



UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CEPAL/G.1103/Add.1
27 December 1979
ENGLISH
ORIGINAL: SPANISH

CEPAL

Economic Commission for Latin America

ECONOMIC SURVEY OF LATIN AMERICA, 1978

Volume II

Version subject to corrections of substance and form.

79-5-1220

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SUMMARY

Part One

THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1978

- I. INTRODUCTION
- II. ECONOMIC GROWTH
- III. THE EXTERNAL SECTOR
- IV. INFLATION

Part Two

THE ECONOMIC EVOLUTION OF THE INDIVIDUAL COUNTRIES

Part Three

LATIN AMERICA AND THE INTERNATIONALIZATION OF THE WORLD ECONOMY: SIGNIFICANCE AND OPTIONS

- I. DEVELOPMENT AND CHARACTERISTICS OF THE PROCESS: CENTRE-PERIPHERY
RELATIONS AND A TENTATIVE BALANCE-SHEET
- II. THE SEARCH FOR A NEW PATTERN OF EXTERNAL RELATIONS:
REASONS, DANGERS AND OPTIONS

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is essential for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent data collection procedures and the use of advanced analytical techniques to derive meaningful insights from the data.

3. The third part of the document focuses on the role of technology in data management and analysis. It discusses how modern software solutions can streamline data collection, storage, and processing, thereby improving efficiency and accuracy.

3. Data Collection and Analysis Methods

The data collection process involves several key steps, including identifying data sources, designing data collection instruments, and implementing data collection procedures. It is crucial to ensure that the data collected is reliable and valid, which requires careful attention to detail and adherence to established protocols.

Once data has been collected, the next step is to analyze it. This involves using statistical methods to identify patterns, trends, and relationships within the data. The analysis should be conducted in a systematic and unbiased manner to ensure the integrity of the findings.

The final stage of the data analysis process is the interpretation of results. This involves translating the statistical findings into meaningful conclusions that can inform decision-making and strategic planning. It is important to communicate these findings clearly and effectively to the relevant stakeholders.

Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United State dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

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MEXICO

1. Recent economic trends: Introduction and summary

(a) Introduction

Two outstanding developments in the evolution of the Mexican economy in 1978 were the recovery of the economic growth rate following the stagnation in the previous biennium, and Mexico's decided emergence as an oil-producing country in the world energy picture.

In the course of the year, many of the factors contributing to the previous depressive situation were gradually eliminated with the reactivations of investment and production in several economic sectors and the increase in exports and domestic demand. This was attributable not only to the sharp expansion of the oil industry and the development expectations created in connexion with it, but also to the political commitment assumed by trade union members to postpone and limit their wage demands and the return to a climate of confidence in the entrepreneurial sector as a result of the announcement of the policy objectives which the new administration has set itself and the favourable effects of a policy aimed at the ordering of the financial and fiscal system.

After the events of 1976 which culminated in the devaluation of the peso, and once the critical phase of reorienting the economy which lasted until early 1978 was over, positive trends became visible which led to a rate of expansion of 6.6% in the gross domestic product (see table 1).

Although the most serious factors of the crisis seem to have been overcome, however, the relative slowness in implementing some of the proposals aimed at improving the real income and living conditions of the broad masses would seem to confirm the present administration's oft-repeated principle that the success of a strategy envisaging integrated and sustained economic and social development will depend on the progress made in the solution of structural problems, many of which even worsened in the last few years.

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (millions of dollars at 1970 prices)	53 646	56 812	59 130	60 115	62 038	66 133
Population (millions of inhabitants)	55.4	57.3	59.2	61.2	63.3	65.4
Per capita gross domestic product (dollars at 1970 prices)	968	992	999	982	980	1 011
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	7.6	5.9	4.1	1.7	3.2	6.6
Per capita gross domestic product	4.2	2.5	0.7	-1.7	-0.2	3.1
Gross income <u>b/</u>	7.9	6.6	4.0	1.6	2.9	6.9
Terms of trade	3.1	9.4	-5.2	8.7	6.8	-3.9
Current value of exports of goods and services	27.0	31.0	0.5	13.3	8.9	22.7
Current value of imports of goods and services	30.3	48.7	10.5	-1.3	-12.8	30.6
Consumer prices						
December - December	21.4	20.6	11.3	27.2	20.7	16.2
Variation between annual averages	12.1	23.7	15.0	15.8	29.1	17.4
Money	24.2	22.0	21.3	31.4	26.4	30.0
Wages and salaries <u>c/</u>	5.2	35.8	16.0	29.3	27.9	13.5
Rate of unemployment <u>d/</u>	...	...	...	7.0	8.7	6.9 ^{e/}
Current income of government	25.3	37.9	42.1	31.4	42.6	29.5
Total expenditure of government	36.4	29.1	40.6	33.2	28.5	60.0
Fiscal deficit/total expenditure of government <u>d/</u>	39.2	35.0	34.3	35.2	36.2	41.9
<u>Millions of dollars</u>						
C. External sector						
Trade balance (goods and services)	-504	-1 591	-2 378	-1 435	285	-238
Balance on current account	-1 435	-2 938	-4 081	-3 524	-1 731	-2 462
Variation in net international reserves	144	32	164	-993	661	205
External debt <u>f/</u>	7 070	9 975	14 449	19 600	22 912	26 264

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Nominal minimum wages.

d/ Percentage.

e/ Estimated on the basis of the first two quarterly surveys of 1978.

f/ Disbursed external public debt.

/The existence

The existence of substantial oil reserves - 40,200 million barrels of proven reserves, 44,160 million of probable reserves and a total of 200,000 million barrels of potential reserves (including the preceding figures) - opens up new possibilities for Mexico to strengthen its development strategy and make some headway in solving the structural problems which have held back the solution of social problems, particularly if it is borne in mind that the State has absolute control over the oil industry.

The present key role of petroleum gives Mexico greater bargaining power in the world context, and this, coupled with the fact that it has quite a large economy with an intermediate level of industrialization, determines a new place for it in international economic relations, characterized as they are by greater complexity and interdependence in the fields of trade, finance, entrepreneurial activity and the choice and exchange of technology.

In Mexican political and academic circles an intensive debate has developed regarding the rate at which oil resources should be exploited and the use which should be made of the financial resources obtained from this activity. The prevailing criterion in official circles is that the development of petroleum should be regulated according to the country's capacity to absorb the larger volume of financial resources productively within the context of the economic and social development programme laid down in the government strategy. In this respect, particular care is being taken to prevent the additional resources from creating inflationary pressures.

This latter aim is illustrated by the type of linkage established in 1978 between the oil industry and the rest of the economy. Although the oil industry transmitted positive impulses to other sectors, their multiplier effect does not seem to have been as marked as it might have been had there been time to transfer their results to various sectors of activity. Similarly, it was not always possible to foresee the various kinds of effects which the incorporation of new areas of oil development had on the economic and social structures and the ecological equilibrium.

The favourable impact of the expansion of the oil industry on the public finances and the balance of payments enabled Mexico to emerge from its economic stagnation, while at the same time the Government proceeded with

/its stabilization

its stabilization programme. The marked disequilibria in the monetary and financial area since 1973 were not accentuated during the year and inflationary pressures diminished, although not as much as had been hoped for.

The evolution of the real and financial variables over the year was not uniform. In the first few months the rate of inflation dropped moderately and the balance-of-payments and budget deficits were kept within certain limits. With the reactivation of the economy, however, these variables tended to increase, and when inflation gained renewed impetus early in the second half of the year monetary policy measures were taken to counteract it. These consisted of freezing part of the money supply and fixing a ceiling on the growth of financing granted by private and semi-public banks during the last quarter. Nevertheless, the production sector is considered to have had ample credit resources throughout the year.

The evolution of the economy in 1978 took place within the framework of the six-year programme currently being implemented by the present administration, which provides economic, political and administrative guidelines within a strategy of economic and social change. Action in the field of economic policy was envisaged in three biennial stages: overcoming the recession (1977-1978), consolidating the economy (1979-1980), and accelerating growth (1981-1982).

Within the framework of this time perspective, the economic guidelines give special attention to the diversification of industry (with particular emphasis on the production of mass consumption goods, the local manufacture of capital goods and the export of manufactures), the vertically integrated development of the petroleum sector, and agricultural modernization. At the same time, the new economic policy tends to give a more important place to market forces and seeks to improve the levels of efficiency and competitiveness of both public and private enterprises, by reducing levels of protection through the elimination of the system of prior permits for a substantial proportion of the tariff universe.

The political guidelines envisage the strengthening of the political base of the social system through political reform aimed at incorporating a broader spectrum of ideological currents.

/Lastly, the

Lastly, the programme of administrative reform seeks to rationalize public sector action and strengthen federalism, making decided advances in the process of decentralization and giving the States a greater degree of economic autonomy with a view to more balanced regional development. For this purpose important changes were made as regards the number and functions of the Ministries, several semi-public enterprises were liquidated and others were consolidated. Already in 1978 some tangible results were discernible in the form of an improvement in the collection systems through the decentralization of collection and other measures. At the same time, some progress was made in the preparations for the adoption in 1980 of the value-added tax system in place of the commercial income tax system.

(b) Recent important economic developments

The relatively favourable evolution of the growth rate of the gross domestic product in 1978, which marked a return to the traditional dynamism of the Mexican economy, was basically influenced by the development of the petroleum industry and the reactivation of industry.

The former was reflected not only in the considerable increase in the production and exports of petroleum and petroleum products and their effects on the rest of the economy, but also in the favourable expectations to which it gave rise. Production of crude and condensed petroleum amounted to 1.2 million barrels per day (23.5% more than in 1977) and exports to 365,000 barrels per day, with an approximate value of US\$ 1.8 billion, which was 80% higher than the 1977 figure.

After two years of virtual stagnation, aggregate domestic demand showed a fairly dynamic performance in 1978, expanding by 7.5% in real terms as the result of a considerable rise (16.5%) in public and private fixed investment and an increase in consumption expenditure by the middle- and high-income groups.

The recovery of public investment was due to a substantial increase in capital formation by decentralized institutions - particularly Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (CFE) - since for the sake of budgetary stability the Federal Government continued to maintain a cautious attitude as regards the expansion of its expenditure.

/Following the

Following the previous year's contraction, private sector investment also grew (16%) thanks to the prevailing climate of confidence, the effects of the bigger disbursements made by the main decentralized public sector bodies, and various fiscal and credit incentives granted by the Government during the year. This reactivation was not as intensive as originally envisaged, however, owing to the fact that, as indicated in official statements on the subject, the entrepreneurial sector failed to comply fully with the commitments it had undertaken with the State through the Alliance for Production, a mechanism brought into play by the new authorities whereby the public, entrepreneurial and labour sectors jointly establish goals for the behaviour of macroeconomic variables such as production, investment and employment. Not only the growth of private investment but also the absorption of labour fell short of the goals envisaged in that Alliance, although the Government continued its public investment programme through its main decentralized enterprises.

The deterioration in the real wages of the working class largely explains the meagre expansion of private consumption expenditure (less than 5% in real terms), especially when it is considered that spending by the middle- and high-income urban sectors increased considerably, as may be inferred from the vigorous growth of the domestic supply of those goods accounting for the largest proportion of expenditure by these sectors.

Finally, as regards the performance of exports other than petroleum, with only a few exceptions the items showing the highest rate of expansion were those produced by transnational enterprises. Thus, the Government's action to promote export of non-traditional products had only slight success in stimulating their sales abroad owing, among other reasons, to the gradual loss of external competitiveness of Mexico's products, since in the course of the year the average rate of increase in domestic prices was double that of the United States.

The recovery of the economy entailed increasing quantities of inputs and capital goods from abroad and also a rise in expenditure under the head of factor payments. Thus, in spite of the increase in foreign exchange earnings from exports, tourism and the activities of subcontracting industries

/(maquiladoras), the

(maquiladoras), the current account deficit (US\$ 2,460 million) increased substantially, exceeding the previous year's figure by US\$ 700 million, although it remained below the level of the deficits recorded in 1975 (US\$ 4,100 million) and 1976 (US\$ 3,500 million).

As regards movements of capital, the amortization payments on the public debt - which were nearly twice the 1977 figure - together with the current account deficit and the public sector's financial needs, made it necessary to have recourse to gross external financing of the order of US\$ 9 billion. Remittances in respect of amortization and external factor payments absorbed two-thirds of that sum in 1978 and represented a similar proportion of total exports of goods and services. Nevertheless, the net increase in external public indebtedness did not exceed the limit established in the Letter of Intention signed with the International Monetary Fund (US\$ 3 billion), and in the course of the year an improvement in the structure of the external debt was achieved in favour of longer-term liabilities.

Inflows of capital enabled the current account deficit to be adequately covered in 1978 and even resulted in an increase of a little over US\$ 200 million in international reserves, so that no pressures were recorded on the exchange rate whose level with respect to the dollar remained practically unaltered throughout the year, even though subject to floating. This helped to restore confidence in the peso which, combined with the economic recovery, led to a considerable increase in domestic absorption of financial resources in national currency. The return of a significant volume of capital also attracted during the first half of the year by the favourable differential in interest rates, played an important role in this respect. This led to a clear process of reducing the links between the dollar and the economy, which had already started in the last quarter of 1977.

At the end of the year the rate of inflation was 16.2% for consumer prices and 15.8% according to the wholesale price index, which represents a moderate decline compared with the preceding year (20.7% and 18.1%, respectively).

The relative persistence of inflationary pressures was due, among other factors, to the effects of freeing prices of previously controlled products in February, increased demand from the public sector (which faced

/some rigidities

some rigidities in the supply of certain products), speculative practices in the distribution apparatus, the increase in financial costs and the rise in the rates of some public services such as water and electricity.

In spite of the reactivation of the economy, unemployment continued to be one of Mexico's main problems. It is estimated that in 1978 unemployment reached 7.5% in urban centres, while underemployment in rural areas was at an even higher level. Although the unemployment problem appears repeatedly among the priorities of government policy - and is the object of the measures for developing agro-industry and small- and medium-scale industry which are beginning to be put into practice - no improvement was as yet discernible.

As regards wages and salaries, the minimum wage dropped by 3.4% in real terms following a slight decline in 1977. Thus the reduction in the cost of wages and salaries continued to be a basic factor of anti-inflationary policy. This expedient was feasible owing to the fulfilment of the commitments assumed by the trade-unionized wage-earning sector under the Alliance for Production programme and the consistently high levels of underemployment and unemployment throughout the year.

The persistence of unemployment and the deterioration in real wages for two consecutive years caused growing social unrest among the population. In urban areas these problems led to threatened and attempted strikes which in many cases actually took place, both among trade unions affiliated to the Confederation of Mexican Workers (CTM) and among independent workers. In rural areas they were reflected in an increase in movements by rural workers demanding land, improved working conditions and the opening up of new sources of employment, as well as in increased migration to the cities, which pushed up open unemployment.

2. Trends in economic activity

(a) Total supply and demand

During 1978 total supply made a substantial recovery after three years of virtual stagnation. Its growth rate of 8% was even higher than that recorded in 1974, before the full effects of the crisis in the world economy made themselves felt and the signs of exhaustion of the substitutive industrialization strategy followed thus far became accentuated.

/This expansion

This expansion was due both to the increase in the gross domestic product (6.6%) and that observed in imports of goods and services (24%), contrasting with the decline in the growth rate of the former and the absolute drop in the volume of external purchases recorded in the previous three-year period (see table 2).

The reactivation of the economy was reflected in the increase in the gross domestic product at a rate not experienced since 1973. This was due in the first place to the petroleum industry - in which the extraction of crude grew by 23% and output of petroleum products by 10% - and secondly to the manufacturing sector, which expanded by nearly 9% (see table 3).

The economic resurgence brought to light the relative backwardness in certain areas of the country's physical infrastructure, which was reflected in problems of inadequate capacity for the mobilization of cargo in both railways and ports. The relative lag in the production of certain foodstuffs and fertilizers also became more evident.

Although the growth of the gross product of the agricultural sector (3%) was more modest, it exceeded the rates recorded since 1971 and for the first time in several years it outstripped the population growth, a steady rise being recorded in the production of grains, particularly maize, beans and wheat. Fisheries output, on the other hand, declined.

Because of the importance of construction as a source of employment and also because of its dynamic performance, the 12.5% increase in this sector is particularly notable following two years of decline in which more attention seems to have been given to infrastructural works than to the building of dwellings. Mining showed its usual sluggishness, even though the recently adopted policies of incentives gave considerable impetus to investment in this activity.

As regards total demand, exports grew by about 13% in real terms. Crude petroleum and petroleum products rose by 70%, while manufactures and agricultural commodities recovered, with increases of 23.5% and 7% respectively in external sales. As regards services, tourism grew less than in 1977 in real terms (11% compared with 17%) and border sales dropped 5%.

Table 2
MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of mexican pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
	<u>Total supply</u>	<u>620 378</u>	<u>628 624</u>	<u>678 714</u>	<u>110.2</u>	<u>110.1</u>	<u>0.9</u>	<u>1.3</u>	8.0
Gross domestic product <u>b/</u>	559 916	578 270	616 436	100.0	100.0	1.7	3.2	6.6
Imports of goods and services	60 462	50 354	62 278	10.2	10.1	-5.3	-16.7	23.7
<u>Total demand</u>	<u>620 378</u>	<u>628 624</u>	<u>678 714</u>	<u>110.2</u>	<u>110.1</u>	<u>0.9</u>	<u>1.3</u>	<u>8.0</u>
<u>Domestic demand</u>	<u>575 447</u>	<u>580 283</u>	<u>624 225</u>	<u>102.0</u>	<u>101.3</u>	<u>0.3</u>	<u>0.8</u>	<u>7.6</u>
Gross domestic investment	127 027	122 073	135 013	22.4	21.9	-0.3	-3.9	10.6
Gross fixed investment	115 516	109 278	127 309	19.7	20.7	-1.0	-5.4	16.5
Public	54 968	52 164	61 397	7.0	10.0	-7.2	-5.1	17.7
Private	60 548	57 114	65 912	12.7	10.7	5.4	-5.7	15.4
Total consumption	448 420	458 210	489 272	79.6	79.4	0.5	2.2	6.8
General government	67 218	70 041	83 349	7.8	13.5	15.2	4.2	19.0
Private	381 202	388 169	405 923	71.8	65.8	-1.7	1.8	4.6
<u>Exports of goods and services</u>	<u>44 931</u>	<u>48 341</u>	<u>54 429</u>	<u>8.2</u>	<u>8.8</u>	<u>9.3</u>	<u>7.6</u>	<u>12.6</u>

Source: CEPAL calculations on the basis of data supplied by the Banco de México, S.A.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

a/ Preliminary figures.

b/ At market prices.

/Table 3

Table 5
MEXICO: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of mexican pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Agriculture	49 807	51 159	52 765	11.8	9.0	-2.8	2.7	3.1
Mining and quarrying	23 154	26 282	30 513	4.1	5.2	8.1	13.5	16.1
Oil production	16 345	19 414	23 782	2.8	4.1	10.9	18.8	22.5
Rest of mining	6 809	6 868	6 731	1.3	1.1	2.0	0.9	-2.0
Manufacturing	128 828	133 174	144 822	23.4	24.7	2.9	3.4	8.7
Construction	31 231	30 607	34 433	5.4	5.9	-1.9	-2.0	12.5
<u>Subtotal goods</u>	<u>233 020</u>	<u>241 222</u>	<u>262 533</u>	<u>44.7</u>	<u>44.8</u>	<u>1.4</u>	<u>3.5</u>	<u>8.8</u>
Electricity, gas and water	8 842	9 525	10 476	1.4	1.8	7.4	7.7	10.0
Transport, storage and communications	17 482	18 391	...	2.6	...	5.0	5.2	...
<u>Subtotal basic services</u>	<u>26 324</u>	<u>27 914</u>	<u>...</u>	<u>4.0</u>	<u>...</u>	<u>5.8</u>	<u>6.0</u>	<u>...</u>
Commerce financial institutions and insurance	147 167	150 212	...	28.9	...	-1.0	2.0	...
Real estate ^{b/}	35 794	35 794	...	7.6	...	-	-	...
Community, social and personal services ^{c/}	90 332	92 922	...	14.9	...	6.4	3.4	...
<u>Subtotal other services</u>	<u>273 293</u>	<u>278 928</u>	<u>...</u>	<u>51.4</u>	<u>...</u>	<u>1.4</u>	<u>1.8</u>	<u>...</u>
<u>Subtotal services</u>	<u>299 617</u>	<u>306 842</u>	<u>323 850</u>	<u>55.3</u>	<u>55.2</u>	<u>1.8</u>	<u>2.4</u>	<u>5.5</u>
<u>Total gross domestic product ^{d/}</u>	<u>533 817</u>	<u>550 903</u>	<u>587 262</u>	<u>100.0</u>	<u>100.0</u>	<u>1.7</u>	<u>3.2</u>	<u>6.6</u>

Source: CEPAL calculations on the basis of data supplied by the Banco de México, S.A.

^{a/} Preliminary figures.

^{b/} Refers to ownership of dwellings.

^{c/} Also includes restaurants, hotels and business services.

^{d/} As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

/The most

The most important factor of the economic recovery, however, was the performance of aggregate domestic demand, which rose by about 8% following two years of stagnation. Gross domestic investment grew more than consumption, and within it fixed investment expanded by 16.5% thanks to the greater impetus it was given by the State, although private investment also showed considerable dynamism (see table 2).

Noteworthy in public investment was that made by the main decentralized agencies, especially PEMEX, whose large-scale investment programme included the construction of the Chiapas-Tamaulipas gas pipeline and the drilling of new wells. Thus, in two years the oil sector's share in total public investment rose from 13% to 33%. Private investment responded to the reactivation of public investment and to the propitious climate created for entrepreneurial activity, the greater availability of financing and the recovery of domestic demand.

Total consumption grew at a rate of around 7%, while private consumption rose by 4.6%, which is a fairly moderate rate, particularly in view of the population growth and the fact that consumption by the middle- and high-income urban strata increased considerably, as may be deduced from the vigorous growth of the domestic supply of goods accounting for the largest proportion of expenditure by these sectors. Public sector consumption, in contrast, rose sharply, despite certain budgetary limitations.

(b) Growth of the main sectors

The reactivation of the economy in 1978 was based at the sectoral level on the real growth of the following activities: extraction of crude oil (22.5%), output of petroleum products (10%), construction (12.5%), electricity generation (10%) and manufacturing production, excluding oil refining (9%). In contrast, the agricultural sector grew at a moderate rate, since its gross product rose by only 3%, which barely exceeded the population growth. Mining and fishing maintained the virtual stagnation recorded in the last few years, and their production did not yet respond to the fiscal and other incentives adopted in 1978.

/(i) Agriculture.

(i) Agriculture. The volume of agricultural production grew by approximately 4% and for the second year running showed a trend towards emerging from the previous years' state of stagnation (see table 4). This was largely due to favourable weather conditions and the effects of a set of agricultural policies which began to be implemented at the end of 1977.

This growth is attributable to factors influencing both crop farming and stock-raising activities. Following several years of drought, especially in the northern part of the country which is the main producer of livestock for export, the levels of animal production, particularly beef, regained and even exceeded the previous years' levels. Thus, production of beef for domestic consumption grew by 6% and that destined for export by 20%.

The meat quota for the United States market (33,000 tons) was increased by approximately 10% owing to the additional quantities assigned to Mexico because of the shortfall in supply by other exporters. At the same time, sales to other countries continued to expand, especially to Japan which, in addition to beef, imports considerable quantities of horse meat and pork from Mexico.

The volume of maize increased by nearly 10% owing to the favourable weather conditions and the campaign to promote this crop initiated at the beginning of the year. Even so, the harvest of nearly 11 million tons was not enough to supply domestic consumption, although it did permit a substantial reduction in imports. The bean crop was 23% larger than in the preceding year. The trends in the production of grains were attributable to the increases in support prices established by CONASUPO, which were 7% for barley, 15% for wheat and 25% for beans. Output of fruit continued to expand rapidly (22%).

In contrast, output of oilseeds fell by 10% and was once again insufficient to cover domestic consumption requirements. The availability of cotton seed declined owing to the reduction in the area sown, while unseasonal rainfall severely damaged the soya bean crop, which contracted by nearly 35%. Only the production of safflower, sesame and groundnuts showed considerable increases. The supply of sugar cane for export, for its part, rose by 300,000 tons, despite the rapid increase in consumption in recent years.

Table 4
MEXICO: INDEXES OF AGRICULTURAL PRODUCTION

	Indexes (1970 = 100)				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
Index of agricultural production	117.0	115.7	126.6	131.9	-1.1	9.5	4.1
Crop farming	115.1	108.5	121.3	126.6	-5.7	12.2	4.0
Stock-raising ^{b/}	120.1	127.6	134.7	140.6	6.2	5.6	4.4
Production of the main crops							
By groups of crops							
Grains	112.8	106.5	116.9	120.4	-5.6	9.8	3.0
Vegetables	119.2	118.1	140.5	138.5	-0.9	19.0	-1.4
Forage	150.2	135.0	155.0	155.4	-10.1	14.8	0.3
Oilseeds	124.0	83.0	135.2	121.2	-33.1	62.9	-10.4
Fibres	64.5	69.2	120.1	98.1	7.3	73.5	-18.3
Industrial crops	107.5	96.3	85.7	93.1	-10.4	-11.0	8.6
Fruit	129.9	132.5	128.6	157.2	2.0	-2.9	22.2
By main destination							
For domestic consumption	119.5	113.0	123.8	128.5	-5.4	9.5	3.1
For export	95.3	88.2	112.6	118.4	-7.4	27.6	5.0

Source: CEPAL, on the basis of official data.

^{a/} Preliminary figures.

^{b/} Figures subject to revision.

/Efforts to

Efforts to formulate and implement agricultural policies continued on several fronts during the year, although it cannot as yet be said that the planning of the agricultural sector as a whole has become the central factor orienting the various activities being promoted in this field.

One of the measures which seems to have had the most positive effects in 1978 was that aimed at securing better co-ordination of agricultural development. "Agricultural sectoral groups" were set up at the State level, presided by the governor of the unit and including a representative of the Ministry of Agriculture and Water Resources. These groups are integrated in the Development Promotion Committees (Comités Promotores del Desarrollo - COPRODE) which were established at the end of 1977 and form part of the Agricultural Cabinet headed by the President of the Republic. Although it is too soon to evaluate the effect of these measures, they undoubtedly represent an important effort to co-ordinate the various policies adopted in this field.

The Ministry of Agrarian Reform continued to take over latifundios and distribute them among rural workers. No disputes occurred over the invasion of land, which had become a common feature, particularly in the irrigated districts of north Mexico. This may have been partly due to the favourable crop year, which created a growing demand for labour.

In the early months of the year the Agricultural Cabinet approved the 1978 Agricultural Plan prepared by the Ministry of Agriculture and Water Resources, one whose aims is to solve the food supply problem, since in recent years over one million tons of grain has had to be imported for domestic consumption.

(ii) Fishing. In keeping with the slow development trend observed in the last few years, the fisheries product fell 3% in 1978. A determining factor in this contraction was the scanty increase or even decline in the catches of some of the most important species in this activity, notably the 10% drop in shrimp production.^{1/}

^{1/} Although there are no exact figures available for the contraband carried on by small vessels, it is estimated that over 30% of Mexico's total shrimp production is illegally sold abroad.

Some factors hindering the development of the fishing industry were the insufficient assignment of resources by the banking system and the labour dispute between the owners of fishing vessels and the fishermen.

Nevertheless, in accordance with the 1977-1982 Fisheries Development Plan, the diversification of fisheries continued in 1978 as a result of measures to promote the catching of new varieties such as squids, mussels, swordfish, black cod and other deep-water species. Furthermore, a start was made on 242 infrastructural works in which nearly 520 million pesos were invested, and steps were taken to promote fisheries research.

(iii) Mining. The mining sector has remained practically at a standstill during the present decade. In 1978, mining output grew by only 0.2%, which is lower than the already very low rates recorded in preceding years (see table 5). It is surprising to see such poor results in a year in which this activity was so strongly promoted, as regards not only the legal context and fiscal incentives but also investment, although it should be borne in mind that in view of the characteristics of this sector, investment normally takes a long time to mature.

The new law on mining taxes and promotion which came into effect early in 1978 and replaces that which had been in force since 1955 provides fiscal incentives for new investment and eliminates, inter alia, taxes on exports and the 15% tax on first-hand sales of gold and silver. Moreover, within the 60 billion peso investment programme for the six-year period 1977-1982, in the first two years 25 billion were earmarked for new projects and the expansion and modernization of mines in operation. Of this sum, 15 billion was spent in 1978.

Among the commodities whose production grew at a rapid rate over the past year is silver, of which Mexico is the leading world producer. Output of this metal increased by 17%, stimulated by domestic consumption and the rising trends in world prices. Gold production, in contrast, fell by 42%.

Table 5

MEXICO: INDICATORS OF MINING AND OIL PRODUCTION

	Indexes (1970 = 100)				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Index of mining production</u>	113.4	115.1	115.9	116.1	1.5	0.7	0.2
Precious metals	90.7	99.3	112.1	128.6	9.5	12.9	14.7
Non-ferrous industrial metals	104.4	104.8	105.6	102.9	0.4	0.8	-2.6
Metals and minerals for the steel industry	142.0	150.9	158.6	159.2	6.3	5.1	0.4
Non-metallic minerals	131.2	124.1	108.2	103.5	-5.4	-12.8	-4.4
<u>Production of crude oil</u>	165.8	184.3	223.1	273.3	11.2	21.1	22.5
<u>Production of some important mineral (thousands of tons)</u>							
Crude oil <u>b/</u>	294	327	396	485	11.2	21.1	22.5
Zinc		259	265	248	-10.4	2.3	-6.4
Copper	78	89	90	79	14.1	1.1	-12.0
Silver	1 183	1 295	1 463	1 706	9.5	13.0	16.0
Lead	179	165	163	178	-7.8	-1.2	9.0
Iron ore	3 369	3 644	3 587	3 461	8.2	-1.6	-3.0
Sulphur	2 164	2 150	1 856	1 783	-0.6	-13.7	-3.0

Source: CEPAL, on the basis of official data.

^{a/} Preliminary figures.

^{b/} Millions of barrels, including total crude oil, condensates and liquid recovered from processed natural gas.

/Non-ferrous metals

Non-ferrous metals showed adverse results (-3%). The most significant drops were recorded in copper (-12%), owing to the weakening of world demand, and zinc (-6%), the most important metal in this sector, because of a reduction in external demand.^{2/} Within this same group, however, there were increases in output of tin, cadmium and lead.

Among the metals and minerals for the steel industry, the production of iron continued to decline (-2% in 1977 and -3.5% in 1978), while that of manganese remained static; on the other hand, the production of coke and coal, stimulated by dynamic domestic demand, grew substantially, although at a lower rate than in 1977.

Output of non-metallic minerals contracted, as in the previous three years. The drop in the production of sulphur was particularly marked, in spite of increased external sales due to the rising trend in world market prices.

(iv) The petroleum industry. As noted earlier, the petroleum industry decisively influenced the course followed by the economy in 1978, not only because of the results obtained but also because of the expectations which the development of this key branch of activity created for other sectors. The expansion of the proven reserves did much to alter Mexico's prospects as an oil-producing and exporting country and gave the State - which exercises absolute control over this resource - a broader sphere of action for implementing the economic policy and selectively channelling the resources generated.

The value added in the extraction of crude increased by approximately 23% in 1978 and the production of refined petroleum rose by over 10%, which combined to make the petroleum industry the most dynamic sector of the economy. In 1978, production of crude, condensed and liquid petroleum rose from the 1977 figure of 396 million barrels to 485 million (see table 5),^{3/}

^{2/} In the last few months of the year, United States zinc producers requested an increase in the tax on imports of this metal.

^{3/} These are lower than the figures shown in table 5 because they exclude liquids recovered from processed gas.

or 1.3 million barrels per day. In spite of this substantial increase, the reserves-production ratio rose significantly as a result of the new deposits discovered.

The State enterprise PEMEX invested 61 billion pesos in 1978, of which 13% were earmarked for the drilling of wells and 17% for the construction of the gas pipeline. In all, 308 wells were drilled (of the 497 envisaged) and 205 of these were productive, that is to say, the results were 67% successful.

With the levels of production reached, exports of crude expanded to 365,000 barrels per day with an approximate value of 40 billion pesos, or 82% more than in 1977. Because domestic demand was smaller than originally envisaged, a larger volume was destined for export, even though the hoped-for level of 429,000 barrels per day was not attained.

In line with the policy of market diversification, the sale of oil to Spain was initiated and important contracts were signed with Japan, France and Israel. The results of this policy were not apparent, however, because the United States purchased larger volumes of crude than ever.

In addition to its notable contribution to the balance of payments, the petroleum industry also had an important effect on public sector finances, which receive 51% of the value of each barrel exported.

Production of natural gas reached an average of 2,560 million cubic feet daily, or 25% more than in the previous year. An important change in the policy governing the use of this energy resource took place at the end of 1977 when negotiations to sell it to the United States were suspended.

Construction of the trunk gas pipeline from Cactus (Chiapas) to San Fernando (Tamaulipas) was practically completed in 1978.^{4/} Work also proceeded on the expansion of the gas pipeline network, in particular that linking Pemex City with Mexico City and that directed towards the centre of Mexico which will reinforce the supply of gas to the Guadalajara and Bajío area. Since there are still not enough facilities available and demand for

^{4/} The last stretch up to Monterrey was expected to be completed in March 1979, enabling this energy resource to be supplied to that industrial area and the cities of Saltillo, Torreón and Chihuahua.

gas has not expanded to the same extent as supply, over 500 million cubic feet of natural gas (15% of total production) were burnt per day towards the end of the year.

The Mexican refineries processed a total of 790,000 barrels of crude per day, which is less than the quantity that had been envisaged, mainly because the new Cadereyta plant did not enter into operation as originally expected.^{5/} Output of petroleum products increased substantially, the expansion being particularly notable in the case of natural gas (30%) and fuel oil (16%). Gasoline stood out as one of the main exports of petroleum products, sales of this item amounting to over 190 million pesos.

(v) Manufacturing

Production. The gross product of the manufacturing sector expanded by nearly 9% in 1978, which is similar to the rate observed in the previous decade. This recovery, after four consecutive years in which low growth rates were recorded, is attributable to the reactivation of both public and private investment expenditure and spending on consumer goods.

Most of the branches of manufacturing expanded considerably. Growth rates were especially high in the steel, automobile and transport equipment industries, and in those producing petrochemicals and household and electrical appliances.

Production of durable consumer goods, whose performance is geared to spending by the middle- and high-income strata, grew by nearly 20%. This increase was the result of the reactivation of demand, partly owing to the greater availability of bank financing for the purchase of these types of goods, and also of the advance purchases made in the face of expectations of major price increases. The National Workers' Consumption Fund (Fondo Nacional de Consumo para los Trabajadores - FONACOT) and the main official establishments for the supply of mass consumption goods once again played an important part in this trend.

In contrast, the output of non-durable consumer goods grew by only 4.9%, owing no doubt to the deterioration in the purchasing power of broad sectors of the population.

^{5/} With Mexico's present capacity, it is scarcely necessary to have recourse to foreign refineries.

The manufacture of intermediate goods increased by an average of 8%, although at very unequal rates. Thus, while chemical products (excluding petrochemicals) rose only moderately, others like non-metallic minerals (particularly cement), steel products, paper, and rubber products reached high growth rates (see table 6).

Finally, the production of investment goods recorded the highest rate of growth in the manufacturing sector (22%), mainly owing to the notable expansion in the manufacture of transport equipment and in machinery production, particularly for agriculture. Despite the increase in these sectors, however, the results of the capital goods programme which the Government has been promoting were still fairly modest.

In 1978 the State steel industry was reorganized through the integration of three major plants (Alcos Hornos de México, S.A. (AHMSA), Fundidora de Hierro y Acero de Monterrey and Lázaro Cárdenas-Las Truchas) into Siderúrgica Mexicana (SIDERMEX). The results of this were highly satisfactory, since it permitted a more rational utilization of installed capacity. Thus the production of steel rose from 5.6 to 6.7 million tons between 1977 and 1978; SIDERMEX contributed 3.9 million tons, while the Lázaro Cárdenas-Las Truchas enterprise doubled its level of output between the two years. The merging of these plants made it possible to secure greater complementation and specialization in production and to operate in longer runs, while also helping to overcome the conjunctural obstacles normally arising in this industry. All this explains why the para-State enterprises accounted for around 80% of the sector's expansion.

Production of flat rolled products rose by 30%, basically owing to the larger demand from the motor-vehicle industry. Output of non-flat products also increased considerably. The largest increments were recorded in structural girders (54%) and lighter sections and reinforcing rods (23%), which are mainly used in construction.

Thus the steel industry responded to the increased requirements deriving from the dynamic performance of the oil industry, construction, and the motor-vehicle and metal manufactures and machinery industries, and was even able to achieve a considerable volume of exports, especially of reinforcing rods and structural sections. Nevertheless, imports of steel products

Table 6

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1970 = 100)				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
1. Index of manufacturing production	137.5	142.1	147.9	161.1	3.3	4.1	8.9
Food, beverages and tobacco	119.8	123.2	128.4	136.2	2.8	4.2	6.1
Textiles	130.1	133.0	140.8	143.8	2.2	5.9	2.1
Clothing	145.4	143.2	160.4	166.3	1.9	8.2	3.7
Wood	92.7	97.6	108.4	116.2	5.3	11.1	7.2
Paper	121.8	138.1	145.2	167.4	13.4	5.1	15.1
Printing and publishing	124.5	132.8	124.6	127.8	6.7	-6.2	2.1
Rubber products	137.5	157.5	139.4	172.5	14.5	-11.5	23.1
Petrochemical products	175.9	191.4	185.3	213.7	8.8	-3.2	15.1
Other chemical products	156.6	165.8	177.8	181.5	5.9	7.2	2.1
Petroleum products	139.9	149.2	168.8	187.4	6.6	13.1	11.0
Non-metallic minerals	152.5	164.9	179.0	191.0	8.1	8.6	6.7
Steel products	133.9	136.1	146.1	165.9	1.6	7.3	13.8
Machinery	152.6	168.5	171.5	193.0	10.4	1.8	12.8
Transport equipment	190.0	169.1	147.0	186.8	-11.0	-13.1	27.1
2. Production of some important manufactures							
Beer	136.0	132.7	143.9	157.0	-2.4	12.2	5.4
Cigarettes and cigars	103.3	102.9	114.4	118.0	-0.4	11.2	3.1
Tyres and tubes	151.2	175.7	162.0	200.0	18.8	-9.9	23.5
Manures and fertilizers	155.9	160.6	172.5	160.0	3.0	7.4	-7.2
Artificial fibres	222.9	242.3	261.1	278.0	8.7	7.3	6.5
Cast iron	131.3	152.2	186.8	229.0	15.9	22.7	22.6
Automobiles	166.1	150.7	139.1	173.0	-9.3	-7.7	27.9
Tracks	231.3	193.1	157.2	222.0	-16.5	-18.6	41.2
3. Other indicators of manufacturing production							
Consumption of electricity by industry ^{b/}	19.4	21.4	23.3	25.6	10.5	8.6	10.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures, and estimates based on 11 months in the case of production of some manufactures.

b/ Billions of KWH.

/expanded substantially

expanded substantially owing in large measure (over 50%) to purchases of seamless pipes for the construction of the PEMEX gas pipeline referred to earlier. It should be noted that domestic industry manufactured tubes for 160 kilometres of the pipeline but had to import the metal sheets for their manufacture.6/

As regards consumer goods, the production of sugar reached 2.8 million tons (12% more than in 1977) owing to the increase in the area of cane cultivation, the higher production yield and the favourable weather conditions which facilitated the cutting of cane and its timely arrival at the sugar mills. It was thus possible to fill the export quota of 70,000 tons, which had not been possible in the last few years owing to problems of supply.

The textile industry grew at a moderate pace (2%) owing in particular to the drop in the production of cotton yarn and fabrics and of hard fibres, thereby continuing the notable process of replacing natural fibres by synthetic fibres, which started in 1973. Production of yarn and fabrics of artificial fibres increased by 5% in 1978, although this was much lower than the 1977 rate (13%). Moreover, exports of cotton manufactures were severely affected by the intense competition from products made in Taiwan and South Korea.

During 1978 there was a considerable increase in the production of flat glass (15.5%) and a smaller increase in output of cement (nearly 7%). Cement became temporarily scarce in the middle of the year owing to domestic marketing problems and the attractions offered by exporting this product because of the price differential between the Mexican and United States markets.7/

Transport equipment more than recovered from the contraction it suffered in 1977, expanding by 32% thanks to the increased domestic demand for vehicles and, on a lesser scale, to exports. The production of

6/ The gas pipeline mainly required sheets 48 inches in width, which are not produced in Mexico.

7/ In order to check external sales of this product, a decree was issued in 1978 authorizing periodical revisions of cement prices with the object of keeping them in line with production costs.

automobiles was 29% higher than in 1977 and domestic sales grew by 23% to over 243,000 units. The production of trucks and buses increased even more (39%), in contrast with the 20% decrease in the previous year.

Output of the petrochemical industry rose by 18.5%, following the 4% decline in 1977. This was due to the reactivation of demand for final products - which had a chain reaction effect first on products of the basic sector and then on those of the secondary sector - and also to the entry into operation of several plants for the manufacture of basic products as a result of the increase in the extraction of crude and gas.^{8/} Those which started operating in 1978 were: two ammonia plants (one in Cosoleacaque, Veracruz, and the other in Salamanca, Guanajuato, with an annual capacity of 450,000 tons and 300,000 tons, respectively); a plant producing polyethylene and another producing ethylene, with capacities of 100,000 and 182,000 tons, respectively; a 150,000-ton metal plant; and two sulphur plants in Cactus, Chiapas, with a capacity of 25,400 tons each. Of the basic products, ammonia recorded a 67% increase in volume. Thus the trend towards eliminating imports of this article continued, and exports to Brazil, Spain and the United States were initiated.

Industrial policy. The industrial policy measures adopted in 1978 included the liberalization of the system of protection, new instruments for stimulating the production of capital goods for agro-industry, and an integrated support programme for small- and medium-scale industries.

The requirement of obtaining prior permits was eliminated for over 1,500 sections of the general import tariff, so that by the end of the year 70% of the tariff universe, representing 38% of the total value of imports, was free from these restrictions.

The Ministry of Finance decreed that subsidies should be granted both to national producers of machinery and equipment with a minimum of 60% of domestic components within the total direct cost of their production, and

^{8/} Approximately 8,500 million pesos were invested in these plants: 5,300 million in the basic sector (five times the amount invested in 1977) and 3,300 million by private firms in the secondary sector (more than double the previous year's investment).

to enterprises purchasing locally-produced capital goods.^{9/} The latter were also given the right to depreciate such goods at a faster pace according to preferential rates.

In April 1978, rules were issued for the purchase of capital goods by the public sector. In accordance with these rules, the only goods which can be considered in national tenders are domestically produced capital goods offered at prices not more than 15% - plus freight - over the normal prices charged in respect of domestic transactions by the main supplier. These rules are flexible, since they enable local manufacturers to adjust the prices of their products specified in the Manufacturing Programme in line with changes in the cost of inputs.

In order to promote the activities of medium- and small-scale industry, the Nacional Financiera prepared an Integrated Support Programme with the aim of co-ordinating both the financial and the technical aid granted to these types of enterprises. At the same time, with the purpose of helping to finance agro-industrial projects of medium- or small-scale enterprises, the Government set up a Fund for the Development and Support of Agro-Industry, whose trustee is the Banco Nacional de Crédito Rural.

