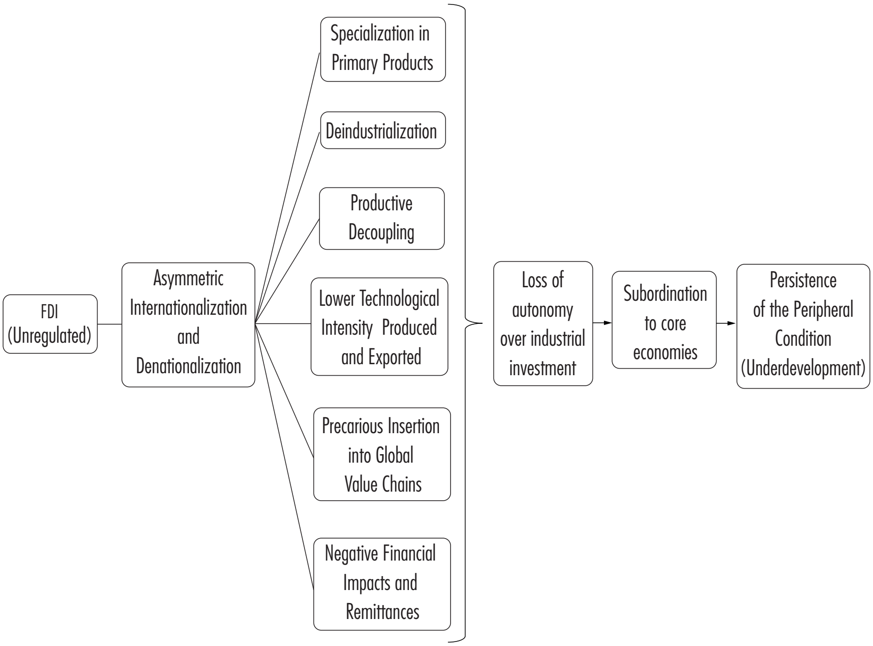
Secondly, ECLAC (1990) recognises the inevitability of trade liberalisation and stresses the need for it to be advantageous. It advocates a gradual, selective approach, supported by a high, stable real exchange rate. This strategy aims to enhance domestic productivity and innovation while considering global competitiveness and its impact on the domestic market.

Thirdly, neo-structuralism introduces the concept of development "from within" (Sunkel, 1991) as a complement to the notion of development "inwards" (Prebisch, 1949). While classical structuralism focused on internal industrialisation to establish endogenous mechanisms for innovation and technical progress, neo-structuralism highlights the importance of demand, strengthening the domestic consumer market, and producing previously imported goods to form the endogenous core of technological production.

The role of foreign capital is pivotal, especially in the context of increased production, trade, and financial flows characterising the internationalisation of capitalism in the 21st century (Belluzzo, 2016). Neo-structuralist literature acknowledges the importance of domestic engagement with foreign capital (Torres, 2019), which can either drive development or deepen economic subordination to the centre, depending on the strategy employed.

Torres (2019) demonstrates that the pattern of internationalisation in Latin American countries is characterised by asymmetry. Despite substantial inflows of foreign direct investment since the 1990s, there have been no significant positive structural effects on Latin American economies. This is

Figure 1. Diagram of the asymmetric internationalisation process in Latin America, after the 1990s



Soruce: own elaboration.