Lastly, within the reorientation of general economic policy, an industrial plan was prepared covering three main areas: (i) central priorities of a macroeconomic nature (employment, balance of payments, inflation) and sectoral priorities (basic consumption goods, energy, machinery and equipment, petrochemicals, mining products, fertilizers, steel and cement); (ii) decentralization (frontiers, coasts and intermediate points) and deconcentration (support for medium- and small-scale industry, subcontracting and stronger competition in the most dynamic sectors); and (iii) institutional framework for co-ordinating and evaluating action within the context of a model in which the performance of the manufacturing sectors is compatible with the goals for the economy as a whole.

^{9/} Producers are allowed exemptions of up to 75% on the import duties on machinery and equipment, and up to 100% on basic raw materials, parts and components for the manufacture of these goods. Exemptions are also provided of up to 75% of the net federal income taxes on their commercial operations in respect of the sale of goods which are considered to be of a priority nature, and of 15 to 20% of the ordinary income tax of firms.

(vi) Construction. As a result of the increase in public and private investment, the construction industry grew by 12.5% in 1978 after two years of sluggish performance.

As regards the public sector, the works undertaken by the main decentralized institutions - PEMEX and CFE - and, in general, the road and transport projects carried out by the Federal District Department contributed most to this growth. A lesser contribution came from the as yet uncompleted programme to build 20,000 low-cost dwellings at a cost of 6 billion pesos, which the private banking system undertook to provide under a co-operation agreement signed with the Government.

The private sector's share of demand for construction materials rose from 19% to 30% as a result of the expansion of industrial plants, the construction of tourist facilities and, to a certain extent, the boom in building of dwellings and apartments for the middle- and high-income strata. Mortgage credit, which had stagnated in 1977, underwent vigorous expansion (70%) and was reflected in the demand for real estate, which was also encouraged by the security it represented in terms of saving in the face of rising prices.

In the production of construction materials, the highest growth rates were recorded for structural sections and reinforcing rods (54% and 23%, respectively), while output of plywood and flat glass decreased considerably, especially if compared with the expansion in 1977. Cement showed a relative recovery (7%) as a result of increased demand and the expansion of the installed capacity of that industry (see table 7).

(vii) Electricity. In 1978 the electricity sector experienced considerable growth owing to the entry into operation of new plants which stepped up installed capacity by 1.8 million KW (16%), thus bringing it to a total of 13 million KW by the end of 1978. Of the six plants which started operating, three are thermal plants with a capacity of 300,000 KW each. The gross generation of electric energy in the year was 53 billion KWH, or 10% more than in the preceding year.

Table 7

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Index of production of some building materials (1970 = 100)							
High-tensile reinforcing rod <u>b/</u>	890.9	780.5	691.4	1 094.6	-11.5	13.0	22.8
Structural sections <u>b/</u>	180.8	186.4	147.7	227.5	3.1	-20.7	54.0
Cement <u>b/</u>	11.5	12.5	13.1	14.0	9.5	4.1	6.6
Plywood <u>c/</u>	17.5	17.4	20.2	20.5	-1.0	15.8	2.5
Flat glass <u>c/</u>	10.9	11.3	17.7	18.1	8.5	50.1	1.9

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Thousands of tons.

c/ Thousands of square metres.

/In keeping

In keeping with the policy of making full use of domestically produced hydrocarbons, CFE is converting the burners in its thermal plants to operate with natural gas instead of fuel oil.^{10/}

As part of the present administration's policy of seeking to organize the decentralized enterprises on a sounder basis, electricity tariffs have gradually increased since mid-1978 at a cumulative monthly rate of 1.5% spread over 24 months. With this increase it is also hoped to compensate the sector for increases in internal and external costs, and to cope with the new investment programmes.

3. The external sector

(a) General features

In 1979 the external sector reflected the salient features of the phase through which Mexico's production structure is passing. On the one hand, confirming a long-term trend, export earnings showed considerable dynamism, largely due to the rapid growth of sales of crude petroleum. Other, though lesser, contributing factors were the favourable evolution of exports of other goods, mainly manufactures, and income from tourism and from subcontracting industries (maquiladoras), most of which are established in the border area.

On the other hand, the reactivation of domestic economic activity, based on the programmes for the expansion of the energy sector and the recovery of manufacturing, had the effect of pushing up imports of goods, in particular producer goods. Added to this was the growing expenditure of Mexican tourists abroad.

These changes and the payments of interest and profits on foreign capital led to a balance-of-payments current account deficit of US\$ 2,460 million, which is much higher than that of the preceding financial year but much lower than the negative balances recorded in the period 1974-1976.

^{10/} It is estimated that the total number of power stations which can use this energy resource in the country will be able to consume 60% of the gas produced in south-east Mexico.

Among the movements of capital, amortization payments on the public debt showed a considerable increase over 1977. These commitments, combined with the deficit on current account and the public sector's financial needs in connexion with investment expenditure, necessitated greater recourse to gross external financing, which totalled over US\$ 3,300 million.

Attention is drawn to the adverse effect of the restructuring of the international capital market and the adjustment of parities due to the devaluation of the United States dollar. In the first place, the revaluation of the European and Japanese currencies with respect to the United States dollar - coupled with the adjustment in interest rates - made the debts contracted more costly, and secondly, imports from those countries also became more expensive.

The increased contracting of gross credit abroad, on the basis of the intensive expansion of the oil industry and the greater availability of credit in the international financial markets, however, enabled Mexico to meet its financial commitments and even to increase, although to a lesser extent than in the previous year, its international monetary reserves.

(b) The current account

(i) Exports of goods. The current value of exports of goods showed an increase of 81% over 1977, which was mainly determined by the increase in volume (30%), since the price index rose by less than 1%, following increases of 16 and 10% in 1976 and 1977, respectively (see table 8).

Exports of petroleum amounted to 365,000 barrels per day, so that receipts under this head - including petroleum products - rose by 73% and represented 61% of total export earnings compared with 23% in 1977 (see table 9). Thus, petroleum maintained the position of main export item acquired in 1975 and, as in 1977, the value of oil sales exceeded the income obtained from tourism. Moreover, with the rapid growth of petroleum exports, the United States increased its share in Mexico's trade operations from 53% in 1977 to 64% in 1978.

The volume of exports of goods other than petroleum increased by 18%, in spite of the resurgence of protectionism observed in the developed countries.

Table 8
MEXICO: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods						
Value	28.6	42.3	9.6	15.8	19.8	31.2
Volume	6.8	-	-2.5	2.5	8.9	30.4
Unit value	20.4	42.3	3.3	13.0	10.0	0.6
Imports of goods						
Value	40.0	56.9	7.9	-6.9	-10.7	36.8
Volume	19.9	22.2	-1.1	-10.4	-13.3	20.6
Unit value	15.8	30.1	9.1	4.0	3.0	4.7
Terms of trade	5.1	9.4	-5.2	8.7	6.3	-3.9
	<u>Indices (1970 = 100)</u>					
Terms of trade in goods	102.0	111.6	105.7	114.9	122.7	117.9
Purchasing power of exports of goods	130.3	137.3	126.3	147.4	184.3	230.7
Purchasing power of exports of goods and services	135.3	143.2	131.3	143.0	148.1	171.2

Source: CEMEX, on the basis of data supplied by the Banco de México, S.A.

^{a/} Preliminary figures.

Table 9

MEXICO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Main traditional exports</u>	<u>731</u>	<u>1 044</u>	<u>1 170</u>	<u>1 155</u>	<u>31.4</u>	<u>19.8</u>	<u>42.8</u>	<u>12.1</u>	<u>-1.2</u>
Cotton	174	241	195	284	9.0	4.8	38.5	-19.1	45.6
Coffee	184	357	458	364	6.3	6.2	94.0	28.3	-20.6
Tomatoes	104	138	215	179	7.9	3.0	32.7	55.8	-16.7
Fresh fruit	39	40	35	53	1.7	1.0	2.6	-12.5	51.4
Fresh shrimp	120	137	186	160	4.6	2.7	14.1	35.8	-14.0
Sulphur	44	48	51	53	1.2	0.9	9.1	6.3	3.9
Refined zinc	66	83	30	62	0.7	1.0	25.8	-63.9	106.7
<u>Main non-traditional exports</u>	<u>741</u>	<u>852</u>	<u>1 602</u>	<u>2 586</u>	<u>5.9</u>	<u>44.3</u>	<u>5.4^{b/}</u>	<u>39.7^{b/}</u>	<u>83.3</u>
Petroleum and petroleum products	460	557	1 033	1 803	2.8	30.9	21.1	85.4	74.5
Vegetable and fruit preparations	23	30	51	61	1.2	1.0	30.0	70.0	19.6
Hormones	30	20	21	6	1.3	0.1	-33.3	5.0	-71.4
Tubes	36	32	34	34	0.6	0.6	-11.1	6.3	-
Automobiles	8	10	18	29	-	0.5	25.0	80.0	61.0
Automobile parts	...	...	152	343	-	5.9	...	...	125.7
Mechanical and electrical machinery and appliances	184	203	293	310	-	5.3	10.3	44.3	5.8
<u>Others</u>	<u>1 387</u>	<u>1 420</u>	<u>1 579</u>	<u>2 091</u>	<u>62.7</u>	<u>35.9</u>	<u>2.4</u>	<u>18.2</u>	<u>24.7</u>
<u>Total c/</u>	<u>2 859</u>	<u>3 316</u>	<u>4 451</u>	<u>5 832</u>	<u>100.0</u>	<u>100.0</u>	<u>16.0</u>	<u>34.2</u>	<u>31.0</u>

Source: CEPAL, on the basis of data supplied by the Banco de México, S.A.

a/ Preliminary figures.

b/ Not strictly comparable for lack of information on exports of automobile parts.

c/ These figures do not coincide with the balance of payments export data or the growth rates given in table 8 because of the adjustments made in the balance of payments figures.

Two of the principal agricultural export commodities were affected in 1978 by the declining trend in world prices. The price of coffee, after reaching a peak in the second quarter of 1977, dropped so sharply that in 1978 the current value of external sales fell by approximately 21%. The same situation arose in the case of exports of tomatoes as, although the volume of sales remained constant, current receipts fell by about 17%.

In contrast, cotton - which occupies the third place among the main export products - benefited from the price recovery which began in the last two months of 1977, and sales rose by 46% over the previous year's level. Furthermore, shipments of fresh fruit, pulses and vegetables to the United States maintained their upward trend, despite the blockade against vegetables imposed by United States producers.

The volume of sales of live animals and chilled meat increased considerably when external prices rose more than those paid inside the country, so that in January 1979 it was necessary to limit dispatches abroad in order to cover domestic demand. In contrast, the current value of exports of shrimp dropped 14% with the decrease in the catch due to the dispute between the fishery co-operatives and the owners of the fishing vessels.

As regards mining products, with the exception of refined zinc and silver, those minerals accounting for the largest share of exports were affected by the drop in prices. Nevertheless, the volume of mining products exported rose 13% over the 1977 level. External sales of sulphur and fluorite showed little change, while exports of refined zinc and ore concentrates rose by 100% and 30%, respectively. The bigger production of silver (16%) and the rise in the price of the ore led to a considerable increase in receipts from this source.

Exports of products of the motor-vehicle industry showed a noteworthy expansion. Outstanding under this head were the external sales of motor vehicles and parts which together more than doubled the total recorded in the previous year, mainly as a result of the policy of international complementation of production introduced by the parent company of an important European firm.

/Other lesser

Other lesser but still important contributing factors were the sales of mechanical and electrical machinery and equipment (6%) and the exceptionally dynamic performance of chemical products, such as liquid ammonia, and of plastic materials and resins.

(ii) Imports of goods. Imports of goods increased substantially (37%). The reactivation of domestic demand and higher level of investment stimulated purchases of raw materials and capital goods (55% and 34%, respectively) following two years in which they had dropped sharply. These two items represented 83% of total imports of goods (see table 10).

Notable among the purchases of raw materials were the increasing imports of steel products (three times the 1977 figure), a large proportion of which were destined for the network being constructed by PEMEX for the distribution of natural gas. Imports of chemical products also showed significant growth (26%). Owing to the shortfall in supplies from some domestic producers, a programme had to be introduced for importing motor vehicle components, and expenditure under this head increased by 64%.

As regards investment goods, appreciable increases were recorded in imports of machinery (42%) and tractors (250%), which were stimulated by the higher level of private investment and the Government programme of assistance to the agricultural sector.

On the other hand, the favourable evolution of domestic production of maize permitted a slight reduction in imports of this grain, which amounted to nearly 1.5 million tons, or 210,000 tons less than in the preceding year. Purchases of grain sorghum rose by 24%, while 30,000 tons more of wheat was imported than in 1977 - at a higher price than in that year - and 45% more oilseeds (in terms of volume).

Contrary to the general trend of the present decade, external purchases by the private sector showed greater dynamism than those of the public sector, except in the case of intermediate goods which reflected the increasing purchases of steel products by PEMEX. This enterprise, together with the Compañía Nacional de Subsistencias Populares (CONASUPO) and CFE, absorbed over two-thirds of imports by the public sector, which in its turn imported 36% of the total.

Table 10

MEXICO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978 ^{a/}	1975	1978	1976	1977	1978 ^{a/}
<u>Consumer goods</u>	<u>600</u>	<u>311</u>	<u>417</u>	<u>438</u>	<u>9.1</u>	<u>6.1</u>	<u>-48.2</u>	<u>34.0</u>	<u>17.0</u>
Maize	298	114	188	181	6.0	2.2	-61.7	64.9	-3.7
Wheat	17	-	44	70	0.3	0.9	...	...	59.1
Stationery	52	52	47	62	0.8	0.8	-	-9.7	31.9
Clothing	36	45	39	50	0.6	0.6	25.0	-15.3	28.2
Others	197	100	99	126	3.0	1.6	-49.2	-0.1	27.3
<u>Intermediate goods</u>	<u>2 903</u>	<u>2 706</u>	<u>2 489</u>	<u>3 852</u>	<u>44.1</u>	<u>47.8</u>	<u>-6.8</u>	<u>-8.0</u>	<u>54.8</u>
Seeds and oilseeds	22	123	191	276	0.3	3.4	469.0	55.3	44.5
Grain sorghum	116	11	72	89	1.8	1.1	-90.5	554.0	25.6
Plastic materials	113	139	145	201	1.7	2.5	23.0	7.2	33.1
Chemical products	500	468	513	643	7.6	8.0	-6.4	9.6	25.3
Cast iron and steel products	433	348	301	907	6.6	11.3	19.6	-13.5	201.3
Automobile components	462	488	403	534	7.0	6.6	5.6	17.4	32.5
Automobile spare parts	119	105	73	120	1.8	1.5	-11.8	-30.5	64.3
Others	1 138	1 024	791	1 082	17.3	13.4	-10.0	22.8	36.8
<u>Capital goods</u>	<u>2 391</u>	<u>2 510</u>	<u>2 087</u>	<u>2 798</u>	<u>36.3</u>	<u>34.8</u>	<u>5.0</u>	<u>-16.9</u>	<u>34.1</u>
Mechanical appliances	1 442	1 525	1 240	1 759	21.9	21.8	5.7	-18.7	41.9
Electrical appliances	362	496	458	457	5.5	5.7	37.0	7.7	-0.2
Tractors	120	95	53	186	1.3	2.3	-20.8	-44.2	250.9
Measurement and precision instruments	143	146	148	208	2.2	2.6	2.1	1.4	40.5
Others	324	248	188	188	4.9	2.3	-23.5	-24.2	-
<u>Unclassified goods</u>	<u>686</u>	<u>503</u>	<u>848</u>	<u>913</u>	<u>13.2</u>	<u>11.3</u>	<u>-26.7</u>	<u>68.6</u>	<u>7.7</u>
<u>Total</u>	<u>6 580</u>	<u>6 030</u>	<u>5 842</u>	<u>8 051</u>	<u>100.0</u>	<u>100.0</u>	<u>8.3</u>	<u>-3.1</u>	<u>37.8</u>
Public sector	2 498	2 155	2 199	2 862	38.0	35.5	-13.7	2.0	30.1
Private sector	4 082	3 875	3 643	5 189	62.0	64.5	-5.1	-6.0	42.4

Source: CEPAL, on the basis of data supplied by the Banco de México, S.A.

a/ Preliminary figures.

/Imports from

Imports from European countries (mainly the Common Market) and Japan rose more than proportionally. Owing to the drop in the value of the dollar in relation to European currencies and the Japanese yen, the share of these two suppliers rose between 1977 and 1978 from 15 to 20% in the first case in terms of current values and from 5 to 8% in the second.

(iii) The terms of trade. In aggregate terms, the more pronounced increase in the unit prices of imports (4.7%) than in those of exports (0.6%) caused the terms of trade to drop by nearly 4% with respect to 1977. Nevertheless, the purchasing power of exports grew by 16% (see table 8). Exports of livestock and manufactures recorded bigger price increases than the average (18% and 6%), while the price of oil rose by only 2.4%.

(iv) Tourism and border and other operations. The traditionally favourable balance under the head of tourist services and border and subcontracting operations (maquiladoras) rose substantially in 1978 (23%). As a result of the stimulus provided by the lower air fares that have been fully in force since the end of 1977, and especially owing to the exchange rate of the peso, the number of tourists visiting Mexico increased considerably, thus bringing the income under this head to over US\$ 1,100 million, or 29% higher than the previous year's level. This larger income was partly due to the increasing number of visitors from Canada and Europe - the latter benefiting from the revaluation of their currencies - whose average spending is higher than that of United States tourists.

The number of Mexican tourists visiting other countries - mainly the United States - rose by 12% in 1978 and their spending reached a figure of around US\$ 540 million, or 35% more than in 1977, when it had dropped by 6% as an immediate effect of the devaluation of the peso.

After the devaluation, border operations showed a somewhat sluggish trend, largely due to the low demand elasticity characterizing expenditure by United States tourists in the northern border area. This expenditure has remained static since 1976, a situation which is also associated with the devaluation of the peso and which has reduced the purchasing power of Mexican nationals living in border cities. In 1978, spending under this head was close to US\$ 785 million, which is slightly lower than the figure for the previous year.

As a result of the higher level of activity of the subcontracting (maquiladora) industry, income in the form of wages increased by 35% with respect to 1977. This industry has been recovering since 1976, as the devaluation of the peso considerably increased the gap between labour costs in Mexico and those prevailing in the United States. Although the number of plants established in the northern border area has declined slightly since that date owing to the growing participation of larger enterprises, the number of workers has increased considerably. Thus, in 1978 about 86,000 persons were employed at wages totalling about US\$ 700 million.

Finally, the increasing interest payments on the public debt raised expenditure under this head and that of profit remittances to over US\$ 2,400 million.

(c) The capital account

In 1978, Mexico received just over US\$ 2,460 million in the form of net financing, including errors and omissions, which represented an increase of nearly 40% over the previous year. This sum was partly the result of the growing share of amortization payments on the public debt, which amounted to over US\$ 4,260 million and far exceeded those of the preceding year. This fact, combined with the financial requirements deriving from the accelerated growth of public spending in the second half of the year, led to an increase of 46% in the contracting of gross long-term external resources by the public sector to over US\$ 8,340 million. Of this sum, about 51% was used to repay earlier debts, so that the net long-term resources received by the public sector only amounted to about US\$ 4,080 million (see table 11).

In the private sector, a considerable drop was recorded in the movement of foreign long-term capital because of the greater availability of domestic financing in the early months of 1978. Direct foreign investment totalled around US\$ 300 million, which is a good deal lower than the 1977 figure. It may be noted that enterprises with direct foreign investment tended to obtain domestic resources through the Stock Market, among other channels.

Table 11

MEXICO: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
Current account						
Exports of goods and services	4 744	6 215	6 248	7 081	7 711	9 460
Goods FOB <u>b/</u>	2 419	3 443	3 464	4 011	4 803	6 300
Services	2 325	2 772	2 784	3 070	2 908	3 160
Transport	135	182	181	181	195	210
Travel	1 792	2 056	2 171	2 233	2 120	2 300
Imports of goods and services	5 242	7 806	8 626	8 516	7 426	9 698
Goods FOB <u>b/</u>	3 669	5 831	6 292	5 859	5 232	7 157
Services	1 579	1 975	2 334	2 657	2 194	2 541
Transport	292	439	527	508	465	641
Travel	955	1 154	1 359	1 618	1 184	1 300
Net payments of profits and interest on foreign capital	-997	-1 447	-1 817	-2 218	-2 217	-2 423
Profits	-581	-794	-840	-666	-399	-523
Interest	-416	-653	-977	-1 552	-1 818	-1 900
Net private transfer payments	66	100	114	129	151	199
Balance on current account	-1 435	-2 938	-4 081	-3 524	-1 781	-2 462
Capital account						
Net external financing (a+b+c+d)	1 435	2 938	4 081	3 524	1 781	2 462
(a) Long-term capital	1 838	3 066	4 675	4 999	4 505	4 373
Direct investment	457	678	610	628	555	294
Private sector	298	222	513	408	558	...
Loans	386	342	550	529	685	...
Amortization payments	-40	-38	-27	-21	-30	...
Other liabilities and assets	-48	-82	-10	-100	-97	...
Official sector	1 083	2 166	3 552	3 963	3 392	4 079
Loans	1 998	2 748	4 389	5 124	5 726	8 543
Amortization payments	-867	-582	-837	-1 161	-2 334	-4 264
Other liabilities and assets	-48	-	-	-	-	-
(b) Short-term capital (net)	-267	-118	-457	-2 495	-2 079	-1 706
Private sector	113	333	430	379	-136	
Official sector	6	421	342	173	-1 611	-1 727
Monetary authorities	45	-6	-19	-	-16	
Errors and omissions	-431	-866	-1 210	3 047	-256	21
(c) Official transfer payments	8	22	27	27	16	...
(d) International reserves (minus sign indicates an increase)	-144	-32	-164	993	-661	-205
Use made of IMF credit	-	-	-	368	117	-
Other liabilities	-	-	-	302	-302	...
Monetary gold	13	41	-	83	-6	-12
Special Drawing Rights	-	-1	52	98	-53	1
IMF reserve position	-	-	-	113	-	-
Foreign exchange	-157	-72	-216	29	-417	-194

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/The net

The net movement of short-term capital, on the other hand, was negative, basically owing to the reorientation of the public debt towards long-term loans, since although the credit obtained by the private sector showed a significant increase of around US\$ 700 million, the conversion of short-term liabilities into long-term liabilities caused an outflow of over US\$ 1,700 million. With the larger volume of credit negotiated in 1973, however, Mexico was able to meet its financial commitments and even significantly increase (by US\$ 205 million) the international monetary reserves in the Banco de México.

Finally, in 1978 almost US\$ 6,300 million were spent on external debt servicing, which is 64% higher than the payments made in the previous year and absorbed two-thirds of the earnings from exports of goods and services. The disbursed medium- and long-term external debt, for its part, amounted to slightly over US\$ 25 billion at the end of 1978 (see table 12).

The external financing accorded to the public sector in 1978 was mainly channelled into public bodies and enterprises, which accounted for the largest share of external public liabilities, since the Federal Government deficit was financed by means of greater use of domestic resources. Of particular importance was the loan of US\$ 1 billion which a group of international banks granted to PEMEX.

4. Employment, wages and prices

The persistence of high levels of unemployment was one of the serious structural problems which the economic recovery did not manage to overcome in 1978. In addition, and for the second year running, a drop in real wages affected the workers' levels of consumption.

The minimum wage fell by a further 3.4% in real terms, after the slight decline recorded in 1977 (see table 15 below). It may be recalled in this connexion that in the first biennial stage programmed by the present administration to overcome the recession, trade union members assumed a political commitment to limit and postpone their wage claims within the terms of the "Alliance for Production". The establishment of ceilings on wage increases and the workers' sacrifice were possible owing to the particular features of the structure and operation of the trade union apparatus in Mexico and, to a certain extent too, because of the high levels of unemployment prevailing in the country.

Table 12

MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS OF THE PUBLIC SECTOR

(Millions of dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
<u>Total disbursed external debt</u>	<u>7 070</u>	<u>9 975</u>	<u>14 449</u>	<u>19 600</u>	<u>22 912</u>	<u>26 364</u>
Medium- and long-term	5 732	7 981	11 612	15 923	20 185	25 028
Short-term	1 339	1 994	2 837	3 677	2 727	1 236
<u>Servicing of external debt</u>	<u>1 224</u>	<u>1 150</u>	<u>1 657</u>	<u>2 419</u>	<u>3 837</u>	<u>6 297</u>
Amortization payments	845	561	806	1 153	2 295	4 264
Interest payments	379	589	851	1 266	1 542	2 023
Servicing of external debt, as a percentage of exports of goods and services	26	18	27	34	50	66

Source: CEPAL, on the basis of data supplied by the Ministry of Finance and Public Credit and the Banco de México, S.A.

a/ Preliminary figures.

/It is

It is difficult to give a figure which illustrates the variations in the level of unemployment and is sufficiently representative of the national situation. Available partial data, however, place the unemployment rate at about 7.5% in the group of cities composed of Mexico City, Monterrey and Guadalajara,^{11/} although the reactivation of public and private investment in these three cities somewhat reduced the rates of open unemployment (see table 13).

Manufacturing as a whole increased its employment level by 4.5%, although the number of man-hours worked rose by a higher proportion (5.6%). Within this sector, the motor industry showed the biggest increase in the absorption of manpower (11.5%) because of its buoyant performance, although this failed to compensate for the reduction of over 15% observed in the preceding year. A similar situation arose in the machinery and equipment sector, while in the textile and wood products industries employment dropped by over 2%.

The social security coverage remained fairly constant. The increases in the number of affiliated workers - 5% in the Mexican Social Security Institute (IMSS) and 10% in the Institute of Social Security and Services for State Workers (ISSSTE) - consisted basically of temporary workers who were converted into permanent members of the social security system.

The changes in the legal and institutional framework of labour policy continued. On the one hand, the National Employment System was promoted and introduced and, on the other, measures were taken to improve the workers' level of well-being. One of the reforms introduced in the labour legislation was the obligation to provide staff training and improve working conditions in terms of health and safety, mixed committees being established for the purpose; the machinery for settling labour problems was decentralized; the Consultative Commission on Employment was organized to establish overall guidelines and ensure that employment is created in the various sectors in accordance with Mexico's economic priorities; and the Intersectoral Employment Programming Group was set up to prepare projects for generating employment in the various sectors.

^{11/} The proportion of the population of Mexico living in these three cities is 27%. These data are taken from Encuesta continua de mano de obra, by the Ministry of Programming and the Budget.

Table 13

MEXICO: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1976				1977				1978		
	Quarter				Quarter				Quarter		
	I	II	III	IV	I	II	III	IV	I	II	III
<u>Rates of unemployment a/</u>											
Main cities (metropolitan areas)											
México City	6.7	6.4	6.8	7.0	8.3	7.7	8.5	7.1	7.4	6.7	7.0
Guadalajara	5.3	5.4	6.9	7.2	7.0	7.2	8.5	7.0	6.6	6.2	5.8
Monterrey	6.7	7.6	8.5	7.5	9.0	9.2	10.4	7.2	8.4	7.5	8.1
Others b/	6.8	5.8	6.5	7.6	5.9	5.0	5.8	5.1	6.4	4.6	...
<u>Indexes (1976 = 100)</u>											
Main cities											
Labour force		100.0				108.1				113.9c/	
Employment		100.0				107.6				114.9c/	
Unemployment		100.0				114.1				99.5c/	

Source: CEPAL, on the basis of data obtained from the quarterly manpower surveys of the Ministry of Programming and the Budget.

a/ Unemployment as a percentage of the labour force.

b/ Covers the remaining 42 municipal areas which, according to the 1970 Population Census, had 100 000 or more inhabitants.

c/ Estimate on the basis of the first two quarterly surveys of 1978.

/Although inflationary

Although inflationary pressures persisted during 1978, they gradually lessened, particularly in the last five months of the year. The rate of increase in the consumer price index thus dropped from 20.7% in 1977 to 16.2% in 1978, and the rise in the wholesale price index also declined, from 18.1% to 15.8% 12/ (see table 14).

The relative persistence of inflationary pressures was due to a number of factors, especially the effect of freeing prices in February, 13/ the impact of the public sector's expansion on supply, the insufficient supply of certain agricultural products, the bottlenecks occurring in port and railway services, some speculative practices in the distribution apparatus in response to anticipated price increases, the rises in interest rates and their effects on production costs, and the increases in the rates charged by public services such as water, railways and electricity as a result of the policy of putting public service enterprises on a sounder basis.

In the case of wholesale prices, the biggest increases occurred in the essential components of the level of living: food, housing and clothing. Within the consumer price index, some basic goods and services also showed the sharpest increases, although foodstuffs recorded a relatively smaller rise.

The measures to arrest the inflationary spiral included the ceilings imposed on wage increases in the first half of the year and, following a new upturn in prices in July, the monetary and credit measures introduced in August.

As regards wages and salaries, the policy of keeping wages down was continued and led to a deterioration in real wages for the second consecutive year. The minimum wage in force in 1978 (99.37 pesos per day) 14/ was

12/ The reduction in both indexes is even more accentuated if the annual averages are considered, since the rates fell from 29.1 to 17.4% in consumer prices and from 41.2 to 15.8% in wholesale prices.

13/ Of 147 articles with controlled prices, 132 were freed.

14/ Weighted arithmetic mean of the minimum wages of economic areas of the country, using as a factor the economically active population of each area.

Table 14
MEXICO: EVOLUTION OF DOMESTIC PRICES

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Variation December to December</u>					
Consumer price index	21.4	20.6	11.3	27.2	20.7	16.2
Food	27.5	23.1	10.1	22.2	21.6	15.4
Wholesale price index	25.2	13.3	13.4	45.9	18.1	15.8
Consumer goods	23.8	15.3	14.2	41.5	23.5	16.7
Food	26.3	15.6	15.3	36.8	25.4	17.6
Others	17.9	14.6	11.8	53.9	19.1	14.7
Producer goods	27.6	10.1	12.0	53.3	9.7	14.3
	<u>Variation between annual averages</u>					
Consumer price index	12.1	23.7	15.0	15.8	29.1	17.4
Food	15.8	29.9	12.6	12.7	28.6	16.5
Wholesale price index	15.7	22.5	10.5	22.2	41.2	15.8
Consumer goods	14.8	23.4	11.3	22.3	41.8	17.4
Food	15.5	24.6	12.5	19.2	40.5	18.7
Others	13.1	20.2	8.2	30.6	44.8	14.2
Producer goods	17.3	21.0	9.2	22.3	40.1	13.0

Source: CEPAL, on the basis of official data.

^{a/} Preliminary figures.

/13.5% higher

13.5% higher than in the preceding year, while that established for the Federal District rose 12.8% to a level of 120 pesos per day, but in view of the rise in consumer prices, this meant a decrease of 3.4% in real terms (see table 15). The deterioration in the purchasing power of the sector earning the minimum wage was reflected in the weakness of demand and production in respect of those goods representing the highest proportion of this sector's budget.

From a different standpoint, the wage policy, whose central element is the annual establishment of minimum wages,^{15/} permitted a gradual lessening of the gap between the wages paid in the city and those paid in the countryside, and of the differences in wages between different areas which were no longer so marked. It also made it possible, in areas where wages were lower, for these to increase by a larger proportion, as occurred for example in the States of south-east Mexico.

In the face of the pressure of rising prices in the first half of the year, certain organized groups of workers rejected the 12% ceiling imposed on wage increases (corresponding to the percentage received by government workers and the Armed Forces) and, through the revision of collective contracts in the second half of the year, obtained an average increase of 16% - in certain cases up to 20%, including some additional benefits - which enabled them to recoup the losses suffered in their purchasing power.

Even so, during 1978, as a result of several years of inflationary pressures and high levels of unemployment, strikes increased in number. Furthermore, some organized groups of workers demanded that the public sector should carry out economic reforms - parallel with the administrative and political reforms currently being carried out by the present Government - involving a change in the structure of the economy whereby the State would have a greater share, and the redefinition of economic and social policy objectives.

^{15/} These were established taking into account the development strategy programmed for the following year; among the variables taken into account were the growth of the gross domestic product, anti-inflationary and tax policies, the expected amount of public expenditure and financing of the public sector deficit.

Table 15
MEXICO: EVOLUTION OF WAGES AND SALARIES

	1975	1976	1977	1978 ^{a/}
<u>Indexes (1970 = 100)</u>				
<u>Minimum wages and salaries</u>				
Annual averages				
Nominal	196.2	253.7	324.4	368.2
Real	111.2	124.2	123.0	118.8
December figures				
Nominal	196.2	295.0	324.4	368.2
Real	106.3	125.6	114.4	111.8
<u>Growth rates</u>				
<u>Minimum wages and salaries</u>				
Annual averages				
Nominal	16.0	29.0	27.9	13.5
Real	0.9	11.7	-1.0	-3.4
December figures				
Nominal	<u>b/</u>	50.3	10.8	13.5
Real	-10.2 <u>b/</u>	18.7	-8.9	-2.3

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ The minimum wages and salaries were reviewed twice a year.

/It was

It was also demanded, as part of the short-term wage policy, that workers and entrepreneurs should negotiate the new wages directly instead of establishing general ceilings, and that automatic mechanisms be introduced to help restore the purchasing power of wages.

In order to mitigate part of the lag in wages with respect to prices, protection of the consumer was promoted through the *Compañía Nacional de Subsistencias Populares* - a decentralized institution which subsidizes the prices of basic consumer goods ^{16/} - the *Unión Nacional de Productores de Azúcar, S.A.*, and the *Procuraduría Federal de Defensa al Consumidor*. At the same time, working-class demand was strengthened by a system of credit for discount stores, trade union co-operatives, worker-employer stores, trade union stores and consumer co-operatives. Finally, the National Workers' Consumption Fund (FONACOT) extended to nearly 15% of the organized workers, including 400,000 peasants, cheap credit totalling 2,360 million pesos (or twice as much as in the previous year) for the purchase of domestic electrical appliances and, in particular, low-cost furniture.

5. Monetary and fiscal policy

(a) Monetary policy

Monetary policy objectives were basically oriented towards consolidating the restoration of confidence in the Mexican peso and the banking system as a whole, keeping inflationary pressures under control, and providing the production apparatus, which was reinitiating its expansion, with sufficient credit resources. The low level of economic activity prevailing in the early months of the year enabled these goals to be attained without much difficulty. On the one hand, however, the economic resurgence began to demand larger volumes of credit - which the banking system was able to satisfy with its surpluses - and, on the other hand, in July there was a renewed acceleration of inflationary pressures which monetary policy helped to combat by controlling the money in circulation in the last few months of

^{16/} In 1978, these subsidies amounted to 50 billion pesos, i.e., 15% of total Federal Government expenditure.

the year. In spite of these restrictive measures, the banking system was well able to provide support for the reactivation of the production apparatus in the form of credit resources.

Although the Mexican currency is subject to a system of floating, a stable exchange rate of approximately 22.7 pesos to the dollar was maintained throughout the year, even though domestic inflation was double that of the United States. The process of reducing the role of the dollar in the economy bears out the restoration of confidence in the Mexican currency. Although this was the result of a great many factors, in the strictly monetary field a determining factor was the policy followed in connexion with interest rates. In the face of the continuing increases in the rates fixed abroad, the monetary authorities adjusted Mexico's rates to avoid losing the favourable differential and thus prevented the flight of capital and the conversion of pesos into dollars.

An attempt was also made through the variation in interest rates to secure more resources over longer periods and to reduce the high liquidity of the banking system's liabilities. This was largely achieved by continuing to eliminate mortgage and debenture bonds payable on demand and making the interest rates for longer-term deposits more attractive.

Short-term liabilities, for their part, lost some of their competitiveness with long-term liabilities and external liabilities. For this reason, and in order to reduce the average cost of securing resources, it was decided in July and November to raise the interest rate for instruments with a maturity of up to three months.

The banking system also regained the public's confidence, which had been somewhat affected by the 1976 devaluation. Indeed, in 1978 the system not only experienced considerable growth in terms of resources, but was also strengthened and modernized. Thus, the process of integrating the various departments in a single institution within the context of the so-called multibank system continued, with the result that 90% of the resources were handled by institutions of this type. In addition, a number of reforms to banking legislation which will provide the system with a broader framework for its development and projection both inside and outside the country were submitted to Congress.

/As regards

As regards the international capital markets, in response to Mexico's projection abroad - due largely to its oil expansion - public and private Mexican banks are participating in financial institutions abroad, just as foreign banks are empowered to establish agents in Mexico, although they are not authorized to accept deposits or become shareholders of any Mexican financial institution.

Another sign of modernization in the financial sector was the growth of the stock market. Although still of modest proportions by international standards, the Mexican Stock Exchange has begun to expand vigorously and to lay the bases for its future development in line with the new features of the country's industrial and financial evolution. In 1978 the number of shares handled quadrupled and the average index of share prices rose by nearly 130%. This was due to the highly satisfactory results of the registered companies and to a change of attitude among savers - largely due to inflation - who shifted their preference from fixed-interest bonds to those with a variable interest rate.

In the same trend of development of stock exchange operations, but with broader objectives, Federal Treasury Certificates (CETES) were introduced in 1977. By this means the Federal Government can secure considerable resources in a non-inflationary manner to cover its deficit, while these certificates are used by the Central Bank to control the money supply. These instruments thus constitute a first attempt in Mexico in the area of open market operations. The 23 issues of CETES in 1978 were for a period of 91 days, and their rate of return - based on the discount rate - fluctuated according to the market forces between 9.5% and 12.7% annually.

CETES found ready acceptance from the outset, although they were mainly confined to the banking sector, which purchased them with the idle resources which had been accumulated in the early months of the year owing to the weak demand for credit. From May onwards, when the demand for credit intensified, they were returned in large part to the Central Bank in exchange for credit resources which semi-public and private banks used to reactivate the production apparatus. In the last few months of the year, private persons and companies were able to purchase a larger proportion of CETES through stockbrokers, even though only an average of 15% of the total issue was

/sold outside

sold outside the banking sector. The cumulative amount in circulation stood at 26,300 million pesos at the close of the year. This figure contrasts with the issue of "petrobonds" which in 1978 totalled only 2,000 million pesos.

As part of the policy to provide financial resources for an economy in the process of reactivation, the main monetary variables showed a fairly dynamic performance. Thus, the money supply recorded an increase for the year of 32% (see table 16).

The increase in the resources secured by the banking system was due to renewed confidence in the peso, the attractive interest rates and, among other factors, the greater saving capacity of the higher-income strata of the population. The factors of absorption expanded by 31%, which meant an increase of 124 billion pesos. As an example of the progress made in reducing the role of the dollar in the economy, 113 billion of that total (79% of the increase) was in national currency and the rest in foreign currency.

In 1978, absorption by private and semi-public banks grew by approximately 36%, or 147,000 million pesos. As may be seen from table 17, private and semi-public banks showed a more dynamic performance than the State-owned banks. As a result of the process of reducing the role of the dollar in the economy, absorption in foreign currency represented only 12% of the total in 1978, compared with 23% in 1977.

As regards financing, the balance rose by 24%. This meant an additional sum of 180 billion pesos, which is 18% higher than the 1977 figure. Of the volume of credit granted by the banking system in 1978, 24% was absorbed by the manufacturing sector, 15% by the primary sector, and only 5% by housing, despite this sector's requirements and the commitments assumed by private banks to promote the building of low-cost housing (see table 18).

Table 16
MEXICO: MONETARY BALANCE^{a/}

	End-year balance (billions of pesos)				Growth rates		
	1975	1976	1977	1978 ^{b/}	1976	1977	1978 ^{b/}
<u>Money</u>	118	155	196	258	31.4	26.4	31.6
Currency outside banks	52	80	89	115	53.8	11.2	29.2
Demand deposits	66	75	107	143	13.6	42.7	33.6
<u>Factors of expansion</u>	411	485	632	805	18.0	30.3	27.4
Net international reserves	19	25	39	41	31.6	56.0	5.1
Domestic credit	477	596	749	929	25.0	25.7	24.0
Government	191	249	313	357	30.4	25.7	14.1
Enterprises and individuals	286	347	436	572	21.0	25.6	31.2
<u>Less: Loans from foreign banks to credit institutions c/</u>	85	136	156	165	60.0	14.7	5.8
<u>Factors of absorption</u>	281	308	404	528	9.6	31.2	30.7
National currency	258	259	322	435	0.4	24.3	35.1
Savings deposits	24	25	36	46	4.2	44.0	27.8
Fixed interest instruments	186	166	203	278	-10.8	22.3	36.9
Other non-monetary liabilities	48	68	83	111	41.7	22.1	33.7
Foreign currency	23	49	82	93	113.0	67.4	13.4
Checking and savings accounts	6	11	15	16	83.3	36.4	6.7
Bonds and debentures	7	23	39	52	228.6	69.6	33.3
Other non-monetary liabilities	10	15	28	25	50.0	86.7	-10.7
<u>Other assets and liabilities (net)</u>	-11	-22	-32	-19	100.0	45.4	-40.6

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A.

^{a/} Excluding the effect of the modification of the exchange rate in 1976, 1977 and 1978.

^{b/} Preliminary figures.

^{c/} These loans are considered as a factor of negative expansion, since they are resources which for the most part finance credit to the government.

Table 17

MEXICO: ABSORPTION OF RESOURCES AND FINANCING BY THE BANKING SYSTEM

	End-year balance (billions of pesos) ^{a/}				Growth rates		
	1975	1976 ^{b/}	1977 ^{b/}	1978 ^{b/c/}	1976	1977 ^{b/}	1978 ^{b/c/}
<u>Total</u>							
Absorption ^{d/}	483	598	764	961	23.8	27.8	25.8
Financing	477	596	749	929	24.9	26.3	24.0
Other assets and liabilities	6	2	15	32			
<u>National institutions</u>							
Absorption ^{d/}	146	201	252	283	37.7	25.4	12.3
Financing	150	199	262	303	32.7	31.7	15.6
Other assets and liabilities	-4	2	-10	-19			
<u>Banco de México S.A.</u>							
Absorption ^{d/}	55	98	108	127	78.2	10.2	17.6
Financing	160	209	255	319	30.6	22.0	25.1
Other assets and liabilities	-105	-111	-148	-192			
<u>Private and semi-public institutions</u>							
Absorption ^{d/}	282	299	404	551	6.0	35.1	36.4
Financing	167	188	232	307	12.6	25.5	32.3
Other assets and liabilities	115	111	173	243			

Source: CEPAL, on the basis of data supplied by the Banco de México, S.A.

^{a/} End-year balances, excluding inter-bank operations.

^{b/} Excluding the effect of the modification of the exchange rate.

^{c/} Preliminary figures.

^{d/} Excluding trading results, reserves and other liabilities.

Table 18
MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES AND INDIVIDUALS

	End-year balance (billions of pesos) ^{a/}				Growth rates		
	1975	1976 ^{b/}	1977 ^{b/}	1978 ^{b/c/}	1976	1977 ^{b/}	1978 ^{b/c/}
<u>Total</u>	<u>246</u>	<u>295</u>	<u>436</u>	<u>572</u>	<u>19.9</u>	<u>47.8</u>	<u>31.2</u>
Primary activities	42	49	70	92	16.7	42.9	31.4
Agricultural	38	44	64	85	15.6	45.5	32.8
Mining and others	4	5	6	7	25.0	20.0	16.7
<u>Industry</u>	<u>115</u>	<u>132</u>	<u>195</u>	<u>255</u>	<u>14.8</u>	<u>47.7</u>	<u>30.8</u>
Energy	16	17	20	37	6.2	17.6	85.0
Manufacturing	71	88	136	169	23.9	54.5	24.3
Construction	28	27	39	49	-3.6	44.4	25.6
Low-cost housing	7	9	19	26	28.6	111.1	36.8
Services and other activities	40	59	84	104	47.5	42.4	23.8
Commerce	42	46	68	95	9.5	47.8	39.7

Source: CEPAL, on the basis of official data.

^{a/} Including enterprises owned by the public and private sectors.

^{b/} Excluding the effect of the modification of the exchange rate.

^{c/} Preliminary figures.

/(b) Fiscal

(b) Fiscal policy

In analysing fiscal policy and the evolution of public finance in 1978, it should be borne in mind that this was the second of the three years covered by the stabilization programme agreed on between Mexico and the International Monetary Fund. In preparing the Federation's Expenditure Budget, therefore, the aim was to keep the budget deficit of the public sector - which comprises the Federal Government and the para-State sub-sector 17/ - within the proportions agreed on with respect to the gross domestic product, while an equilibrium was sought that would lay the bases for sustained economic development as from 1979.

In view of the limitations imposed on the growth of public expenditure, it was decided to restrict the expansion of current spending in order not to affect capital outlays too much. Thus, total gross expenditure by the public sector as a whole was established at 912,500 million pesos (24% higher than in 1977); this resulted in a net deficit (after deduction of debt servicing, among other expenditure) of 94,500 million pesos, 50,700 million (54%) of which corresponded to the Federal Government and the rest to the para-State sub-sector.

Public spending, however, showed greater dynamism than had been expected, and the public deficit amounted, according to preliminary figures, to 111,000 million pesos (17% above the deficit originally envisaged, but over 10% lower, at current prices, than the 1977 deficit). The Federal Government deficit amounted to 64,500 million pesos, or 27% higher than had been expected. The rise in prices was partly responsible for these increases. As may be seen from table 19, in spite of the aforementioned increase the budget deficit of the Federal Government was only 10% higher than in 1977, that is to say, it decreased in real terms.

Current income showed considerable dynamism, due above all to the increase in direct taxes (38%), which was bigger than the rise in customs duties on foreign trade, notwithstanding the growing oil exports. The rise in income tax revenue is attributable, among other factors, to the successful

17/ This includes 27 para-State bodies and enterprises whose budgets are controlled by the Government.

Table 19

MEXICO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates ^{b/}		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
Current income	102	134	192	248	31.4	42.6	29.5
Tax revenue	95	125	181	236	31.1	45.4	30.2
Direct	49	67	95	131	35.1	42.0	38.3
Indirect	37	45	64	77	23.8	41.2	20.2
On foreign trade	9	13	23	28	38.0	77.9	24.3
Non-tax revenue	7	10	11	13	35.6	8.1	17.8
Current expenditure	92	126	177	218	36.3	40.7	23.3
Wages and salaries	34	44	64	79	27.4	46.2	23.6
Other current expenditure	58	82	113	139	41.6	37.8	23.1
Saving on current account	10	9	15	30	-14.0	70.9	104.1
Net capital expenditure	63	82	90	151 ^{c/}	28.7	10.0	67.8
Real investment	37	43	49	55	17.1	14.4	11.1
Debt amortization payments	10	10	16	56 ^{c/}	1.0	52.9	250.0
Other capital expenditure	16	28	25	40	71.5	-12.0	59.0
Total expenditure	156	208	267	369 ^{c/}	33.2	28.6	38.2
Fiscal deficit (or surplus)	-54	-73	-75	-121 ^{c/}	36.6	2.9	61.3
Budgeted deficit	-44	-63	-59	-65	43.2	-6.3	10.2
Financing of fiscal deficit							
Domestic financing	37	46	55	95 ^{c/}	24.3	19.6	72.7
External financing	17	27	20	26	58.6	-26.1	33.3

Source: CEPAL, on the basis of official data supplied by the Ministry of Finance and Public Credit.

^{a/} Preliminary figures.

^{b/} Calculated on the basis of unrounded figures.

^{c/} Excluding the CETES issued and redeemed in the same year 1978 (58 400 million pesos).

/results of

results of a government publicity campaign (which forms part of a process of modernization and decentralization of tax collection), to the economic recovery, and to inflation.

Current expenditure grew to a lesser extent (23%) with the implementation of a restrictive policy with respect to administrative outlays and subsidies. Interest payments (44,400 million pesos), in contrast, pursued their upward trend, as a result of the spectacular expansion of Federal Government indebtedness in 1978.

Physical investment remained at about the same level as the year before and financial investment contracted in real terms, despite the policy of not curbing capital expenditure. The liquidation of earlier debts was the item which gave a certain impetus to net capital outlays by the Federal Government, since the restrictive policy adopted in 1977 became untenable in 1978.

Real investment by public bodies and enterprises, however, especially PEMEX and CFE, followed a clearly dynamic trend in 1978, with the result that total public investment expanded by approximately 18% in real terms.

In view of their growth, debt amortization payments constituted the item of greatest concern in the area of public finance. In the previous year domestic and external indebtedness had been contained and the growth of the budget reduced, but in 1978 amortization payments more than tripled, raising the fiscal deficit by 61%. In the face of this situation the Federal Government absorbed resources totalling a similar amount, almost 80% of which came from domestic sources. Federal Treasury Certificates represented an element of secondary importance in this percentage.

The available data extending only up to September, show that the para-State sub-sector followed similar trends, especially as regards financing requirements. Capital expenditure experienced more vigorous growth, rising 40% in the first three quarters of 1978 and becoming one of the factors behind the reactivation of the economy. The Federal Electricity Commission, and in particular Petróleos Mexicanos, were responsible for practically the whole of this increase. Of the physical investment proposed for 1978, some 68 billion pesos were allocated to the oil and petrochemical sectors, which is 30% of the total and 60% more than in the previous year, while

29 billion went to electricity, i.e., 13% of the total and 29% more than in 1977. Considerable impetus was also given to social welfare works.

(c) Administrative reform

Finally, in 1978 the Government continued to put into practice an administrative reform programme aimed at strengthening national federalism and enabling the States to have greater participation in the exercise of public administration. By this means it is intended to introduce improvements in the public sector so that it can more efficiently satisfy the population's demands in terms of well-being and significantly reduce the inequalities existing in the country, at both sectoral and regional levels.

This reform, which embraces the whole public sector, was initiated in 1977 with a number of adjustments covering 95% of the structure of the centralized public administration. Five new ministries and one administrative department were established and the functions of 19 out of the 20 units directly responsible to the Executive were reviewed. The reform covers both structural and operational aspects. In redefining the functions of several ministries it was decided to merge some of them (such as the Ministry of Agriculture with the Ministry of Water Resources), transform others (such as the merging of the Office of the President into the new Programming and Budget Ministry, and the Ministry of Public Works into the Ministry of Human Settlements and Public Works), and to establish the Ministry of Industrial Development.

A new organic law of the federal public administration was also enacted (with the aim of eliminating previous duplication and inconsistencies), as well as laws on operational aspects, particularly with respect to the control of public expenditure. At the same time, rules and regulations specifying the operation of para-State bodies were incorporated in the new legislation. The establishment of these bodies formerly depended on decisions adopted directly by the Executive or Congress, but in particular on decisions of the heads of the various departments and units of the federal public administration. Hence, the 71 para-State bodies which existed in 1940 grew to over 900 in 1977, making their co-ordination and control very difficult. According to the new law, para-State bodies may only be established by a decision of the Federal Executive.

As a result of this reform, federal bodies have been grouped in broad areas or sectors of economic and social activity and co-ordination agreements have been concluded with the States with the intention of decentralizing the implementation of Federal Government investment programmes. These agreements formally establish the obligation to orient public spending through State development programmes in which all sectors must be co-ordinated and integrated with agricultural, fisheries and manufacturing activities. Their respective programmes generate specific investment projects with mixed financing, i.e., with the participation of the private sector. In this way, administrative measures are specifically integrated with economic measures through the Alliance for Production.

It is planned to carry out the administrative reform programme in several stages, three of which have been covered up to 1978. In the first of these, between January and June 1977, the reforms deriving from the Organic Law were instrumented; in the second, which covered the second half of 1977, the heads of centralized departments were assigned the responsibility of co-ordinating the economic sectors and studying and proposing reforms in the para-State bodies grouped in their respective sector of activity, as a result of which, 30 para-State bodies have been strengthened, transformed, merged and, in some cases, liquidated, while another 85 cases are being reviewed; and in the third stage, carried out in 1978, the machinery and criteria for co-ordinating the action of the various sectors were established.

/NICARAGUA

NICARAGUA

1. Recent economic trends: Introduction and summary

In 1978 the Nicaraguan economy suffered a collapse unprecedented in its recent history, which may be attributed to the serious political, economic and social events experienced by the country in the last few months. The gross domestic product dropped by over 5%, while the per capita product decreased by 8.5%, thus going back to the level of five years ago (see table 1).

During the present decade public investment underwent substantial changes in its orientation and was principally directed towards the construction of infrastructure - generally very slow-maturing - and although it created occasional employment opportunities it did not open up direct possibilities for new investment by private enterprise.

This characteristic became far more marked after the great earthquake which devastated the city of Managua in December 1972 ^{1/} and had serious economic, social and also political consequences. These were reflected, inter alia, in the public finances. Firstly, in order to cope with the reconstruction, the central government substantially increased its expenditure while its income grew at a slower pace. Consequently, the fiscal deficit increased and had to be financed with external credit frequently obtained under rather unfavourable conditions. In the middle of the present decade, the external public debt of Nicaragua showed the highest indexes and the least advantageous structure in Central America. Secondly, the demands of reconstruction made it necessary to concentrate the diminished allocations of capital in building work and in the most indispensable infrastructure activities, to the detriment of social spending and expenditure for the direct promotion of production activities. Moreover, as is usually the case in great public catastrophes, the reconstruction programme facilitated speculation (for example, in the purchase and sale of land) and the use of irregular procedures in the purchase of goods and contracting of services. Lastly, the shortage of housing and education and health services became more acute.

^{1/} CEPAL, Report on the damages of the earthquake occurred in the city of Managua and its adverse effects on the Nicaraguan economy (E/CN.12/AC.64/2/Rev.1), January 1973.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	883	996	1 018	1 077	1 141	1 080
Population (millions)	2.17	2.24	2.32	2.40	2.48	2.56
Per capita gross domestic product (US dollars at 1970 prices)	407	444	439	449	461	422
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	5.1	12.7	2.2	6.8	5.9	-5.3
Per capita gross domestic product	1.7	9.0	-1.1	2.4	2.5	-8.5
Gross income ^{b/}	4.2	12.1	-2.6	10.8	13.1	-8.1
Terms of trade	-4.6	-4.4	-19.2	22.0	33.3	-13.3
Current value of exports of goods and services	9.6	29.1	1.1	36.6	16.2	-0.9
Current value of imports of goods and services	58.9	56.2	-9.3	0.1	41.1	-19.2
Consumer price index						
December to December	...	...	1.9	6.2	10.2	4.4 ^{c/}
Variation between annual averages	...	...	...	2.9	11.4	4.6 ^{d/}
Money	54.6	11.8	-3.5	25.4	6.3	4.9
Wages and salaries	8.6	16.8	5.8	4.1	3.6	4.5
Unemployment rate ^{e/}	14.0	6.1	9.6	...	4.9	...
Current income of government	43.7	45.7	-3.1	15.4	14.4	-13.7
Total expenditure of government	11.9	27.0	3.9	4.3	40.1	0.3
Fiscal deficit/total expenditure of government ^{e/}	21.5	32.6	37.2	30.5	43.2	51.2
<u>Millions of dollars</u>						
C. External sector						
Trade balance (goods and services)	-77	-214	-147	19	-129	28
Balance on current account	-84	-267	-194	-47	-204	-38
Variation in net international reserves	59	-28	39	-7	9	-97 ^{f/}
External debt ^{g/}	347	501	640	672	867	907

^{a/} Preliminary figures.

^{b/} Gross domestic product plus terms-of-trade effect.

^{c/} November 1978 compared with November 1977.

^{d/} January to November 1978 compared with the same period in 1977.

^{e/} Percentages.

^{f/} Gross international reserves.

^{g/} Disbursed State-guaranteed public external debt.

/The earthquake

The earthquake and its consequences were followed by the international crisis of the years 1973-1975 with its well-known economic repercussions which spread world-wide through external trade and continue to affect the Nicaraguan economy to date. Moreover, the country suffered four consecutive years of drought and on top of this, in 1977 an outbreak of red blight threatened the plantations of coffee, which is one of the main export products.

The increasing fiscal deficit raised the levels of indebtedness, and this in turn had repercussions on the results of the balance of payments.

When 1978 began, then, Nicaragua was facing a difficult situation in the fiscal balance and the balance of payments, and this deteriorated further during the year despite good results in agricultural production thanks to favourable climatic conditions. Although there was an increase in rural employment, supported by the recovery in the agricultural sector, this was countered by the adverse situation of the rest of the economy, particularly external trade, and the heightening of political tensions which in September boiled over into situations of violence which resulted in heavy human and material losses. Private investment was paralysed and dropped back to 1973 levels; private consumption was also reduced owing to the drop in the income of the population and material difficulties in supply; and fiscal revenue plummeted despite the tax reform legislation which came into force in the second half of the year. The public sector, for its part, restricted its capital expenditure and considerably increased its current expenditure, which it financed with increasingly large amounts of external and domestic credit.

As the economic and political scene deteriorated, there was a large-scale flight of capital abroad which the Government only endeavoured to avoid or stem at the end of September, when it imposed exchange controls. By that time, however, the country had already lost around US\$ 200 million.

The deficit in the current account of the balance of payments was drastically reduced because of the extraordinary drop in imports (US\$ 163 million), caused by the generalized lack of vitality of economic activity, but even so the flight of currency mentioned above, together

/with the

with the increasingly heavy liabilities stemming from the servicing of the external debt and the growing difficulty in obtaining new credits, resulted in a loss of close on US\$ 100 million in the international monetary reserves.

In the course of the year there was an appreciable decrease in money deposits and quasi-money. In contrast, there was rapid growth of cash in possession of the public (27.5%) and of domestic credit (35%), particularly that earmarked for the Government and the public entities, which altogether rose from 336 to 1,132 million córdobas between the end of 1977 and the end of 1978.

Despite the abnormal political situation in which economic activity evolved during the year, which lent itself to speculation and the black market, and in spite of the drastic reduction in the availability of imported goods, the domestic price index showed an increase of less than 5%, which, if it reliably reflects the movement of domestic prices, would seem to have been the result of the abundant harvests.

2. Recent economic trends

(a) Total supply and demand

During the year, total demand dropped by 11%, a particularly important factor in this being the decline in investment. On the supply side, the largest reduction was to be seen in imports (-26%), while there was also a 5.3% drop in the gross domestic product (see table 2).

The reduction in imports, which brought their coefficient with respect to the product down from 36% in 1977 to 29% in 1978, had repercussions on all aspects of the country's productive activity, particularly investment and, naturally, consumption.

In demand, total gross investment dropped by 45% and fixed investment decreased by slightly over a third compared with its 1977 level, as a result of the reduction of 39% in public investment and 30% in private investment. The investment coefficient, which had risen from 17% to 22% between 1975 and 1977, dropped to 15% in 1978, owing to the economic and political crisis the country was going through, which culminated in a situation of total uncertainty. Only those projects which had already been

Table 2
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Total supply	<u>9 743</u>	<u>10 895</u>	<u>9 730</u>	<u>129.2</u>	<u>128.6</u>	<u>3.5</u>	<u>11.8</u>	<u>-10.7</u>
Gross domestic product at market prices	7 538	7 937	7 564	100.0	100.0	5.8	5.9	-5.3
Imports of goods and services <u>b/</u>	2 205	2 908	2 166	29.2	28.6	-3.7	31.9	-25.5
Total demand	<u>9 743</u>	<u>10 895</u>	<u>9 730</u>	<u>129.2</u>	<u>128.6</u>	<u>3.5</u>	<u>11.8</u>	<u>-10.7</u>
Domestic demand	7 444	8 929	7 713	102.5	101.9	1.3	19.9	-13.6
Gross domestic investment	1 249	2 173	1 193	18.6	15.8	9.3	73.9	-45.1
Gross fixed investment	1 283	1 774	1 167	16.4	15.4	3.2	38.3	-34.2
Construction	698	763	417	6.5	5.5	10.2	9.7	-45.6
Machinery	584	1 003	751	9.9	9.9	-3.1	72.5	-25.5
Public	506	793	485	4.2	0.4	20.6	53.8	-38.8
Private	777	931	662	12.2	9.0	-5.6	20.3	-30.5
Changes in stocks	-34	399	26	2.2	0.4			
Total consumption	6 195	6 767	6 520	83.9	86.1	-0.2	9.1	-3.5
General government	802	891	943	9.6	12.3	11.0	11.1	5.8
Private	5 393	5 865	5 577	74.3	73.8	-1.7	8.8	-4.9
Exports of goods and services <u>b/</u>	2 299	1 966	2 017	26.7	26.7	11.5	-14.5	2.6

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;
1978: CEPAL estimates.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose

/begun were

begun were continued, together with indispensable maintenance services. Among private investments, those made in the agricultural sector and the conclusion of projects already initiated prevented the decline from being greater than it was.

Total consumption decreased to a much smaller extent (3.5%), since general government spending continued to grow. Private consumption dropped by 5% owing to the combined effect of the increase in unemployment and the unquantified decline in real wages. Moreover, the situation of uncertainty which reigned discouraged the acquisition of non-essential goods by those sectors of the population who had the means to do so, and for reasons of security they preferred to take these resources out of the country.

The external demand for goods and services, in constant prices, increased by 2.6%, particularly as the result of the larger volumes of meat and cotton which were exported and the increase in exports to the Central American Common Market, which, according to estimates, must have been around 4%.

(b) Sectoral developments

(i) Agriculture. The evolution of agriculture was satisfactory even though there was no increase in the area cultivated, since favourable climatic conditions helped to increase the production of crops both for export and for domestic consumption. Other important factors were the trend of international prices and the support given by the Government to the coffee and meat producers (see table 3).

There were, however, several items where the 1974 and 1975 volumes of production were barely recovered and others where the increase was only sufficient to return to the per capita levels of those years.

It is worth mentioning that although there are extensive possibilities for artificial irrigation, Nicaragua's agricultural production continues to be subject to variations determined by meteorological phenomena, since not enough impetus has been given to building reservoirs and irrigation works.

Table 3

NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Agriculture	1 860	1 917	2 108	27.0	30.4	4.0	3.1	10.0
Mining	19	19	20	0.7	0.3	-30.9	4.3	4.7
Manufacturing	1 322	1 406	1 405	19.2	20.2	4.0	6.3	-0.1
Construction	367	403	236	3.5	3.4	10.2	9.7	-41.3
<u>Subtotal goods</u>	<u>3 568</u>	<u>3 745</u>	<u>3 769</u>	<u>50.3</u>	<u>54.3</u>	<u>4.3</u>	<u>5.0</u>	<u>0.7</u>
Electricity, gas and water	154	174	161	1.7	2.3	39.5	12.4	-7.1
Transport, storage and communications	394	421	347	5.8	5.0	4.7	6.8	-17.6
<u>Subtotal basic services</u>	<u>548</u>	<u>595</u>	<u>508</u>	<u>7.1</u>	<u>7.3</u>	<u>12.6</u>	<u>6.4</u>	<u>-14.5</u>
Commerce, financial institutions and insurance	1 432	1 527	1 331	20.5	19.2	6.5	6.6	-12.8
Real estate <u>b/</u>	348	370	333	7.1	4.8	6.0	6.4	-10.0
Community, social and personal services <u>c/</u>	1 019	1 064	996	14.6	14.4	7.6	4.5	-6.5
<u>Subtotal other services</u>	<u>2 799</u>	<u>2 961</u>	<u>2 660</u>	<u>42.2</u>	<u>38.4</u>	<u>6.8</u>	<u>5.8</u>	<u>-10.2</u>
<u>Total gross domestic product <u>d/</u></u>	<u>6 902</u>	<u>7 312</u>	<u>6 925</u>	<u>100.0</u>	<u>100.0</u>	<u>5.8</u>	<u>5.9</u>	<u>-5.3</u>

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;
1978: CEPAL estimates.

a/ Preliminary figures.

b/ Ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the later.

/The area

The area farmed in 1978 (981,000 manzanas) was slightly less than in 1977. Land for cotton growing was drastically reduced from 303,000 to 240,000 manzanas, while that devoted to other crops was expanded, especially in the case of maize, which went up from 303,000 to 325,000 manzanas. The higher production was therefore due to the improved yields obtained during the agricultural year 1978-1979, the main increases being in cotton (41%), coffee (5%), sugar cane (3%), rice (10%), maize (10%) and sorghum (27%).

In the case of cotton, the scanty rains of 1977 caused financial losses to some producers, who withdrew from the market or reduced their cotton-growing area since they preferred to invest basically in maize and sorghum and not risk their resources on a crop with very high working-capital requirements. This situation was also influenced by the downward trend in international cotton prices observed in the early months of the year.

In 1978, however, as a result of favourable rains, the highest cotton yield of the decade was obtained, in spite of the fact that during the time of the civil disturbances there was a scarcity of inputs (especially insecticides) and labour. The production of raw cotton thus increased from 393,000 tons in 1977 to 437,000 tons (see table 4).

The coffee-growing area was expanded from 120,000 to 135,000 manzanas, but the higher levels of production were the result of more intensive cultivation in order to take advantage of the high prices prevailing since 1975, aided by the government programme for financing the renewal of the coffee plantations. Consequently, production increased from 54,000 to 64,000 tons.

In other export crops, such as sugar cane and bananas, considerable production increases were achieved despite the fact that the areas sown remained practically unchanged.

Among crops for domestic consumption there was an increase in the area sown, both because of the transfer of some of the area which had been planted with cotton the previous year, and because of the favourable domestic prices which prevailed during that year. In the case of maize,

Table 4

NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Index of agricultural production (1970 = 100)	126.3	148.7	152.9	168.5	17.7	2.8	10.2
Main crops (thousands of tons)							
Export crops	338	378	393	437	12.0	4.0	11.1
Raw cotton							
Coffee	48	53	54	64	9.9	1.7	18.0
Sugar cane	2 604	2 569	2 525	2 602	-9.0	6.6	3.1
Tobacco ^{b/}	3	3	3	3	-	-5.0	12.3
Sesame	5	5	4	6	-	-17.4	25.2
Bananas	...	...	159	170	...	...	6.8
Crops for domestic consumption	359	348	307	425	-3.1	-11.8	37.8
Maize	192	202	177	249	5.0	-12.0	40.1
Beans	50	53	40	54	6.6	-24.0	34.7
Rice	56	39	48	58	-30.0	19.8	23.9
Sorghum	61	54	42	62	-12.2	-21.4	48.9
Indicators of stock-raising production (thousands of head)							
Number of cattle slaughtered	325	344	389	416	6.0	13.2	6.8
Number of pigs slaughtered	...	...	290	300	...	...	7.2
Milk production (millions of gallons)	...	...	118	128	...	...	7.7

Source: CEPAL, on the basis of figures supplied by the Central Bank of Nicaragua.

^{a/} Preliminary figures.

^{b/} Including blond tobacco for domestic consumption.

/the area

the area sown increased from 303,000 to 325,000 manzanas, the sorghum area grew from 62,000 to 72,000 manzanas; the area sown with beans was expanded from 88,000 to 95,000 manzanas, and the rice-growing area rose from 35,000 to 39,000 manzanas.

In the stock-raising sub-sector the development policy based on the improvement of the herds and the raising of the technical level of cattle and dairy-farming continued to be applied with success. The development of this activity made it possible to increase production of beef cattle and pigs and satisfy the demand for milk. The situation of beef cattle was aided by the good rainfall and the prices of meat on the international markets. As a result, the volume of exports of beef was increased, while domestic consumption was directed towards pork. The increased milk production served to supply the processing plant, which exports to the regional market.

(ii) Manufacturing. Manufacturing production was affected by the political events and by the drop in levels of consumption due to the decline in real income. The drop in both public and private investment cut demand for building materials and for raw materials and intermediate products for industry in general. Moreover, the strikes of March and September paralysed a high proportion of factories for around 30 days in the course of the year, during which time the distribution and sale of products were also suspended. There was thus a drop in both the production of and the demand for some mass-consumption goods such as textiles, footwear and clothing. The industries producing intermediate goods for construction were affected by the drop of approximately 17% in the production of wood and cork, and 10.6% in non-metallic mineral products (see table 5).

In the face of this situation, the manufacturing value added was barely able to maintain its 1977 levels thanks to exports of processed foods, the demand of the Central American Common Market, and the production of raw materials for agriculture.

The food and beverages industries - which account for nearly 50% of manufactures - grew by 3.5% and 5% respectively, as a result of the higher demand for meat in external markets and the increase in exports of powdered milk to the Central American Common Market.

Table 5
NICARAGUA: MANUFACTURING PRODUCTION

	Millions of córdobas at 1958 prices				Percentage breakdown ^{a/}		Growth rates ^{a/}		
	1975	1976	1977	1978	1970	1978 ^{b/}	1976	1977	1978 ^{b/}
Food	536	547	581	601	40.2	36.3	2.0	6.2	3.5
Beverages	117	133	169	177	7.7	11.2	13.5	27.1	5.0
Tobacco	66	81	87	90	4.8	5.5	22.6	7.1	3.0
Textiles	92	97	92	91	5.8	5.6	5.5	-5.2	-1.6
Footwear and clothing	41	47	46	40	4.9	2.7	14.4	-2.1	-12.9
Wood and cork	69	66	70	58	3.6	3.7	-4.6	6.7	-16.8
Furniture	13	14	15	15	1.3	0.9	7.0	8.8	-2.0
Pulp and paper	23	26	30	32	1.1	2.0	13.4	13.7	6.7
Printing and publishing	29	30	32	26	2.6	2.1	4.5	7.3	-16.8
Leather products	10	9	9	10	1.1	0.6	-7.2	4.4	10.6
Rubber products	5	6	6	6	0.5	0.4	5.6	10.5	1.6
Chemical products	141	147	156	157	8.0	10.0	4.0	6.4	0.7
Petroleum products	50	54	58	56	3.1	5.7	7.6	7.4	-4.0
Non-metallic minerals	88	99	106	94	5.0	6.2	12.5	6.9	-10.6
Metal products	81	63	76	79	5.3	4.7	-21.4	18.9	5.0
Electrical and non-electrical machinery and equipment	29	28	28	28	1.5	1.8	-3.5	0.7	1.1
Transport equipment	6	7	6	6	0.3	0.4	20.0	6.1	1.6
Other	31	31	33	35	3.2	2.1	1.3	6.1	5.5
<u>Total</u>	<u>1 427</u>	<u>1 485</u>	<u>1 600</u>	<u>1 601</u>	<u>100.0</u>	<u>100.0</u>	<u>4.1</u>	<u>7.7</u>	<u>-0.1</u>

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

a/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

b/ Preliminary figures.

/Increases were

Increases were also recorded in the paper and paper products industry - an activity related to the packing of agricultural export products, in the leather industry (linked to the increased slaughtering of cattle), and the manufacture of some metallic materials, exports of which to the Central American countries increased.

Lastly, some smaller enterprises - particularly producers of building materials for the domestic market - found themselves obliged to close owing to financial problems. Furthermore, the destruction of installations and the disappearance of stocks during the critical period of September led to losses estimated at US\$ 5 million. The Central Bank granted some lines of credit to reconstruct or repair the damage caused by the disturbances, and this measure, together with that cancelling the exemptions of industries from income tax, were, apart from a few exceptions, the most important measures adopted by the Government in the specific context of industrial policy.

(iii) Construction. Construction activity was seriously affected by the crisis, and went down by 41% (see table 3). The public sector substantially cut investment in infrastructure works and other forms of construction and its action was limited to completing some projects which were already in course of execution, such as housing and hospitals in the city of Managua, the coastal canal on the Atlantic and sewerage works in several cities and municipalities. The private sector, for its part, refrained from purchasing new dwellings and lost interest in building.

In the city of Managua, construction was cut by 53%, reinforcing the downward trend observed in the previous two years (see table 6). Moreover, the violent events which took place at the end of the third quarter of the year in several cities in the country caused damage to buildings estimated at a total of US\$ 30 million.^{2/}

(iv) Services. Basic services activity decreased by 14.5% and that of the other services by 10%, as a result of the strikes and the generalized recession in the economy.

^{2/} See Central American Institute of Business Management, Nicaragua: Implicaciones económicas de los sucesos de septiembre, November 1978.

Table 6

NICARAGUA: CONSTRUCTION IN MANAGUA

(Thousands of m²)

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{b/}
Area constructed ^{c/}							
Total	270	252	218	91	-6.7	-13.5	-58.2
Dwellings	171	133	126	55	-22.2	-5.3	-56.5

Source: Survey and Census Office: Indicadores de la industria de la construcción de la ciudad de Managua, Nicaragua, October 1978.

^{a/} Estimate on the basis of data up to October.

^{b/} Growth rates for the period January-October 1978, compared with the same period in 1977.

^{c/} Building permits granted

/Commerce and

Commerce and finances fell by 12.8% as a whole, as a direct consequence of the loss of purchasing power of the population and the closing of establishments during strike periods. It is also estimated that more than 25 million dollars' worth of stocks and equipment were destroyed.

The banks were adversely affected above all by the withdrawal of funds by enterprises and private persons seeking greater security abroad. The destruction of buildings and installations also caused major difficulties, because the insurance companies refused to answer for the damages. Clients therefore lost confidence in them and cancelled or stopped purchasing insurance, thus creating a serious financial situation for these companies. Lastly, owing to the general situation described, transport services decreased by over 17%.

3. The external sector

(a) Trade in goods

(i) Exports. The drop in the international prices of the main export products had repercussions on the current value of exports, which totalled US\$ 621 million, 1.3% less than in 1977 (see table 7).

The lower prices of coffee and cotton contributed to the 5% reduction in unit prices and thus cancelled out the increase of 3.8% in the quantum exported (see table 9 below).

Coffee continued to be the main export product, although the value of exports of this item fell from US\$ 199 million in 1977 to US\$ 188 million in 1978 (-5.5%). It is estimated that coffee prices dropped by 9% and that the volume exported also decreased slightly, although the year's harvest increased by 18%.

As from the end of 1977, international coffee prices showed a downward trend which led Nicaragua to attempt to arrive at sales agreements as rapidly as possible, even by negotiating sales on a futures basis, since unlike other Central American countries there is no system of domestic financing for storing this product.

Cotton exports dropped by approximately 6%, since the increase in the volume of exports was offset by a drop of 15% in prices. The excellent harvest at the end of the year and the increase in cotton prices in international markets opened up good sales prospects for the early months of 1979, however.

Table 7
NICARAGUA: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown ^{b/}		Growth rates ^{b/}		
	1975	1976	1977	1978 ^{a/}	1970	1978	1976	1977	1978 ^{a/}
<u>Main traditional export product</u>	<u>228</u>	<u>360</u>	<u>437</u>	<u>428</u>	<u>60.8</u>	<u>68.9</u>	<u>57.9</u>	<u>21.3</u>	<u>-2.1</u>
Cotton	96	131	151	141	19.1	22.7	36.6	15.3	-6.2
Coffee	48	119	199	188	18.0	30.2	118.2	66.5	-5.5
Sugar	43	53	28	21	5.5	3.4	23.9	-47.2	-25.8
Meat	27	38	37	63	14.9	10.1	39.3	-0.8	67.6
Shrimp and lobster	15	20	22	16	3.4	2.5	32.2	12.2	-29.0
<u>Main non-traditional export products</u>	<u>46</u>	<u>58</u>	<u>70</u>	<u>64</u>	<u>7.7</u>	<u>10.2</u>	<u>26.4</u>	<u>20.4</u>	<u>-9.4</u>
Bananas	5	5	5	5	0.2	0.7	-6.1	-2.2	2.2
Unmanufactured tobacco	4	5	4	5	1.1	0.8	14.6	-8.5	13.9
Chemical products	30	42	54	46	5.3	7.5	50.0	30.3	-14.6
Dairy products	7	7	7	8	1.1	1.2	8.8	-2.7	8.3
<u>Other exports</u>	<u>101</u>	<u>124</u>	<u>122</u>	<u>129</u>	<u>31.5</u>	<u>20.9</u>	<u>22.4</u>	<u>-1.6</u>	<u>5.7</u>
<u>Total</u>	<u>375</u>	<u>542</u>	<u>629</u>	<u>621</u>	<u>100.0</u>	<u>100.0</u>	<u>44.4</u>	<u>16.1</u>	<u>-1.3</u>

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

a/ Preliminary figures.

b/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

/In contrast,

In contrast, the international price of meat increased by 44%, giving rise to a 51% increase in exports. Since the slaughtering of cattle increased by only 7%, exports grew partly at the expense of domestic consumption.

Non-traditional exports, including manufactures sold to the Central American Common Market, decreased in some cases. For example, chemical products (mainly insecticides) fell by 15%, owing to temporarily lower demand, but purchases of dairy products by the Central American Common Market increased by 8.3%, while exports of metal products and other building materials such as tiles and mosaics grew by 45%.

(ii) Imports. After the economic crisis of 1975 - essentially originating in the rise in prices of hydrocarbons - Nicaragua once again increased the volume of its imports, particularly in 1977 when imports of consumer goods increased by 25% at current values and imports of capital goods, mainly from Spain, grew by 71%. This trend was abruptly reversed in 1978 owing to the generalized contraction of the economy, and in this year the value of imports of goods fell by US\$ 160 million (21%), of particular note being the 40% drop in capital goods caused by the decrease in investment and the effect of the big purchases made in Spain the previous year (see table 8). Measured in terms of volume, the drop in imports was 30%.

(iii) Terms of trade and purchasing power of exports. In addition to the critical domestic situation, there was a very disadvantageous situation as regards the terms of trade during the year (see table 9). Following a two year period in which the prices of the main products exported were extremely favourable, in 1978 the prices of coffee, cotton, sugar, shrimps and lobsters dropped sharply, and were only partially offset by the substantial comeback in meat and gold. The result was an average drop in prices of nearly 5% in the course of the year. Since the prices of imports increased by around 10%, the terms of trade therefore experienced a decline of 14%, while the purchasing power of exports went down by slightly over 10% (see table 9).

Table 8
NICARAGUA: IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown ^{a/}		Growth rates ^{b/}		
	1975	1976	1977	1978 ^{a/}	1975	1978	1976	1977	1978 ^{a/}
<u>Consumer goods</u>	<u>123</u>	<u>145</u>	<u>181</u>	<u>151</u>	<u>29.2</u>	<u>25.0</u>	<u>18.6</u>	<u>24.8</u>	<u>-16.6</u>
Non-durable	78	95	110	103	19.0	17.1	21.7	15.8	-6.4
Durable	45	50	71	48	10.2	7.9	13.2	42.0	-32.0
<u>Intermediate goods</u>	<u>275</u>	<u>274</u>	<u>388</u>	<u>338</u>	<u>47.6</u>	<u>56.0</u>	<u>-0.5</u>	<u>41.6</u>	<u>-12.9</u>
<u>Capital goods</u>	<u>119</u>	<u>113</u>	<u>193</u>	<u>115</u>	<u>23.2</u>	<u>19.0</u>	<u>-5.2</u>	<u>70.8</u>	<u>-40.4</u>
Agriculture	13	13	22	11	1.8	1.8	5.6	69.2	-50.0
Manufacturing	65	76	118	77	17.0	12.7	-10.8	55.3	-34.7
Transport	21	24	53	27	4.4	4.5	10.3	120.8	-49.1
<u>Total</u>	<u>517</u>	<u>532</u>	<u>762</u>	<u>604</u>	<u>100.0</u>	<u>100.0</u>	<u>2.9</u>	<u>43.2</u>	<u>-20.7</u>

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

a/ Preliminary figures.

b/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

Table 9
NICARAGUA: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods						
Value	11.9	36.6	-1.2	44.5	16.1	-1.3
Volume	-1.0	8.3	6.3	14.7	-18.0	3.8
Unit value	13.0	26.1	-7.1	26.1	41.6	-4.9
Imports of goods						
Value	59.5	65.3	-10.8	0.6	45.2	-22.4
Volume	34.8	25.3	-22.4	-2.7	36.6	-29.5
Unit value	18.4	31.8	15.0	3.4	6.3	10.0
Terms of trade	-4.6	-4.4	-19.2	22.0	33.3	-13.5
	<u>Indexes (1970 = 100)</u>					
Terms of trade	102.7	98.2	79.4	96.8	129.0	111.5
Purchasing power of exports of goods	127.0	131.6	113.0	158.0	172.6	154.9
Purchasing power of exports of goods and services	131.9	129.1	113.6	150.0	164.0	147.8

Source: CEPAL, on the basis of data supplied by the Central Bank and other official sources.

^{a/} Preliminary figures.

/(b) The

(b) The balance-of-payments current account position and its financing

The substantial drop in the value of imports of goods, together with the virtual standstill in the value of exports, transformed the 1977 deficit of US\$ 75 million into a surplus of a similar value in 1978, which, in conjunction with the net movement of services, gave a trade surplus of US\$ 28 million. Net remittances of profits and interest were maintained at the level registered in 1977 (see table 10).

Consequently, the deficit on current account dropped from US\$ 204 million in 1977 to only US\$ 38 million in 1978, but even so it was difficult to finance owing to the decrease in the amounts of international loans, negotiation of which was affected by the domestic situation.

For some years past there have been difficulties in obtaining external financing, and this was aggravated in 1978 with the worsening of the domestic economic and political situation. Since it was not possible to use the same long-term debt machinery nor to obtain the amounts required, there was a change in the forms of financing, both in the public and the private sectors, and it was therefore necessary to resort to the international reserves of foreign currency for a total of US\$ 98 million, which was far higher than the sums recorded in earlier years. The net international reserves fell by even more than this figure.

This movement of reserves was aimed at offsetting the outflow of private capital (estimated to have exceeded US\$ 200 million), caused by the fear that the civil conflict would get worse and the prospects or rumours of a possible devaluation or exchange control measures. Such controls were indeed imposed as from the month of September, with the main aim of avoiding speculation, since the official decree provided for the issue of foreign exchange for all commercial and service transactions, including foreign travel. In the last months of the year a parallel foreign-currency market emerged but had little effect. Interest on bank deposits was increased with the aim of attracting capital which might otherwise leave the country.

Table 10
NICARAGUA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
<u>Current account</u>						
Exports of goods and services	349	451	456	623	723	717
Goods FOB b/	276	380	373	542	629	621
Services	71	71	81	81	94	96
Transport	10	16	20	26	33	33
Travel	12	25	26	28	28	28
Imports of goods and services	426	665	603	604	852	689
Goods FOB b/	327	540	482	485	704	546
Services	99	125	121	119	148	143
Transport	37	58	56	50	70	60
Travel	17	33	32	35	37	40
Net payments of profits and interest on foreign capital	-47	-59	-54	-67	-76	-76
Profits	-31	-37	-24	-26	-32	-29
Interest	-16	-22	-30	-41	-44	-47
Net private transfer payments	40	6	7	1	1	10
Balance on current account	-84	-267	-194	-17	-204	-38
<u>Capital account</u>						
Net external financing (a+b+c+d+e)	84	267	194	47	204	33
(a) Long-term capital	113	174	152	30	169	}
Direct investment	13	14	11	13	12	
Private sector	33	67	64	24	40	
Loans	44	60	81	55	40	
Amortization payments	-11	-13	-17	-31		
Official sector	55	92	80	16	110	
Loans	70	100	87	34	110	
Amortization payments	-5	-8	-6	-16		
Other net liabilities and assets	-7	-	-1	-2	-	
Monetary authorities (net)	9	1	-3	-23	7	
(b) Short-term capital (net)	13	56	43	-12	22	
Private sector	11	55	43	-10	49	
Monetary authorities	4	12	-2	-4	-6	
Errors and omissions	-2	-11	-1	2	-21	
(c) Extraordinary financing	-	-	26	14	12	
(d) Official transfer payments	17	9	10	8	10	
(e) International reserves (minus sign signifies an increase)	-59	28	-39	7	-9	...
Use of IMF credit	5	-3	7	-8	-3	...
Other liabilities	4	-	-2	10	3	...
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	1	-	1	1	-	-1
IMF reserve position	-	-	-	-	-	-
Foreign exchange	-69	31	45	4	-4	98

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/In addition

In addition to the difficult financial situation which the country had been experiencing since 1973 - as the result of the international loans contracted for the country's reconstruction following the earthquake - the official sector had difficulty in negotiating external financing during the political crisis, which lasted practically the whole year. As a result, the amount of loans paid out, including US\$ 58 million from the Stabilization Fund of the Central American Monetary Council, dropped from US\$ 245 million in 1977 to US\$ 93 million in 1978.

Amortization payments on international loans amounted to US\$ 55 million, which was more than the levels of the last four years.

(c) External indebtedness

The total State-guaranteed external public debt amounted to US\$ 907 million at the end of 1978 and its servicing represented 14% of exports, the highest coefficient of the last five years, although 25% of the interest payments was refinanced. At the beginning of the year, the servicing of the external public debt became more onerous as it began to include the amortization of the soft credits and other commercial loans contracted earlier to carry out the reconstruction programme and execute infrastructure works. It is necessary to stress the importance of the loans granted by private financial bodies, the terms and interest rates of which are more onerous and helped to increase the above-mentioned coefficient and give rise to an unsatisfactory external debt structure.

Nearly 50% of the loans were contracted with private banks for terms of less than 10 years, and of these more than half must be paid off within five years. The interest was negotiated on a variable basis, depending on the movements of the primary rates in the United States or of the eurodollar, which were over 12% at that time.

4. Prices and wages

The consumer price index registered an annual average rise of 4.6%, the largest increases being in the prices of housing (6.2%) and the smallest in clothing (3.2%) (see table 11). Prices rose rapidly during the early months of the year, but stabilized and even fell in the second half. This may be explained by the abundant grain harvest and by the selling-off of stocks by some commercial enterprises to obtain liquidity in view of the restrictions on consumption imposed by the general situation in the country.

Table 11
NICARAGUA: CONSUMER PRICE INDEX

	1978	1976	1977	1978
<u>Variation from December to December</u>				
<u>Consumer price index</u>	1.9	6.2	10.2	4.4 _{a/}
Food, beverages and tobacco	-0.5	8.1	10.7	4.7 _{b/}
Clothing	2.3	2.5	2.6	4.4 _{a/}
Housing	3.5	5.0	8.9	8.0 _{b/}
Miscellaneous	4.5	5.2	12.6	5.9 _{a/}
<u>Variation between annual averages</u>				
<u>Consumer price index</u>		2.8	11.4	4.5 _{c/}
Food, beverages and tobacco		1.1	14.3	4.0 _{d/}
Clothing		0.6	2.9	3.2 _{c/}
Housing		4.1	6.9	6.2 _{c/}
Miscellaneous		5.1	12.4	4.8 _{c/}

Source: CEPAL, on the basis of data supplied by the Survey and Census Office, Nicaragua.

a/ November 1978 compared with November 1977.

b/ October 1978 compared with October 1977.

c/ January to November 1978 compared with the same period in 1977.

d/ January to October 1978 compared with the same period in 1977.