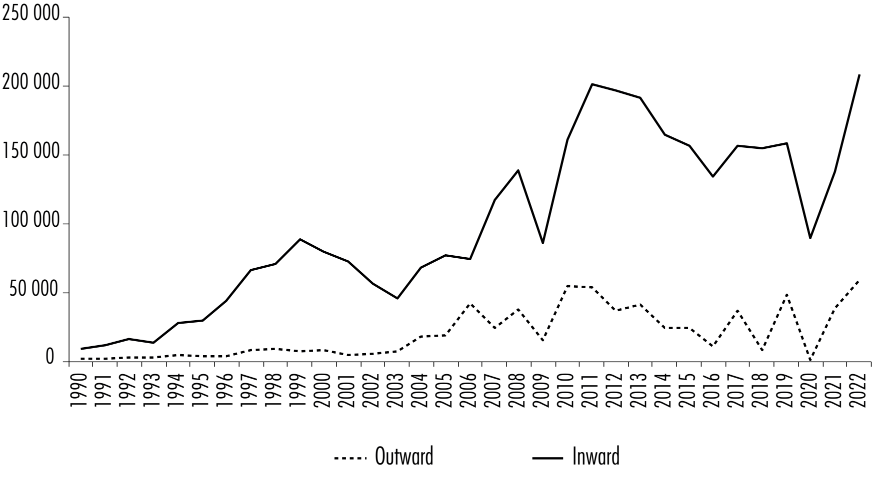
because multinational corporations are primarily motivated by their own interests, such as exploiting captive markets, exporting products, and reducing operating costs. Moreover, Torres (2019) highlights that these investments have largely targeted consumer goods rather than production, a trend that contradicts neo-structuralist goals. As a result, there has been little technological transfer or productivity enhancement. Instead, Latin American countries have experienced denationalisation and a shift towards primary production through equity investments and international mergers and acquisitions.

The diagram above illustrates the outcomes observed in Latin American economies following the trade and finance liberalisation of the 1990s. This liberalisation led to an influx of unregulated FDI and facilitated a process of asymmetric internationalisation, which, to some extent, both stimulated and coincided with the weakening of the domestic productive structure. Latin American economies experienced specialisation in commodities, deindustrialisation, productive decoupling, reduced technological intensity in production and exports, precarious integration into global value chains, and negative financial impacts, particularly regarding the repatriation of profits and interest payments. Simultaneously, the increasing dominance of multinational corporations over the productive structure diminished national autonomy in domestic industrial investment. This phenomenon both perpetuated the process of asymmetric internationalisation and denationalisation and reinforced the peripheral condition of underdevelopment.

The asymmetric internationalisation of Latin American countries is evident in Foreign Direct Investment (FDI) flows. Figure 2 highlights this trend in the region. In 1990, there was a relative balance between the investments made by and received by Latin American countries. However, since then, a widening gap has emerged between inward and outward FDI. For example, in 2022, only USD$59 billion was invested outwardly, whereas USD$208 billion flowed inwards. This growing disparity indicates a rising trend of denationalisation of domestic firms in favour of foreign entities, further reinforcing the increasing process depicted in the previous diagram (see figure 1).

The importance of foreign capital in domestic economies can be assessed by examining the stock of FDI relative to GDP. Figure 3 demonstrates that. Since the 1990s, economic globalisation has significantly increased the share of foreign capital in national economies worldwide, though the extent varies. For instance, in 2022, the stock of FDI relative to GDP was 37.52% in Africa,