/In view

In view of the moderate rise in prices, wages and salaries apparently remained stable throughout nearly the whole year, except in December, when an additional month's wages were paid as provided for by an official decree. This compensation generally offset the loss of purchasing power which occurred during the year. It should be mentioned that during 1978, apart from the two general strikes which almost wholly paralysed economic activity in March and September for a total of 30 days, there was only one strike on wage grounds (by hospital employees): the other employer-worker disputes lost significance as a result of the political crisis.

5. Monetary and fiscal policy

(a) Monetary policy

For some years Nicaragua's balance-of-payments problems have been becoming more acute, particularly as a result of the growth of the external debt, the servicing of which has put pressure on international reserves. This situation has restricted the possibilities of applying a monetary policy aimed at stimulating domestic activity. In addition, there was the political crisis which began in the last months of 1977 and got worse during 1978, causing the disruption of economic activity and naturally of the monetary variables.

Furthermore, the changes which took place in the structure of production, such as the drop in construction and services in general, and the more rapid growth of agricultural production, led to a reorientation of credit requirements for which the Nicaraguan banking system did not provide timely solutions. The reigning uncertainty and insecurity also stimulated the outflow of external resources, causing additional pressures on the system.

All these factors upset the traditional forms of handling monetary and credit policies, and it was therefore necessary to adopt measures to maintain the equilibrium or at least mitigate the adverse effects which might be produced.

The money supply increased by 5% and the amount of cash grew much more (27.5%) in order to palliate the system's lack of liquidity, while deposits on current account dropped by 9%. The growth of money offset the

/decrease of

decrease of 100 million córdobas in deposits on current account, which was possibly influenced by the drain of capital; this would also explain the drop in savings and term deposits (see table 12).

By the end of 1977 net international reserves had fallen to one-seventh of their level at the beginning of that year. Short-term loans were therefore contracted - including US\$ 50 million from the Stabilization Fund of the Central American Monetary Council - in order to meet immediate foreign currency needs. In addition, there was the outflow of capital and the servicing of the external debt, all of which brought net reserves to a critical level of -1,282 million córdobas (equivalent to US\$ 182 million) at the end of 1978.

As regards domestic credit, contrary to usual practice the majority of the additional resources were not earmarked for the productive activities of the private sector, but for financing the fiscal deficit and the increased expenditure of the public sector. Of the credit to the private sector, around US\$ 200 million corresponded to the agricultural and industrial sectors, US\$ 61 million to other production activities, and US\$ 165 million to the private financing system. The commercial banks had access to short-term external credits to a value of US\$ 129 million.

In addition to the credit granted by the Central Bank to the government, public institutions and the private sector to alleviate the domestic situation, an endeavour was made to curb the outflow of capital. Exchange control was introduced in September - an important measure, since the country had enjoyed freedom of exchange for nearly two decades - while an endeavour was made to repatriate the capital which had left the country by increasing interest on term deposits, a measure similar to that adopted in other Central American countries.

Under the terms of the exchange control, the foreign currency generated by exports had to be negotiated in the banking system at the official exchange rate of 7 córdobas per dollar. In turn, the banking system would meet exchange needs at the same exchange rate as for exports of goods, merely on presentation of documents giving evidence of importation.

Table 12

NICARAGUA: MONETARY POSITION

	Balance at end of year (millions of córdobas)				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Money</u>	<u>1 377</u>	<u>1 728</u>	<u>1 836</u>	<u>1 925</u>	<u>25.4</u>	<u>6.3</u>	<u>4.9</u>
Currency outside banks	445	636	692	883	42.9	8.9	27.5
Demand deposits	913	1 064	1 102	1 002	16.6	3.6	-9.0
Other deposits	19	28	42	40	47.4	50.0	-4.8
<u>Factors of expansion</u>	<u>3 076</u>	<u>3 828</u>	<u>4 081</u>	<u>3 950</u>	<u>24.4</u>	<u>6.6</u>	<u>-3.2</u>
Foreign assets (net)	248	626	206	-1 282			
Domestic credit	2 828	3 202	3 875	5 232	13.2	21.0	35.0
Government (net)	115	162	259	877	41.3	59.6	239.0
Official entities	53	69	77	255	30.7	11.7	231.3
Private sector	2 661	2 971	3 539	4 100	11.7	19.1	15.8
Short-term agricultural <u>b/</u>	...	...	954	1 015	...	...	6.4
Special programmes <u>c/</u>	...	...	420	562	...	...	33.8
Other portfolios	...	...	2 165	2 344	...	...	8.3
Private financing system	...	...	-	179	...	-	-
<u>Factors of absorption</u>	<u>1 699</u>	<u>2 100</u>	<u>2 245</u>	<u>2 025</u>	<u>23.6</u>	<u>6.9</u>	<u>-9.8</u>
Quasi-money (savings and time deposits)	774	1 034	1 156	1 073	40.0	6.7	-7.2
Long-term foreign borrowing	550	566	524	532	2.9	-7.4	1.5
Other items (net)	375	450	565	420	20.0	25.6	-25.7

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua, and International Monetary Fund, International Financial Statistics.

a/ Preliminary figures.

b/ Basically earmarked for cotton, fattening cattle and harvesting coffee.

c/ Mainly for the development of coffee plantations, stock-raising farms and long-term agroindustry.

/In the

In the case of "invisible" items, ceilings were fixed at the official rate according to their objective: for the payment of school fees, US\$ 600 per month per student, with an additional US\$ 300 for wife and children, where relevant; for the payment of personal insurance premiums contracted in foreign currency; for travelling expenses US\$ 200 dollars per day with a maximum of US\$ 5,000 per year; for remittances to relatives, US\$ 500 per month per person, and lastly, for payments for servicing external debt and foreign investment, provided the total amount of the loan had been negotiated in the banking system and the capital had been registered under the law on foreign investment.

(b) Fiscal policy

In 1977 the fiscal deficit recorded a substantial increase and in 1978 it rose by 19%, accounting for 51% of total expenditure. As may be seen from table 13, up to 1977 more than 90% of the deficit was financed with external credit, but this situation changed in 1978 when 62% of the deficit was covered by domestic resources despite the substantial current account imbalance of that year. The result was a process of slow strangulation, with the reduction of the country's payment capacity on one hand and the increasing servicing requirements of the external debt, which restricted the growth of real investment by the government, on the other. The policy of financing the growth of the fiscal deficit essentially with external indebtedness could not be continued during 1978, since the country had lost part of its international financial support.

The central government's financial policy was subject to substantial changes in the structure of expenditure and in aspects involving the financing of the fiscal deficit, owing to the reduction in external financing, the need to face up to increased current expenditure and the inflexibility of current income, which did not react to the new tax measures decreed in the middle of the year, since they could not be applied during the crisis. Since 1972 the tax burden has remained at around 10%.

Current receipts dropped by nearly 14% in 1978 (see table 13). The political crisis undoubtedly had something to do with this decrease, and the increase in taxes in August was not reflected in the receipts.

Table 13

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
Current income	1 523	1 527	1 747	1 507	15.4	14.4	-13.7
Tax revenue	1 151	1 353	1 639	1 445	17.5	21.1	-11.8
Direct	265	350	392	362	32.1	12.0	-7.6
Indirect	535	628	753	702	17.4	19.9	-6.8
From taxes on external trade	352	374	494	381	6.3	32.1	-22.9
Non-tax revenue	172	174	108	62	1.2	-37.9	-42.6
Current expenditure	1 121	1 209	1 539	2 070	7.9	27.3	34.5
Wages and salaries	444	547	588	684	23.2	7.5	16.3
Other current expenditure	677	662	951	1 386	-2.2	43.7	45.7
Saving on current account	202	313	208	-563	57.4	-34.6	...
Capital expenditure	335	933	1 539	1 016	0.3	55.8	-34.0
Real investment	291	319	921	415	9.6	183.7	-54.9
Amortization of the debt	144	157	238	336	9.0	51.6	41.2
Other capital expenditure	550	511	380	264	-7.1	-25.6	-30.5
Total expenditure	2 106	2 197	3 078	3 086	4.3	40.1	0.3
Fiscal deficit	-783	-670	-1 331	-1 579	-14.4	98.7	18.6
Financing of deficit							
Domestic	49	51	64	975	4.1	25.6	1 423.4
External	734	619	1 267	604	2.3	107.0	-52.3

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua and the Planning Office.

a/ Preliminary figures.

/Despite inadequate

Despite inadequate income, the Government increased spending on wages and salaries, continued with the servicing of the debt and covered the increased expenditure resulting from the state of civil unrest experienced by the country. In these circumstances, current expenditure increased by 27% in 1977 and 35% in 1978. Current savings thus showed a deficit of 563 million córdobas for the first time in this decade, and the Government thus found itself obliged to incur still greater debts in order to finance 35% of its operating expenditure.

Capital expenditure was cut by 34% and real investment had to be sacrificed in order to continue with the amortization of the debt, which increased by 41%, and to reduce dependence on external financing and attend to problems requiring an immediate solution.

In the face of this situation, two main fiscal policy measures were adopted: the tax system was restructured and recourse was had to domestic financing. As regards the first of these, in August 1978 a series of measures came into force aimed at increasing tax revenue, including the raising of the general sales tax from 6% to 8% and the inclusion of new activities such as repair shops and machinery hire in the list of taxes services; in addition, the tax on a series of specific articles was raised by an average of 50% and value added taxes began to be applied at all stages of marketing.

In June, the Government cancelled a series of exemptions from income tax, including those granted to enterprises under the Central American Convention on Fiscal Incentives for Industrial Development. The industrial enterprises which had not yet completed previously approved investment programmes by 30 June, however, continued to enjoy exemptions.

Finally, the tax base for the payment of income tax was raised from 30,000 to 40,000 córdobas and the measures relating to the reinvestment of profits were broadened.

PANAMA

1. Recent economic trends: Introduction and summary

During 1978 the evolution of the Panamanian economy was strongly influenced by political events of great significance for the future development of the country. The ratification of the Torrijos-Carter Treaty in September was the most noteworthy occurrence. Under this agreement, Panama gained full sovereignty over the Canal Zone and granted the United States of America the right to manage, operate and maintain the Canal, its civil works, installations and auxiliary equipment and to take all the necessary steps to ensure the smooth transit of vessels.^{1/} In accordance with the provisions of the Treaty, the restitution will occur in stages, culminating in complete Panamanian control of the Canal Zone in the year 2000.

The initial stages include the return of about two-thirds of the land and water of the zone, most of which has not been exploited; the transfer of the installations in the ports of Cristóbal and Balboa at the Caribbean and Pacific ends of the Canal, together with the railway across the isthmus, which links the cities of Panama and Colón; payment to Panama of a levy of 30 US cents per ton of cargo passing through the Canal, and other payments for services and profits obtained from the operation of the Canal (which will begin to be received in October 1979), which could total some US\$ 65 million in the first few years. Panama will also receive additional resources to finance programmes estimated at US\$ 345 million. Once it has secured full control of the Canal Zone, the Government of Panama will be able to introduce arrangements for taxing individuals and activities in accordance with its own interests.

In this way the country has acquired new responsibilities in its own development and vis-à-vis the international community. These involve activities which call for considerable technical and organizational skills, such as the exercise of Panamanian legal authority throughout the Canal Zone, the protection of the hydrological basin of the Canal with the

^{1/} Article III, "Operation and management of the Canal".

fundamental aim of guaranteeing a supply of water for the operation of the locks, participation in the management of the Canal Company, and co-operation in the defence of the Canal.

The foregoing indicates the magnitude of the challenge facing Panamanian society, which has to define development strategies, policies and plans which will enable it to fulfill successfully the undertakings made in the new treaty, while also drawing full benefit from the country's geographical position and generating new prospects for development.

During the year important steps were taken to consolidate the political and institutional evolution of the country, including reform of the Constitution and the election of a new government in October.

All these events were a major influence on the evolution of economic activity, producing a wait-and-see attitude among private investors and the authorities responsible for taking decisions and applying policies.

Consequently, the economic performance in 1978 was not greatly different from the pattern established in the last five years. Thus, 1973 was the last year when the economy and the per capita product grew at satisfactory rates (6% and 3.3% respectively). Since then, the combined effect of unfavourable external circumstances and the exhaustion of possibilities for development in certain areas where private investment resources have traditionally been allocated has made growth in output increasingly problematical and in the last five years the gross domestic product has grown at the rate of only 1.7% a year, while the per capita product has fallen by 1% a year (see table 1).

In contrast to 1977, 1978 was a bad year for agriculture, which was unable to achieve sustained growth in output. The depressed level of activity in manufacturing barely rose, while construction recorded a further drop. Production of basic services increased, but much less than in the two previous years. Only commercial activity and other services achieved some degree of recovery. As a result of this poor performance in the various sectors of activity, the total gross domestic product increased by only 2.5%, which was less than in 1977 and was about the same as the population growth rate.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 529	1 569	1 578	1 573	1 625	1 666
Population (millions)	1.59	1.63	1.68	1.72	1.76	1.81
Per capita gross domestic product (US dollars at 1970 prices)	961	960	941	914	921	921
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	6.1	2.6	0.6	-0.3	3.3	2.5
Per capita gross domestic product	3.3	-0.1	-2.1	-2.8	0.7	0.1
Gross income ^{b/}	5.5	-0.4	-1.0	-3.5	3.0	1.4
Terms of trade	1.9	3.9	-2.1	-21.3	-1.9	-9.5
Current value of exports of goods and services	13.9	44.6	13.3	-3.6	7.1	5.7
Current value of imports of goods and services	11.4	56.7	8.5	-4.1	3.3	11.4
Consumer price index						
December to December	9.6	16.7	1.4	4.8	4.8	5.0
Variation between annual averages	5.4	16.8	5.5	4.0	4.5	4.2
Money	11.5	18.3	-9.9	23.6	-2.0	24.8
Real wages and salaries	...	...	...	0.9	-0.4	-0.9 ^{c/}
Rates of unemployment ^{d/}	7.0	5.8	6.4	6.7	8.7	7.6 ^{e/}
Current income of government	13.7	20.6	9.5	8.8	17.3	15.0
Total expenditure of government	11.3	29.0	10.4	5.5	7.2	5.9
Fiscal deficit/total expenditure of government ^{d/}	...	50.6	29.3	27.1	20.2	13.3
<u>Millions of US dollars</u>						
C. External sector						
Trade balance (goods and services)	-64	-164	-141	-131	-103	-166
Balance on current account	-120	-235	-175	-185	-170	-248
Variation in net international reserves	-2	-12	-22	16	-7	80 ^{f/}
Disbursed external debt ^{g/}	297	359	427	510	614	899

^{a/} Preliminary figures.

^{b/} Gross domestic product plus terms-of-trade effect.

^{c/} Change between January-September 1977 and January-September 1978.

^{d/} Percentage.

^{e/} Taken from surveys restricted to the metropolitan area, which excludes the Canal Zone and the district of Chepo and Santa Isabel.

^{f/} Gross reserves.

^{g/} Public debt and debt guaranteed by the State.

/A further

A further substantial deterioration in the terms of trade meant that the rate of growth of gross income remained below that of the product, barely exceeding 1%. Despite the unfavourable terms of trade, exports of goods and services increased by about 6%, but since imports grew by 11% the negative trade balance, which had been reduced in the previous 3 years, increased once again, to US\$ 166 million. As a result the current account deficit reached US\$ 250 million, 46% more than in 1977 and equivalent to 27% of total exports of goods and services.

Together with this increased deficit in 1978, there was a substantial inflow of capital which led to an appreciable rise in gross international reserves but raised the external debt from US\$ 614 million to US\$ 900 million (see table 1).

Total foreign borrowing tripled between 1973 and 1978. It would appear that the economic and social activities undertaken by the State did not take due account of the availability of resources, so that more frequent recourse to external banking and commercial credit was necessary.

Growth in public expenditure has slowed down in the past three years, first and foremost because there was an appreciable drop in capital expenditure due to smaller investment. There was sustained growth in fiscal revenue of 17% in 1977 and 15% in 1978, leading to a marked reduction in the fiscal deficit.

Despite the drop in public investment, the States has demonstrated its concern over the last five years in extending its activities to cover the development of various projects designed to support and stimulate private activity, overcome limitations in electricity generation and in transport, improve the rural and urban infrastructure and, lastly, meet the growing requirements in education, housing and health.

Despite the climate of caution which prevailed among businessmen in 1978, there was some degree of recovery in private investment in certain activities, such as the food industry, tobacco processing and shrimp raising, which contributed to a rise of 36% in real terms after the serious contraction (-51%) in 1977.

/Domestic prices

Domestic prices continued to rise at a relatively low rate, despite lower agricultural output and substantial growth in the means of payment (25%).

The information available for 1977 and 1978 shows a slight deterioration of 1.3% in real wages and salaries. The information available on unemployment, which is not very comparable, indicates practically no change in the rate for the metropolitan region (7.8% as against 7.6%). Nevertheless, the Government has introduced an Emergency Plan, which provides among other things for an allowance of 100 balboas per month to about 20,000 or 22,000 unemployed.

2. Trends in economic activity

(a) Global supply and demand trends

Difficulties in adapting the economic system to the new direction of economic policy and the problems of external origin have been reflected in the almost continuous decline in the per capita product and, as can be seen from table 2, in the deterioration in private investment, which has been losing ground with respect to public investment since the beginning of the decade. Nevertheless, private capital formation grew significantly (36%) in 1978, after the pronounced drop (-51%) in 1977. The private investment ratio in 1978 (8%) was substantially lower than those of 1975 and 1976, when the economic crisis had already begun. Public investment, for its part, dropped by 2.6% in 1978, on top of the decline in the previous year. Nevertheless, work continued on the public projects already begun in electrification, transport, agriculture, commerce and industry.

Thus the growth of 2.5% in the gross domestic product in 1978 was stimulated, on the demand side, by a revival in private investment and a small (only 2%) expansion in exports of goods and services. As regards global supply, imports of goods and services rose by 5.8%.

(b) Growth of the main sectors

The global product at factor cost grew by 2.5% compared with the 3.3% recorded in 1977. Although non-basic services, among them commercial activity, recovered somewhat compared with the two previous years, this did not change the general depressed picture of the economy as a whole (see table 3). Thus while the goods sector dropped slightly in 1978,

Table 2
PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
<u>Total supply</u>	<u>1 765</u>	<u>1 801</u>	<u>1 861</u>	<u>140.6</u>	<u>132.6</u>	<u>-2.7</u>	<u>2.1</u>	<u>3.3</u>
Gross domestic product at market prices	1 325	1 369	1 403	100.0	100.0	-0.3	3.3	2.5
Imports of goods and services <u>b/</u>	440	432	458	40.6	32.6	-9.2	-1.7	5.8
<u>Total demand</u>	<u>1 765</u>	<u>1 801</u>	<u>1 861</u>	<u>140.6</u>	<u>132.6</u>	<u>-2.7</u>	<u>2.1</u>	<u>3.3</u>
Domestic demand	1 269	1 289	1 340	103.3	95.5	-4.1	1.6	3.9
Gross domestic investment	367	269	286	26.4	20.4	4.0	-26.8	6.0
Gross fixed investment	361	260	286	24.4	20.4	6.5	-27.9	10.0
Construction	210	137	...	12.2	...	12.4 <u>c/</u>	-34.6	...
Machinery	151	123	...	12.2	...	-0.7	-13.6	...
Public	190	175	171	6.4	12.2	12.4	-7.4	-2.6
Private	171	85	115	18.0	8.2	0.6	-50.6	36.3
Changes in stocks	6	8	-	1.9				
Total consumption	902	1 020	1 055	76.9	75.2	-7.1	13.2	3.3
General government	225	233	238	14.3	17.0	4.1	3.6	2.0
Private	677	787	817	62.6	58.2	-10.3	16.3	3.7
Exports of goods and services <u>b/</u>	496	512	521	37.3	37.1	1.2	3.2	1.9

Source: 1970-1978: CEPAL calculations on the basis of data supplied by the Statistics and Census Office.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by CEPAL for the purpose.

c/ The inconsistency between the magnitude of this rate and the drop in value added in construction shown in table 3, is apparently due to the fact that investment in construction also includes projects implemented in agriculture, such as earth-moving, clearing and levelling of land, afforestation and new plantations.

Table 3

PANAMA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of balboas at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	224	242	237	20.7	18.9	-0.7	7.6	-1.7
Mining	3	3	3	0.3	0.3	-12.1	-	-
Manufacturing	150	152	153	15.8	12.2	-12.2	1.3	0.6
Construction	64	64	62	6.3	5.0	-15.3	-	-3.2
<u>Subtotal goods</u>	<u>441</u>	<u>461</u>	<u>455</u>	<u>43.1</u>	<u>36.3</u>	<u>-7.2</u>	<u>4.3</u>	<u>-1.1</u>
Electricity, gas and water	35	38	39	2.0	3.1	9.5	8.6	2.6
Transport, storage and communications	101	113	119	5.6	9.5	18.3	10.8	16.2
<u>Subtotal basic services</u>	<u>136</u>	<u>151</u>	<u>158</u>	<u>7.6</u>	<u>12.6</u>	<u>15.9</u>	<u>10.2</u>	<u>5.3</u>
Commerce, financial institutions and insurance	173	174	181	14.0	14.4	-0.6	0.5	4.3
Real estate b/	83	85	90	5.9	7.1	2.4	2.4	5.7
Public administration and defence	45	46	46	3.1	3.6	7.3	2.3	-
Other services c/	306	309	324	26.3	25.8	2.1	1.0	4.8
<u>Subtotal other services</u>	<u>607</u>	<u>614</u>	<u>641</u>	<u>49.3</u>	<u>51.1</u>	<u>1.7</u>	<u>1.1</u>	<u>4.4</u>
<u>Total gross domestic product d/</u>	<u>1 196</u>	<u>1 235</u>	<u>1 266</u>	<u>100.0</u>	<u>100.0</u>	<u>-0.3</u>	<u>3.3</u>	<u>2.5</u>

Source: 1970-1978: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office.

a/ Preliminary figures.

b/ Refers to ownership of dwellings.

c/ Also including restaurants, hotels, business services and services to the Canal Zone.

d/ As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

/and basic

and basic services fell to a third and a half of the 1976 and 1977 growth rates, commerce and other services (including services to the Canal Zone) generally raised their rates of increase over previous years.

(i) Agriculture. In contrast to the favourable results achieved in 1977, agricultural output declined by 1.7% as the result of adverse weather conditions. However, it was possible to alleviate the problems caused by this situation, especially the shortages of some foodstuffs, by using surpluses from the previous harvest. In this way the rice stocks of the Agricultural Marketing Institute made it possible not only to supply the national market, but to reduce the domestic price and even export around 300,000 quintals. It is rice which has been most favourably affected by the activities of the Institute, which plays a role in price regulation through its purchasing power equivalent to 30% of the country's output. It has also contributed to improving productivity by promoting the gradual relocation of crops to more suitable zones.

Thanks to the excellent harvest in the previous year (see table 4), it was also possible to meet domestic demand for maize and beans in the normal way. Nevertheless, maize production continued to record a deficit, and the cost of growing it was still higher than international prices, which led to the displacement of the domestic producer. In an endeavour to solve this problem the Ministry of Agricultural Development, the Marketing Institute and the Agricultural Development Bank initiated co-ordinated action. It is worth noting, however that maize imports were not high in 1978, covering some 20 days' supplies.

The construction of appropriate storage installations was an important element in the policy for production and supply of basic grains, and also of fruit and vegetables. In order to extend and modernize these installations, work was begun on a project, with an estimated value of US\$ 9.6 million, which includes drying and cold storage facilities designed to extend the harvest period, principally for vegetables. When the work is concluded in 1979, the storage capacity will be about 50% greater.

Table 4

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Index of agricultural production (1970 = 100)							
Crop farming	172.1	162.3	172.4	169.9	-4.4	5.9	-1.5
Stock-raising	102.0	190.2	197.3	191.4	18.1	3.7	-3.0
Principals crops (thousands of quintals)							
Paddy rice ^{b/}	4 075	3 185	4 105	...	-21.8	28.9	...
Maize ^{b/}	1 438	1 410	1 757	...	-1.9	24.6	...
Dried beans ^{b/}	93	73	89	...	-21.5	21.9	...
Sugar cane (thousands of tons)	2 122	2 641	3 039	...	24.5	15.1	...
Bananas (millions of pounds) ^{b/}	1 749	1 779	1 888	...	1.7	6.1	...
For domestic consumption	656	620	681	...	2.1	1.6	...
For export	1 093	1 109	1 207	...	1.5	8.8	...
Stock-raising production (thousand head)							
Stock							
Cattle	1 348	1 361	1 374	1 395	1.0	0.9	1.5
Pigs	166	179	202	204	7.8	12.7	1.1
Poultry	3 704	4 277	4 422	4 872	15.5	3.4	10.2
Slaughtering							
Cattle	222	241	238	216	8.2	-1.0	-9.2
Pigs	87	84	95	103	-4.1	13.7	8.1
Milk production (millions of litres)	70	73	85	...	3.5	16.5	...
Egg production (millions)	239	279	256	303	16.7	-8.2	20.0

Sources: CEPAL, on the basis of data supplied by the Office of the Controller-General of the Republic, the Statistics and Census Office and other official sources.

^{a/} Preliminary figures.

^{b/} Crop years.

Activity in livestock raising declined by 3% in 1978. In recent years great efforts have been made to raise milk production in an attempt to replace imports of dairy products. For example, milk powder imports have been almost entirely eliminated, and imports of butter have dropped considerably. Nevertheless, since this policy was based on price incentives and import controls, it ran up against difficulties in the form of variations in relative prices. In November 1978 the price of a pound of livestock on the hoof was raised by 5 cents. This increase, which was more than the rise which normally occurs at this time of year, was granted because of shortages of meat and was designed to balance the availability of resources until the volume of supply increased substantially. The same shortage made it impossible to meet the export quota to the United States of slightly over 5 million pounds. In the first nine months of 1977 2,632,000 pounds of meat were exported, while in the same period of 1978 only 500,000 pounds were sent abroad.

Within the same line of agricultural policy, incentives for pork production, which had stagnated for some time, have been intensified in recent years, and in 1978 greater incentives were given to direct producers by allocating to them a larger proportion of the price paid by the consumer. In addition, imports of pork products were banned in order to encourage processing within the country.

(ii) Mining and manufacturing. Mining has remained stagnant over the past two years, and its importance in the global product has remained insignificant. Nevertheless, some years ago discovery of a potentially very large copper deposit - estimated to be among the largest in the world - encouraged the Government to study the engineering works and installations needed for its exploitation, which is to start in the early years of the next decade. In 1978 the Cerro Colorado Mining Development Corporation, a semi-public exploitation and marketing company, concluded the feasibility study and the negotiations for financing for the project. The investment will be large compared with the size of the economy, but the Government has made special efforts to ensure the greatest possible autonomy in management. Canadian sources of private credit have offered a loan of up to US\$ 1,000 million, on favourable terms, to start up the project.

/There was

There was practically no change in the manufacturing product in 1978. There has been little variation since 1974, when there was a drop of 4.4%. Since the end of 1973 manufacturing output has fallen by 15%, and its share in the global product has dropped from 15.5% to slightly over 12% in 1978.

In 1976 and 1977 this downward trend in output was common to the various branches of industry, although there was a slightly greater recovery in output of intermediate goods in 1976. The construction materials industries also recorded a greater rise than the consumer goods industries (see table 5).

A number of relatively important projects began to operate or continued to approach completion in 1978, among them the El Bayano cement plant which cost 60 million balboas and is now in operation with a production capacity of 1,000 tons a day. The industrial projects which recorded progress include the Los Santos food plant, with investment estimated at about 11 million balboas, the construction of a lime plant, with investment of 1.6 million balboas, and a salt processing plant which belongs to the State but will be operated through saltworkers' co-operatives.

As regards the policy for the development of the industrial sector, there were no important changes in 1978 in the granting of fiscal incentives, including tariff instruments. The Department of External Trade of the Ministry of Commerce and Industry began the task of seeking external markets for Panamanian industrial products, including plywood, fishery products and agro-industry products. To this end a trade mission made up of industrialists interested in promoting their external sales visited the member countries of the European Economic Community (EEC).

Mention should be made of the increased activity of the Development Finance Corporation in the field of import substitution projects.^{2/} Its activities may be regarded as still being in their infancy, since if the

^{2/} The Development Finance Corporation (COFINA) was set up at the end of 1975 to promote production through the creation of private, semi-public and State enterprises in production sectors classed as having priority in the national development strategy. Its activities encompass manufacturing, exports, tourism, transport and the exploitation of natural resources. Most of its financial resources are used for the identification, study and evaluation of new investment projects.

Table 5

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1976	1977t	1978a/	Growth rates		
				1976	1977	1978a/
<u>Index of the gross manufacturing product at market prices (1975 = 100)</u>						
<u>Total</u>	<u>87.8</u>	<u>88.6</u>	<u>89.5</u>	<u>-12.2</u>	<u>0.9</u>	<u>1.0</u>
<u>Total excluding petroleum products</u>	<u>87.3</u>	<u>88.7</u>	<u>84.7</u>	<u>-12.7</u>	<u>5.3</u>	<u>2.4</u>
<u>Consumer goods industries</u>	<u>85.4</u>	<u>81.5</u>	<u>82.9</u>	<u>-14.6</u>	<u>-4.6</u>	<u>1.7</u>
Foodstuffs	70.7	71.2	65.4	-29.3	0.7	-8.1
Beverages	114.0	108.4	124.2	14.0	-4.9	14.6
Tobacco	104.9	92.7	104.9	4.9	-11.6	13.2
Footwear and clothing	94.4	69.7	78.7	-5.6	-26.2	12.9
Furniture and fittings	72.2	88.0	78.7	27.8	21.9	-10.6
Printing and related industries	118.6	88.4	90.7	19.6	-25.5	2.6
Other manufacturing industries	100.0	84.5	100.0	-	-15.5	18.3
<u>Industries related to construction materials</u>						
Sawmills and other wood products	91.9	87.1	90.3	-8.1	-5.2	3.7
Manufacture of metal products	91.3	108.7	117.4	-8.7	19.1	8.0
Manufacture of non-metallic mineral products	95.3	76.3	84.7	-4.7	-19.9	11.0
Basic metal products	88.0	96.2	92.4	-12.0	9.3	-4.0
Basic metal products	100.0	200.0	200.0	-	100.0	-
<u>Intermediate industries</u>	<u>90.5</u>	<u>81.5</u>	<u>85.7</u>	<u>-9.5</u>	<u>-9.9</u>	<u>5.2</u>
Chemicals	114.0	104.9	106.6	14.8	-8.6	1.6
Paper and paper products	73.7	64.2	61.1	26.3	-12.9	-4.8
Leather and leather products	100.0	100.0	175.0	-	-	75.0
Manufacture of petroleum products	25.0	1112.5	862.5	-75.0	...	-23.3

Source: CEPAL, on the basis of data supplied by the Ministry of Planning and Economy Policy.

a/ Preliminary figures.

/volumes of

volumes of output anticipated in the projects approved are compared with those achieved by the industrial sector as a whole, the proportion is barely more than 1%. Projects which have received approval and financing represent investment of close to 102 million balboas, of which COFINA has contributed about 10% and investors 25%, with the remaining 65% coming from other sources. COFINA's contribution was notable for its size in the Panama Petroterminal industrial project and, in the tourism sector, in projects for the construction of hotel infrastructure.

The Ministry of Commerce and Industry too, has carried out various small-scale projects. Finally, mention should be made of the continuation of research on the development of mangrove oyster farming in Bocas del Toro, and the promotion of investment in the Chitré salt pan in order to bring technical improvements to an area of activity which had lagged behind for a number of years.

(iii) Construction. Construction is especially sensitive to the ups and downs of the economy. Just as higher revenues obtained from foreign trade, for example, are reflected in the construction of buildings, housing and public works, economic reverses are reflected in lower investment and a decline in construction in general. The 15% drop in construction activity in 1976 was followed by stagnation in 1977, and then by a further fall estimated at slightly over 3% in 1978, which is in line with the drop in public investment (-2.6%), but not with the partial recovery in private investment.

(iv) Basic services. In recent years special emphasis has been placed on the introduction of new hydroelectric capacity to replace thermal stations, and in 1978 about half the electricity generated came from hydroelectric stations. During the year the La Estrella station - part of the La Estrella-Los Valles complex - was completed, the power transmission lines between Boquete and David were extended, and the David stepdown sub-station was built. With the Los Valles station, which was scheduled for completion in June 1979, progress continued with the programme to introduce 90 MW of additional capacity, producing 550 million kWh a year.

/Also in

Also in 1978 the feasibility study began for the construction of the Teribe hydroelectric station at Bocas del Toro, which should begin to produce energy in 1986, and an investment was made of about 10% of the total cost of the Fortuna project, which it is hoped will be completed in 1983. In this way it is expected that the foreign exchange savings already obtained from the operation of El Bayano will be swelled by those obtained from investment in the other stations.

Lastly, substantial steps were taken towards the integration of the electrical systems, a process aimed at securing economies of scale from the construction of large interconnected plants and the reduction in the reserve margin needed to cover possible increases in demand or possible damage to the system. In this regard, it may be recalled that the integration process was completed as far as Veraguas in 1977, with only the province of Chiriquí remaining to be included; it is hoped to achieve this by mid-1979. During 1978 considerable progress was made in constructing the Divisa-David transmission line, and it is hoped that this work will be completed at the same time as the work at Los Valles.

In the transport sector, the most important operations, included the continuation of work on the installations of the fishing port at Vacamonte, the construction of marine engineering works and public services, and the continuation of the master plan for construction of the container port in Colón. In addition, work was completed on the new Tocumen airport complex, designed to handle up to two million passengers a year.

The container port is one of the projects which will probably have greatest impact on the future of the sector - and secondarily on Panama's domestic economy - since it will help to make fuller economic use of the Canal Zone. The project aims to reduce Panama's dependence on limited harbour facilities, meet the requirements of its sea-borne trade and secure greater benefit from its geographical position, since it will provide an additional centre for the loading and unloading, transshipment, storage and distribution of shipping cargoes in containers, as well as for providing services to vessels in transit. The master plan was completed in 1978,

/but implementation

but implementation of the project was temporarily suspended in view of the imminent return to Panama of the existing installations in the Zone, which called for adjustments to the original form and objectives of the project.

3. The external sector

The repercussions which world economic stagnation and inflation had from 1974 onwards on Panama's revenues from services, as well as the Government's policy of promoting investment in the infrastructure - which usually has a high import content - led to the doubling of the current account deficit of the 1974 balance of payments to US\$ 235 million. In the next three years the deficit fluctuated around an average of US\$ 177 million a year, and in 1978 it reached a new peak of US\$ 248 million, equivalent to 27% of the value of exports of goods and services (see table 9).

Since the beginning of 1975 there has been a steady deterioration in the terms of trade (30% in four years). The situation worsened in 1976, when exports suffered an appreciable drop in unit value (17%) due to the 50% drop in international sugar prices, and this downward trend still continues.

In 1978, in particular, there was a deterioration of about 10% in the terms of trade when the index of unit values of exports dropped by 4%, because of the low prices obtained from sales of bananas, refined petroleum products and sugar, while the unit value of imports continued to rise (see table 6).

In contrast to the performance of the terms of trade, the purchasing power of exports of goods reached its peak in 1975, as a result of the substantial increase (17%) in the volume of exports, mainly of petroleum products and sugar. Between 1975 and 1978 the purchasing power fell by 25%.

The purchasing power of exports of goods and services (which was 3.4 times as high in absolute terms as the purchasing power of exports of goods) fluctuated less, and in 1978 the index was only 8% below the peak reached in 1974.

Table 6

PANAMA: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978a/
	<u>Growth rates</u>					
Exports of goods						
Value	10.8	54.9	31.9	-18.7	6.7	1.4
Volume	-5.3	-2.4	17.2	-2.5	3.6	5.7
Unit value	17.1	58.8	12.5	-16.6	3.0	-4.1
Imports of goods						
Value	12.1	66.0	8.2	-4.8	1.1	12.2
Volume	-2.4	8.7	-5.9	-10.3	-3.7	5.9
Unit value	14.9	52.8	15.0	6.1	5.0	6.0
Terms of trade	1.9	3.9	-2.1	-21.3	-1.9	-9.5
	<u>Indexes (1970 = 100)</u>					
Terms of trade	108.9	113.1	110.7	87.1	85.5	78.8
Purchasing power of exports of goods	101.0	102.5	117.6	90.1	91.6	87.6
Purchasing power of exports of goods and services	110.8	111.4	109.4	100.4	102.6	102.3

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

Returning to the current account deficit, this was financed with official loans and the net inflow of bank funds attracted by the international financial market in the country. The net inflow of capital, about US\$ 330 million, covered the large current account deficit and left a balance of US\$ 80 million which swelled the gross international reserves.

(a) Exports

Exports of goods and services totalled US\$ 927 million in 1978, 5.7% more than in 1977. Of this figure US\$ 291 million represented goods and US\$ 636 million services.

Exports of goods rose by barely 1.4% because of the decline of slightly over 4% in prices, while the volume exported rose by about 6%, a significant rate bearing in mind the performance of this variable during the past decade (see table 6).

Of the four products which made up 62% of exports of goods, only bananas increased the value of sales (7.5%) and this was the result of a further increase in volume of the order of 9%, since their price continued to decline slowly (see table 7).

The value of exports of petroleum products and sugar fell by nearly 12%. This deterioration began in 1976, when the two products recorded a fall of nearly 50% - due in the first case to a drop in volume, and in the second to a fall in prices. Thus, between 1975 and 1978 exports of sugar fell from 49 million to 20 million balboas - even though volume rose by 44% - because the average sales price dropped by about 73%.

Sales of shrimp, on the other hand, rose from 19 million to a 1976 level of 34 million balboas, but subsequently fell to some 30 million balboas in 1978. These fluctuations, however, were due to changes in both sales volume and in price.

The partial information available on other products of lesser importance among exports shows a further increase in sales of coffee, and a sharp fall in sales of fishmeal from the high level achieved in 1977.

Table 7
PANAMA: EXPORTS OF GOODS (FOB)

	Millions of balboas				Percentage breakdown		Growth rates		
	1975	1976	1977	1978a/	1975	1978a/	1976	1977	1978a/
<u>Main export products</u>	<u>262</u>	<u>226</u>	<u>243</u>	<u>245</u>	<u>85.2</u>	<u>84.2</u>	<u>-19.9</u>	<u>7.5</u>	<u>0.8</u>
Sugar	49	26	22	20	14.8	6.9	-45.8	-16.7	-11.0
Bananas	60	62	67	71	18.1	24.4	3.4	8.0	7.5
Shrimps	19	34	30	30	5.7	10.3	76.3	-10.4	-1.3
Petroleum products <u>b/</u>	128	66	68	60	38.7	20.6	-48.3	3.0	-12.0
Other products	26	38	56	64	7.9	22.0	46.2	47.4	14.3
<u>Exports and re-export to the Canal Zone <u>c/</u></u>	<u>29</u>	<u>22</u>	<u>27</u>	<u>...</u>	<u>8.8</u>	<u>...</u>	<u>-25.5</u>	<u>21.0</u>	<u>...</u>
Adjustments and other items	21	20	17	...	6.3	...	-7.0	-12.1	...
Total	331	269	287	291	100.0	100.0	-18.7	6.7	1.4

Source: CEPAL, on the basis of data supplied by the Office of the Controlled-General of the Republic, and International Monetary Fund, International Financial Statistics, June 1979.

a/ Preliminary figures.

b/ Including sales to ships and aircraft and to the Panama Canal Zone.

c/ Excluding exports of petroleum products.

It is estimated that exports of services increased by 8% in 1978 as a result of the higher revenues from tourism and the larger number of travellers who arrived in the country. No information is available concerning the revenue produced by transport, and there is only an estimate of income from the Canal, which indicates that this income has increased substantially.

(b) Imports

Imports of goods and services expanded by 11% in 1978, and imports of goods in particular by 12%. These increases, which were due equally to volume and price rises, contrasted with the low levels of 1976 and 1977. The 6% growth rate of the volume of imports in 1978 is of still greater significance if it is considered from the viewpoint of the economy, because of the erratic performance of this variable in previous years. Between 1972 and 1977 the volume of imported goods fell by 14%, and even in 1978 the level in absolute terms was lower than in 1972.

It is difficult to find a clear and categorical explanation for this increase in imports in the absence of details of their structure. One explanation might be the recovery in private investment, which was accompanied by a slight revival in private construction and commercial activity in 1978. Information available for the first six months indicates a rise in imports of only 5% in that period which was attributable to growth in purchases of capital goods and was in turn offset by the substantial drop in purchases of crude petroleum (see table 8).

(c) The current account position and its financing

The rise of less than 6% in exports of goods and services and the increase of over 11% in total imports caused the trade deficit to grow from US\$ 103 million to US\$ 166 million, a figure already reached in 1974.

Payments of interest and remittances of profits abroad continued to rise; together with private transfers, which were also negative, they raised the deficit on the current account of the balance of payments to US\$ 248 million dollars, a similar figure to that of 1974 and 40% higher than the average deficits recorded between the end of 1974 and 1977 (see table 9).

Table 8
PANAMA: IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978a/	1973	1978a/	1976	1977	1978b/
Consumer goods	64	61	69	33	9.7	7.5	-3.9	12.6	5.8
Intermediate goods	698	636	677	341	69.9	77.3	-8.9	6.4	4.2
Crude petroleum	347	246	268	115	19.4	26.1	-29.3	9.1	-22.5
Others	351	390	409	226	50.5	51.2	11.2	4.7	26.2
Capital goods	130	143	116	67	20.4	15.2	10.2	-19.1	8.2
<u>Total</u>	<u>892</u>	<u>840</u>	<u>862</u>	<u>441</u>	<u>100.0</u>	<u>100.0</u>	<u>-5.8</u>	<u>2.5</u>	<u>4.9</u>

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of the Republic.

a/ First half of the year.

b/ First half of 1978 compared with the first half of 1977.

Table 9

PANAMA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978a/
<u>Current account</u>						
Exports of goods and services	519	750	850	819	878	927
Goods FOB <u>b/</u>	162	251	331	269	287	291
Services	357	499	519	550	591	636
Transport	68	163	156	145	137	...
Travel	103	122	133	150	171	190
Imports of goods and services	583	914	991	950	981	1 093
Goods FOB <u>b/</u>	458	761	823	783	792	889
Services	125	153	168	167	189	204
Transport	68	90	100	95	110	116
Travel	27	31	32	34	35	37
Net payments of profits and interest on foreign capital	-43	-57	-23	-41	-56	-70
Profits	-14	10	3	-2	-18	-18
Interest	-29	-67	-26	-39	-38	-52
Net private transfer payments	-13	-14	-11	-13	-11	-12
Balance on current account	-120	-235	-175	-185	-170	-248
<u>Capital account</u>						
Net external financing (a+b+c+d)	120	235	175	185	170	248
(a) Long-term capital	149	114	185	722	-118	
Direct investment	36	35	8	-11	9	
Private sector	5	-2	11	1	4	
Loans	1	-	...	...	...
Amortization payments	-1	-1	...	...	...
Other liabilities and assets	5	-1	11	1	4	
Official sector	96	92	151	287	280	
Loans	156	186	196	353	358	
Amortization payment	-58	-65	-34	-63	-88	
Other liabilities and assets	-2	-29	-11	-3	10	
National Bank	12	-11	15	445	-411	
(b) Short-term capital (net)	-40	99	-38	-530	272	
Private sector	64	221	78	-378	327	
Official sector	2	2	-	1	-	
Errors and omissions	-106	-124	-116	-153	-55	
(c) Official transfer payment	9	10	6	9	9	
(d) International reserves (minus sign indicates an increase)	2	12	22	-16	7	...
Use made of IMF credit	-	9	12	29	-1	...
Other liabilities	-	-	-	-	-	...
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-	-	-5	2	1	-
IMF reserve position	-	10	-	-	-	-5
Foreign exchange	2	-7	15	-47	7	-75

Sources: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/Nevertheless, there

Nevertheless, there was an unusually high net inflow of capital in 1978, estimated at US\$ 328 million, which after covering the imbalance on current account raised the gross international reserves by US\$ 80 million to US\$ 150 million at the end of December.