Figure 2. Inward and outward FDI flows, Latin America, 1990-2022

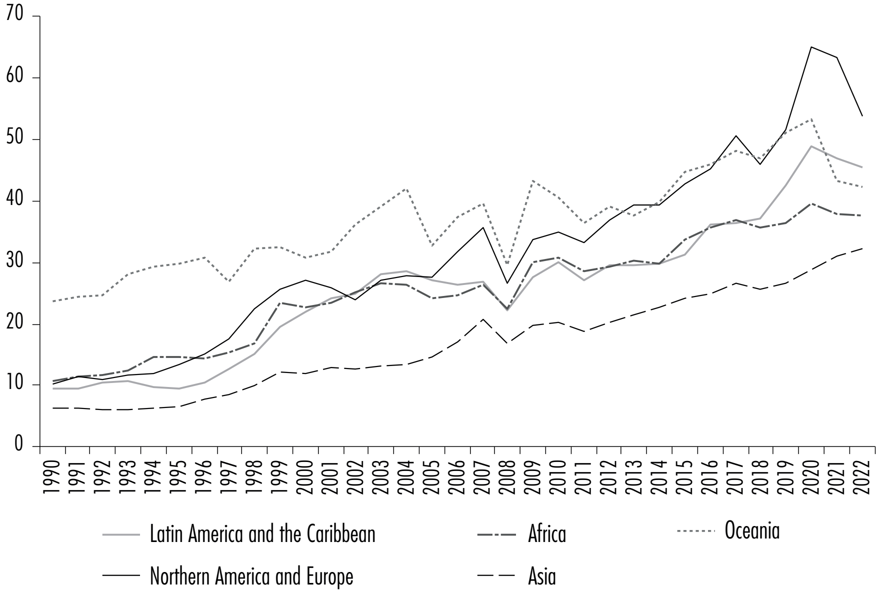


Notes: N.B.: USD$ at current prices (in millions).

Source: UNCTAD. Own elaboration.

30.94% in Asia, 42.17% in Oceania, and a high 45.33% in Latin America. This indicator is even higher in North America and Europe. However, the investment dynamics in core countries do not exhibit a domination characteristic, implying that there is no asymmetric internationalisation of production or causality concerning its adverse effects.

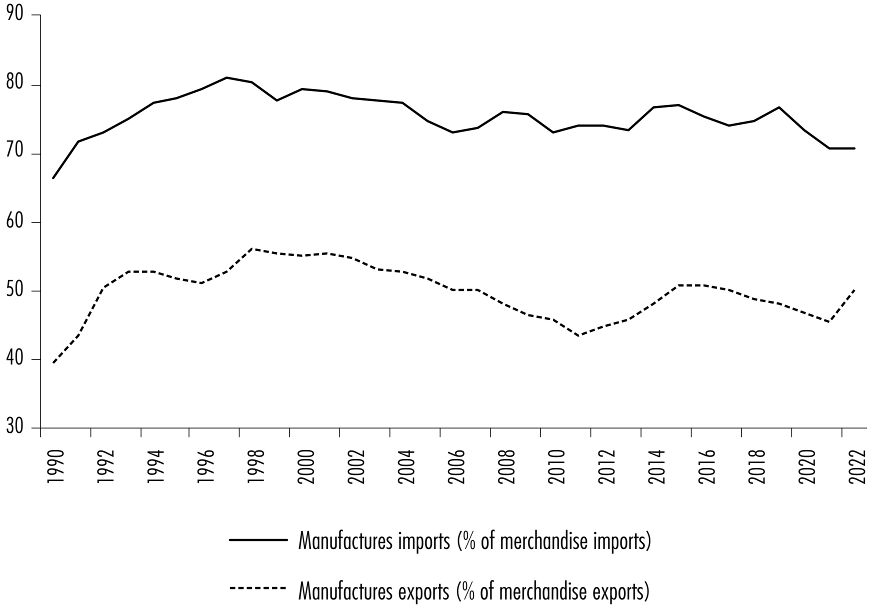
Figure 3. Inward FDI stock over GDP, selected regions, 1990-2022



Source: UNCTAD. Own elaboration.

In Latin America, this process is linked to deindustrialisation in some countries or the lack of industrialisation in others. According to neo-structuralist thought, this is detrimental to the region's economic development. The internal productivity linkages arising from the industrial sector also impact international trade and integration into global value chains. Figure 4 shows a reliance on imported manufactured goods while simultaneously lacking in the export of manufactured goods, which typically add more value to production and promote development. This issue has become more acute following the liberalisation at the end of the twentieth century.