(d) External indebtedness

The balance of public and State-guaranteed debt rose, according to available estimates, from US\$ 614 million in 1977 to almost US\$ 900 million, which is a very significant increase (46%) (see table 10). Nevertheless, the servicing ratio as a proportion of export revenues remained moderate, and this may be explained in part by the success achieved in renegotiating the short-term government debt.

4. Prices and wages

In 1978 the growth rate in domestic prices was very similar to that of the two previous years, in the case of the consumer prices, and was actually lower in the case of wholesale prices. However, there was a significant revival in food prices compared with 1976 and 1977. In general, the rise in domestic prices remained at a relatively low and easily controllable level, and moreover it was small compared with the increase in prices of imported goods (see table 11).

Since the beginning of the decade the wholesale price index has consistently risen faster than the consumer price index. There is no clear explanation for this. While the annual increase in the latter index has remained between 4 and 4.5%, the former has shown a sustained downward trend since 1974, when it reached its highest level (30%). This trend has coincided with the trend in prices of imports. Furthermore, productivity in the agricultural sector has since improved, and this has made it possible to keep price rises in that sector below those of manufactures, while another influence has been greater control over the prices of staple products, and the control exercised by the State's purchasing power through the agencies responsible for marketing agricultural products and supplying basic demand.

However, as in 1973 and 1974, food prices for consumers rose considerably more than the general index in 1978, the rise being more obvious in the December-to-December figures, where the rate was 9.2%.

Table 10

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
Public debt and debt guaranteed by the State ^{b/}	297	359	427	510	614	899
Servicing of external debt	23	42	38	53	69	87
Amortization payments	11	9	9	17	23	36
Interest payments	17	33	29	36	41	51
Servicing of external debt, as a percentage of exports	5.4	5.6	4.5	6.6	8.2	10.7

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of the Republic.

^{a/} September.

^{b/} Disbursed by the central government.

Table 11
PANAMA: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1973	1974	1975	1976	1977	1978
	<u>Variation from December to December</u>					
Consumer price index	9.6	16.7	1.4	4.8	4.8	5.0
Food	17.8	21.2	0.4	2.9	2.6	9.2
Wholesale price index	18.7	27.0	12.3	3.8	9.1	6.2
	<u>Variation between annual averages</u>					
Consumer price index	5.4	16.8	5.5	4.0	4.5	4.2
Food	6.9	22.8	6.8	1.4	3.0	6.2
Wholesale price index	6.7	30.2	14.0	7.8	7.2	5.4

Source: CEPAL, on the basis of data supplied by the Statistics and Census Office.

/Initially, attempts

Initially, attempts were made to ensure that inflationary pressures were absorbed by businessmen by sacrificing their profit margins. In view of the depressive conditions affecting economic activity, however, incentives were subsequently granted to the business sector to promote greater investment and a new inflow of foreign investment, in the hope of reducing the unemployment rate, especially in the urban areas. Nominal wages were raised only within very narrow limits, and although they were supposed to correspond to greater productivity, it would appear that they lagged behind prices, so that in 1977 and 1978 real wages declined by 1.3%.

5. Monetary and fiscal policy

(a) Monetary policy

Financial activity expanded appreciably in Panama in 1978, becoming notably international in nature. At the end of the year the means of payment stood 25% higher than a year previously, the increase being particularly evident in the case of currency outside banks, which rose by 60%, after a substantial contraction between December 1976 and December 1977. Sight deposits grew more slowly (14%), though slightly faster than in previous years (see table 12).

International reserves in the form of foreign exchange grew by US\$ 75 million in 1978, almost entirely in December. Meanwhile, there was a reduction of 270 million balboas in the negative balance of net international reserves, and this was the greatest contributor to the growth in the means of payment. Domestic credit expanded very little (2.4%), as in 1977, even though credit to the private sector grew by 12%, which was considerably more than in previous years. On the other hand, there was a significant decline in net domestic financing of the fiscal deficit.

According to preliminary information available, domestic credit to industry recovered appreciably (35%), as a result of the special attention given to industry by the official banking system. There also appears to have been an increase in loans to commerce. In contrast, loans to official entities dropped sharply, while loans to construction barely

Table 12

PANAMA: MONETARY BALANCE

	Balance at end of year (millions of balboas)				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
<u>Money</u>	<u>200</u>	<u>247</u>	<u>242</u>	<u>302</u>	<u>23.6</u>	<u>-2.0</u>	<u>24.8</u>
Currency outside banks	51	83	57	91	64.1	-31.3	59.5
Demand deposits	149	164	185	211	10.5	12.9	14.1
<u>Factors of expansion</u>	<u>752</u>	<u>840</u>	<u>889</u>	<u>1 200</u>	<u>11.7</u>	<u>5.9</u>	<u>35.0</u>
Foreign assets (net)	-703	-754	-737	-465			
Domestic credit	1 455	1 594	1 626	1 665	9.5	2.1	2.4
Government (net)	270	321	318	176	39.8	-1.2	-44.7
Official entities	24	55	37	62	132.3	-31.7	67.6
Private sector	1 201	1 218	1 271	1 427	1.3	4.4	12.3
<u>Factors of absorption</u>	<u>552</u>	<u>593</u>	<u>647</u>	<u>898</u>	<u>7.4</u>	<u>9.1</u>	<u>38.8</u>
Quasi-money (savings and time deposits)	377	391	464	592	3.7	18.8	27.5
Other items (net)	175	202	183	306	15.1	-9.6	67.7

Source: International Monetary Fund, International Financial Statistics, June 1979.

/increased; this

increased; this was in line with the prolonged phase of depression affecting commercial and housing construction, which is the usual recipient of private bank finance.

On the liabilities side the banks recorded strong growth in domestic deposits. Funds available to the government increased substantially (91%), and private deposits also grew appreciably, though at a lower rate (24%).

The specific characteristics of the financial system in Panama make it difficult to assess liquidity levels and changes in them. The large size of the system compared with Panama's economic structure, and the absence of any domestic currency issue, give rise to an analytical problem and at the same time hinder the effectiveness of any credit-based anti-cyclical action and measures, since the external payments situation has a direct and immediate impact on the domestic financial system.

In general in 1978 there were no financial restrictions which limited the growth of production of goods and services, apart from the possible limiting effect of rises in interest rates in the international market. Accordingly, the meagre rise in output is attributable to other causes.

Domestic financing needs make it increasingly necessary to co-ordinate the financial and fiscal policies of the public sector with the policies on private credit and the absorption of foreign capital, which have operated independently to date.

As of December 1978, the official banking system had granted 22% of total domestic loans from the banking system, compared with the 1974 figure of less than 20%. When the private banks cut back their operations, the State's promotional activity is inadequate to offset this lower level of activity.

(b) Fiscal policy

Achievement of budgetary targets was in general limited to an order of priorities established for expenditure, which made possible progress in investment projects of special importance for the development of external trade, for the improvement of communications and economic integration between various geographical areas of the country, for the

/training of

training of human resources and for the improvement of regional income distribution, as a part of the new responsibilities falling on the public sector under the social policy followed in recent years.

Current expenditure by the central government is estimated to have grown by 16%, but despite this wages and salaries fell by 5%. Other current expenditure rose by 44%; of particular note were the payments of interest on financing received, and current transfers. In view of the magnitude of open unemployment in recent years, the Government instituted machinery for providing direct grants to the unemployed, and this had repercussions on total current expenditure (see table 13).

There had been practically no rise in the salaries of public officials since 1976, and the fiscal budget for 1979 therefore earmarks 29 million balboas for the improvement of salaries, especially those of officials earning less than US\$ 300 a month in 1978.

Current income, for its part, increased by 15% during the year, which was somewhat less than in 1977, when the authorities adjusted the income tax rates and created a levy on transfers of immovable property (based on value added). Among tax revenues, there was a notable increase in income produced by the taxes on imports, largely as a result of the success of the campaign to reduce smuggling. As a consequence, revenues from taxes on foreign trade, which had fallen in 1976 and risen by only 2% in 1977, increased substantially in 1978, by 24%.

Another effect of the stricter application of taxes on imported goods was to broaden the tax base of the sales tax, and to raise revenue from it by a larger amount than might have been expected in view of the vigour of domestic commercial activity. Direct taxes, however, rose by barely 3% despite the adjustments made in 1977, which increased receipts by 20% in that year.

Current operations by the central government led to a slight rise in saving. Nevertheless, the fiscal position, affected to a high degree by the levels of short-term foreign borrowing of previous years, had an effect on capital expenditure, which dropped by almost 20%. Real and financial investment fell by 31%, while debt amortization followed its

Table 13

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates		
	1975	1976	1977	1978a/	1976	1977	1978a/
<u>Current income</u>	<u>297</u>	<u>323</u>	<u>379</u>	<u>436</u>	<u>8.8</u>	<u>17.3</u>	<u>15.0</u>
Tax revenue	227	224	281	321	-1.3	25.4	14.2
Direct	114	109	130	134	-5.3	20.4	3.1
Indirect	113	115	151	187	1.8	31.3	23.8
(On external trade)	58	54	55	68	-6.9	1.9	23.6
<u>Current expenditure</u>	<u>283</u>	<u>310</u>	<u>342</u>	<u>396</u>	<u>9.5</u>	<u>10.3</u>	<u>15.8</u>
Wages and salaries	170	178	195	185	4.7	9.6	-5.1
Other current expenditure	113	132	147	211	16.8	11.4	43.5
<u>Saving on current account</u>	<u>14</u>	<u>13</u>	<u>37</u>	<u>40</u>			
<u>Capital expenditure</u>	<u>134</u>	<u>133</u>	<u>133</u>	<u>107</u>	-	-	<u>-19.5</u>
Financial investment and transfers	111	105	97	67	-5.4	-7.6	-30.9
Amortization of the debt	23	28	36	40	21.7	28.6	11.1
<u>Total expenditure</u>	<u>420</u>	<u>443</u>	<u>475</u>	<u>503</u>	<u>5.5</u>	<u>7.2</u>	<u>5.9</u>
<u>Fiscal deficit</u>	<u>-123</u>	<u>-120</u>	<u>-96</u>	<u>-67</u>			
Financing of deficit							
Domestic financing	8	25	-25	-98			
External financing	115	95	121	165			

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/upward trend,

upward trend, with a growth rate of 11%. The rise in current saving and the drop in capital expenditure reduced the fiscal deficit from 96 million to 67 million balboas, and this deficit was once again financed with external resources.

The growing pressure of external commitments made it necessary in 1978 to take steps towards refinancing, principally of the commercial debts falling due in the next 3 or 4 years, which totalled about US\$ 300 million. In some cases it was possible to obtain extensions of the repayment periods by up to 10 years, with a grace period of 4 1/2 years, and by this means it was hoped to make a substantial reduction in the impact of indebtedness in the period 1979-1983.

This refinancing involved the rescheduling of bonds worth a total of about 49 million balboas, which fell due in 1978, thus reducing to a net US\$ 100 million the total unavoidable outflow on the payment of bonds.

As already noted, investment by the para-State sector increased, contrasting with the fall in capital formation by the central government. This investment was concentrated mainly on civil works in the fields of electrification, transport, agriculture, commerce and industry, which together absorbed more than 60% of capital expenditure.

From a broader viewpoint, the programme of public investment placed greater emphasis on economic than on social projects. In this regard it should be remembered that social projects had received priority since the beginning of the decade. In view of the vital need to make progress in constructing the support infrastructure for future projects which would contribute to greater structural integration of the economy, it was necessary to introduce changes in resource allocation. Moreover, resources were allocated on the basis of the financing available and the relative progress made in project formulation. At the same time, special mention should be made of the continued stimulus given to education, especially in the interior of the country, through the expansion of educational establishments to meet the growing demand for secondary and higher education and the construction of about 50 centres for basic and technical/professional education. In addition, the adoption of new curricula for general basic

/education was

education was strengthened, and middle-level professional and technical education services were improved. The provision of educational services to support production was stimulated, in order to improve standards of living in the rural areas and help to cut down migration from the countryside to the towns.

Furthermore, despite the financial difficulties, health and housing projects continued to be implemented. Coverage of the population benefiting from the various health programmes was broadened, and the efforts to provide low-cost housing continued.

PARAGUAY

1. Recent economic trends: Introduction and summary

In 1978 the economy maintained the high growth level of the previous year. The gross domestic product increased by 10%, which, although slightly below the 11.8% recorded in 1977, reaffirmed the sustained upward trend of over 8% per year which has been a feature of the economy as from 1973, since when the per capita product has increased from US\$ 385 to US\$ 500 at 1970 prices (see table 1).

The growth rate of gross income was more irregular. After reaching nearly 15% in 1977, as a consequence of the increase of 26% in the terms of trade, it dropped to slightly less than 9% in 1978, when the terms of trade deteriorated.

The drops from 9% to 6% in the growth rate of agriculture, which was affected by a drought, and from 18% to 7% in manufacturing production accounted for the weakening of the growth rate of the global product in 1978. Construction again increased by 32%, thanks to the impetus from the works connected with the building of the hydroelectric power stations of Itaipú and Yaciretá, the estimated total costs of which are US\$ 8,600 and US\$ 4,000 million, respectively. Basic services and those included under "other services" continued to increase rapidly.

The substantial growth of external trade in 1977 also declined in the course of 1978. Exports of goods and services dropped by slightly over 6% as a result of the fall in international prices, while the exceptional 47% increase in imports recorded in 1977 fell to half that figure (23%). As a result of this uneven development the trade deficit tripled and the current account deficit of the balance of payments rose from US\$ 64 million to US\$ 194 million. The unusually large inflow of capital, however, which was more than double the 1977 total, led to a further growth of close on US\$ 200 million in the international reserves.

It is estimated that in 1978 there was a net inflow of around US\$ 390 million in the form of non-compensatory capital, of which US\$ 200 million corresponded to the Itaipú works and US\$ 23 million to the Yaciretá hydroelectric power station, a joint project with Argentina; the rest

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	962	1 042	1 094	1 176	1 315	1 447
Population (millions)	2.50	2.57	2.65	2.72	2.80	2.89
Per capita gross domestic product (US dollars at 1970 prices)	385	405	413	432	469	501
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	7.8	8.3	5.0	7.5	11.8	10.0
Per capita gross domestic product	4.9	5.3	2.0	4.4	8.6	6.8
Gross income <u>b/</u>	11.5	6.8	3.5	7.7	14.8	8.7
Terms of trade	28.4	-11.8	-10.9	4.3	26.3	-11.4
Current value of exports of goods and services	41.6	38.2	1.7	17.5	63.9	-6.2
Current value of imports of goods and services	52.0	55.9	19.5	2.2	47.3	23.0
Consumer price index						
December to December	14.1	22.0	8.7	3.4	9.4	16.8
Variation between annual averages	12.8	25.2	6.7	4.5	9.4	10.6
Money	32.6	21.0	17.9	21.1	32.3	40.3
Rate of unemployment <u>c/</u>	...	4.8	4.6	4.2	3.7	3.1
Current income of government	22.3	40.0	10.0	7.5	37.1	30.2
Total government expenditure	9.7	30.4	24.6	22.6	13.1	19.3
Fiscal deficit/total government expenditure <u>c/</u>	1.2	8.9	-3.8	-15.6	2.4	11.6
<u>Millions of US dollars</u>						
C. External sector						
Trade balance, goods and services	-12	-45	-90	-59	-47	-176
Balance on current account	-20	-58	-95	-74	-64	-194
Variation in net international reserves	27	20	35	36	112	197
Disbursed foreign debt	219	272	332	456	518	630

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Percentage.

/consisted of

consisted of direct investment and long-term loans, which also increased considerably in 1978. This substantial inflow of capital has naturally contributed to a very rapid increase in recent years in the amount of the external debt, the balance of which is estimated to have reached US\$ 630 million at the end of 1978.

As a result of the speeding up of economic activity and the substantial inflow of capital, the pressure of demand on the total supply of goods and services was intensified, with consequent effects on the level of domestic prices, which rose by close on 17% between December 1977 and December 1978: nearly double the increase recorded the previous year (see table 1).

In keeping with the growth of economic activity and prices, the money supply increased by 40% in 1978, thus exceeding the growth rates of 1977 (32%) and 1976 (21%). Fiscal earnings once again recorded a substantial increase as a result of a high tax yield. Expenditure, however, and particularly current expenditure, increased at a slower pace, so that for the second year running a surplus was achieved in the financial results of the central government.

2. Trends in economic activity

(a) Total supply and demand

Together with the slight drop in the growth rate of the production of goods and services, which nevertheless continued to be very high for the country and for the region, the exceptional percentage increase in imports valued at constant prices which occurred in 1977 dropped by half in 1978 (from 37 to 19%). In 1978, therefore, the country had a total supply of goods and services which was 11.6% higher than the previous year (see table 2).

Since exports of goods and services, also at constant prices, fell by 2%, the domestic supply of goods and services grew by 13% and was mostly destined, as has been the case since 1973, for capital formation.

Since 1973, gross fixed investment has increased 3.8 times (25% per year), and the investment coefficient with respect to the gross domestic product has risen from slightly under 15% in 1972 to nearly 35% in 1978.

Table 2
PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
<u>Total supply</u>	<u>127 585</u>	<u>147 381</u>	<u>164 457</u>	<u>116.1</u>	<u>123.3</u>	<u>6.9</u>	<u>15.5</u>	<u>11.6</u>
Gross domestic product at market prices	108 423	121 122	133 348	100.0	100.0	7.5	11.8	10.0
Imports of goods and services <u>b/</u>	19 162	26 259	31 109	16.1	23.3	3.4	37.0	18.5
<u>Total demand</u>	<u>127 585</u>	<u>147 381</u>	<u>164 457</u>	<u>116.1</u>	<u>123.3</u>	<u>6.9</u>	<u>15.5</u>	<u>11.6</u>
Domestic demand	114 144	130 723	148 125	101.2	111.1	6.8	14.5	13.3
Gross domestic investment	31 440	38 591	45 769	14.7	34.3	24.6	22.7	18.5
Gross fixed investment	29 533	37 874	46 244	14.5	34.7	30.4	28.2	22.1
Construction	12 439	16 209	...	7.3	...	19.9	30.3	...
Machinery	17 094	21 665	...	7.2	...	39.3	26.7	...
Changes in stocks	1 906	717	525	0.2	0.4			
Total consumption	82 704	92 132	102 356	86.5	76.8	1.2	11.4	11.1
General government	7 843	8 129	8 511	9.0	6.4	1.8	3.6	4.7
Private	74 861	84 003	93 845	77.5	70.4	1.2	12.2	11.7
Exports of goods and services <u>b/</u>	13 441	16 658	16 332	14.9	12.2	7.8	23.9	-2.0

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by CEPAL for the purpose.

/b) Growth

(b) Growth of the main sectors

The slight drop in the growth rate of the gross domestic product in 1978 was basically due to the slowing of the pace of agricultural production, owing to bad weather, and to the reduction of the growth rate of manufacturing production to less than half its previous level - from 18% in 1977 to 7% in 1978. Construction maintained its pronounced growth of 1977 (32%).

Basic services increased by 13%, which was higher than the previous year, and other services - which had maintained their relative share of around 40% since the beginning of the decade - increased by 11%, a similar percentage to that recorded in 1977 (see table 3).

(i) Agriculture. The growth rate of agricultural production fell from 9.4% in 1977 - the highest of the decade - to 6.2% in 1978, although this is still a fairly high rate. Since 1973 this sector, which accounts for a third of the total gross domestic product, employs more than half the country's labour force and supplies over 90% of export goods, has grown at an annual rate of 7%.

The rapid growth of this activity in 1977 was mainly based on crop farming production, which increased by 13%, and particularly on the exceptional results obtained in the cotton harvest (the volume of which more than doubled), and to a lesser extent soya bean production, which increased by 25%. In 1978, however, agricultural production grew by less than 6%, and had it not been for cotton, which once again showed a substantial increase (28%), its growth rate would have been negative, as may be seen from table 4.

The 1976 frosts cut the production of coffee from 99,000 bags in 1975 to 31,000 in 1977. In 1978, the prolonged drought which afflicted the country, together with the attacks of pests and diseases, affected a large proportion of the main agricultural products, with the exception of cotton and coffee, production of which once again increased to approximately 115,000 bags.

Since the beginning of the decade there has been an enormous increase in the areas growing a number of products, including two new export items: cotton and soya beans. Soya bean production increased from around 100,000 tons in 1972 to 350,000 in 1977; in 1978 production was around 20,000 tons less on account of the causes referred to above.

Table 3

PARAGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of guaraníes at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	32 451	35 504	37 722	34.3	30.3	5.0	9.4	6.2
Mining	404	502	631	0.1	0.1	41.4	24.1	25.7
Manufacturing	16 408	19 426	20 825	17.3	16.7	5.5	18.4	7.2
Construction	4 308	6 068	8 005	3.0	6.4	17.6	31.7	32.0
<u>Subtotal goods</u>	<u>53 871</u>	<u>61 500</u>	<u>67 183</u>	<u>54.7</u>	<u>54.0</u>	<u>6.3</u>	<u>14.2</u>	<u>9.2</u>
Electricity, gas and water	2 277	2 547	2 972	1.2	2.4	23.4	11.9	16.7
Transport, storage and communications	5 071	5 497	6 154	4.2	4.9	7.5	8.4	12.0
<u>Subtotal basic services</u>	<u>7 348</u>	<u>8 044</u>	<u>9 126</u>	<u>5.4</u>	<u>7.3</u>	<u>12.0</u>	<u>9.5</u>	<u>13.4</u>
Commerce, financial institutions and insurance	20 120	22 520	25 223	19.5	20.3	10.1	11.9	12.0
Real estate <u>b/</u>	3 149	3 410	22 957	3.3	18.4	8.1	8.3	9.8
Community, social and personal services <u>c/</u>	16 402	17 506		17.1		6.7	6.7	
<u>Subtotal other services</u>	<u>39 671</u>	<u>43 436</u>	<u>48 180</u>	<u>39.9</u>	<u>38.7</u>	<u>8.5</u>	<u>9.5</u>	<u>10.9</u>
<u>Total gross domestic product <u>d/</u></u>	<u>100 485</u>	<u>112 349</u>	<u>123 584</u>	<u>100.0</u>	<u>100.0</u>	<u>7.5</u>	<u>11.8</u>	<u>10.0</u>

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4
PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates			
					1975	1976	1977	1978 ^{a/}
Indexes of agricultural production (1972 = 100)	123.3	129.4	141.7	150.5	3.9	4.9	9.5	6.2
Crop farming	126.9	134.5	151.9	160.6	2.3	6.0	12.9	5.7
Stock-raising	116.6	122.6	127.6	119.5	4.0	5.1	4.1	-6.3
Forestry	127.9	127.9	139.7	153.5	10.4	-	9.2	9.9
Production of some important crops (thousands of tons)								
Cotton	100	105	223	285	17.6	5.0	111.9	28.0
Rice	50	52	36	36	42.9	4.0	-30.0	-2.2
Sweet potatoes	178	187	197	187	-3.0	5.0	5.0	-5.0
Cassava for fodder	863	868	876	867	-3.5	0.6	1.0	-1.0
Cassava for human consumption	863	868	876	867	-3.5	0.6	1.0	-1.0
Maize	338	344	372	369	20.0	1.9	8.1	-1.0
Soya beans	220	280	350	330	15.8	27.3	27.0	-5.7
Indicators of stock-raising production (cattle) (thousands of head)								
Number of livestock	6 018	6 108	6 181	6 212	2.5	1.5	1.2	0.5
Number of animals slaughtered	498	537	635	596	-13.8	7.8	18.2	-6.1

Source: Central Bank of Paraguay, División de Producción, Precios y Mercado Interno.

^{a/} Preliminary figures.

/As for

As for cotton, which since 1976 has constituted the main export product and in 1978 accounted for 39% of total exports, production increased from 105,000 tons in 1976 to 285,000 in 1978, and during this latter year 315,000 hectares were harvested, 100,000 hectares more than in 1977.

The growing area of tobacco and maize was also greatly increased - by around 70% since 1971 - while the rice-growing area was increased by nearly 40%. Production of this cereal dropped by 30% in 1977 and further decreased very slightly in 1978.

While crop production contributed 53% of the agricultural product, the share of livestock production was 35% and that of forestry 12%. Livestock production has evolved more slowly than crop farming, and in 1978 it recorded a drop of 6.3%. In that year around 600,000 cattle were slaughtered, about 40,000 less than the year before. This drop was particularly influenced by the closing of the market of the European Economic Community to frozen and canned meat. Exports of processed meat have gone down since 1973, when 35,000 tons were exported for a value of US\$ 40 million. In 1978 the corresponding figures were only 17,000 tons and US\$ 24 million.

In August the largest meat processing and canning plant in the country closed down; it employed over 2,000 persons but had been working at less than half its capacity and had been operating at a loss for several years owing to the low international prices of the product.

The forestry industry increased its product by 10%, a similar rate to that of the previous year, stimulated by external demand and the rapid growth of construction.

The rapid development of agriculture, and particularly of some products such as cotton and soya beans, was boosted by the construction of infrastructural works such as highways and rural access roads.

The projects being studied or in progress in the agricultural field include the construction of silos for cotton in Paraguari; the US\$ 59 million rural electrification programme, 55% of which is financed with foreign capital and the rest by the Electricity Administration; and a very wide-ranging agricultural and stock-raising development project, with technical

/and credit

and credit aid from the World Bank. The Government has also been promoting the production of citrus fruit, pineapples, cocoa, mate and other crops.

(ii) Manufacturing. After the drop it experienced in 1975, production of manufactures has grown at a high but irregular rate. In 1977 it increased by 18.4%, but its growth rate dropped to 7.2% in 1978 (see table 3).

Several factors have given impetus to industrial development, despite the limitations imposed by the small size of the domestic market. Above all there has been the enormous influence on the whole economy of the construction of the Itaipú dam, which has increased domestic income and purchasing power; the exceptional growth of construction; the ample availability of electrical energy and road infrastructure; the priority given to the inflow of capital, and lastly the favourable exchange rate and international reserves situation, which has ensured the supply of imported inputs. In July 1978 the duty on imports of raw materials and intermediate goods was reduced from 35% to 12%, thus facilitating and cheapening these purchases still further.

The big increase recorded in manufacturing production in 1977 was particularly influenced by the processing of cotton fibre, which more than doubled that year, as well as the appreciable growth of other types of production including wood and furniture and paper and printing (see table 5).

In 1978 the production of cotton fibre, which in the last two years had increased from 34,000 to 91,000 tons, and that of processed wood, continued to increase rapidly. The production of wheat flour also increased substantially in recent years, from 38,000 tons in 1975 to 85,000 tons in 1978. In 1978, however, substantial decreases were observed in the production of sugar, tung oil, cement and others.

Prominent among the new industries was the iron and steel industry, with 100,000 tons of initial capacity, set up by Aceros Paraguayos in Villa Hayes with Paraguayan and Brazilian capital at an approximate cost of US\$ 82 million. Among the main projects was the construction of an alcohol distillery with a capacity of 120,000 litres per day in the department of Guairá; a metal-processing plant and a ceramic facings factory.

Table 5
PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Index of manufacturing production (1972 = 100)	114.7	120.9	143.2	153.5	5.5	18.4	7.2
Food, beverages and tobacco	99.7	103.6	117.4	121.1	3.9	13.3	3.2
Textiles, clothing and leather	117.9	121.3	162.9	181.4	2.9	34.3	11.4
Wood and furniture	163.3	152.6	188.9	226.7	-6.6	23.8	20.0
Paper and printing	126.3	111.3	133.7	141.7	-11.9	20.1	6.0
Chemicals and rubber	128.8	158.9	149.4	146.9	23.4	-6.0	-1.7
Oil	106.2	113.4	152.3	182.9	6.8	6.8	20.1
Non-metallic minerals other than oil and coal	152.1	176.3	207.7	197.1	15.9	17.8	-5.1
Production of some important manufactures (thousands of tons)							
Cotton fibre	37.2	33.8	72.8	90.7	5.1	115.5	24.6
Tannin	14.1	17.9	13.1	17.4	27.0	-26.7	32.8
Tung oil	12.9	15.7	19.1	11.9	21.6	21.7	-57.7
Cement	137.7	154.8	199.7	166.0	12.4	29.0	-16.9
Sugar	51.9	56.5	77.2	66.0	8.9	36.7	-14.5
Wheat flour	37.7	50.0	59.1	84.6	32.2	18.8	43.1
Hides and skins	12.5	13.3	14.7	13.8	6.6	10.4	-6.1
Tinned meat	8.9	8.5	12.0	11.2	-4.1	40.2	-6.7

Source: Central Bank of Paraguay.

^{a/} Preliminary figures.

The Government was also studying the installation of an industry for assembling, and later manufacturing agricultural machinery.

(iii) Construction. Progress in the work on Itaipú, with its tremendous economic repercussions, speeded up construction activities still further and the value added by the sector, which up to 1976 had grown at an annual rate of 14%, rose by 32% in both 1977 and 1978.

For slightly over two years now a large dam has been in the process of construction on the river Paraná, on the frontier with Brazil, to feed the 18 (or 20) turbines of the Itaipú hydroelectric power station, which will have a total capacity of 12,600 MW. This is a joint Paraguayan-Brazilian project which is due to begin operating in 1983 and to reach full capacity in 1987, at an estimated total cost of around US\$ 8,600 million. An as yet undetermined part of the energy generated by this plant will be sold to Brazil.

During 1978 a further two binational projects for hydroelectric power stations were studied, this time in association with Argentina. Construction was begun on the main dam of the 3,300 MW Yaciretá-Apipé project, the estimated cost of which is US\$ 4 billion. The other project is the 6,000 MW Corpus power station, which is still under study.

Construction was completed of a 1,400 metre bridge over the River Paraguay at Villa Hayes. Work continued on the building of a new airport for Asunción at a cost of US\$ 74 million, and work was expected to begin soon on the extension and improvement of the river port of Asunción, including the installation of fairly complete mechanized equipment.

Road-building also continued in the course of the year, together with very active construction of dwellings. The area constructed in Asunción increased by 32% in 1978 - from 380,000 to 500,000 square metres - following a slight drop in 1977.

The rural electrification programme mentioned earlier will cost approximately US\$ 59 million, and will help to give more impetus to the growth of the sector in the next few years. The installation of 1,800 kilometres of transmission lines is planned, with the construction of some eight transformer stations.

(iv) Other sectors. The mining industry contributes very little to the country's total product and known mineral resources are scanty. A United States enterprise, Reynolds Metals, did, however, show interest in possible national reserves of bauxite and in the construction of a plant for refining aluminium ore and for manufacturing aluminium sheet and other basic products of this metal.

Other foreign enterprises have been prospecting for uranium in the east of the country. Prospection was also carried out for oil in the region of the Chaco, but was abandoned for lack of results.

Another aspect of the rapid economic development of recent years has been the growth of basic services which increased by 13% in 1978 and around 10% in previous years, and among the other services of trade and finance, which have grown at a consistently rapid rate in the last three years. Of particular note was the growth of financial operations and establishments.

3. The external sector

(a) Exports of goods

For the first time in the decade, the value of exports of goods dropped in 1978 (-8%), contrasting with the increase of 62% (53% of recorded exports) in 1977. The drought which affected production and brought down the volume of the main agricultural exports, except for cotton, was accompanied by a generalized decline in export prices, which even affected cotton, wood, and to a slight extent meat. The result was near-stagnation of the quantum exported and a drop of 9% in the unit value of exports (see table 6).

Had it not been for the increase in sales of cotton (24%) and meat (9%), the decline in exports in 1978 would have been much greater.

This performance was in contrast to that observed since the beginning of the decade. Between 1972 and 1977 exports of goods increased from US\$ 85 million to US\$ 279 million, and to US\$ 324 million if unregistered

Table 6

PARAGUAY: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978a/
	<u>Growth rates</u>					
Exports of goods <u>b/</u>						
Value	49.5	35.1	2.0	13.2	62.3	-8.0
Volume	3.8	3.8	1.8	13.5	20.4	0.9
Unit value	44.1	30.1	0.2	-0.3	34.8	-8.9
Imports of goods <u>b/</u>						
Value	61.8	55.8	14.6	4.0	52.4	25.0
Volume	44.1	5.7	1.8	8.8	42.8	21.5
Unit value	12.2	47.5	12.5	-4.4	6.8	2.9
Terms of trade	28.4	-11.8	-10.9	4.3	26.3	-11.4
	<u>Indexes (1970 =100)</u>					
Terms of trade	135.1	119.2	106.1	110.7	139.8	123.8
Purchasing power of exports of goods	157.0	143.8	130.3	154.4	234.6	209.6
Purchasing power of exports of goods and services	135.3	134.2	121.9	145.6	221.7	200.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Corresponds to balance of payment data: i.e., includes adjustments for unregistered imports.

/exports are

exports are added.^{1/} This growth was accompanied by a marked change in structure, since two new products were incorporated from then on: cotton and soya beans, whose sales volumes and values grew rapidly during that period and in 1978 accounted for 54% of total exports (see table 7).

The value of traditional exports of wood, vegetable oils, and essential oils also increased from that time. Of these products, however, only essential oils showed a constant increase in the volumes exported up to 1977.

Exports of meat, in contrast, which at the beginning of the decade accounted for a third of the total value of exports of goods, reduced their share to 9% in 1978, although they were one of the few items which increased during that year. In 1973 a total of 35,000 tons of meat worth US\$ 40 million had been exported, but in subsequent years this volume fell drastically: in 1974 only 19,000 tons were exported. In 1978 the international price of this product, particularly of tinned and other forms of processed meat, continued its downward trend, although the volume exported (close on 17,000 tons) was higher than during the previous two-year period in spite of the restrictions imposed on its importation by the European Economic Community. It may be assumed that the smaller volumes of meat exported compared with the levels of 1972 and 1973 were more than offset by the growth of unregistered exports, among which meat must be an important item.

In 1978 the volume of exports of tobacco and vegetable oils dropped by between 30 and 34%, while exports of soya beans decreased by 18%. This reflected on the one hand the drop in production caused by the drought, and on the other the decline in export prices, from which - among the traditional products - only tobacco and vegetable oils escaped. The average price of soya bean sales decreased by around 14% in 1978, following an increase of 50% the previous year.

^{1/} The balance of payments calculated by the International Monetary Fund includes an estimate of these transactions. Estimates for 1976 and 1977 of unregistered exports to the frontier area where the Itaipu dam is being built were of the order of US\$ 17 million and US\$ 45 million, respectively.

Table 7
PARAGUAY: EXPORTS OF GOODS (FOB)

	Millions of dollars			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1976	1978a/	1976	1977	1978a/
Main traditional export products	77	97	79	56.0	30.7	-17.2	26.0	-18.6
Meat	21	22	24	23.4	9.3	-34.4	4.8	9.1
Timber	12	20	20	9.5	7.8	-57.1	66.7	-
Vegetable oils	17	29	17	10.9	6.6	54.5	70.6	-41.4
Essential oils	12	12	9	3.2	3.5	20.0	-	-25.0
Tobacco	15	14	9	19.0	3.5	25.0	-6.7	-35.7
New exports	67	137	138	6.3	53.7	76.3	104.5	0.7
Soya beans	32	56	38	-	14.8	77.8	75.0	-32.1
Cotton	35	81	100	6.3	38.9	75.0	131.4	23.5
Other exports	38	45	40	37.7	15.6	-17.4	18.4	-11.1
<u>Total b/</u>	<u>192</u>	<u>279</u>	<u>257</u>	<u>100.0</u>	<u>100.0</u>	<u>2.8</u>	<u>53.3</u>	<u>-7.9</u>

Source: CEPAL, on the basis of Central Bank of Paraguay, Boletín Estadístico, and International Monetary Fund, International Financial Statistics, April 1979.

a/ Preliminary figures.

b/ The totals correspond to registered exports only and therefore differ from those of the balance of payments.

/In contrast

In contrast with the constant loss of relative importance of the main traditional export products, a striking feature was the rapid growth of sales of soya beans and still more so, cotton, which has since 1975 occupied first place among exports of goods, and in 1978 generated US\$ 100 million in foreign currency, accounting for 39% of such exports.

Between 1972 and 1978 the volume of cotton exported increased from 7,600 to 83,800 tons, and its value from US\$ 4 million to US\$ 100 million. The increase in exports was so rapid that during the year 1977-1978 alone the growing area increased by 49%, to 320,000 hectares. The volume of cotton sales abroad increased by 80% in 1977 and a further 42% in 1978, although the prices, which had risen by 29% in the first of these years, dropped by around 13% in the second, so that in 1978 there was an increase of 24% in the value of such exports.

The value of exports of soya beans rose from nearly US\$ 4 million in 1972 to US\$ 56 million in 1977. In 1978, however, the volume of soya exports dropped by 18% and their price recorded a decrease of approximately 14%, bringing their value down to US\$ 38 million.

(b) Imports of goods

Imports of goods increased by 25% in 1978. Although this growth rate was only half that recorded in 1977, their value has increased by US\$ 214 million and their volume has grown by 73% in the last two years (see table 6).

This rapid growth was made possible by the net increase in the purchasing power of exports generated in those years (this increased by 90% in spite of the fact that in 1978 it decreased somewhat) and the large inflow of capital, which considerably expanded the import capacity.

The notable increase recorded by imports in 1977 mainly affected purchases of transport equipment, which increased by 76%, and imports of machinery, equipment and motors, which grew by 64%. In 1978 the rapid growth of imports of transport equipment continued (48%), as did those of food (34%) and fuels (40%) (see table 8).

Table 8
PARAGUAY: IMPORT OF GOODS (FOB)

	Millions of dollars			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978	1976	1977	1978a/
Food, beverages and tobacco	29.0	32.3	43.4	20.0	13.7	7.4	11.4	34.4
Textiles and textile manufactures	3.7	6.2	6.7	5.0	2.1	-	67.6	8.1
Metals and metal manufactures	15.6	18.8	19.9	8.7	6.3	-3.1	20.5	5.9
Transport equipment	23.1	40.7	60.1	14.0	18.9	2.2	76.2	47.7
Agricultural machinery	4.1	9.8	10.5	2.4	3.3	-14.6	139.0	7.1
Machinery, equipment and motors	34.6	56.9	53.8	16.9	16.9	-5.5	64.4	-5.4
Fuels and lubricants	37.9	42.6	59.6	9.6	18.8	21.1	12.4	39.9
Other imports	32.2	48.7	63.7	23.4	20.0	-11.0	49.4	32.4
<u>Total b/</u>	<u>180.2</u>	<u>255.4</u>	<u>317.7</u>	<u>100.0</u>	<u>100.0</u>	<u>1.1</u>	<u>41.3</u>	<u>24.4</u>

Source: Central Bank of Paraguay, Boletín estadístico.

a/ Preliminary figures.

b/ The totals do not coincide with those of the balance of payments, which include adjustments.

/c) Evolution

(c) Evolution of export and import prices

The index of the unit value of exports has evolved in a very irregular manner in the course of the decade. Thus, increases of 44% in 1973 and 30% in 1974 were followed by two years when there was little change, and then in 1977 there was a further rise (35%) due to the high prices of soya beans and essential oils, with finally a drop of 9% in 1978.

The evolution of the terms of trade was still more irregular because of the fluctuations in the behaviour of import prices. Between 1972 and 1976 the index rose by 15%, there was an increase of 26% in 1977, but it then dropped by 11% in 1978 (see table 6).

As regards the purchasing power of exports, the increases of 19% in 1976 and 52% in 1977 were followed by a drop of nearly 10% in 1978.

(d) The balance of payments

The decrease in exports of goods in 1978, together with the increase of 25% in imports, expanded the deficit on trade in goods from US\$ 36 million in 1976 and 1977 to US\$ 152 million in 1978. Consequently, the total trade deficit, which in 1977 was US\$ 48 million, rose to US\$ 176 million in 1978.

The addition to the trade balance of net remittances of profits and interest amounting to US\$ 20 million and the movement on other accounts gave a very high end-1978 deficit on the current account of the balance of payments of US\$ 194 million: three times that of recent years and equivalent to half the exports of goods and services for the year (see table 9).

Despite this unusually high current deficit, however, the country's international reserves continued to increase, thanks to an increasing inflow of capital.

The net inflow of capital has increased from annual sums not exceeding US\$ 30 million in the early years of the decade to around US\$ 180 million in 1977 and US\$ 390 million in 1978. These figures show one of the many effects caused on the economy by the building of the big hydroelectric power stations and the growth of investment in different fields in recent years. It is calculated that between 1977 and 1978 more than US\$ 340 million entered the country in connexion with the building

Table 9

PARAGUAY: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1976a/
<u>Current account</u>						
Exports of goods and services	149	207	210	247	404	379
Goods FOB <u>b/</u>	128	173	176	200	324	298
Services	21	34	34	47	80	81
Transport	1	2	2	2	3	2
Travel	11	12	10	14	35	36
Imports of goods and services	161	252	300	306	451	555
Goods FOB <u>b/</u>	127	198	227	236	360	450
Services	34	53	73	70	91	105
Transport	15	27	32	31	44	55
Travel	10	10	12	13	17	18
Net payments of profits and interest on foreign capital	-10	-13	-14	-15	-16	-20
Profits	-2	-2	-2	-1	-2	-2
Interest	-8	-11	-12	-14	-14	-18
Net private transfer payments	2	-	9	-	-1	2
Balance on current account	-20	-58	-95	-74	-64	-194
<u>Capital account</u>						
Net external financing (a+b+c+d)	20	58	95	74	64	194
(a) Long-term capital	29	53	117	125	90	} 391
Direct investment	9	21	14	-12	17	
Private sector	16	22	85	101	43	
Loans	24	35	100	116	65	
Amortization payments	-8	-13	-15	-15	-22	
Official sector	4	10	18	36	30	
Loans	7	14	22	40	38	
Amortization payments	-3	-4	-4	-4	-8	
(b) Short-term capital (net)	14	22	8	-19	84	
Private sector	14	32	-9	-8	97	
Official sector	-3	-1	-	-	-	
Monetary authorities	8	-8	4	-7	6	
Errors and omissions	-5	-1	13	-4	-19	
(c) Official transfer payments	4	3	5	4	2	
(d) International reserves (minus sign signifies an increase)	-27	-20	-35	-36	-112	-197
Use of IMF credit and other liabilities	-1	10	-7	6	-1	-
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-1	-	1	-	-	-1
IMF reserve position	-1	-	-	-1	-1	-
Foreign exchange	-24	-30	-29	-41	-110	-196

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/of the

of the electric plant at Itaipu and around US\$ 30 million for the construction of the power station of Yacireta, which had just been begun.

Since the beginning of the decade there has been steady growth in the international reserves. The increases fluctuated between US\$ 30 million and US\$ 40 million per year between 1974 and 1976, but increased to US\$ 112 million in 1977 and US\$ 197 million in 1978. By the end of the latter year the country had accumulated 466 million dollars' worth of international reserves.