Figure 4. Share of manufactures in foreign merchandise trade, Latin America, 1990- 2022

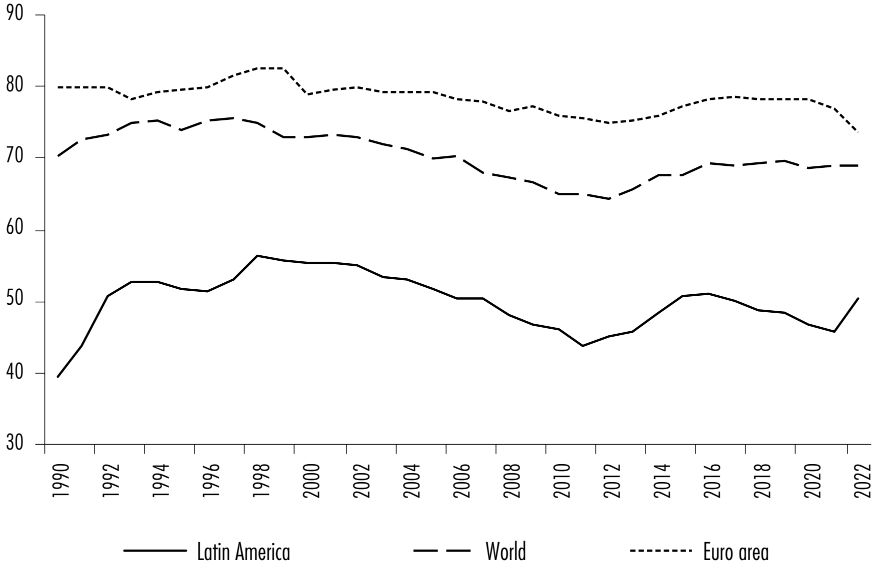


Source: World Bank. Own elaboration.

When compared to the rest of the world or to countries in the eurozone, it is evident that the proportion of manufactured products in relation to total exports in Latin America is significantly lower (see figure 5). While the global average for this indicator is approximately 70 and 75% in the eurozone, Latin America's figure averages around 50% following economic liberalisation. In other words, the region's global integration is precarious, reflecting an early deindustrialisation and denationalisation of its productive structures, which has resulted in economies increasingly centred on agriculture and mining.

In this context, the current condition of Latin American countries can be assessed through the lens of neo-structuralism's understanding of foreign capital. If the existing trajectory is deemed counterproductive, neo-structuralism offers potential alternatives for a more positive approach. Upholding the principles of the structuralist tradition, neo-structuralism posits that the State should oversee and coordinate foreign capital to achieve industrialisation and development. This involves four main strategies: integrating into global value chains, pursuing new forms of industrialisation, managing financial flows, and controlling productive fluctuations and investments.

Figure 5. Share of exported manufactures in total exported goods, 1990-2022



Source: World Bank. Own elaboration.

Instrument for positive global integration

Latin American neo-structuralism supports global integration to foster productive and technological convergence between peripheral and central countries (Bielschowsky and Torres, 2018). ECLAC (2002) outlines this approach with its "agenda for the global era", emphasising the need to address international asymmetries in production and trade. Economic policy should aim for systemic competitiveness with central markets by boosting worker productivity, increasing sectoral integration, and promoting public-private collaboration to manage the costs and risks of structural change.

Bielschowsky (2009) outlines three key components of this economic policy: *i)* developing national innovation systems to accelerate technological capability; *ii)* transforming productive structures and supply chains; and *iii)* expanding domestic infrastructure. These measures aim to enhance systemic competitiveness by building technical knowledge and integration, thereby strengthening the domestic market, boosting participation in global value chains as exporters of high-value goods and services, and internationalising national companies.

Rodríguez (2009) highlights the export-oriented nature of neo-structuralist industrial, technological, and institutional policies. These policies aim to transform production structures, substitute imports, and integrate into global markets to improve competitiveness and efficiency. They focus on boosting the export of complex industrial goods and advanced technology, which strengthens the domestic market, fosters an endogenous core of technical progress, and leverages productivity gaps within global value chains.

Peripheral insertion should focus on upgrading within global value chains, shifting from supplying primary goods to developing more complex, innovation-intensive sectors (Amar and Landau, 2019). Unlike classical structuralism, which emphasised transferring the entire industrial base to peripheral countries, the goal is strategic development in high-tech and complex manufacturing sectors. This approach aims to enhance global market competitiveness while strengthening the domestic market through production linkages (Padilla, 2014).

Latin America's actual trajectory contradicts the concept of virtuous peripheral insertion. The study "Latin America and the Caribbean in the World Economy" (ECLAC, 2016) reveals that while there has been a significant rise in direct investments, the region has intensified its focus on low value-added products. It remains poorly integrated into global value chains, mainly supplying primary products that are transformed into manufactured goods in wealthier countries for export.

In the recent context of "hyper-globalisation", Latin American countries have experienced highly asymmetric internationalisation, exacerbating national and international inequalities and presenting significant governance challenges. The main source of these imbalances is the disparity between productive structures (ECLAC, 2016). ECLAC (2016) identifies four key channels through which governance in peripheral countries can mitigate the adverse effects of globalisation: control and regulation of trade, foreign direct investment, taxation, and financial transactions.

Over the past 40 years, there have been significant shifts in the location of global production and industrial activity, marking a new phase in the international division of production and labour (Milberg and Winkler, 2013). Central economies, especially in Europe and the United States, have undergone deindustrialisation. Conversely, global industry has become increasingly concentrated in Asia, with China capturing a substantial portion of global industrial production.

Latin American countries, in turn, have faced distinct challenges (Bértola and Ocampo, 2012). Many have been unable to complete their industrialisation process, while others have experienced premature deindustrialisation, where the industrial sector lost its significance before reaching a high level of development. This phenomenon has resulted in a greater reliance on low-productivity sectors and increased exposure to fluctuations in global commodity markets.

These shifts in global industrial geography have significant implications for the transition from structuralism to neo-structuralism. Classical structuralism, which emphasised autonomous industrialisation and import substitution to reduce peripheral economies' dependency, has become less feasible due to changes in global production structures. The growing global economic integration and the reconfiguration of global value chains require a reassessment of development strategies (Bielschowsky, 2009).

Neo-structuralism, therefore, emerges as a response to these new realities. It acknowledges that, with industrial production concentrated in Asia and deindustrialisation in other regions, Latin American economies must adopt new strategies. These strategies should not only replace previous policies but also promote the development of strategic industrial sectors for integration into global value chains. This transition from structuralism to neo-structuralism reflects an adaptation to economic and geographical dynamics that differ markedly from those of previous decades.

Strategic resource for the new peripheral industrialisation

Industrialisation remains a core element of economic and social development, from classical to neo-structuralists. Even under new conditions, peripheral industrialisation is seen as the driving force for overcoming dependence and underdevelopment. Neo-structuralists assign the State the role of leading this process through strategic planning, promoting key economic sectors, and regulating market mechanisms. Additionally, the interaction between the domestic productive structure and foreign capital is crucial for facilitating the desired changes.

The document *Structural Change for Equality* (ECLAC, 2012) outlines neo-structuralist views on industrialisation. It considers progressive structural change as crucial for development, being essential for reducing economic and social asymmetries between the centre and the periphery. This structural change involves focusing on industrial sectors with notable dynamic effects, including those that foster technological diversification and increase participation in technology-intensive activities (Schumpeterian efficiency), and those with linkage effects and rising demand growth rates (Keynesian efficiency). By integrating these efficiencies, economic dynamism ("dynamic efficiency") is enhanced, leading to greater productivity, growth, and employment, as well as improved wages, job quality, and reduced inequalities.

Reviving state policies to foster and coordinate strategic sectors in peripheral economies is crucial for achieving technological and productive catch-up (ECLAC, 2008). ECLAC recommends that governments, when implementing industrial policies, use criteria to select promising sectors and appropriate instruments. Priority should be given to sectors that address productivity gaps in manufacturing, develop new capabilities, and exhibit increasing returns, technological dissemination, and innovation.