4. Prices and monetary and fiscal trends

(a) Evolution of domestic prices

In 1978 the inflationary process continued to become more serious, and this was most evident in the last months of the year. In 1977 the downward trend which prices had shown in the previous two years had ceased and the growth rate of the consumer price index rose from 3.4% in 1976 to 9.4% in 1977, while in 1978 this rate rose to 10.6%, measured by the variation between annual averages, and to 16.8% on the basis of the December-December variation (see table 10).

This larger growth of consumer prices in 1978 was influenced more by domestic factors than by the prices of external trade. The food item in the price index, measured from December to December, increased by nearly 23%, which was more than in any other period of the past, but the average variation for the year was much smaller (13%), reflecting the fact that the rise in food prices took place in the second half of the year, and especially in the last quarter.

There is a close link between this notable increase in prices and the poor results of agricultural production, particularly for the domestic market. It should be recalled that in 1978 there was a decline in production of the majority of agricultural products, including rice, which had already shown a sharp drop (30%) in 1977, while the slaughter of beef cattle decreased by 6%.

Account should also be taken of the possible influence of the noteworthy increase in unregistered exports on the domestic supply of food and the rise in food prices. The amount of these frontier exports, mainly to the area where the Itaipu power station is being built,

Table 10
PARAGUAY: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1973	1974	1975	1976	1977	1978
	<u>Variation from December to December</u>					
Consumer price index	14.1	22.0	8.7	3.4	9.4	16.8
Food	18.4	18.4	11.4	2.0	9.9	22.7
	<u>Variation between annual averages</u>					
Consumer price index	12.8	25.2	6.7	4.5	9.4	10.6
Food	21.7	24.8	4.6	4.2	11.3	13.0

Source: Central Bank of Paraguay.

/increased from

increased from US\$ 17 million to US\$ 45 million between 1976 and 1977, and was largely composed of meat and other foods.

The rapid accumulation of international reserves and its repercussions on monetary expansion, which increased in the fourth quarter, is another element which helps to explain the upward trends in prices.

(b) Monetary and fiscal trends

Since the early years of the decade there has been a sharp increase in international reserves. During 1978 these rose by 62%, a rate very similar to that recorded in 1977.

Domestic credit grew at a slower pace than this, but even so it had a growth rate of 20% in 1978 (double that of 1977), mainly as the result of the considerable increase in credit to the private sector. Credit to the Government has recorded surpluses since 1977 and that to public entities has remained at a low level (see table 11).

The factors of absorption increased by very similar amounts to those of expansion, and hence to those of the money supply too, which up to September had grown by 20%; when the last quarter is taken into account, however, the growth of the money supply rises to 40%, which is a good deal higher than in previous years.

At the fiscal level, central government expenditure increased by 19% in 1978: a rate which is not very different from that of previous years but slightly higher than that recorded in 1977. An interesting point was the recovery of the rate of increase of real investment, which in 1977 was exceedingly low. Current expenditure, for its part, rose by 17%, two points more than in 1977 (see table 12).

As regards current income, for the second consecutive year this showed a sharp increase (37% in 1977 and 30% in 1978). Tax revenue grew by 80% in these two years, the growth rate of revenue from external transactions and income and wealth taxes being slightly higher than that for revenue from taxes on production, commerce and consumption.

Table 11
PARAGUAY: MONETARY POSITION

	End-year balance (millions of guaraníes)			Growth rates		
	1976	1977	1978a/	1976	1977	1978a/
<u>Money</u>	<u>21 590</u>	<u>28 574</u>	<u>39 846</u>	<u>21.1</u>	<u>32.3</u>	<u>40.3</u>
Currency outside banks	10 287	13 344	...	15.6	29.7	20.4b/
Demand deposits c/	11 303	15 230	...	26.6	34.7	36.0b/
<u>Factors of expansion</u>	<u>51 991</u>	<u>68 590</u>	<u>96 677</u>	<u>25.2</u>	<u>31.9</u>	<u>40.9</u>
Foreign assets (net)	20 494	33 933	54 940	46.5	65.6	61.9
Domestic credit	31 497	34 657	41 737	14.3	10.0	20.4
Government (net)	422	-1 995	-7 083	-46.6	-	-
Official entities	3 119	2 687	2 910	-14.2	-13.9	8.3
Private sector	27 956	33 965	45 910	20.9	21.5	35.2
<u>Factors of absorption</u>	<u>30 401</u>	<u>40 016</u>	<u>56 831</u>	<u>28.2</u>	<u>31.6</u>	<u>42.0</u>
Quasi-money (savings and time deposits)	24 159	31 576	38 363	25.4	30.7	21.5
Long-term foreign borrowing	189	551	403	-25.0	191.5	73.1
Other items (net)	6 053	7 889	18 065	44.3	30.3	129.0

Sources: International Monetary Fund, International Financial Statistics, April 1978 and preliminary data supplied by the Central Bank of Paraguay for 1978.

a/ Preliminary figures.

b/ Increase in the first nine months of 1978.

c/ Including deposits by official entities in the Central Banks and deposits in other financial institutions.

Table 12

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of guaraníes				Growth rates		
	1975	1976	1977	1978 _a /	1976	1977	1978 _a /
Current income	17 894	79 244	26 379	34 333	7.5	37.1	30.2
Tax revenue	15 877	16 871	23 492	30 334	6.3	39.2	29.1
From taxes on external trade	...	6 517	9 530	12 022	...	46.2	26.2
From taxes on income and property	...	3 644	4 662	6 719	...	27.9	44.1
From taxes on production, consumption and transaction	...	6 710	9 299	11 593	...	38.6	24.1
Non-tax revenue	2 017	2 374	2 887	3 999	17.7	21.7	38.5
Current expenditure	14 412	16 157	18 553	21 616	12.1	14.8	16.5
Wages and salaries	6 126	7 326	8 529	10 125	19.6	16.4	18.7
Other current expenditure	8 286	8 832	10 024	11 491	6.6	13.5	14.6
Savings on current account	3 482	3 086	7 826	12 717	-11.4	155.1	62.5
Capital expenditure	4 198	6 659	7 246	9 160	58.6	8.8	26.4
Real investment	3 471	5 872	6 051	7 887	69.2	3.1	30.3
Other capital expenditure <u>b/</u>	727	786	1 195	1 273	8.2	52.0	6.5
Total expenditure	18 609	22 816	25 799	30 776	22.6	13.1	19.3
Fiscal deficit (or surplus)	-714	-3 569	579	3 557			
Financing of deficit							
Domestic financing	-649	208	-3 105	-5 525			
Banks	91	-84	340	270			
Net issue of securities	-217	-189	-190	-407			
Other	-774	-481	-3 255	-5 388			
External financing	1 363	3 362	2 526	1 968			

Source: Office of the President of the Republic, Technical Planning Secretariat.

a/ Preliminary figures.

b/ Excluding amortization of the public debt.

/During the

During the year the tax on imports of raw materials and intermediate products was reduced from 35% to 12%. Taxes on imports of some manufactured consumer goods also dropped, from 25% to 15%.

To sum up, current savings, which had doubled and exceeded total capital expenditure in 1977, increased by 63% in 1978 and exceeded this expenditure by more than a third, leaving a surplus of 3,600 million guaraníes, equivalent to nearly half of government investment in the course of the year.

PERU

1. Recent economic trends: Introduction and summary

(a) Main trends and changes

The gross domestic product fell by nearly 2% and the per capita product by 4% in 1978, thus intensifying the depressive trend that started in 1975. At the same time the pace of inflation increased to 74%, even though restrictions were placed on the expansion of the means of payment and domestic demand contracted. At the same time, however, the balance-of-payments current account deficit diminished and the net international reserves increased by US\$ 82 million (see table 1).

The drop in the domestic product was mainly due to the depression in manufacturing and especially in construction, and was also influenced by the stagnation of the agricultural sector. It was only the growth of petroleum production and the recovery of the fisheries sector which prevented the level of economic activity from dropping still further. At the same time the rates of unemployment and underemployment increased, reaching the highest levels of the present decade in the non-agricultural sectors.

The main element in the recession was the decline in domestic demand, which, after dropping by 4% in 1977, fell by more than a further 9% in 1978 in response to the economic policy measures taken to correct the disequilibria in the external and public sectors. Fixed gross investment decreased by 18% and total consumption dropped by 8%, but the increase of 13% in the volume of exports of goods and services mitigated the decline in overall demand.

The external sector showed noteworthy improvement. Trade in goods and services gave an unusual surplus which made it possible to reduce considerably the deficit on the current account of the balance of payments. The growth of exports, which was principally due to increased exports of petroleum and non-traditional products, together with the drastic cut in imports and the refinancing of part of the servicing of the external public debt, made these results possible and also permitted a recovery in the level of the international reserves.

/Table 1

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	8 408	8 984	9 281	9 559	9 444	9 271
Population (millions)	14.7	15.1	15.5	15.9	16.4	16.6
Per capita gross domestic product (US dollars at 1970 prices)	573	596	599	600	577	552
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	6.2	6.9	3.3	3.0	-1.2	-1.8
Per capita gross domestic product	3.3	4.0	0.5	0.2	-3.9	-4.5
Gross income <u>b/</u>	9.6	8.8	1.5	2.5	-2.1	-3.6
Terms of trade	24.8	18.3	-15.1	-3.5	-7.7	-11.1
Current value of exports of goods and services	16.7	36.9	-8.3	3.3	22.7	12.1
Current value of imports of goods and services	34.5	64.6	24.4	-13.5	2.6	-23.1
Consumer price						
December to December	13.8	19.2	24.0	44.7	32.4	73.7
Annual average variation	9.5	16.9	23.6	33.5	38.1	57.8
Money	27.4	41.6	17.0	25.8	20.8	41.8
Real salaries <u>c/</u>	...	0.1	-8.1	-1.3	-23.7	-14.1
Real wages <u>c/</u>	...	-2.1	-17.6	16.6	-23.5	-9.0
Rate of unemployment (non-agricultural) <u>d/</u>	7.1	6.7	8.1	8.4	9.4	9.8
Current income of government	16.9	28.5	28.2	26.7	38.3	71.3
Total expenditure of government	27.1	18.6	33.1	33.9	51.8	57.5
Fiscal deficit/total expenditure of government <u>d/</u>	35.9	30.5	33.1	36.7	42.3	37.2
<u>Millions of US dollars</u>						
C. External sector						
Trade balance (goods and services)	-139	-601	-1 348	-881	-552	329
Balance on current account	-209	-751	-1 573	-1 233	-957	-192
Variation in net international reserves	93	399	-510	-369	-3	82
Total disbursed external debt <u>e/</u>	1 814	2 563	3 474	4 074	4 700	4 904

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ The salaries (employees) and wages (workers) correspond to average wages and salaries paid by the private sector in Metropolitan Lima.

d/ Percentage.

e/ Debt contracted for periods of more than one year.

/The fiscal

The fiscal situation also improved in relative terms, although only as from the second half of the year. Current income grew more rapidly (71%) than total expenditure (58%), and as a result the fiscal deficit was equivalent to a smaller proportion of total expenditure (see table 1).

Since prices once again rose more than nominal wages and salaries, the decline in the real income of the workers continued in 1978 for the fifth year running.

(b) The factors behind recent economic trends

During 1978 the economic policy generally speaking followed the same lines as in the two previous years but was applied more strictly and with less hesitation. The different programmes or groups of government measures were aimed at restoring the equilibrium of the balance of payments and of public finance and reducing the rate of inflation by means of a policy of reducing domestic demand and promoting exports.

The difficulties faced in containing public expenditure and the progressive effect of the heavy burden of servicing the external debt meant that the fiscal deficit continued to be an important factor in the growth of domestic credit up to the first half of 1978. The introduction of new taxes, however, the cutting down of public sector personnel and of fiscal expenditure on goods and services, the abolition of subsidies and the freeing of the prices of products marketed by State enterprises, together with the restructuring of public sector liabilities with the exterior, helped to achieve a relatively smaller fiscal deficit at the end of 1978 than the year before.

The balance-of-payments results were favourable thanks to the generation of substantial exportable surpluses of petroleum, the satisfactory response of non-traditional exports and of imports in general to the policy applied, and the refinancing of the public debt referred to above. Noteworthy policy measures connected with the external sector were the promotion of exports, the successive devaluations of the sol, and the temporary surtax on imports.

/The monetary

The monetary policy, which was aimed at restricting the growth of the means of payment, established a system of positive interest rates which stimulated savings and discouraged speculation, thus reducing the pace of circulation of money. Inflation, however, speeded up, largely as a result of the corrective adjustments in prices, the raising of interest rates, and the successive devaluations: all factors which raised production costs.

The wages and salaries policy, however, alleviated pressures on costs, since the increases in wages and salaries were less than the rise in the rate of inflation. The consequent loss in the real earnings of the workers, plus the increase in the unemployment rate, represented the social cost of the policy applied.

2. Trends in economic activity

(a) Total supply and demand

As already noted, the recessive trend that had begun in 1975 was intensified during 1978. The gross domestic product dropped for the second consecutive year, sinking to a level similar to that of 1975 after having grown at a rate only barely equal to population growth during the period 1975-1976 (see tables 1 and 2).

Real imports of goods and services fell by 28%, thus accentuating the downwards trend of the previous two years. As a result of this drop, the total supply of goods and services decreased by nearly 6%.

As regards total demand, the sharpest drop was that in gross fixed investment (-18%), which had also dropped sharply in 1976 and 1977. The investment coefficient thus fell to less than 12%, after having exceeded 20% in 1975, the last year in the period of rapid growth of capital formation which started at the beginning of this decade. The main factor in the decline was the drop in public investment, which fell by 25%, following a similar decrease in 1977 preceded by a drop of nearly 6% in 1976. Private investment also decreased (by 12%) for the second consecutive year, following a drop of 9% in 1976.

Table 2
PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
	<u>Total supply</u>	<u>380 904</u>	<u>375 532</u>	<u>354 124</u>	<u>115.7</u>	<u>112.8</u>	<u>-0.4</u>	<u>-1.4</u>	-5.7
Gross domestic product at market prices	323 559	319 729	314 029	100.0	100.0	3.0	-1.2	-1.8
Imports of goods and services b/	57 345	55 803	40 095	15.7	12.8	-16.1	-2.7	-28.1
<u>Total demand</u>	<u>380 904</u>	<u>375 532</u>	<u>354 124</u>	<u>115.7</u>	<u>112.8</u>	<u>-0.4</u>	<u>-1.4</u>	<u>-5.7</u>
Domestic demand	343 844	329 462	299 265	96.0	95.3	-0.9	-4.2	-9.2
Gross domestic investment	57 942	44 980	37 117	12.9	11.8	-11.2	-22.4	-17.5
Gross fixed investment	53 942	43 480	35 617	12.4	11.3	-7.4	-19.4	-18.1
Public	26 740	19 597	14 696	4.5	4.7	-5.7	-26.7	-25.0
Private	27 202	23 883	20 921	7.9	6.6	-9.0	-12.2	-12.4
Changes in stocks	4 000	1 500	1 500	0.5	0.5			
Total consumption	285 902	284 482	262 148	83.0	83.5	1.4	-0.5	-7.8
General government	42 838	47 036	39 651	12.0	12.6	3.4	9.8	-15.1
Private	243 064	237 446	222 497	71.0	70.9	1.1	-2.3	-6.3
Exports of goods and services b/	37 060	46 070	54 859	19.7	17.5	4.9	24.3	13.0

Source: 1970-1977: CEPAL calculations on the basis of figures published by the Banco Central de Reserva del Perú; 1978: CEPAL estimates on the basis of preliminary figures supplied by the same bank.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by CEPAL for the purpose.

/The decrease

The decrease of 8% in total consumption in 1978 and the continued weakening of per capita consumption over the last three years constituted other effects of the recession, and especially of the contraction of domestic demand. The drop in government consumption (-16%) was particularly marked and far exceeded the decline in private consumption (-6%), thus reversing the trend observed in the previous two years (see table 2).

The growth of 13% in the volume of exports of goods and services was the only dynamic factor in economic activity in 1978, as it had been in 1977, with the difference that government consumption grew by almost 10% in the latter year. The performance of exports over the last two years has shown a considerable change compared with the trend in the first half of the present decade. The export coefficient, of 17.5% in 1978, however, although markedly greater than the 12% recorded in 1975, was considerably lower than the 20% achieved in 1970.

In general terms, it could be seen more clearly in 1978 than in the two previous years that the changes which had taken place in the variables of total supply and demand tended towards the restoration of the equilibrium of the macroeconomic balance and the rectification of the disequilibria in domestic supply and demand and in external transactions.

(b) Sectoral trends

Once again, as had happened the year before, the declines in manufacturing (-3%) and in construction (-16%) were mainly the result of the deliberate policy of restricting domestic demand. On the other hand, the 1% drop in agricultural activity once again reflected a serious structural limitation affecting the Peruvian economy, which has been the cause of a steady decline in the per capita agricultural product.

The fisheries sector continued its fluctuating progress, governed by the cyclical abundance or disappearance of different kinds of marine life. During 1978 the sector's product grew at a high rate (23%) and thus more than offset the drop of 8% in the previous year. The growth of the mining sector, which is closely linked to the country's substantial reserves, was also very marked (15%) and thus continued its rapid growth of the previous two years (see table 3).

Table 3

PERU: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of soles at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	42 469	42 252	42 587	18.8	15.1	4.3	-0.5	0.8
Crop farming and stock-raising	39 451	39 472	39 156	15.9	13.9	3.3	0.1	-0.8
Fishing	3 018	2 780	3 431	2.9	1.2	19.9	-7.9	23.4
Mining	19 289	25 056	28 765	8.6	10.2	8.9	29.9	14.0
Manufacturing	66 122	62 089	60 102	20.6	21.3	4.2	-6.1	-3.2
Construction	17 722	16 358	13 724	4.5	4.9	-2.8	-7.7	-16.1
<u>Subtotal goods</u>	<u>145 602</u>	<u>145 755</u>	<u>145 178</u>	<u>52.5</u>	<u>51.5</u>	<u>3.9</u>	<u>0.1</u>	<u>-0.4</u>
Electricity, gas and water	3 478	3 764	3 862	1.2	...	1.1	8.2	2.6
Transport, storage and communications	...	...	...	4.5	...	...	...	...
<u>Subtotal basic services</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>5.7</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Commerce, financial institutions and insurance	...	...	...	16.1	...	...	...	...
Real estate b/	12 082	12 444	12 843	4.5	...	3.0	3.0	3.0
Community, social and personal services	...	...	...	21.3	...	...	...	...
<u>Subtotal other services</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>41.8</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
<u>Subtotal services</u>	<u>144 264</u>	<u>141 362</u>	<u>136 941</u>	<u>47.5</u>	<u>48.5</u>	<u>1.9</u>	<u>-2.0</u>	<u>-3.0</u>
<u>Total gross domestic product</u>	<u>293 653</u>	<u>290 129</u>	<u>284 907</u>	<u>100.0</u>	<u>100.0</u>	<u>3.0</u>	<u>-1.2</u>	<u>-1.0</u>

Source: 1970-1977: CEPAL calculations on the basis of figures published by the Banco Central de Reserva del Perú, Memoria 1977; 1978: CEPAL estimates on the basis of preliminary figures supplied by the same bank.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

/(i) Agriculture.

(i) Agriculture. Agricultural production was slightly less than in 1977 (-1%), mainly because of the 4% decrease in live stock production and the small increase in crop production (1%) (see table 4). The sector's traditional trend of an average annual growth of only approximately 2% over the last twenty years was thus maintained.

The adverse climatic conditions in the northern area of the country, and particularly the drought in the first quarter of the year, affected unit yields and total production of rice (-20%), maize (-14%) and to some extent sugar cane (-4%). However, the production of cotton, coffee, potatoes, sorghum and onions increased. The increased output of cotton (6%) and coffee (62%) were the result of the favourable conditions in the international market and appreciable technological improvement, while in potatoes and onions the growth rate partly reflected a recovery from the poor harvests of 1977, while it was also stimulated by favourable domestic prices.

The drop in live stock production was the result of the lower output of poultry meat (-17%) and pork (-2%) and the stagnation in the production of mutton. In the case of poultry meat, the price rose considerably owing to the increase in production costs (rises in the prices of balanced foods, medicines, and fuels) and led to a substantial drop in domestic consumption. The export of poultry was thus authorized during the second half of the year, and chicken sales benefited from the incentives granted to non-traditional exports through the export tax rebate certificates (CERTEX).

A similar phenomenon, although on a smaller scale, affected the production of fresh milk, which increased up to the third quarter but then dropped sharply, causing serious problems to the producers of the Cajamarca, Arequipa and Lima areas, leading them to request permission to export evaporated milk under the same promotional conditions as poultry meat.

The recovery in beef production (6%), which avoided a still sharper drop in livestock production, was due to the forced slaughter resulting from the drought which affected the north of the country and the stimulus provided by the increase in beef prices.

Table 4
PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 _{a/}	Growth rates			
					1975	1976	1977	1978 _{a/}
Index of agricultural production (1973 = 100)	103.3	106.7	106.8	105.9	1.0	3.3	0.1	-0.8
Crop farming	97.6	100.2	97.7	98.7	-2.6	2.7	-0.5	1.1
Stock-raising	115.9	121.0	122.2	117.7	8.5	4.4	1.0	-3.7
Production of some important crops (thousands of tons)								
Rice	537	570	587	468	8.7	6.1	3.0	-20.3
Cotton	226	165	176	167	-11.7	-27.0	6.7	6.3
Coffee	65	65	65	105	-7.1	-	-	61.5
Sugar cane	8 958	8 792	8 816	8 452	-2.5	-1.9	0.3	-4.1
Potatoes	1 640	1 667	1 580	1 669	-4.0	1.6	-5.2	5.6
Maize	635	726	749	648	4.8	14.3	3.2	-13.5
Yuca	400	403	395	396	-14.7	0.8	-2.0	0.0
Wheat	126	128	120	120	-0.8	1.6	-6.3	-
Sorghum	29	46	51	54	31.8	58.6	10.9	5.0
Production of some important livestock products (thousands of tons)								
Poultry meat	130	140	143	119	22.6	7.7	2.1	-16.8
Beef	86	87	87	92	1.0	1.2	-	5.7
Milk	813	821	828	842	-	1.0	0.9	1.7
Pork	...	55	54	53	...	...	-1.8	-1.0
Mutton	21	21	23	23	-4.6	-	9.5	-

Source: National Planning Institute, National Institute of Statistics (INE).

a/ Preliminary figures.

/In brief,

In brief, the adverse effects of the drought were aggravated by the increased prices and decreased use of agricultural inputs, the drop in the purchasing power of substantial sectors of the population, the inadequate infrastructure for storage and processing and the higher cost and smaller availability of agricultural credit in real terms.

(ii) The fishery sector. In 1978 this sector made a substantial recovery (24%), and production for both direct and indirect human consumption rose (see table 5).

Fish caught for direct human consumption 1/ amounted to 580,000 tons, 24% higher than the 1977 catch, thanks to the relative abundance of sardines, mackerel, jurel, hake and other varieties. Most of this catch went to the fish canning and freezing industry and, to a lesser extent, for consumption in the fresh or refrigerated state. It should, however, be noted that fish for consumption in the fresh state, which is sold exclusively on the domestic market, was 11% down on the previous year, due to the smaller amounts available of the varieties most in demand, unsatisfactory marketing facilities, the drop in domestic consumption and also the large volume of fish normally used for direct consumption which, was diverted instead, with official authorization, to the production of fishmeal and fish oil. Generally speaking, domestic demand for fish at all levels of processing dropped, with the exception of frozen fish, whose price enabled it to compete advantageously with meat.

The catch for indirect human consumption 2/ amounted to a little over 2.7 million tons (36% more than in 1977). This significant increase was largely due to the catching for the manufacture of meal and oil of species normally used for direct consumption (sardines, jurel, samaza, agujilla, hake and mackerel), which accounted for approximately 58% of the total catch for indirect consumption. The volume of the anchoveta catch was 46% greater than that of the previous year, since the shoals increased and consequently so did the permitted volume of the catch.

1/ Including fresh and processed fish (tinned, frozen, smoked).

2/ Anchoveta and other varieties, mainly for the manufacture of meal and oil.

Table 5
PERU: INDICATORS OF FISHERY PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates			
					1975	1976	1977	1978 ^{a/}
Index of fishery production (1973 = 100)	115.2	138.1	129.1	160.2	-15.2	19.9	-6.5	24.1
Total output of fishery products (thousands of tons) ^{b/}	3 409	4 338	2 491	3 326	-17.3	27.2	-42.6	33.5
For direct human consumption ^{c/}	292	334	474	580	-8.3	14.2	42.0	22.4
For indirect human consumption ^{d/}	3 117	4 004	2 017	2 746	-18.0	28.5	-50.0	36.1

Source: National Planning Institute, National Institute of Statistics (INE).

^{a/} Preliminary figures.

^{b/} Comprises only sea-fishing in continental waters to amount of around 10 000 tons.

^{c/} Comprises fresh and processed fish (canned, frozen, salted and in the form of fish preparations) consumed in the country or exported.

^{d/} Anchoveta and other species, mainly for the production of fish meal and oil.

/The evolution

The evolution of the fisheries sector described above gave bigger exportable surpluses both of non-traditional products (canned fish) and of fish meal. Exports were also favoured by the smaller domestic demand, particularly as a result of the decrease in poultry keeping and related industries (balanced foods).

(iii) Mining. Mining (including petroleum) maintained its high growth rate (15%) for the third consecutive year, stimulated by the growth in the production of metallic ores (3%) and the notable increase in petroleum production (66%) (see table 6).

A determining factor in this performance was the opening of the north branch of the trans-Andean oil pipeline in March 1978, which made possible an average production of 151,000 barrels per day. Substantial surpluses were available for export after domestic consumption had been satisfied, especially as domestic consumption of petroleum products was smaller than originally anticipated.

Copper production also increased substantially (12%), and lead production rose by 3%, stimulated by better international prices. Zinc production, however, dropped by 4% and iron ore production by nearly 20% as a result of labour conflicts. In the case of iron ore, however, the greatest impediment to the normalization of production was basically the depression in the iron and steel industry in the industrialized countries and especially in Japan.

(iv) Manufacturing. Manufacturing output declined by over 3%, continuing the trend begun at the end of 1976 which marked the end of a period of 15 years during which annual average growth was about 7% (see table 7). If the fish meal industry is excluded from the manufacturing sector, the decline increases to 4%.

The causes of this depression must be sought in the reduction of domestic demand, the difficulties in the supply of imported inputs, the scarcity and high cost of foreign currency and the numerous strikes the sector had to face.^{3/}

^{3/} Of a total of 364 strikes in the year, 183 corresponded to the manufacturing sector, affecting nearly 50,000 workers with a loss of nearly 4 million man-hours.

Table 6

PERU: INDICATORS OF MINING PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Index of mining production (1973 = 100) ^{b/}	93.8	100.0	128.4	143.7	6.6	28.4	11.9
Main minerals							
Metals (thousands of tons fine)							
Copper	176	222	336	376	26.1	51.4	11.9
Lead	168	169	178	183	0.6	5.3	2.8
Zinc	433	445	477	457	2.8	7.2	-4.2
Iron ore	5 067	3 089	4 033	3 236	-39.0	30.6	-19.8
Silver (kilograms fine)	1 201	1 076	1 239	1 243	-18.4	15.1	0.3
Hydrocarbons							
Petroleum (millions of barrels)	26.3	27.9	33.3	55.1	6.1	19.4	65.5

Source: National Planning Institute, National Institute of Statistics (INE); Sectoral Planning Office; Ministry of Energy and Mining; Banco Central de Reserva del Perú, Memoria 1975.

^{a/} Preliminary figures.

^{b/} Index of physical volume (including petroleum).

Table 7
PERU: INDEX OF MANUFACTURING PRODUCTION

(1973 = 100)

	Growth rates				
	1974	1975	1976	1977	1978a/
Index of manufacturing production					
Manufacturing sector <u>b/</u>	8.4	7.0	4.0	-4.5	-4.2
Manufacturing sector <u>c/</u>	11.5	5.4	4.8	-6.5	-3.2
Industries manufacturing consumer goods <u>d/</u>	7.7	4.1	2.9	-8.3	-8.2
Food	6.1	1.8	-1.9	0.3	-6.0
Beverages	21.3	9.6	11.1	-8.4	-23.0
Tobacco	16.5	1.2	-0.6	-0.8	-12.0
Textiles	1.1	1.5	7.2	-11.6	-2.0
Clothing	11.7	-0.8	-7.5	-10.0	-5.0
Footwear	0.4	1.0	25.0	-36.1	-3.0
Furniture	4.7	23.9	-31.4	-19.0	-5.0
Printing	-0.5	-4.4	-2.7	-19.5	10.0
Plastic products	13.5	8.6	-1.9	-9.8	-1.0
Vocational equipment	-7.6	15.8	19.0	-13.9	-3.0
Miscellaneous products	-6.5	17.9	-3.9	-12.9	-2.0
Industries manufacturing intermediate goods <u>d/b/</u>	...	...	8.3	3.8	2.7
Industries manufacturing intermediate goods <u>d/c/</u>	17.9	2.3	10.4	-2.4	4.4
Fish meal	113.9	-21.8	23.5	-44.4	25.0
Leather products	2.1	18.3	-0.7	-24.1	-3.0
Wood products	3.1	-5.0	55.5	-7.6	-4.0
Paper products	24.1	-16.4	13.4	2.8	3.0
Industrial chemicals	15.0	13.7	9.5	8.7	20.0
Other chemicals	6.7	18.4	10.5	-10.5	10.0
Refined petroleum	8.4	6.0	0.1	0.8	1.5
Rubber products	2.1	10.6	24.1	-16.6	-12.4
China and porcelain	10.8	5.3	14.5	10.8	-1.4
Glass products	5.0	16.0	10.3	-10.3	-30.0
Non-metallic mineral products	11.0	10.6	3.6	-8.5	6.0
Basic metal products	22.4	1.9	-16.3	18.1	6.0
Basic non-ferrous metal products	-1.3	-6.0	13.8	52.0	-10.0
Industries manufacturing capital goods <u>d/</u>	9.2	18.2	-1.9	-10.6	-9.1
Metal products	8.2	6.7	-5.4	-5.1	-1.0
Machinery and equipment	18.9	26.3	1.0	0.4	27.0
Electrical machinery and equipment	23.9	20.8	-2.7	-3.4	-13.0
Transport equipment	-10.2	21.0	0.5	-33.9	-54.0

Source: Banco Central de Reserva del Perú; Ministry of Industry, Commerce, Tourism and Integration.

a/ Preliminary figures.

b/ Excluding fish meal.

c/ Including fish meal.

d/ Mainly producing this type of goods.

/The industries

The industries most affected were those producing consumer goods, production of which dropped as a whole by 8%. The only exception was printing which grew by 10%; the other industries declined for the second or third year running. Notable among these were beverages (23%), tobacco (12%), food (6%), and clothing (5%) (see table 7).

The industries manufacturing intermediate goods, however, grew by more than 4%, and even if the fish meal industry is excluded their growth was nearly 3%. Generally speaking, the different branches which make up this group had a very uneven performance, due to the differentiated effect of the recession in the various sectors of the economy and, in the case of fish meal, the performance of the fishery sector. Some industries grew at quite a significant rate, such as fish meal (25%), industrial chemicals (20%), other chemicals (10%), non-metallic minerals (6%) and basic metals (6%), but others experienced a considerable drop in production, such as glass (30%), basic non-ferrous metals (10%) and rubber (12%).

The industries producing capital goods ^{4/} were most affected by the recession and their production dropped by over 9%. The manufacture of transport equipment showed the sharpest drop in this group (54%) for the second consecutive year. Sales of automobiles in Metropolitan Lima dropped by over 56% and production declined by nearly 60%. The manufacture of machinery and equipment, however, grew quite rapidly (27%), thus avoiding a still greater decline for the group as a whole. This industry had been showing particular dynamism since 1974, except for the slight stagnation of the years 1976-1977. This was not the case, however, with the production of electrical machinery and equipment, which dropped by 13%.

(v) Construction. In 1978 this activity showed a sharp drop (-16%) thus intensifying the downward trend of the years 1976 and 1977. Basically, this was due to the reduction in real public and private investment in response to the policy of restricting domestic demand (see tables 3 and 8). The big increase in the production costs of the sector also contributed to this result, particularly because of the rise in the prices of building materials (see table 18 below).

^{4/} Including to a significant extent the production of consumer durables.

Table 8

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1976	1977	1978 _{a/}	Growth rates	
				1977	1978 _{a/}
Production of certain building materials (thousands of tons)					
Structural steel	141.3	148.7	141.8	5.2	-4.6
Cement	1 966.0	1 969.0	2 058.0	0.2	4.5
Flat glass	13.2	11.4	7.8	-13.6	-31.6
Cost index of the construction sector (1960 = 100) <u>b/</u>	759.7	1 022.5	1 750.6	34.6	71.2

Source: Banco Central de Reserva del Perú; National Planning Institute (INP), National Institute of Statistics.

a/ Preliminary figures.

b/ At December of each year.

One reflection of this decline in construction activity was the diminished production or the lower domestic consumption of its main inputs. Thus, the production of steel for construction dropped by nearly 5% and that of flat glass by almost 32%. The production of cement, however, increased by over 4% despite the decline in domestic consumption, and it became possible to earmark increasingly large surpluses for export, thus bringing exports to more than four times their 1977 level.

(c) Employment and unemployment trends

During the year the deterioration in the employment situation which had started in 1975 continued, and unemployment and underemployment increased, particularly in the non-agricultural sectors. The total rate of open unemployment rose to 6%, while underemployment affected nearly 50% of the economically active population (see table 9).

The worsening employment situation was particularly marked in the non-agricultural sectors, where the labour force increases more rapidly than the population and where open unemployment rose to nearly 10% while underemployment exceeded 40%.

The exacerbation of the employment situation in 1978 was closely linked with the depression affecting the economy, which weighed more heavily on the activities traditionally absorbing the largest amount of manpower. If employment in the city of Lima is reviewed by sectors, relative stagnation is to be observed in the indexes corresponding to manufacturing, commerce and services. Despite this, the non-organized strata of the latter two sectors increased their role of "refuge sectors", both in Lima and in other Peruvian cities, with a consequent deterioration in working conditions and the growth of poorly-paid underemployment.

3. The external sector

(a) Main trends

In the course of the present decade, serious external imbalance was building up which materialized in a succession of substantial balance-of-payment deficits on current account and considerable loss of net international reserves since the beginning of 1975 (see tables 10 and 11).

Table 9

PERU: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	Percentage of economically active population								
	1970	1971	1972	1973	1974	1975	1976	1977	1978 _{a/}
<u>Whole country</u>									
<u>Unemployment</u>	4.7	4.4	4.2	4.2	4.0	4.9	5.2	5.8	6.0
Agricultural	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-agricultural <u>b/</u>	8.3	7.3	7.3	7.1	6.7	8.1	8.4	9.4	9.8
<u>Under-employment</u>	46.0	44.4	44.2	41.3	41.9	42.4	44.3	48.1	49.5
Agricultural	64.3	63.6	67.0	65.4	65.4	68.2	61.8	62.1	62.7
Non-agricultural <u>b/</u>	30.9	29.0	26.5	23.3	25.0	24.8	32.7	39.2	40.4
<u>Fully employed</u>	49.3	51.2	51.6	54.5	54.1	52.7	50.5	46.2	44.5
<u>Total</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	Employment index <u>c/</u>					Growth rates				
	1974	1975	1976	1977	1978	1970-1974	1975	1976	1977	1978 _{d/}
<u>Lima metropolitan area</u>										
Manufacturing	126.4	135.5	139.9	138.0	138.6	6.0	7.2	3.2	-1.4	0.4
Commerce	124.7	128.1	132.9	133.2	133.6	5.7	2.7	3.7	0.2	0.3
Services	117.7	121.0	122.5	125.0	125.5	4.2	2.8	1.2	2.0	0.4

Source: National Planning Institute, National Institute of Statistics; Ministry of Labour.

a/ CEPAL estimates, on the basis of official data.

b/ Includes mining.

c/ To December; base year: 1970 = 100.

d/ Preliminary figures.

Table 10
PERU: BALANCE OF PAYMENTS
(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978 _{a/}
Current account									
Exports of goods and services	1 250	1 064	1 153	1 345	1 841	1 689	1 745	2 141	2 400
Goods FOB <u>b/</u>	1 060	887	945	1 114	1 506	1 291	1 361	1 726	1 941
Services	190	177	208	231	335	398	384	415	459
Transport	69	59	64	73	133	153	157	175	154
Travel	52	49	60	69	96	91	99	112	141
Imports of goods and services	959	1 012	1 103	1 484	2 442	3 037	2 626	2 693	2 071
Goods FOB <u>b/</u>	687	723	812	1 097	1 908	2 389	2 100	2 165	1 601
Services	272	284	291	387	534	648	526	528	470
Transport	131	143	161	200	292	351	308	318	251
Travel	60	41	45	55	64	84	57	36	34
Net payments of profits and interest on foreign capital	-133	-125	-121	-164	-172	-242	-371	-424	-577
Profits	-73	-50	-47	-80	-42	-15	-44	-54	-83
Interest	-60	-75	-74	-84	-130	-227	-327	-370	-508
Net private transfer payments	26	4	7	4	22	17	19	19	56
Balance on current account	184	-69	-64	-299	-751	-1 573	-1 233	-957	-192
Capital account									
Net external financing (a+b+c+d+e+f)	-184	69	64	299	751	1 573	1 233	957	192
(a) Long-term capital	-17	11	108	407	721	1 293	642	674	421
Direct investment	-70	-58	24	70	58	316	170	55	25
Private sector	-8	15	-29	-13	-7	27	24	-	-
Loans	22	74	25	20	25	89	106	-	-
Amortization payments	-30	-59	-54	-33	-32	-62	-82	-	-
Official sector	61	54	113	350	670	950	448	619	396
Loans	205	226	299	710	1 052	1 322	854	1 116	-
Amortization payments	-136	-163	-170	-348	-364	-372	-406	-497	-
Other assets and liabilities	-8	-9	-16	-12	-18	-	-	-	-
(b) Net short-term capital	-133	-25	-68	-53	403	-342	-318	-108	-147
Private sector	-80	-76	16	-110	321	-149	-	-16	-
Official sector	-23	32	-10	91	163	-1	-	-	-76
Monetary authorities	3	5	14	10	-8	-	-	-	-
Errors and omissions	-33	14	-88	-44	-73	-192	-318	-92	-71
(c) Extraordinary financing	195	-	-	-	-	80	500	349	-
(d) Allocation of SDRs	14	13	14	-	-	-	-	-	-
(e) Official transfer payments	56	35	33	38	26	32	40	39	...
(f) International reserves									
(minus sign signifies an increase)	-299	35	-23	-93	-399	510	369	3	-82
Use of IMF credit	-18	-7	29	-20	-17	-	184	12	...
Other liabilities	-	-	-	-	-	13	47	64	...
Monetary gold	-15	-	1	4	-	-	-	-	...
Special Drawing Rights	-14	-14	-14	5	-	-	39	1	...
IMF reserve position	-	-	-	-37	-	-	36	-	...
Foreign exchange	-252	56	-39	-45	-382	497	63	-74	...

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Includes non-monetary gold.

Table 11

PERU: NET INTERNATIONAL RESERVES

(Millions of US dollars at the end of each period)

Month	1973	1974	1975	1976	1977	1978
March		237	699	-94	-907	-1 110
June		276	131	-553	-1 046	-1 222
September		490	178	-615	-1 115	-1 123
December	411	693	116	-752	-1 107	-1 019 ^{a/}

Source: Banco Central de Reserva del Perú.

^{a/} Preliminary figures.

/External trade

External trade in goods had been decreasing progressively as a direct result of an economic policy which fomented the large-scale expansion of domestic demand and a fixed exchange rate, both of which contributed to the gradual contraction of the export sector. The present real disequilibria, however, did not appear until 1975, mainly because they were concealed by the substantial net inflow of non-compensatory capital. As from that year, the balance-of-payment deficit on current account worsened and net international reserves decreased rapidly, reaching a negative balance of US\$ 750 million at the end of 1976.

In view of these circumstances, in June 1976 a stabilization programme was formulated which included the devaluation of the sol, the reduction of public spending, monetary and credit restrictions, the raising or introduction of some taxes and the introduction of quantitative controls on the importation and use of foreign currency. As from September of that year, a policy of small periodic devaluations was adopted and this remained in force until 1977. As a result of the application of this programme, which also coincided with a favourable conjuncture of volume and prices for some exports, the deficits on trade in goods and on current account were reduced in 1976, although this recovery was not enough to prevent the net international reserves from continuing to fall, owing to the smaller inflow of non-compensatory capital.

During the first nine months of 1977 US\$ 360 million of reserves were lost, while at the same time domestic inflation led to the progressive devaluation of the sol, particularly as from July of that year, when a return was made to the fixed exchange rate. These facts led to the formulation of a new stabilization programme which, among other aspects, left the exchange rate to the free play of the market forces and reduced the quantitative controls on the importation and use of foreign currency. As a result of the group of measures applied, the coming on stream of projects in the copper mining sector and the contraction in the economy, the merchandise trade and current account deficits were once again reduced in 1977. Even with the net increase in the flow of non-compensatory funds, however, it was impossible to avoid the continued loss of net international reserves, and the negative balance came to US\$ 1,100 million in December of that year.

(b) The situation in 1978

With the liberalization of exchange policy, the exchange rate began to float daily until, by informal agreement between the banks and with official support, the price of the dollar was set at approximately 130 soles and sales were restricted to the quantities available, a situation which was maintained until the end of April.

Although in January new tax measures were adopted and the prices of certain products marked by State enterprises were raised, the public sector deficit continued to increase and became the main source of credit expansion. The resulting pressures contributed to the continued loss of net international reserves, despite the rationing implicit in the informal agreement referred to above (see table 11).

In mid-May a group of corrective measures was adopted, including new taxes, cuts in public spending, new guidelines for fixing prices in the case of public enterprises, an increase in the exchange rate to 150 soles per dollar, and the return to the system of small periodic devaluations. The net reserves, however, continued to fall until they reached their lowest level in June (-US\$ 1,200 million).

At the same time, inflation became intensified in the first half of the year, and consequently the real exchange rate declined throughout the year despite the small devaluations (see table 12).

In the second half of 1978 renewed efforts were made to sign a second standby agreement with the International Monetary Fund ^{5/} as a basic step for completing the restructuring of the public sector external liabilities. An arrangement was reached with the IMF in September and the refinancing took place in November. At the same time, a number of measures were taken to promote traditional and non-traditional exports and a cautious approach was adopted in arranging of new loans.

The combined effect of the refinancing of the external public debt, the substantial increase in petroleum exports and the significant growth of non-traditional exports, as well as the drastic cut in imports of goods,

^{5/} The first was signed in September 1977 but the stipulated targets were not reached.