In the synthesis of neo-structuralist thought from 2008 to 2018 (Bielschowsky and Torres, 2018), exploiting productivity gaps and reducing structural heterogeneities are key in the productive dimension. The document emphasises industrial policies that integrate technology, equity, and productive transformation through dynamic efficiency. It notes that a poorly diversified productive structure, focused primarily on goods, results in slow adaptation to demand changes and negative impacts on productivity and international competitiveness. Additionally, environmental preservation is highlighted as crucial for addressing productive transformation needs, through the development of sustainable sectors and dynamic efficiency to drive peripheral development.

In neo-structuralism, foreign capital plays a significant role in peripheral industrialisation. However, without regulation, foreign productive assets often fail to contribute to national industrialisation, reducing the state's incentive for domestic investment. While external resources can finance internal projects, they rarely enhance domestic dynamic efficiency for two main reasons: *i)* the interests of foreign capital often conflict with national development goals, as multinational corporations focus on exploiting domestic resources, and *ii)* activities in peripheral countries typically lack dynamic efficiency, with more complex and knowledge-intensive tasks remaining in central countries (Torres, 2019). This has led to observed outcomes over the past three decades: limited technological transfer, thinning of productive activities, deindustrialisation, and a weakened productive structure.

To effectively contribute to industrialisation, neo-structuralism advocates for the State to coordinate foreign capital (ECLAC, 2012). The State should incentivise foreign investment in strategic areas needing long-term financing, such as infrastructure, and support public-private partnerships, concessions, and regulations to guide productive projects towards structural change.

It is crucial that national companies and internal strategic resources remain central. Additionally, the State should manage the integration of various productive segments, including those involving foreign capital, to develop technology-intensive national sectors and advance technical progress, addressing the lack of direct technology transfer from multinational corporations.

Managing financial flows

ECLAC's neo-structuralist documents highlight the growing role of foreign capital in Latin American economies, impacting financial stability, monetary availability, and productive dimensions such as commerce, technology, and investment (Abeles *et al.*, 2018b). Medeiros and Trebat (2018) emphasise the effects of financial flows from central economies on productive development and peripheral integration. They argue that foreign capital and multinational operations in Latin America often exploit local advantages to extract value for transfer back to headquarters. Increasing international financial flows influence the type of productive structure adopted by countries, resulting in poorer conditions for technology, commerce, and production in peripheral economies.

Another aspect of productive disarray in Latin American countries due to international finance is the impact of rising and unstable commodity prices. Carrera (2018) demonstrates that the financialisation of international primary goods markets has led to higher and more volatile commodity prices since the 2000s. This affects commodity-exporting countries negatively in several ways. Firstly, speculative behaviour distorts real product prices, leading to misguided investment in the primary sector at the expense of industry. Secondly, price volatility increases uncertainty in peripheral economies, destabilising their external accounts, one of their main sources of income. Thirdly, fluctuating commodity prices result in greater exchange rate variability, which distorts industrial policies.

The financial behaviour of non-financial corporations also hampers peripheral economic development. ECLAC (2019) shows that corporate indebtedness surged from the 2000s onwards, significantly outpacing net investments, particularly in Brazil, Chile, and Mexico. Additionally, Zane and Gottschalk (2018) argue that shareholder return behaviour in Latin American non-financial corporations, especially following 1980s institutional reforms, led to a dramatic reduction in net capital expenditure relative to net revenue.

Companies began to allocate a growing share of their revenue to financial investments.

Abeles *et al.* (2018a) highlight macroeconomic and financial impacts of FDI on peripheral economies. Since the 1990s, FDI in Latin America has surged but now includes financialisation mechanisms beyond mere production and long-term investments. These investments increasingly involve elements such as tax arbitrage, risk coverage, financial diversification, and domestic market speculation. As a result, FDI exhibits short-term characteristics, increasing systemic instability and reducing productivity, particularly through inter-company loans. The financialisation of FDI heightens external vulnerability by amplifying flow volatility and exchange rate fluctuations, thereby increasing uncertainty and diminishing overall investment.

Therefore, in neo-structuralism, the impacts of foreign capital in its financial form on Latin American economies appear as significant impediments to productive investment, stability, and economic development. Neo-structuralist literature indicates that financial assets should be regulated to preserve their real function of resource reallocation and prevent speculation. International financial flows received should foster investments in industrialisation making finance serve as a catalytic mechanism for strengthening the domestic market and adding technology to the productive structure.