Table 12
PERU: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate <u>a/</u> (soles per dollar) (1)	Index of exchange rate <u>b/</u> (2)	Wholesale price index <u>b/</u> (3)	Index of real exchange rate <u>b/</u> (4) = (2) / (3)
<u>1976</u>				
March	45.00	69.2	97.5	70.9
June <u>b/</u>	65.00	100.0	100.0	100.0
September	65.56	100.9	127.2	79.3
December	69.37	106.7	133.7	79.8
<u>1977</u>				
March	74.24	114.2	149.8	76.2
June	79.89	122.9	162.3	75.7
September	80.88	124.4	177.5	70.1
December	130.38	200.6	191.5	104.8
<u>1978</u>				
January	130.21	200.3	208.8	95.9
February	130.32	200.5	221.6	90.5
March	130.32	200.5	228.1	87.9
April	130.32	200.5	236.1	84.9
May	150.90	232.2	266.4	87.2
June	154.60	237.8	288.9	82.3
July	161.78	248.9	301.7	82.5
August	169.61	260.9	312.6	83.5
September	177.03	272.4	327.7	83.1
October	184.24	283.4	345.7	82.0
November	190.65	293.3	366.0	80.1
December	196.18	301.8	374.7	80.5

Source: Banco Central de Reserva del Perú; National Planning Institute, National Institute of Statistics (INE).

a/ At end of period; from October 1977 onwards the purchase and sales average is considered.

b/ Base: June 1976 = 100. An "equilibrium" rate was established that month, according to the address delivered by the Ministry of Economic Affairs and Finance on 30 June 1976.

/made it

made it possible to obtain a balance-of-payments surplus and increase the level of net international reserves by slightly over US\$ 80 million compared with 1977 (see table 10).

(c) Trade in goods

Following four years of successive deficits, external trade in goods in 1978 showed a surplus of US\$ 340 million, which was possible thanks to the noteworthy growth of the volume of exports by 17%, which more than offset the 4% drop in the unit value, and to the radical reduction of the volume of imports (-32%) (see table 13).

(i) Exports. Exports of goods amounted to US\$ 1,940 million, 12.5% higher than in 1977. This increase was mainly due to the increases in exports of petroleum and petroleum products and non-traditional exports (see tables 14 and 15). The opening of the north branch of the North Peruvian oil pipeline made it possible to raise considerably the volume of exports of hydrocarbons, so that the value of exports of petroleum and petroleum products increased by nearly 250%. Exports of non-traditional products grew by nearly 50%, continuing the rapid expansion begun in 1976. The main export products were cotton yarns and textiles, tinned fish, frozen fish, cement and copper wire bars.

Exports of agricultural products (coffee, cotton and sugar), however, dropped by 19% owing to the decline in international prices and the smaller volumes of exports of cotton and sugar. In the case of cotton a progressive decline in exportable surpluses had been observed as a result of lower domestic production and increased industrial use, while in the case of sugar, the quota allocated to Peru in the North American market was reduced, the respective duties were raised and an additional tariff was introduced for imported sugar.

Total exports of mining products increased very little (1%). As may be seen from table 14, in 1978 there were increases in exports of copper (due to a slight increase in volume), silver (thanks to a favourable international price conjuncture) and lead (owing to the increase in volume and the rise in international prices), while there was a decline in exports of iron ore (due to the low level of international demand) and zinc (affected by a sharp drop in international prices).

Table 13
PERU: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977 ^{a/}	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods						
Value	17.9	35.2	-14.3	5.5	26.9	12.5
Volume	-17.5	-7.9	-9.8	7.2	28.9	17.1
Unit value	43.0	46.7	-4.9	-1.6	-1.7	-3.9
Imports of goods						
Value	35.1	74.0	25.2	-12.1	3.0	-26.0
Volume	17.9	40.3	11.8	-13.8	-3.3	-31.5
Unit value	14.6	24.1	12.0	2.0	6.5	8.0
Terms of trade	24.8	18.3	-15.1	-3.5	-7.7	-11.1
	<u>Indexes (1970 = 100)</u>					
Terms of trade	104.7	123.7	105.1	101.4	93.6	83.3
Purchasing power of exports of goods	83.4	90.9	69.6	71.9	85.6	89.2
Purchasing power of exports of goods and services	86.4	95.3	78.3	78.5	90.2	94.4

Source: CEPAL estimates on the basis of information supplied by the Banco Central de Reserva del Perú.

^{a/} Preliminary figures.

Table 14

PERU: EXPORTS OF GOODS (FOB)

	Millions of US dollars						Percentage breakdown			Growth rates		
	1974	1975	1976	1977a/	1978a/	1978a/	1970	1978a/	1975	1976	1977a/	1978a/
Main traditional exports	1 287.2	1 133.4	1 203.3	1 468.3	1 564.9	88.5	80.7	-11.9	6.2	22.0	6.6	
Fish meal	201.8	155.8	177.5	179.0	191.8	13.1	9.9	-22.8	13.9	0.8	7.2	
Cotton	96.5	53.0	70.9	48.0	38.1	5.2	2.0	-45.1	53.8	-32.3	-20.6	
Sugar	193.9	269.1	91.2	74.2	51.7	6.7	2.7	38.8	-66.1	-18.6	-30.3	
Coffee	34.8	53.2	101.0	196.3	168.2	7.4	8.7	52.9	89.8	94.4	-14.3	
Wool	7.1	11.4	18.7	18.1	23.2	1.4	1.2	60.6	64.0	-3.2	28.2	
Copper	301.1	155.7	227.0	392.3	408.6	16.7	21.0	-48.3	45.8	72.8	4.2	
Iron ore	75.0	51.9	63.5	90.5	73.8	4.7	3.8	-30.8	22.3	42.5	-18.5	
Silver	140.9	146.3	145.1	172.5	206.9	10.7	10.7	3.8	-0.8	18.9	19.9	
Lead	57.5	41.9	63.6	81.7	89.7	4.7	4.6	27.1	51.8	28.5	9.8	
Zinc	150.4	151.5	191.5	163.5	133.0	14.1	6.8	0.7	26.4	-14.6	-18.7	
Petroleum and petroleum products	28.2	43.6	53.3	52.2	179.8	3.9	9.3	54.6	22.2	-2.1	244.4	
Main non-traditional exports	150.4	95.8	136.7	237.9	352.0	10.1	18.2	-36.3	42.7	74.0	49.2	
Fishing vessels	6.4	11.5	12.4	31.0	10.4	0.9	0.5	71.6	7.8	150.0	-66.5	
Frozen hake	10.2	8.5	17.4	13.3	13.2	1.3	0.7	-16.7	104.7	-23.6	-0.8	
Canned fish	4.7	4.4	6.9	17.7	31.4	0.5	1.6	-6.4	56.8	156.5	77.4	
Cotton yarn and fabrics	2.0	0.4	5.4	24.0	54.6	0.4	2.8	-80.0	1 250.0	344.4	127.5	
Synthetic textile fibres	1.7	1.1	4.0	6.5	8.0	0.3	0.4	-35.3	263.6	62.5	23.1	
Other non-traditional exports	125.4	69.9	90.6	145.4	237.4	6.7	12.2	-44.3	29.6	60.5	63.3	
Rest	65.7	61.7	19.5	19.4	20.7	1.4	1.0	-6.1	-68.4	0.5	6.7	
Total	1 503.2	1 292.9	1 359.5	1 725.6	1 940.7	100.0	100.0	-14.1	5.3	26.9	12.5	

Source: Banco Central de Reserva del Perú.
a/Preliminary figures.

Table 15
PERU: VALUE^{a/}, VOLUME^{b/} AND PRICES^{c/} OF MAIN EXPORT PRODUCTS

	1974	1975	1976	1977d/	1978d/
<u>Fish meal</u>					
Value	201.8	155.8	177.5	179.0	191.8
Volume	629.0	746.0	625.0	430.0	485.0
Price	321.0	209.0	284.0	416.0	397.0
<u>Fish oil</u>					
Value	40.8	38.6	0.3	0.9	1.1
Volume	78.0	141.0	5.0	4.0	6.0
Price	522.0	275.0	64.0	198.0	200.0
<u>Other fishery products</u>					
Value	18.7	13.7	22.9	35.3	44.6
Volume	43.0	32.0	48.0	70.0	93.0
Price	435.0	429.0	479.0	504.0	480.0
<u>Cotton</u>					
Value	96.5	53.0	70.9	48.0	38.1
Volume (thousands of quintals)	1 034.0	737.0	776.0	462.0	394.0
Price (dollars per quintal)	93.3	71.9	91.4	104.0	96.5
<u>Sugar</u>					
Value	193.9	269.1	91.2	74.2	51.7
Volume	462.0	422.0	296.0	390.0	291.0
Price (dollars per quintal)	19.3	29.3	14.2	8.8	8.2
<u>Coffee</u>					
Value	34.8	53.2	101.0	196.3	168.2
Volume	27.0	43.0	43.0	43.0	54.0
Price (dollars per quintal)	59.4	56.6	108.0	210.0	144.6
<u>Wool</u>					
Value	7.1	11.4	18.7	18.1	23.2
Volume	2.0	4.0	8.0	3.0	4.0
Price	3 460.0	3 260.0	2 490.0	5 749.0	5 229.0
<u>Copper</u>					
Value	301.1	155.7	226.9	392.3	408.6
Volume	184.0	152.0	182.0	331.0	344.0
Price (US cents per pound)	74.4	46.5	56.6	53.7	53.9
<u>Iron ore</u>					
Value	75.0	51.9	63.5	90.5	73.8
Volume (thousands of net legal tons)	9 731.0	4 975.0	4 470.0	6 122.0	4 778.0
Price (dollars per net legal ton)	7.7	10.4	14.2	14.8	15.5
<u>Silver</u>					
Value	140.9	146.3	145.1	172.5	206.9
Volume (metric tons of fine)	1 099.0	1 086.0	1 175.0	1 241.0	1 628.0
Price (US cents per Troy ounce)	398.0	419.0	384.0	432.0	497.0
<u>Lead</u>					
Value	57.5	41.9	63.6	81.7	89.7
Volume	148.2	128.1	179.8	171.6	176.4
Price (US cents per pound)	17.6	14.8	16.0	21.6	23.1
<u>Zinc</u>					
Value	150.4	151.5	191.5	163.5	133.0
Volume	422.1	405.9	432.3	433.9	436.7
Price (US cents per pound)	16.2	16.9	20.1	17.1	13.8
<u>Petroleum and petroleum products</u>					
Value	28.2	43.6	53.3	52.2	179.8
Volume (thousands of barrels)	2 198.0	4 069.0	4 742.0	4 104.0	13 775.0
Price (dollars per barrel)	12.8	10.7	11.3	12.7	13.1

Source: Banco Central de Reserva del Perú; National Planning Institute, National Institute of Statistics.

a/ Millions of dollars.

b/ Thousands of tons, unless otherwise indicated.

c/ Dollars per ton, unless otherwise indicated.

d/ Preliminary figures.

/(ii) Imports.

(ii) Imports. In 1978 imports of goods dropped significantly (26%) as a consequence of the general decline in the economy, the scarcity and high cost of foreign currency, and above all the smaller volumes of imports of petroleum and petroleum products. The latter, in fact, accounted for over 40% of the decrease in the total value of imports (see table 16).

The value of imports of consumer goods dropped by 40%, especially as a result of the 60% decline in purchases of consumer durables.^{6/} Imports of intermediate goods for their part, fell by 30%, basically as a result of smaller imports of petroleum and petroleum products. The value of imports of food, however, remained at the same level as 1977, while imports of capital goods dropped by a mere 2%, following their sharp fall in the two previous years. This sharp decline did not recur in 1978 because the public sector made some imports of capital goods which were financed with loans arranged in earlier years and also because the private sector acquired a considerable volume of machinery for the oil industry, which partly offset the reduction in imports of other capital goods.

(iii) The terms of trade. A drop of 4% in the unit value of exports, together with an increase of 8% in that of imports produced a decline of 11% in the terms of trade compared with 1977. Thus, the index continued to show a downward trend for the fourth year running (see table 13).

(d) Trade in services and factor payments

In 1978 the traditional deficit on trade in services was significantly reduced. It amounted to only US\$ 10 million, compared with nearly US\$ 115 million the year before and, in particular, US\$ 250 million in 1975 (see table 10). This result was obtained thanks to the reduction of the deficit on freight and insurance and miscellaneous transport services and to the fact that there was a larger surplus for the country in respect of travel, which can be explained in the case of the former by the sharp drop in imports of goods and as regards the latter by the encouragement of tourism to Peru and the discouragement of travel abroad through exchange policy and tax measures.

^{6/} National Institute of Statistics, Informe estadístico 1978.

Table 16
PERU: IMPORTS OF GOODS (FOB)

	Millions of dollars						Percentage breakdown		Growth rates			
	1973	1974	1975	1976a/	1977a/	1978a/	1970	1978a/	1975	1976a/	1977a/	1978a/
<u>Consumer goods</u>	<u>129</u>	<u>155</u>	<u>199</u>	<u>176</u>	<u>173</u>	<u>104</u>	<u>12.6</u>	<u>8.0</u>	<u>28.4</u>	<u>-11.3</u>	<u>-2.2</u>	<u>-39.9</u>
Non-durable	86	103	103	...	...	...	10.3	...	0.8	...	...	...
Durable	43	52	96	...	...	...	2.3	...	82.4	...	...	...
<u>Intermediate goods</u>	<u>387</u>	<u>920</u>	<u>1 172</u>	<u>1 032</u>	<u>1 050</u>	<u>735</u>	<u>44.2</u>	<u>33.9</u>	<u>27.4</u>	<u>-11.9</u>	<u>1.7</u>	<u>-30.0</u>
Petroleum and fuels	47	187	265	...	269	35	1.7	...	41.5	...	...	-87.0
Others	340	733	907	...	781	700	42.5	...	23.8	...	...	-10.4
<u>Capital goods</u>	<u>318</u>	<u>611</u>	<u>781</u>	<u>675</u>	<u>469</u>	<u>458</u>	<u>32.1</u>	<u>21.2</u>	<u>27.8</u>	<u>-13.5</u>	<u>-30.6</u>	<u>-2.3</u>
<u>Miscellaneous b/</u>	<u>199</u>	<u>223</u>	<u>238</u>	<u>217</u>	<u>472</u>	<u>304</u>	<u>11.1</u>	<u>13.9</u>	<u>6.7</u>	<u>-8.8</u>	<u>117.5</u>	<u>-35.6</u>
<u>Total b/</u>	<u>1 033</u>	<u>1 909</u>	<u>2 390</u>	<u>2 100</u>	<u>2 164</u>	<u>1 601</u>	<u>100.0</u>	<u>100.0</u>	<u>25.2</u>	<u>-12.1</u>	<u>3.0</u>	<u>-26.0</u>

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

b/ Includes adjustments, non-monetary gold, and other imports not elsewhere classified.

/The deficit

The deficit on foreign factor payments, however, continued to grow rapidly during 1978, as had been the case for the past six years. Although payments of profits increased significantly, the largest amounts corresponded to interest payments, which rose from slightly over US\$ 80 million in 1973 to more than US\$ 500 million in 1978. Of the latter, approximately US\$ 420 million corresponded to the public sector.

(e) The current account deficit and its financing

In 1978 the current account deficit reached its lowest level since 1974, with an increase of slightly over US\$ 190 million, which was equivalent to less than 20% of that recorded in 1977 (see table 10).

In order to finance it, long-term capital was obtained for a net amount of slightly over US\$ 420 million, which was well below the figure of the previous year. This decrease reflected the smaller contribution of direct investment and a lower net inflow of official loans. The reduction in direct investment was partly due to the conclusion of mining and petroleum projects, and partly to the faster depreciation of foreign-owned assets. Net official loans amounted to around US\$ 400 million, including US\$ 203 million for restructuring the servicing of the public external debt.

Because of the smaller current account deficit, the net international reserves increased by slightly over US\$ 80 million despite the smaller net inflow of non-compensatory funds, thus reversing their downward course of the three-year period 1975-1977.

(f) External indebtedness

In 1978 the country's total external debt contracted for a term of more than one year amounted to US\$ 4,900 million, which was only US\$ 200 million more than the previous year. This small increase implied a considerable slowing of the growth rate of indebtedness, which was particularly high between 1973 and 1975 (see table 17). During the period 1978-1980, however, 50% or more of the income from exports of goods had to be earmarked purely for servicing the public debt.

Table 17

PERU: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977	1978
<u>Total external debt a/</u>	<u>1 424</u>	<u>1 814</u>	<u>2 563</u>	<u>3 474</u>	<u>4 074</u>	<u>4 700</u>	<u>4 904</u>
Public	1 121	1 491	2 182	3 066	3 641	4 252	4 442
Private b/	303	323	381	408	433	448	462
<u>Servicing of public external debt</u>	<u>219</u>	<u>433</u>	<u>456</u>	<u>474</u>	<u>533</u>	<u>618</u>	<u>954c/</u>
Amortization payments	164	352	338	284	299	396	659c/
Interest payments	55	80	118	190	234	222	295
<u>Servicing of public external debt, as a percentage of total exports</u>	<u>23.2</u>	<u>38.9</u>	<u>30.3</u>	<u>36.7</u>	<u>39.2</u>	<u>35.8</u>	<u>49.2c/</u>

Source: Banco Central de Reserva del Perú.

a/ Disbursed debt with term of more than one year.

b/ Includes both State guaranteed and non-guaranteed debt.

c/ As a result of the refinancing of the debt, real payments abroad dropped by US\$ 203 million and the percentage of exports decreased to 38.7%.

/For this

For this reason, four operations took place in 1978 for refinancing the external public debt due in 1978, 1979 and 1980. They involved successively the Soviet Union, more than 270 private international banks (which were represented by a committee of the 23 main creditors), the member countries of the Paris Club, some Latin American countries, and finally some other socialist countries. As a result of these operations, the amortization payments of US\$ 650 million initially anticipated for 1978 were reduced by US\$ 203 million, so that the servicing of the external public debt fell to nearly 39% of exports and will absorb a decreasing percentage of exports over the next two years.

4. Prices and wages

(a) Prices and anti-inflationary policy

During 1978 the inflationary process which had begun in 1973 flared up again. Among the facts contributing to this process were the demand pressures associated with an economic policy aimed at growth and redistribution but lacking adequate financing, especially in the public sector; the effects of imported inflation; the limitations of the structure of production, particularly as regards food production; and the failure of the anti-inflationary policy, which up to mid-1975 endeavoured to achieve its objective by imposing direct controls, granting subsidies to essential products and maintaining a fixed exchange rate.

In 1976, in view of the fact that the internal and balance-of-payments disequilibria had become more pronounced and the problems of fiscal financing had got worse, with the consequent monetary repercussions, it was decided to introduce changes in the economic policy. A start was therefore made on eliminating subsidies and the exchange and price control policies were made more flexible. As a result of these measures, price pressures which had previously been constrained emerged and imported inflation entered the economy more easily, with the result that the consumer price index recorded increases of 33.5% in 1976 and 38% in 1977 (see table 18).

Table 18
PERU: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1974	1975	1976	1977	1978 ^{a/}
<u>Variation from December to December</u>					
Consumer price index	19.2	24.0	44.7	32.4	73.7
Food	24.1	31.2	44.5	33.0	77.7
By income levels ^{b/}					
Stratum I	19.1	24.9	45.3	33.9	77.2
Stratum II	16.9	21.6	45.4	32.3	75.2
Stratum III	15.5	18.5	47.2	31.9	62.7
Wholesale price index	...	...	...	43.3	95.7
<u>Variation between annual averages</u>					
Consumer price index	16.9	23.6	33.5	38.1	57.8
Food	18.8	32.8	32.5	40.3	59.7
Wholesale price index	16.8	23.8	38.5	46.5	76.0
Imported products	27.4	26.8	36.7	61.1	99.0
Domestic products	14.0	23.0	39.1	42.0	68.2
Agricultural products	14.0	26.3	35.6	40.6	44.3
Manufactures	14.1	21.1	41.4	43.1	82.2
Building materials	10.6	14.5	63.9	44.1	63.8

Source: National Planning Institute, National Institute of Statistics.

^{a/} Preliminary figures.

^{b/} Annual per capita family income varies for stratum I from 2 000 to 14 000 soles; for stratum II from 14 001 to 34 000 soles and for stratum III from 34 001 to 100 000 soles.

/During the

During the first half of 1978, the public sector deficit constituted the main source of expansion of domestic credit. Although some tax measures were adopted in January and the prices of the products marketed by State enterprises were readjusted, the public deficit continued to increase, with its corresponding monetary effects. In May new fiscal measures were adopted aimed at reducing the deficit and the small periodic devaluations were resumed. Meanwhile, however, inflation accelerated and reached 40% at the end of the first half of the year.

Although the fiscal situation tended to improve as time went on, in the second half of the year the readjustments of the official prices of essential consumer goods continued, interest rates rose and the small successive devaluations of the sol were extended, while at the same time the monetary policy became more restrictive. At the end of the year, the consumer price index showed an accumulated variation of 74%.

As is characteristic, food prices grew more rapidly (78%) than other prices, thus affecting the lowest income groups to a larger extent. The wholesale price index rose by 96% during the year, which would seem to indicate that profit margins were cut as a result of the drop in sales. The prices of imports rose more rapidly than those of national products, thus revealing the influence of the exchange policy on the evolution of the price system.

(b) Wages and salaries

According to available data for Metropolitan Lima real income of the workers deteriorated substantially in 1978, thus continuing the downward trend begun in 1974. Real wages and salaries in June 1978 were respectively 14% and 9% lower than a year earlier and 40% and 35% below those of June 1973 (see table 19).

The drop in the real wages of public employees was even sharper (22%), despite the bonuses given to offset the increase in the cost of living. If this deterioration is added to the decline of the previous four years, it can be seen that at the end of 1978 the real average wages for these employees were equivalent to less than half those of 1973.

Table 19
PERU: EVOLUTION OF WAGES AND SALARIES^{a/}

	1974	1975	1976	1977	1978
	<u>Index (1973 = 100) b/</u>				
Nominal wages and salaries					
Salaries	117.8	138.7	158.6	184.5	247.5
Wages	115.4	121.8	164.6	191.9	272.7
General government	100.1	118.9	141.3	167.2	225.4
Real wages and salaries					
Salaries	100.1	92.0	90.8	69.3	59.5
Wages	97.9	80.7	94.1	72.0	65.5
General government	84.0	80.5	66.1	59.1	45.8
	<u>Growth rates</u>				
Nominal wages and salaries					
Salaries	17.8	17.7	14.3	16.3	34.1
Wages	15.4	5.5	35.1	16.6	42.1
General government	0.1	18.8	18.8	18.3	34.8
Real wages and salaries					
Salaries	0.1	-8.1	-1.3	-23.7	-14.1
Wages	-2.1	-17.6	16.6	-23.5	9.0
General government	-16.0	-4.2	-17.9	-10.6	-22.5

Source: National Planning Institute, National Institute of Statistics, Informe estadístico 1978, 19 February 1979.

a/ The salaries (employees) and wages (workers) correspond to the average wages and salaries paid by the private sector in Metropolitan Lima. In the case of the government, only average basic wages and salaries are considered.

b/ At June of each year for wages and salaries (except 1975, when the date was August) and at December of each year for the government.

/Finally, real

Finally, real minimum wages and salaries registered their lowest value for the last ten years,^{7/} even though they were readjusted by approximately 30% in September.

5. Monetary and fiscal policy

The difficulties met with in overcoming the fiscal disequilibria which arose from the first years of the decade onwards were reflected in the evolution of the monetary variables. Credit to the government had to be increased rapidly in order to cover the growing fiscal deficit, while credit to the private sector grew slowly, as did quasi-money, owing to the influence of the prevailing interest rates.

As from 1975, and particularly from mid-1976 onwards, real liquidity began to contract, affecting the financing of working capital for entrepreneurial activities. In 1977, the nominal interest rates were raised, thus encouraging the evolution of quasi-money, but at the public finance level, the situation did not improve, and the current account and overall deficits increased, constituting an important source of expansion of domestic credit.

(a) Monetary policy

During 1978 the tendency towards a deterioration in real liquidity was accentuated. Thus, while the means of payments increased by 42%, the rise in consumer prices was 74% (see tables 18 and 20). At the same time, quasi-money soared (113%), unlike developments in 1975 and 1976, basically owing to the introduction of the policy of positive real interest rates, which began in May and was reinforced in August and November of that year.

Domestic credit grew by 48%, i.e., more rapidly than in 1977, the larger amounts allocated to the Government (54%) and to the development banks (62%) being worthy of note. Like credit granted to the private sector, however, these larger sums nevertheless implied drops in real values, not only as a result of the general contraction of the economy but also because of the increase in interest rates and the restrictive measures affecting the legal reserves and the rediscount rate.

^{7/} National Institute of Statistics, Informe estadístico 1978.

Table 20

PERU: MONETARY POSITION

	Balance at end of each year in billions of soles ^{a/}				Growth rates			
	1975	1976	1977	1978 ^{b/}	1975	1976	1977	1978 ^{b/}
<u>Money</u>	<u>120.0</u>	<u>151.0</u>	<u>182.4</u>	<u>258.6</u>	<u>17.0</u>	<u>25.8</u>	<u>20.8</u>	<u>41.8</u>
Currency outside banks	43.2	50.3	61.7	91.1	27.1	16.4	22.7	47.6
Demand deposits	76.8	100.7	120.7	167.5	12.0	31.1	19.9	38.8
<u>Factors of expansion</u>	<u>166.7</u>	<u>200.0</u>	<u>221.9</u>	<u>343.9</u>	<u>18.0</u>	<u>20.0</u>	<u>10.9</u>	<u>55.0</u>
Foreign assets (net)	5.1	-49.5	-120.6	-162.6				
Domestic credit	161.6	249.5	342.5	506.5	41.1	54.4	37.3	47.9
Government (net)	37.9	81.3	120.0	184.5	54.7	114.5	47.6	53.8
Official entities	41.6	60.3	84.1	123.4	53.5	45.0	39.5	46.7
Private sector	62.6	79.0	95.4	129.0	30.7	26.2	20.8	35.2
Credit to development banks	19.5	28.9	43.0	69.6	30.0	48.2	48.8	61.9
<u>Factors of absorption</u>	<u>46.7</u>	<u>49.0</u>	<u>39.5</u>	<u>85.3</u>	<u>20.7</u>	<u>4.9</u>	<u>-19.4</u>	<u>115.9</u>
Quasi-money (savings and time deposits)	23.3	26.9	39.8	84.9	9.9	15.5	48.0	113.3
Long-term foreign borrowing	9.3	11.6	14.4	12.7	75.5	24.7	24.1	-11.8
Other items (net)	14.1	10.5	-14.7	-12.3				

Source: 1974-1977: International Monetary Fund, International Financial Statistics; 1978: Banco Central de Reserva del Perú, Cuentas monetarias.

a/ Exchange rate used (soles per US dollar): 1974 = 38.70; 1975 = 45.00; 1976 = 65.00; 1977 = 110.00; 1978 = 160.00.

b/ Preliminary figures.

An endeavour was made to compensate for this situation in a selective manner by benefiting certain sectors through the development banks. Examples of this were the action taken by the Banco Agrario to support agricultural production, that taken by the Banco Industrial regarding the fund for non-traditional exports, and the credit granted on preferential conditions to the financial institutions of the housing sector (Banco de la Vivienda, Banco Hipotecario, etc.) for the purchase of first dwellings.

Net bank financing to the public sector was mainly directed towards the central government for covering the fiscal deficit. This credit support was provided by the Banco de la Nación (51%), the development banks (26%), the Central Bank (20%), and the commercial banks (3%).

Because of their negative sign, the net international reserves continued to act as a factor of absorption during 1978, at least in nominal terms. Thus, although they increased by US\$ 82 million, owing to the devaluations the deficit in soles grew by over 40 billion soles, equivalent to 25% of the absolute variation in total domestic credit.

The speed of circulation of money in 1978 increased by slightly over 4%, compared with increases of 19% in 1976 and 14% in 1977. The main factor was the rise in interest rates, both active and passive, which not only helped to stimulate savings and discourage speculation, but also progressively reduced the multiplier effects of the rate of circulation on the level of prices.

(b) Fiscal policy

During the first half of 1978 the deterioration in the public finances continued due to the unbudgeted expenditure incurred (subsidies on some food products and gasoline) and the heavy burden constituted by the servicing of the public external debt. This situation changed in the second half of the year when a group of measures was introduced in May to reduce expenditure, restructure the external debt and modify taxes on exports and imports, production and consumption. Later, the public budget for 1978 was legally altered so as to reduce current expenditure in favour of investment by cutting down on staff and spending less on goods and services. It was also possible to refinance part of the servicing of the public external debt for the period 1978-1980.

As a consequence of this, the current account deficit was reduced in comparison with 1977 and the fiscal deficit, as a percentage of total expenditure, dropped from 42% in 1977 to 37% in 1978. The deficit was mainly financed with domestic resources, in contrast with 1977 (see table 21).

Tax revenue increased by 76%, representing an increase in the tax burden from 13.8% in 1977 to 15.4% in 1978. The changes introduced, however, basically affected indirect taxes which are easy to collect but have a regressive effect. Thus, revenue from taxes on production and consumption and taxes on imports increased by 82% and 105%, respectively, accounting together for nearly 63% of total revenue. On the other hand, the yield from income and property tax only increased by 51%, thus maintaining the tendency to decline in importance in total tax revenue. Taxes on exports, however, increased by nearly 90%, although part of the revenue was returned under the programme to promote non-traditional exports.

The growth of current expenditure (50%) and capital expenditure (78%) was basically due to the increase in the servicing of the public debt (see table 21).

Table 21
PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of soles				Growth rates			
	1975	1976	1977	1978a/	1975	1976	1977	1978a/
Current income	87.9	111.4	154.1	264.0	28.2	26.7	38.3	71.3
Tax revenue	80.6	101.0	145.6	256.9	32.9	25.3	44.2	76.4
Income and property	24.6	30.2	43.0	64.8	2.3	22.9	52.4	50.7
Exports	5.6	6.0	16.2	30.3	154.6	5.9	103.0	87.0
Imports	18.2	17.9	19.6	40.2	76.7	-1.1	9.5	105.1
Production and consumption	32.2	46.9	66.8	121.5	33.5	45.4	42.5	81.9
Non-tax revenue <u>b/</u>	9.0	13.4	15.0	19.9	1.1	48.9	11.9	32.7
Less: tax refunds <u>c/</u>	1.7	3.0	6.5	12.8	69.2	72.7	115.3	96.9
Current expenditure	90.5	122.7	193.1	288.7	44.9	35.6	57.3	49.5
Wages and salaries	38.8	51.5	70.3	97.3	33.5	32.7	36.5	38.4
Interest	9.4	13.2	29.2	69.6	22.5	39.9	121.4	138.4
Internal debt	4.5	5.5	13.6	32.7	5.3	23.2	146.4	140.4
External debt	4.9	7.7	15.6	36.9	43.7	54.9	103.4	136.5
Other current expenditure	42.3	58.0	93.6	121.8	65.2	37.1	61.4	30.1
Saving on current account	-2.6	-11.3	-39.0	-24.7				
Capital expenditure	40.9	53.2	74.0	132.0	12.7	30.1	39.1	78.4
Gross capital formation	15.9	19.8	27.1	42.5	22.5	25.1	36.6	56.8
Other capital expenditure <u>d/</u>	12.1	17.3	13.0	15.2	65.8	43.0	-24.9	16.9
Amortization payments	12.9	16.1	33.9	74.3	-19.9	24.8	110.6	119.2
Internal debt	6.9	7.8	10.9	14.7	11.3	13.0	39.7	34.9
External debt	6.0	8.3	23.0	59.6	-39.4	38.3	177.1	159.1
Total expenditure	131.4	175.9	267.1	420.7	33.1	33.9	51.8	57.5
Fiscal deficit	-43.5	-64.5	-113.0	-156.7	44.5	48.3	75.2	38.7
Financing of deficit								
Domestic financing	20.7	40.6	55.4	82.2	117.9	96.1	36.5	48.4
External financing	22.8	23.9	57.6	74.5	10.7	4.8	141.0	29.3

Source: Banco Central de Reserva del Perú; National Planning Institute, National Institute of Statistics.

a/ Preliminary figures.

b/ Including wage and salary discounts for pension fund.

c/ Mainly tax refund certificates for export promotion.

d/ Including financial investment and expenditure on agrarian reform expropriations.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

The economy of the Dominican Republic continued to lose impetus in 1978, when the gross domestic product grew by 3.6% and the per capita product by barely 1%, the lowest rate in the present decade (see table 1).

This unfavourable evolution was due to a number of circumstances which arose in 1978, as well as others which were aggravated over the last four years. Among them may be mentioned the loss of dynamism of manufacturing production compared with its growth in the early 1970s; the stagnation of the process of agrarian reform; the increasing concentration of income; the deterioration in real wages; and the lack of new employment opportunities once the large-scale infrastructure works had been completed. All these factors played an important part in the election of the new government in May 1978.^{1/}

The drop in export prices resulted in a sharp deterioration in the terms of trade (-16%), and this in its turn reduced the rise in gross income to only 1.5%. This, added to the fiscal deficit, the growth of external debt servicing, the flight of capital which accelerated at the end of the year and the US\$ 26 million drop in gross international reserves, accentuated the difficult situation affecting the country.

The situation worsened during the period in which the country was in a state of expectation owing to the change of government and there was a waiting period for the main economic agents which extended up to the last few months of the year. Thus, the new government authorities had to face the above-mentioned problems, some of which, such as wage and salary increases, called for immediate solution.

In the slight growth recorded by the global product in 1978, only the recovery of agriculture was of any significance. Commerce and manufacturing also showed bigger increases than in 1977 - although without reaching the levels of previous years - but they failed to make up for the loss of impetus in construction or the sharp deterioration in mining.

^{1/} The presidential elections were held on 16 May and the new administration took office on 16 August.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 105	2 231	2 347	2 498	2 609	2 703
Population (millions)	4.95	5.09	5.23	5.37	5.51	5.65
Per capita gross domestic product (US dollars at 1970 prices)	425	439	449	465	473	478
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	12.9	6.0	5.2	6.4	4.4	3.6
Per capita gross domestic product	9.7	3.1	2.3	3.6	1.8	1.0
Gross income <u>b/</u>	12.8	8.1	10.8	0.2	5.0	1.5
Terms of trade	-3.5	13.2	40.3	-32.9	4.0	-15.7
Current value of exports of goods and services	24.9	42.2	38.3	-16.7	9.2	-6.0
Current value of imports of goods and services	27.7	62.4	10.2	-0.3	10.1	4.4
Consumer price index <u>c/</u>						
December to December	17.3	10.5	16.5	7.0	8.5	1.8
Variation between annual averages	15.1	13.2	14.5	7.9	12.8	3.5
Money	18.6	38.2	5.7	0.8	17.9	4.4
Current income of government	14.0	32.3	37.7	-11.3	9.9	-6.1
Total expenditure of government	15.9	32.5	27.3	-12.9	8.8	10.2
Fiscal deficit/total expenditure of government <u>d/</u>	-	1.6	2.6	0.9	-	14.7
<u>Millions of US dollars</u>						
C. External sector						
Trade balance (goods and services)	-52	-187	-1	-167	-190	-293
Balance on current account	-100	-244	-78	-247	-266	-391
Variation in net international reserves	33	3	27	-15	37	-26 ^{e/}
Disbursed external debt	533	632	721	870	1 044	1 289

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ General consumer price index in Santo Domingo.

d/ Percentage.

e/ Gross international reserves.

/Agriculture benefited

Agriculture benefited from the favourable weather conditions prevailing during the spring sowings, and production for domestic consumption increased notably, particularly in comparison with 1977, when it had been affected by a drought. In contrast, the production of coffee and cocoa was adversely affected by the excessive rainfall during the flowering period of these two crops.

The value of exports of goods and services declined by 6% in 1978 owing to sharp drops in the prices of export goods, particularly agricultural commodities. The value of imports, on the other hand, rose by slightly over 4% (much less than in 1977), no doubt influenced by the reduction in the rate of activity, the credit restrictions imposed by the Central Bank, and the difficulty of obtaining external loans.

The difference between the two foreign trade flows further increased the trade deficit, and the current account deficit amounted to US\$ 391 million, or 45% of the income from exports of goods and services.

Moreover, in view of the nature of the changes in the values of external sales and purchases, tax revenue from foreign trade declined substantially, as, to a lesser extent, did current government income. Fiscal expenditure, however, continued to rise in spite of the drop in central government investment, resulting in a deficit equal to 15% of that expenditure, after several years of a relatively balanced budget (see table 1).

Inflation slowed considerably during the year and the consumer price index rose only 3.5% compared with 12.8% in 1977, which was mainly due to lower food prices.

The slackening of inflation was accompanied by a smaller expansion of the means of payment. The money supply, which had increased by 18% in 1977, expanded by only a little over 4% owing to the drop in international reserves, since domestic credit increased only by a slightly lower percentage than in the previous year, in spite of the rapid expansion of credit to the Government. The continued government deficit and the deterioration deriving from the low export prices led to an increase of around US\$ 250 million in the external debt.

2. Trends in economic activity

(a) Total supply and demand

Total supply of goods and services, which increased at rates of slightly more than 4% in 1976 and 1977, expanded by only a little over 2% in 1978, owing both to the drop of 3.2% in the volume of imports and to the slower growth of the gross domestic product (see table 2).

The contraction in the volume of imports was due to the lower prices of exports, which greatly reduced the country's capacity to import, and to the fact that the Central Bank restricted the supply of foreign exchange, while the deceleration of the growth rate of the product is explained not only by the aforementioned external bottleneck, but also by the state of uncertainty prevailing for the major part of the year, in expectation of a redefinition of economic policy.

On the other hand, the slower rate of growth of total demand is largely attributable to the small increase in investment. In addition to the fact that the big programmes for the construction of roads, buildings and dams had now been completed, the Government was experiencing financial difficulties, so that only those State enterprises which had already initiated important projects continued to invest. Thus, as a result of the decrease in fiscal income, particularly from foreign trade, real investment by the central government in 1978 declined by 4%.

Private enterprise, for its part, did nothing to increase the country's installed capacity, since it also had to face financial restrictions.

Of the investment, both public and private, used for the purchase of machinery and equipment, 54% was assigned to transport and communications, 32% to manufacturing and 14% to agriculture.

External demand, which helped to raise the levels of economic activity in 1976, practically stagnated in 1977 and 1978, while consumption pursued the rapidly declining trend initiated in 1974.

(b) Evolution of the main sectors

Economic activity expanded at an annual rate of about 10% over the period 1969 to 1973, but from 1974 onwards it started to lose some of its impetus, and in 1978 it reached its lowest ebb (3.6%), which for the first time meant the virtual stagnation of the per capita product (see table 1 and 3).

Table 2
DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Total supply</u>	<u>2 967</u>	<u>3 094</u>	<u>3 168</u>	<u>124.5</u>	<u>120.2</u>	<u>4.2</u>	<u>4.3</u>	<u>2.4</u>
Gross domestic product at market prices	2 436	2 544	2 636	100.0	100.0	6.4	4.4	3.6
Imports of goods and services <u>b/</u>	531	550	532	24.5	20.2	-5.1	3.5	-3.2
<u>Total demand</u>	<u>2 967</u>	<u>3 094</u>	<u>3 168</u>	<u>124.5</u>	<u>120.2</u>	<u>4.2</u>	<u>4.3</u>	<u>2.4</u>
Domestic demand	2 535	2 667	2 736	107.3	103.8	3.0	5.2	2.6
Gross domestic investment	589	662	669	19.1	25.4	-3.8	12.4	1.1
Gross fixed investment	530	588	595	16.6	22.6	7.3	10.9	1.2
Construction	314	372	380	9.9	14.4	1.7	18.3	2.2
Machinery	216	217	215	6.7	8.2	-17.8	0.1	-0.5
Public	163	185	...	5.1	...	-18.5	13.5	...
Private	367	403	...	11.4	...	-1.3	9.7	...
Changes in stocks	59	74	74	2.5	2.8			
Total consumption	1 946	2 005	2 067	88.2	78.4	5.3	3.0	3.1
General government	135	156	161	11.6	6.1	-24.0	14.8	3.0
Private	1 811	1 849	1 906	76.6	72.3	8.5	2.0	3.1
Exports of goods and services <u>b/</u>	432	427	432	17.2	16.4	11.4	-1.1	1.1

Source: 1970-1978: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

Table 3

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Agriculture	427	430	461	25.8	19.7	7.8	0.6	7.2
Mining	146	143	116	1.7	5.0	20.1	-2.3	-18.8
Manufacturing	365	376	394	16.7	16.9	6.1	3.2	4.7
Construction	155	183	188	5.5	8.0	1.7	18.3	2.2
<u>Subtotal goods</u>	<u>1 093</u>	<u>1 132</u>	<u>1 159</u>	<u>49.7</u>	<u>49.5</u>	<u>7.8</u>	<u>3.6</u>	<u>2.3</u>
Electricity, gas and water	31	39	43	1.3	1.9	3.2	27.1	10.0
Transport, storage and communications	188	207	220	8.5	9.4	4.5	10.2	6.0
<u>Subtotal basic services</u>	<u>219</u>	<u>246</u>	<u>263</u>	<u>9.8</u>	<u>11.3</u>	<u>4.2</u>	<u>12.7</u>	<u>6.7</u>
Commerce, financial institutions and insurance	298	307	320	12.7	13.7	7.7	3.2	4.2
Real estate <u>b/</u>	158	172	175	7.6	7.5	6.3	8.4	2.1
Community social and personal services <u>c/</u>	392	401	421	20.2	18.0	2.8	2.3	5.0
<u>Subtotal other services</u>	<u>848</u>	<u>880</u>	<u>916</u>	<u>40.5</u>	<u>39.2</u>	<u>5.1</u>	<u>3.7</u>	<u>4.1</u>
<u>Total gross domestic product <u>d/</u></u>	<u>2 173</u>	<u>2 270</u>	<u>2 351</u>	<u>100.0</u>	<u>100.0</u>	<u>6.4</u>	<u>4.4</u>	<u>3.6</u>

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1978: CEPAL estimates.

a/ Preliminary figures.

b/ Refers to private property only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

/In the

In the early 1970s both the public and private sectors placed greater emphasis on the development of mining, commerce, manufacturing and infrastructure in general than on that of the agricultural sector, which gave rise to maladjustments and caused negative effects on other sectors of the economy.^{2/}

(i) Agriculture. In 1978, agriculture recovered from the low rate of growth recorded in the previous year as a result of the drought which affected a large proportion of the sowings destined for domestic consumption. Its renewed impetus was mainly due to the significant increase in crops for the domestic market (19%) and in livestock production (11%), since the production of agricultural commodities for export dropped by 6% (see table 4).

The excellent 1978 harvests, which were favoured by the weather conditions, particularly the spring rains, contributed to an increase in the domestic supply of cereals and a reduction in food prices. It was not possible, however, to achieve self-sufficiency in rice, which had been a government aim for several years. Moreover, during the sowing season at the end of 1977 and a large part of 1978 there was a government campaign to promote the cultivation of root crops and other staple foodstuffs, especially plantains and kidney beans, but the campaign was not as successful as had been hoped for owing to a certain lack of co-ordination between the action taken by the Ministry of Agriculture and that of the Agricultural Bank, above all in connexion with credit support for peasants.

At the end of 1978 the new administration took steps to reorganize the institutions in this sector, and agrarian reform seemed to gain momentum, complemented by other immediate action and agricultural plans. Thus, for example, in the 1979 national budget the agricultural sector has been given priority attention, together with health and education.

The production of rice - a staple item of diet - yuca, kidney beans and plantains recorded sharp increases which enabled grain imports to be reduced. Thus, external purchases of rice dropped from 71,000 to 11,600 tons between 1977 and 1978, and imports of kidney beans were reduced from 4,400 to 2,500 tons. In contrast, the growth of only 1% in the production

^{2/} See ONAPLAN, Estudio económico 1973-1977, Plandes N° 30.