Control over production fluctuations and investment

Fluctuations in domestic economic activity, whether in its productive scope or investment behaviour, are also influenced by the degree of economic openness and, consequently, by the external impact exerted through foreign capital. Bielschowsky and Torres (2018) demonstrate that real cycles and fluctuations in investments have been an important theme in neo-structuralist analysis in recent years. In Latin America, in particular, where openness to foreign capital has been deregulated, gross fixed capital formation has seen low rates in historical perspective and international comparison: between 1950 and 1960, the investment growth rate in the region averaged 20.3% of GDP; in the 1970s, it was 24.3%; during the crisis of the 1980s, it stood at 18.2%; and from the 1990s to 2010, an average of approximately 19% of GDP.

The decades following the international liberalisation of markets occur in parallel with oscillating and reduced rates of gross fixed capital formation in Latin America. Evidence suggests that the increased flow of capital to peripheral economies since liberalisation is associated with increased consumption, such that financial liberalisation does not necessarily raise the domestic investment rate (Kregel, 2008; Ocampo and Stiglitz, 2008). Capital flows tend to concentrate on investment in financial assets, and their effect on domestic financial conditions does not produce sufficient alteration in the relative prices of financial and real assets to drive the substitution of the former for the latter. Thus, financial liberalisation tends to reduce productive investment and expand short-term speculative transactions.

The influence of foreign capital is one possible explanation for this type of economic activity behaviour. As Bielschowsky and Torres (2018) point out, the evolution of investments in the Latin American region has been heavily determined by external crises, as well as by the responses given by domestic governments to these crises. Furthermore, investment fluctuations occur with greater volatility and significance in the sectors purchasing machinery and equipment, which are the primary factors susceptible to external cycles. In other words, fluctuations in the global market directly and indirectly affect the production and investment of industrial goods, suggesting that this is an important channel through which foreign capital disrupts domestic economic activity.

Torres (2019) identifies three main factors that may explain the influence of foreign capital on the internal economic dynamics of developing countries. Firstly, the increased participation of multinational corporations means that investment decisions are increasingly influenced by external incentives and disconnected from internal conditions. Global oscillations in production are transferred to internal behaviour through denationalised productive structures. Secondly, foreign direct investments contribute to the disintegration of domestic production structures, as they are integrated into GVCs rather than the national productive structure. This means that, on the one hand, investment decisions are again detached from internal incentives, and on the other hand, there is no linkage of production and investment between domestic economic sectors. Thirdly, the type of economic activity transmitted by foreign capital maintains financial and technological dependence. Internal dynamics continue to rely on foreign financial resources to carry out productive projects, while they also depend on the importation of technology-intensive machinery and equipment to sustain internal production.

Neo-structuralism emphasises the role of foreign capital as a channel of influence on fluctuations in peripheral economic activity. Both production cycles and investment decisions are increasingly subject to the oscillations of the global economy. The authors and neo-structuralist documents presented here highlight the importance of regulating and channelling foreign capital into activities that promote greater integration of production not only internationally but also domestically. Thus, they aim to make peripheral economies function countercyclically and mitigate the negative effects of global real cycles.

4. Conclusions

In contrast to the prevailing liberalising trajectory in Latin American economies, the structuralist tradition approach offers an alternative avenue for evaluating and proposing new possibilities for the adoption of foreign capital and, consequently, for the economic development of the region. Whereas classical structuralism viewed foreign capital as necessary to finance industrialisation projects without sacrificing national autonomy, neo-structuralism, amidst the backdrop of economic globalisation, contends with a broader and more nuanced spectrum of the impacts of such capital on peripheral production.

The neoliberal policies introduced during Latin America's liberal opening, which continue to persist today, are characterised by privatisation, deregulation, and unrestrained integration into global markets. In the neoliberal framework, FDI is viewed as a key driver of economic growth, with the belief that the free influx of foreign capital would naturally lead to development. This approach stands in stark contrast to the principles of the structuralist school and, more specifically, to the goals of neo-structuralism. Neo-structuralists acknowledge the importance of FDI but argue that it should be strategically managed and controlled by the state to ensure that it contributes to sustainable and inclusive development, rather than exacerbating financial and productive vulnerabilities. It should be guided by policies that ensure FDI supports productive diversification, technological innovation, and social inclusion. Therefore, these two approaches represent fundamentally opposing development strategies (Leiva, 2008; Bielschowsky, 2009).

This article aimed to update and systematise the approach to foreign capital in the structuralist tradition. Although the ambiguous content of foreign capital remains, the forms in which it expresses itself are different. Neo-structuralism emerged as a way of responding to these new conditions. It suggests new types of policy to reverse the process of asymmetric internationalisation that characterised the region after the opening up of the economy in the 1990s. Although the specifics of global value chains, international financial cycles, and flows of foreign direct investments manifest in novel ways within Latin American economies, the important role of State intervention persists

Table 1. Foreign capital in neo-structuralism: Theoretical synthesis

Economic dimension	*The role of foreign capital*	*References*
Global Insertion	Reduction of asymmetries; export of manufactured goods with high technological content; promotion of manufacturing competitiveness in international markets; preservation of growth and integration of domestic production; greater value aggregation on global value chains; reduction of the industrial import coefficient and increase of the industrial export coefficient.	ECLAC (2002); Rodríguez (2009); Amar and Landau (2019); Torres (2019); Cardoso and Reis (2019); ECLAC (2016).
Industrialisation	Controlled and coordinated by the State; planning and fiscal incentives to strategic sectors of "dynamic efficiency"; direction to progressive structural change; social and income distribution purposes; financing of public goods (transportation, infrastructure, etc.), benefits to national companies (transfer of skills and technology); filling productivity "gaps"; productive diversification; reduction of structural heterogeneity.	ECLAC (2008); ECLAC (2012); Bielschowsky and Torres (2018).
Financial Aspects	State control and incentives for the retention and reinvestment of income extracted by multinational companies; directing financial resources to productive and dynamic projects at the expense of speculation; regulating derivatives to reduce instabilities in international trade and to reduce productive volatility.	Abeles *et al.* (2018b); Medeiros and Trebat (2018); Chena *et al.* (2018); Carrera (2018); Zane and Gottschalk (2018); ECLAC (2019); Abeles *et al.* (2018a).
Productive Cycle and Investment	Regulation to mitigate external effects on the domestic economy (countercyclical policies); empowerment of national companies for more autonomy over domestic policies; fostering the integration of the internal productive structure.	Bielschowsky and Torres (2018); ECLAC (2001); Torres (2019).

Source: own elaboration.

in coordinating markets towards sustainable industrialisation. The table 1 provides a theoretical synthesis of what should be the role of foreign capital in neo-structuralism.

This literature suggests that the participation of foreign capital had a negative effect in Latin American economies, contrary to what should be done regarding the integration of the region into the global economy. This occurred because instead of using foreign capital as a source of technical and financial resources to enhance domestic production and increase participation in global value chains, Latin American countries relied on external capital as carrier of development, thereby exacerbating their structural problems and degrading their role in the global economy (Torres, 2019).

As long as there exists technological and financial dependence of the peripheral system on the central, external effects on internal production are likely to be highly significant. Amidst the context of globalisation, neo-structuralism suggests that strategic control of foreign capital is essential for overcoming these new kinds of economic subordination. Otherwise, when allowed to operate freely, foreign capital tends to reproduce and reinforce asymmetries. Future research could delve into the ramifications outlined here in detail, as well as the specific effects of foreign capital dominance on the national economies of Latin America. Whether in its productive, monetary, financial, or technological form, the region's subordinate internationalisation necessitates an analysis of the dynamics of foreign capital operation.

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