Table 4
DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates ^{b/}		
					1976	1977	1978 ^{a/}
<u>Index of agricultural production (1973 = 100) ^{c/}</u>	<u>96.2</u>	<u>100.8</u>	<u>101.1</u>	<u>102.6</u>	<u>4.7</u>	<u>0.3</u>	<u>4.4</u>
Crop farming							
For domestic consumption	91.7	101.1	90.8	108.1	10.2	-10.2	19.0
For export ^{d/}	96.2	97.1	104.3	91.5	1.0	7.4	-6.1
Stock-raising	102.2	108.5	107.6	119.7	6.1	-0.1	11.2
<u>Production of some crops (Thousands of tons)</u>							
Rice	219	211	218	243	-3.6	3.3	11.7
Maize	52	54	72	73	2.5	33.3	0.8
Yuca	187	188	164	204	0.5	-13.0	24.6
Kidney beans	31	40	36	42	31.3	-10.7	16.7
Plantains	223	270	210	282	21.1	-22.0	34.1
Coffee	61	24	45	43	-64.1	87.1	-4.1
Cocoa	37	36	37	30	-0.5	2.2	-18.9
Sugar	1 246	1 375	1 273	1 195	10.4	-7.5	-6.1
Tobacco	20	38	39	36	91.9	2.6	-9.0
<u>Slaughtering (thousands of tons)</u>							
Beef	45	48	50	52	7.6	2.5	4.0
Pork	13	13	14	19	3.1	4.5	33.8
Poultry meat	40	43	37	45	5.4	-12.1	21.3

Source: CEPAL calculations on the basis of figures supplied by the Oficina Nacional de Planificación (ONAPLAN), Metas del plan operativo de 1978 - Diagnóstico 1973-1977.

^{a/} CEPAL estimates on the basis of preliminary figures.

^{b/} The growth rates were calculated on the basis of unrounded figures.

^{c/} Calculated on the basis of the gross value of production at 1973 prices.

^{d/} Including coffee, cocoa, tobacco and pigeon peas.

/of maize

of maize led to an increase from 82,500 to 100,000 tons in imports of this grain, destined almost entirely for the fattening of animals. Purchases of wheat - which is not produced in the country - rose from 115,900 to 135,000 tons. Although the production of groundnut oil for human consumption increased by 8% to 12,100 tons, the proportion of imports rose from 58% to 65%. Output of coconut oil for industrial use increased by 13%, but still only regained its 1973 level. In this respect, it should be noted that the pest which affects the formation of the coconut and may even destroy the production of the coco palm had spread to almost the entire eastern area of the country, with the danger of a considerable reduction in output in the short term.

Export crops are estimated to have declined by 6%. Sugar production fell for the second consecutive year: from nearly 1.47 million tons in 1976 it dropped to 1.2 million in 1978.

In 1976, sugar cane covered approximately 12% of the total cultivated area and the sugar industry generated 40% of export earnings, 75% of income from export taxes and about 20% of the fiscal income of the central government. The expansion recorded that year is attributable to the cultivation of marginal land, and it offset the effects of the drop in world prices. In the next few years, however, the fall in prices led to a reduction in the area planted with sugar cane in favour of production of crops for domestic consumption, with a resulting decrease in the sugar harvest and an increase in the cereal crop. The sugar harvest was also affected by the appearance of sugar cane rust, which may in the near future seriously damage the cane fields, since the eradication of the fungus entails the destruction of the diseased plants, and by the restrictions imposed by the Government on the traditional contracting of Haitian cane-cutters.^{3/}

In 1978 there were also contractions in the production of coffee (-4%) and cocoa (approximately -19%). Basically, the reductions were due to the excessive rainfall during the flowering period, but the age

^{3/} The number of Dominican visas extended annually to Haitians is around 40,000, but the real number of workers of that nationality entering the country is estimated at double that figure.

of the existing plantations and the scanty use made of up-to-date growing techniques were also contributory factors. The Ministry of Agriculture has been implementing programmes for the rehabilitation of both these commodities, but their effects on the volume of production will be seen only in the medium term. At the time the plan was announced, it provided for the rehabilitation of 50,000 hectares of cocoa plantations up to 1982, in which year production would be double that of 1977.

Livestock production grew by 11% in 1978, mainly owing to the increase in poultry and pigs. Beef production increased little (4%), partly because the low price established by the authorities tended to discourage slaughtering, and supply sometimes fell short of domestic demand. The small and fluctuating output several times prevented fulfilment of the export quota for the United States market, to which 90% of external beef sales are destined.

Pig slaughtering is estimated to have increased by 34% during the year owing to the preventive slaughtering ordered in view of the danger of an epidemic of African swine fever. All the pigs in eight provinces and on the Haitian border were slaughtered, numbering around 200,000 head out of an estimated total stock of 1.3 million. This situation caused tremendous economic losses to the peasants in the affected regions, and in August 1978 Congress approved a first indemnification of 10 million pesos to assist them.

(ii) Mining. The growth of mining in the present decade has been mainly due to the activities of three United States companies: the Alcoa Exploration Company, Falconbridge, and Rosario Dominicana, which have been producing bauxite since 1959, ferro-nickel since 1972, and gold and silver since 1975, respectively. Their production declined by 2% in 1977 and by about 19% in 1978, however.

Production of bauxite dropped sharply in 1975 and 1976 and stagnated in the following years (see table 5), in spite of the rising trend in export prices. In September 1978, bauxite was exported at nearly US\$ 32 per ton, compared with US\$ 18 per ton in 1975. The evident drop in production seems to have been due to the policy of the company producing this mineral rather than to world market problems.

Table 5
DOMINICAN REPUBLIC: MINING PRODUCTION

	1974	1975	1976	1977	1978 ^{a/}	Growth rates			
						1975	1976	1977	1978 ^{a/}
Bauxite (thousands of tons)	1 196	785	621	643	639	-44.0	-20.9	3.5	-0.6
Ferro-nickel (thousands of tons)	30	75	64	54	48	150.0	-14.0	-15.6	-11.1
Gold (tons)	-	5.6	12.8	10.7	9.6	-	128.8	-17.0	-10.0
Silver (tons)	-	2.8	27.7	57.6	47.4	-	896.2	107.9	-17.7

Source: Oficina Nacional de Planificación (ONAPLAN), Indicadores básicos, 1978, and direct information.

^{a/} Preliminary figures.

Production of gold and silver decreased significantly in 1978, possibly owing to the policy measures announced in a government study, which were to be incorporated in the new mining law to be promulgated in 1979. This draft legislation, which was still under study, would among other things authorize the Government to base the calculations of its fiscal income on world metals exchange quotations for gold and silver, and would also compel the mining company to keep a certain minimum number of workers under contract.

Finally, the contraction of external demand led to a drop in ferro-nickel production. It is estimated that only 45% of the installed capacity was utilized during the year, and at the beginning of the year 700 out of a total of 2,050 workers were dismissed.

(iii) Manufacturing. The manufacturing product grew by 4.7% in 1978. According to very preliminary data, the index of sugar production rose 3% (see table 6); it should be noted that the sugar industry accounts for one-third of the gross value of manufacturing production. Central Bank estimates indicate that the rest of the manufacturing activities increased by 5%, especially notable among the food items being the processing of rice and the production of flour and noodles. Output of cigarettes and beer also increased.

The production of other manufactures increased in a smaller proportion, being affected yet again by the insufficient and irregular electric power supply, since the work to expand capacity and repair the damage suffered by several generating plants had not been completed. Another factor contributing to the slow growth of manufacturing production was the contraction of bank credit to the private sector with the change in the system of loans. Yet another reason was the uncertainty regarding the changes that would be made in economic policy by the new government, which caused entrepreneurs to postpone their investment decisions. Finally, Dominican industry, with the exception of the sugar industry, suffered the cumulative effects of the contraction in demand.

(iv) Construction. The construction sector's share in the country's economic development was very considerable in the past. The value added by this activity increased at a rate of 23% annually in the first three years of the decade, and by 11% annually in 1974-1977. In 1978, however, the growth rate dropped to slightly over 2%.

Table 6
DOMINICAN REPUBLIC: INDEXES OF MANUFACTURING PRODUCTION
(1970 = 100)

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
<u>Index of manufacturing production</u>	<u>163</u>	<u>173</u>	<u>180</u>	<u>187</u>	<u>6.1</u>	<u>4.0</u>	<u>4.0</u>
Sugar production and refining	115	126	125	129	9.6	-	3.1
Other food products, beverages and tobacco	178	188	198	206	5.6	5.3	3.8
Textiles, clothing and footwear	199	212	224	...	6.5	5.7	...
Wood and furniture	233	240	251	...	3.0	4.6	...
Paper and printing	143	152	160	...	6.3	5.4	...
Chemical products	163	173	182	...	6.1	5.2	...
Non-metallic mineral products	300	319	336	356	6.3	5.3	6.1
Basic metal industries	322	340	358	...	5.6	5.3	...
Metal products, machinery and equipment	304	324	341	...	6.6	5.2	...
Others	340	440	460	...	29.4	4.5	...

Source: Central Bank of the Dominican Republic, Cuentas Nacionales, (1973-1977).

a/ Preliminary figures.

/The building

The building of dwellings contracted by 2.9%, mainly because of a certain degree of saturation of demand from the high- and middle-income groups. This is borne out by other indicators, such as the virtual stagnation of cement production (see table 7).

The expansion of the rest of construction activities was subject to the continuation of public sector projects, since no new projects which could have absorbed manpower and partly solved the unemployment problem, were initiated.

3. The external sector

(a) Trade in goods

The 10% fall in the value of exports of goods as a result of the drop in the prices of several of the main export commodities, the smaller volume of sugar and cocoa sales, and the increase of slightly over 6% in the value of imports made up the foreign trade picture in 1978.

Table 8 shows the evolution of the unit value and volume of exports and the results in terms of export earnings. The value and volume of imports, for their part, grew at much lower rates following the significant increases in 1973 and 1974.

The terms of trade improved considerably in 1974 and 1975, mainly owing to the soaring price of sugar, but in 1976 sugar prices dropped sharply, although the drop was compensated for in the following year by the increased prices of other commodities such as coffee and cocoa. In 1978, with the fall in the prices of the main export commodities, the terms of trade deteriorated by 16% to a level 41% below that of 1975, while the purchasing power of exports has declined by 35% since that year.

(i) Exports. In 1978, income from exports of goods amounted to US\$ 700 million, or US\$ 80 million less than in 1977 (see table 9).

Sugar continued to be the main export commodity and generated 26% of the total receipts. The average price at which unrefined sugar was sold during the year was 4.4% less than in 1977, and the volume exported dropped from 1.1 million to 905,000 tons, resulting in a decline of US\$ 47 million in foreign exchange earnings, without counting the lower exports of molasses.

Table 7

DOMINICAN REPUBLIC: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Area constructed (Thousands of m ²)							
Total	1 191	1 172	1 156	1 185	-1.6	-1.4	2.5
Dwellings	717	767	850	825	7.0	10.8	-2.9
Production of certain building materials							
Cement (thousands of tons)	555	654	862	887	17.8	31.8	2.9
Bricks (millions)	3.0	1.6	1.4	...	-47.0	-12.5	...

Source: Oficina Nacional de Estadísticas, República Dominicana en cifras, 1978.

a/ Preliminary figures.

Table 8
DOMINICAN REPUBLIC: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods						
Value	27.2	44.0	40.4	-19.9	9.0	-10.3
Volume	11.4	-0.6	-11.4	13.8	-1.1	-1.4
Unit value	14.2	44.8	58.5	-29.6	10.2	-9.0
Imports of goods						
Value	24.9	59.5	14.8	-1.2	11.0	6.2
Volume	5.6	24.7	1.6	-5.9	4.7	-1.7
Unit value	18.4	27.9	13.0	5.0	6.0	8.0
Terms of trade	-3.5	13.2	40.3	-32.9	4.0	-15.7
	<u>Indexes (1970 = 100)</u>					
Terms of trade	94.1	106.5	149.4	100.2	104.2	87.8
Purchasing power of exports of goods	160.2	180.3	224.0	171.0	175.7	146.0
Purchasing power of exports of goods and services	158.6	179.3	221.3	175.2	179.4	157.1

Source: CEPAL, on the basis of official data supplied by the Central Bank of the Dominican Republic, and CEPAL's own estimates for 1978.

a/ CEPAL estimates on the basis of official figures.

Table 9
DOMINICAN REPUBLIC: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978 ^{a/}	1973	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Main export products b/</u>	<u>843</u>	<u>656</u>	<u>723</u>	<u>603</u>	<u>88.8</u>	<u>86.1</u>	<u>-22.2</u>	<u>10.2</u>	<u>-16.6</u>
Sugar	577	272	231	180	43.7	25.7	-53.0	-15.1	-22.3
Coffee	43	101	185	97	10.2	13.8	134.9	83.2	-49.0
Cocoa	25	45	94	86	4.3	12.3	80.0	109.0	-8.2
Tobacco	35	38	28	46	6.5	6.6	8.6	-26.3	64.3
Bauxite	17	15	22	23	3.3	3.3	-11.8	46.7	5.0
Ferro-nickel	102	110	91	73	19.1	10.4	7.8	-17.3	-19.8
Gold and silver	27	54	55	68	-	9.7	100.0	1.9	23.6
Furfural	17	21	17	30	1.7	4.3	23.5	-19.0	74.6
<u>Manufactured products</u>	<u>37</u>	<u>45</u>	<u>56</u>	<u>56</u>	<u>7.3</u>	<u>8.0</u>	<u>21.6</u>	<u>24.4</u>	-
<u>Other products</u>	<u>14</u>	<u>15</u>	<u>2</u>	<u>41</u>	<u>3.9</u>	<u>5.9</u>			
<u>Total</u>	<u>394</u>	<u>716</u>	<u>781</u>	<u>700</u>	<u>100.0</u>	<u>100.0</u>	<u>-19.9</u>	<u>8.9</u>	<u>-10.3</u>

Source: Oficina Nacional de Planificación, Indicadores básicos, 1978, PLANDES Nº 39.

a/ Preliminary figures.

b/ Sugar exports include exports of molasses and syrups; coffee exports also include exports of roasted and ground coffee; cocoa exports include exports of cocoa products.

The International Sugar Agreement came into force in 1978 and accorded the Dominican Republic a basic quota of 1.1 million tons of exports if the world price was 15 US cents per pound. In view of the continuing fall in prices observed during the year, however, and as a means of protecting the income of producer countries, the supply of sugar on the world market was reduced across the board, and the Dominican Republic's quota for the 1978/1979 crop year was fixed at 935,000 tons. Since this country had been pursuing a policy aimed at improving the productivity of the sugar industry, this means that any increase in production will generate surpluses which will be difficult to sell on the world market and will cause problems in the financing of stocks. Since, moreover, it is not an easy matter rapidly to reorient the agricultural production structure towards other products for export and domestic consumption, the present situation of the Agreement deriving from the low world demand does not offer a very encouraging an outlook in the short and medium term.

Sales of coffee, including roasted and ground coffee, amounted to only US\$ 97 million, or US\$ 88 million less than in 1977. Furthermore, the volume exported decreased from 44,000 to 27,000 tons between the two years, while the average price fell by 17%.

The volume of cocoa exports increased by 8.6%, though the price fell by 16%. Exports of tobacco, for their part, rose by 64% in total value, owing to the 85% increase in the volume of sales from 20,000 to 37,000 tons, but the unit value dropped by 15%.

As regards the major mining exports, sales of bauxite amounted to 757,000 tons, which was slightly less than in 1977, and there was an 18% drop in exports of ferro-nickel. Only in the case of doré (gold and silver alloy) did the volume of sales increase by nearly 25%.

Exports of furfural, which since 1975 had fluctuated between US\$ 17 million and US\$ 21 million, rose to US\$ 30 million in 1978 due to a 70% increase in volume, to 44,000 tons, and a slight improvement in price.

The value of exports of non-traditional products, particularly manufactures, did not change with respect to 1977 (see table 9).

(ii) Imports. The growth rate of imports of goods declined in 1978, mainly owing to the drop in the purchasing power of exports, the loss of

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impetus of economic activity in general, and the restrictive policy followed by the Central Bank in the provision of foreign exchange. During the year there was a gradual reduction in the number of products which could be imported at the official rate of exchange, so that importers (including entrepreneurs) had to resort on a larger scale to the free foreign exchange market and pay a price which in the middle of the year was 35% higher than the official rate, although in the last quarter the difference decreased to 22%.

The value of imports rose by slightly over 6% to US\$ 900 million, compared with the 11% rise in 1977, while their volume dropped by nearly 2% to a level similar to that of four years previously.

Food purchases by the National Price Stabilization Institute (INESPRE) were less than in the previous year, owing to the increased domestic supply of cereals and other products destined for home consumption.

In spite of the fact that the prices of hydrocarbon imports rose by only 2.4%, their value grew by a little over 8% and came to represent about 21% of total imports. This increase was partly due to the interruptions in the electricity supply which had been occurring since the end of 1976 and which caused the private sector and some public institutions (for example, hospitals) to purchase diesel generators (see table 10).

(b) Income from tourism

Tourism has acquired great importance in the Dominican economy. For several years the State has promoted and directly participated in the expansion of an integrated tourism infrastructure, including hotels, and has provided substantial credit support for the activities carried on in this field by the private sector. It is estimated that in 1978 the number of foreign tourists rose by approximately 25% to nearly half a million persons - five times the number of visitors in 1971.

In the course of the year, the execution of two large-scale projects was initiated in conjunction with foreign companies: the first consists of a tourism complex costing a total of approximately US\$ 7 million in Altos de Chavón, near La Romana; the second, located in Macao, will have an initial cost of approximately US\$ 12 million and an annual capacity for the accommodation of 20,000 persons, as well as an airport which will be built by the Dominican Government.

Table 10
DOMINICAN REPUBLIC: IMPORTS OF GOODS (FOB)

	Millions of dollars			Percentage breakdown		Growth rates	
	1976	1977	1978 ^{a/}	1976	1978 ^{a/}	1977	1978 ^{a/}
Cereals	37	48	50	4.9	5.6	29.9	3.5
Fats and oils	18	29	30	2.4	3.3	60.8	4.1
Mineral fuels	170	177	191	22.2	21.2	4.4	8.1
Pharmaceutical products	28	26	29	3.6	3.2	-5.8	10.7
Plastics	21	24	25	2.7	2.8	17.5	2.1
Wood and wood products	17	16	18	2.2	2.0	-3.0	10.4
Paper and paperboard	24	24	26	3.2	2.9	-2.5	11.5
Cast iron	48	48	53	6.2	5.9	1.0	9.1
Boilers and machinery	86	96	105	11.2	11.7	11.8	9.8
Electrical machinery	37	35	36	4.9	4.0	-5.9	3.7
Vehicles, etc.	63	75	78	8.3	8.7	18.7	5.1
Other imports	215	250	259	28.2	28.7	15.7	1.4
<u>Total</u>	<u>764</u>	<u>848</u>	<u>900</u>	<u>100.0</u>	<u>100.0</u>	<u>11.0</u>	<u>6.1</u>

Source: National Planning Office.

a/ Preliminary figures.

/An estimated

An estimated US\$ 103 million entered the country under the head of tourism in 1978, i.e., nearly 15% of total exports of goods. Moreover, the restrictions imposed on the sale of foreign exchange to travellers at the official rate and the rise in the price of the free-market dollar made it possible to obtain, for the first time, a surplus of US\$ 8 million in the tourism sector.

(c) The current account position and its financing

The deficit of US\$ 200 million on trade in goods, which was three times higher than the 1977 figure, helped to push up the trade deficit to US\$ 293 million with the addition of services, i.e., US\$ 100 million more than the figure for the previous year. Furthermore, net payments of profits and interest on foreign capital increased even more than net transfer payments, the final result being a deficit of US\$ 391 million on current account, a record figure which was 46% higher than the previous year's deficit (see table 11).

The growing deficit on the balance of payments current account in recent years has been covered by increasing short- and long-term loans. On the other hand, direct foreign investment has declined since 1975 and is estimated at only US\$ 48 million in 1978, despite the government incentives to attract it since 1976, including tax exemptions, State guarantees for obtaining loans, and special terms for remitting profits abroad.

Up to October, the gross international reserves had gone down by about US\$ 100 million. In the next few months there was a decided recovery, however, thanks to a significant inflow of external loans which reduced this deficit to US\$ 26 million by the end of the year.

(d) External indebtedness

In the last few years, external indebtedness for a term of more than one year has increased considerably. While in the period 1973-1974 it rose at a rate of 16% annually, in 1978 it went up by nearly 24% to an estimated total of US\$ 1.3 billion, 39% of which consisted of medium-term credit from one to eight years, and the rest of long-term loans (see table 12).

Table 11

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
Current account						
Exports of goods and services	513	730	1 009	840	919	864
Goods FOB ^{b/}	442	637	894	716	781	700
Services	71	93	115	124	138	164
Transport	14	15	16	18	19	18
Travel	38	54	59	71	84	103
Imports of goods and services	565	917	1 010	1 007	1 109	1 157
Goods FOB ^{b/}	422	673	773	764	848	900
Services	143	244	237	243	261	257
Transport	71	142	124	123	134	142
Travel	52	76	75	84	88	95
Net payments of profits and interest on foreign capital	-77	-90	-113	-124	-124	-148
Profits	-54	-58	-78	-87	-79	-71
Interest	-23	-32	-35	-37	-45	-77
Net private transfer payments	29	33	36	44	48	50
Balance on current account	-100	-244	-78	-247	-266	-391
Capital account						
Net external financing (a+b+c+d+e)	100	244	78	247	266	391
(a) Long-term capital	69	149	159	169	183	} 365
Direct investment	34	54	64	60	46	
Private sector	14	12	41	33	52	
Loans	21	35	72	85	110	
Amortization payments	-7	-23	-31	-52	-58	
Official sector	21	85	54	76	85	
Loans	43	110	92	116	107	
Amortization payments	-19	-27	-38	-40	-22	
Other liabilities and assets	-3	-	-	-	-	
(b) Short-term capital	62	96	-57	60	117	
Private sector (net)	-3	67	-14	9	-3	
Monetary authorities (net)	17	38	-2	-4	-8	
Errors and omissions	48	-9	-41	55	128	
(c) Allocation of SDRs	-	-	-	-	-	
(d) Official transfer payments	2	2	3	3	3	
(e) International reserves						
(minus sign indicates an increase)	-33	-3	-27	15	-37	...
Use made of IMF credit	-5	-	-	25	18	...
Monetary gold	-	-	-	-	-1	-
Special Drawing Rights	-	-	1	1	1	-
IMF reserve position	-13	-13	-	-	-	-
Foreign exchange	-15	-16	-28	-11	-55	26

Sources: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

^{a/} Preliminary figures.

^{b/} Including non-monetary gold.

Table 12

DOMINICAN REPUBLIC: INDICATORS OF EXTERNAL INDEBTEDNESS^{a/}

(Millions of dollars)

	1973	1974	1975	1976	1977	1978 ^{b/}
Total disbursed external debt	533	632	721	870	1 044	1 289
Public	...	...	414	484	607	770
Private	...	...	307	386	437	519
Servicing of external debt	80	95	118	126	127	154
Amortization payments	55	58	78	86	881	...
Interest payments	25	37	40	40	46	...
Servicing of external debt, as a percentage of total exports of goods and services	15.6	13.0	11.8	15.2	13.9	17.9

Sources: Central Bank of the Dominican Republic.

^{a/} End-year balance of debts having a term of over one year.^{b/} Preliminary figures.

/Up to

Up to 1975 the Government managed to obtain the necessary external financing on favourable terms from international financing agencies. The growing current account deficit in the last few years, however, compelled it to have recourse to private international banks, in spite of the less favourable conditions they offer. In these circumstances, since the end of 1978 the monetary authorities have endeavoured to reorient the debt, seeking credit on more favourable terms within the general lines of the country's economic policy, above all as regards the private sector.

Thus, whereas in 1969 private debt represented 5% of the external debt, it accounted for 40% of that debt in 1978. Private sector investment was financed with credit from private banks, suppliers and even multilateral agencies, and the Government promoted this practice, even acting as guarantor for the borrowing enterprises. Total servicing of the external debt thus increased rapidly, in view of the less favourable conditions under which the private sector was obtaining financing. At present nearly 60% of its debt is on a medium-term basis, compared with 37% of the public sector's.

Noteworthy among the loans obtained in 1978 was one of US\$ 185 million granted by several foreign commercial banks, mainly for financing the deficits of various independent bodies, especially the Dominican Electricity Corporation.

In order to ease the pressure on the balance of payments in 1979 and 1980, the Central Bank secured a two-year moratorium on the repayment of the US\$ 60 million loan obtained in 1976 from the Venezuelan Investment Fund to finance some of the oil imports from that country in 1977.

Finally, it should be noted that service payments on the external debt increased considerably in 1978 and represented 18% of exports of goods and services, i.e., one of the highest coefficients among Latin American countries of similar economic size (see table 12).

4. Prices and wages

The consumer price index for the city of Santo Domingo showed an annual average variation of 3.5% in 1978, which is an appreciable improvement with respect to the previous year, when it was nearly 13% (see table 13).

Table 13
DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES^{a/}
(Percentages)

	1973	1974	1975	1976	1977	1978
	<u>Variation from December to December</u>					
Consumer price index	17.3	10.5	16.5	7.0	8.5	1.8
Food	30.0	11.8	16.0	-6.1	4.3	-0.5
	<u>Variation between annual averages</u>					
Consumer price index	15.1	13.2	14.5	7.9	12.8	3.5
Food	18.4	17.7	17.7	-2.8	9.3	-3.4

Source: CEPAL, on the basis of data supplied by the Central Bank of the Dominican Republic.

^{a/} Corresponds to the general consumer price index for Santo Domingo.

/This marked

This marked slackening of the inflationary process may be ascribed in particular to the satisfactory supply of agricultural products for domestic consumption during the year. Food prices fell 0.5% and the cost of housing rose by only 2.7% owing to the excess supply of housing units for the middle- and high-income strata. On the other hand, there were significant increases in the price indexes for clothing (13.2%) and services (10.9%).

As regards wages and salaries, there were two outstanding developments in 1978: the wages and salaries of government officials were adjusted after being frozen for several years, and the minimum monthly wage was increased from 50 to 100 pesos towards the end of the year, thus benefitting a large sector of the country's labour force.

5. Monetary and fiscal policies

(a) Monetary policy

Monetary policy was adversely affected by domestic and external factors. The sharp drop in world prices of the main export goods led to an absolute decline in international reserves, added to which was the exceptionally large and uncontrolled outflow of capital, which increased towards the end of the year. On the other hand, the sluggish growth of private activity due to the uncertainty caused by the change of government and the resulting new line of economic policy was reflected in a contraction of the demand for domestic credit. All these factors helped to limit the expansion of the means of payment. The money supply, which in 1977 had increased by 18%, grew by only 4.4% in 1978 and currency outside banks increased by a little over 10% (see table 14).

In the face of the slower growth of the money in circulation, the Monetary Board of the Central Bank adopted some regulatory measures, establishing new ceilings for advances and rediscount lines. However, the Banco de Reservas, and later other banking institutions, were partially exempted from the legal reserve requirements. Furthermore, official demand deposits decreased between January and August from 158 to 76 million pesos, creating some liquidity problems for the Banco de Reservas, but the situation improved by the end of the year, when these deposits totalled 166 million. Private sector deposits, in contrast, increased by barely 1.3% during the year.

Table 14
DOMINICAN REPUBLIC: MONETARY POSITION

	End-year balance (millions of pesos)				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
<u>Money</u>	<u>400</u>	<u>403</u>	<u>475</u>	<u>496</u>	<u>0.8</u>	<u>17.9</u>	<u>4.4</u>
Currency outside banks	158	172	203	224	45.6	18.0	10.3
Demand deposits	242	231	272	272	-4.5	17.7	-
<u>Factors of expansion</u>	<u>1 142</u>	<u>1 179</u>	<u>1 378</u>	<u>1 420</u>	<u>3.2</u>	<u>16.9</u>	<u>3.0</u>
Foreign assets (net)	32	-11	51	-32			
Domestic credit	1 110	1 190	1 327	1 452	7.2	11.5	9.4
Government (net)	242	215	234	265	-11.2	8.8	13.2
Official entities	183	186	242	301	1.6	30.1	24.4
Private sector	685	789	851	886	15.2	7.9	4.1
<u>Factors of absorption</u>	<u>743</u>	<u>777</u>	<u>903</u>	<u>924</u>	<u>4.6</u>	<u>16.1</u>	<u>2.3</u>
Quasi-money (savings and time deposits)	468	485	545	533	3.6	12.4	-2.2
Other items (net)	275	292	358	391	6.2	22.3	9.2

Source: International Monetary Fund, International Financial Statistics.

/Among the

Among the factors of expansion of the money supply, net international reserves, which had risen by 51 million pesos in 1977, dropped by 32 million in 1978, while credit granted to the Government increased by 13%, reflecting the effects of the fiscal deficit. Credit granted to public institutions and bodies in contrast, grew less than in 1977.

Loans to the private sector, which had traditionally been the main factor of expansion of the means of payment, increased by barely 4% in 1978. Their slower growth was largely due to the lack of incentives to invest, and to the slackness of demand for goods and services. In addition, the commercial banks faced problems due to delays in payments.

(b) Fiscal policy

Up to November 1978, current income of the central government contracted by 6%, its performance being closely linked with the collection of taxes on foreign trade, which decreased by about 13% with respect to 1977 (see table 15). In the case of several export products, the collection of taxes had to be temporarily suspended when prices fell below the level at which exemption legally comes into force. Thus, for example, Decree 3410 enacted in May suspended the collection of taxes on cocoa for two months, and on coffee for four months. In the case of sugar, a similar situation arose as from September, when the world price (6.40 US cents per pound) fell below the taxable level.

Income from export taxes, which in 1977 represented 15% of tax revenue, accounted for only 7% in 1978. Income from import taxes, for its part, rose by only 3%, representing about 38% of government income. The revenue from these taxes on foreign trade was 39 million pesos less than the amount collected by the same date of the previous year.

The rest of the tax income remained at around the same level. The amount obtained from taxes on income and net worth did not change, and taxes on goods and services rose by only 7%. In the final analysis, tax income dropped by about 5% and current income by 6%.

In 1978 the tax system continued to be based mainly on taxes on foreign trade (46%) and domestic transactions (27%). The global tax burden is estimated at 11% of the gross domestic product (compared to 13% in 1977) and has declined since 1975, which shows the inelasticity

Table 15
DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{b/}
<u>Current income</u>	<u>636</u>	<u>564</u>	<u>620</u>	<u>582</u>	<u>-11.3</u>	<u>9.9</u>	<u>-6.1</u>
Tax revenue	592	538	589	561	-9.0	9.5	-4.8
Direct	142	140	126	126	-1.4	-10.0	-
Goods and services	95	119	141	151	25.3	18.5	7.4
From taxes on foreign trade	332	255	296	257	-23.2	16.1	-13.3
Others	22	24	26	27	9.1	8.3	3.8
Non-tax revenue	45	26	31	21	-42.2	19.2	-32.1
<u>Current expenditure</u>	<u>353</u>	<u>326</u>	<u>367</u>	<u>423</u>	<u>-7.6</u>	<u>12.6</u>	<u>15.3</u>
Wages and salaries	155	165	173	198	6.5	4.8	14.2
Other current expenditure	198	161	194	225	-18.7	20.5	15.8
<u>Saving on current account</u>	<u>283</u>	<u>238</u>	<u>253</u>	<u>159</u>	<u>-15.9</u>	<u>6.3</u>	<u>-37.2</u>
<u>Capital expenditure</u>	<u>300</u>	<u>243</u>	<u>252</u>	<u>359</u>	<u>-19.0</u>	<u>3.7</u>	<u>2.8</u>
Real investment	249	163	175	168	-34.5	7.4	-4.0
Debt amortization payments	8	14	16	19	75.0	14.3	18.8
Other capital expenditure	43	66	61	72	53.5	-7.6	18.0
<u>Total expenditure</u>	<u>653</u>	<u>569</u>	<u>619</u>	<u>682</u>	<u>-12.9</u>	<u>8.8</u>	<u>10.2</u>
Fiscal deficit (or surplus)	-17	-5	1	-100	...	...	...

Source: CEPAL, on the basis of data supplied by the Central Bank of the Dominican Republic and the National Budget Office.

a/ Estimates on the basis of information available up to November.

b/ Growth rate for the period January-November 1978, with respect to the same period in 1977.

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of the present tax system. Net worth taxes, which represented only 3% of tax income in 1978, consist almost entirely of taxes on vehicle licences. There are no taxes on ownership of property or other fixed assets. Furthermore, the legal system of tax exemptions was rapidly expanded with the inclusion of new provisions in the early months of 1978.^{4/}

In spite of the critical situation with respect to current income, the Government had to continue to cover its essential operational expenditure. Thus, current spending increased by 15%, and expenditure on wages and salaries alone rose by a little over 14%.

Unlike current spending, capital expenditure grew by only 2.8%, partly owing to the drop in real investment, particularly in construction. Purchases of machinery and equipment increased and their share in the total rose from 7% in the preceding biennium to 13% in 1978. Transfers of capital from the central government to autonomous institutions increased by slightly over 18%. In the particular case of the Dominican Electricity Corporation, these transfers were used partly to cover its deficit.

The control of public expenditure exercised in the last few years through a policy restricting current outlays by the central government had meant that current saving was enough to finance capital expenditure. From the first quarter of 1978 onwards, however, saving dropped rapidly, and by the end of November a fiscal deficit of 79 million pesos had accumulated, which was estimated to have risen to approximately 100 million by the end of December, thus reversing the favourable trend prevailing in previous years.

^{4/} ONAPLAN, Estudio económico 1973-1977, op.cit.

SURINAME

1. The overall picture

Official estimates of the gross domestic product at factor cost (GDP) are not available for either 1977 or 1978. In 1976, real GDP rose by over 4%, following a decline of similar magnitude over the course of the preceding two years. Based on partial data, it appears that significant real gains were recorded in both 1977 and 1978.

Following the 13% rise in the volume of agricultural production in 1977, the few available indicators for 1978 suggest that a modest rise was achieved. The 1978 output of the forestry sector is expected to show a significant increase over the previous year, while in the first quarter the production data for the mining sector show a 16% rise over the corresponding period in 1977. Similar data for manufacturing also show a substantial increase over the first quarter of 1977, while in the services sector, construction is believed to have turned in a favourable performance in 1978.

With respect to the external sector, the few available indicators reveal that a substantial surplus was achieved in the balance of payments notwithstanding the growing deficit on merchandise trade. In 1977, the trade account registered its first deficit in recent years, owing to stepped-up spending on a large number of development projects, and these spending programmes were also mainly responsible for the even larger deficit estimated for 1978. At the same time, however, the first disbursements under a 380 million dollar grant awarded to the government by the Netherlands Commission for Development and Co-operation to help finance these projects were responsible for the balance-of-payments surplus in 1978.

In 1978 consumer prices increased by around 8%, slightly less than in the previous year. The real increase in the money supply was limited to about 4%, while the deficit in the fiscal budget, due to the increased expenditures under the current development programme, rose by 34% and equalled 44% of total expenditure (see table 1).

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978
A. Basic economic indicators						
Gross domestic product at factor cost (millions of guilders at 1970 prices)	552	543	528	550	...	...
Population (thousands)	400	410	422	434	477	...
Per capita gross domestic product (guilders at 1970 prices)	1 381	1 324	1 251	1 267	...	...
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	4.0	-1.7	-2.8	4.2	...	...
Per capita gross domestic product	1.4	-4.1	-5.5	1.3	...	...
Current value of exports of goods	-1.7	55.8	4.0	1.1	14.3	...
Current value of imports of goods	...	53.4	14.8	7.0	40.6	...
Consumer price index						
December - December	...	4.0	9.4	14.6	4.1	7.6a/
Annual average variation	13.0	16.9	8.6	9.8	9.8	8.7a/
Money	...	5.2	20.5	17.5	6.4	...
Current income of government	-3.6	28.3	47.7	-4.2	9.9	14.3
Total expenditure of government	13.6	14.2	40.3	21.7	21.4	22.3
Fiscal deficit/total expenditure	29.3	20.6	16.1	34.0	40.3	44.2
<u>Millions of dollars</u>						
C. External sector						
Trade balance	26.4	39.9	14.1	21.7	-61.1	...
Balance on current account	-27.6	-23.2	-45.8	-34.6	-128.7	...
Variation in net international reserves	16.7	6.0	34.6	20.7	-17.4	43.4
External debt c/	110.5	118.0	6.2	5.5	5.0	26.7

a/ End of June.

b/ At 30 September 1978.

c/ External debt = indebtedness to governments + international organizations + private sector.

d/ At 1 September 1978.

2. Sectoral trends

The changing composition of the product between 1970 and 1976 is shown in table 2. Among the outstanding changes over this period may be cited the decline in the contribution of mining from over 33% to under 27%, and the rise in that of manufacturing from almost 8% to over 11%. Also worthy of mention is the increase in the relative contribution of agriculture from almost 8% to almost 9%.

(a) Agriculture

The most recent data on the overall performance of agriculture relate to 1976. In that year real growth approached 4%, after an impressive gain of over 15% in 1975. The available data on the evolution of the volume of agricultural output suggest that there was another substantial increase in agricultural GDP in 1977 (see table 3). In that year the increase in the volume of output of agriculture proper approached 13%, owing mainly to an almost 18% increase in the production of rice, although both the livestock (-0.7%) and fisheries (-7.2%) subsectors suffered declines in their output.

Preliminary and partial production data for 1978 suggest a modest overall increase in output. Production in agriculture proper was expected to decline slightly, owing to irrigation and drainage problems in rice production and a growing shortage of labour in plaintain and sugar production, but the output of the livestock and fishing subsectors was expected to show substantial increases.

The labour shortages and vagaries in the water supply referred to above are perhaps the two outstanding problems hindering agriculture, although 1978 saw the implementation of the first phase of the Corentyne Project, one of the principal objectives of which is to augment and regularize the water supply and drainage capacities of the irrigation system.

Also worthy of mention was the installation of a modern rice huller and a significant increase in the importation of quality breeding stock. Finally, the government received an SF 310 million grant from the Netherlands Commission for Development and Co-operation to finance agricultural development projects during the lifetime of the current development plan.

Table 2

SURINAME: GROSS DOMESTIC PRODUCT BY KIND OF ACTIVITY, AT FACTOR COST

	Millions of Suriname guilders at 1970 prices			Percentage breakdown		Growth rates		
	1974	1975	1976	1970	1976	1974	1975	1976
Agriculture and fisheries	40	46	48	7.7	8.7	...	15.2	3.7
Forestry and wood industry	12	14	16	2.8	2.8	-1.6	11.3	12.3
Mining and bauxite	187	146	147	33.1	26.8	-3.3	-22.1	1.0
Manufacturing	52	58	62	7.8	11.2	-11.0	10.9	6.2
Construction	9	6	10	1.4	1.8	-11.7	-33.0	60.7
<u>Subtotal goods</u>	<u>301</u>	<u>270</u>	<u>282</u>	<u>52.8</u>	<u>51.3</u>	<u>-7.5</u>	<u>-10.3</u>	<u>4.5</u>
Trade and commerce	71	84	89	17.6	16.2	2.1	18.2	5.6
Banking	10	9	10	2.6	1.7	22.8	-3.1	1.1
Transport	15	15	16	2.4	2.9	-10.0	-0.6	3.3
Government	106	109	113	19.2	20.5	3.0	3.0	3.0
Others	40	40	41	5.4	7.5	0.5	0.8	3.0
<u>Subtotal services</u>	<u>242</u>	<u>258</u>	<u>268</u>	<u>47.2</u>	<u>48.7</u>	<u>2.1</u>	<u>6.7</u>	<u>3.8</u>
<u>Total gross domestic product</u>	<u>543</u>	<u>528</u>	<u>550</u>	<u>100.0</u>	<u>100.0</u>	<u>-1.7</u>	<u>-2.8</u>	<u>4.2</u>

Source: Ministry of Finance, Suriname, Financiele Nota, 1979, September 1978, Table IV.1.2.

Table 3

SURINAME: INDICATORS OF AGRICULTURAL, LIVESTOCK AND FISHING PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Agriculture (tons)					8.9	-0.8	12.9
Paddy rice	162 417	174 845	172 500	202 866	7.7	-1.3	17.6
Maize	193	365	132	230	89.1	-63.8	74.2
Sugar-cane	146 417	159 543	146 685	135 325	9.0	-8.1	-7.7
Palm oil	130	625	1 330	1 870	380.8	112.8	40.6
Plantain	39 605	43 095	41 425	31 568	8.8	-3.9	-23.8
Bananas	834	950	1 572	1 700	13.9	65.5	8.1
Peanuts	776	2 300	1 699	2 200	196.4	-26.1	29.5
Green vegetables	2 546	2 712	3 035	3 587	6.5	11.7	18.2
Cocoa	54	55	58	61	1.9	5.5	5.2
Coffee	91	88	76	90	-3.3	-13.6	18.4
Livestock (head) a/	50 484	49 994	48 394	46 884	-1.0	-3.2	-3.1
Cattle	28 100	26 200	25 850	24 000	-6.8	-1.3	-7.2
Pigs	17 484	18 994	17 619	18 259	8.6	-7.2	3.6
Goats and sheep	4 500	4 400	4 500	4 200	-2.2	2.3	-6.7
Other	400	400	425	425	-	6.3	-
Poultry b/	4 210	4 087	4 312	4 400	-2.9	5.5	2.0
Number of animals slaughtered a/	19 287	21 136	18 948	19 160	9.6	-10.4	1.1
Cattle	7 039	7 854	7 375	6 986	11.6	-6.1	-5.3
Pigs	11 984	12 794	11 219	11 759	6.7	-12.3	4.8
Goats and sheep	264	298	354	415	12.9	18.8	17.2
Poultry b/	3 800	3 650	3 800	3 900	-4.0	4.1	2.6
Production (tons)							
Beef	929	1 045	980	943	12.5	-6.2	-3.8
Pork	827	863	774	811	6.8	-12.3	4.8
Fishing production (tons)	1 971	2 634	2 377	2 293	33.6	-9.8	-3.5
Shrimps	174	226	81	188	29.9	-64.1	132.4
Other	1 797	2 408	2 295	2 104	34.0	-4.7	-8.3

Source: Data supplied by the Ministry of Agriculture Stock Raising and Fisheries of Suriname and the Statistical Office of Suriname.

a/ Excludes poultry.

b/ Thousand head.

/b) Forestry

(b) Forestry

The most recent official data show that the forestry GDP rose by 12% in 1976. The available information for 1977 and 1978 suggests that production has continued to develop favourably. In this period the output of sleepers increased substantially, owing primarily to the railroad project in the western region. The production of higher grades of plywood as well as of prefabricated housing has also increased at a satisfactory rate.

In 1978, the commencement of production of a harder type of plywood and a contract to supply Venezuela with over 500 prefabricated houses were expected to boost the sector's foreign exchange earnings.

Current development plans for the industry include projects to exploit commercially the ferole species, which is normally discarded, and other previously unexploited woods. These projects, which are being executed by a company in which the government holds a majority share, are expected to complement the government's resettlement programme.

(c) Mining

The most recent data on the evolution of the mining GDP show a 1% increase in 1976 after the marked decline over the preceding two years. Production data for 1977 (see table 4) record a 6% rise in output, with increases in each of the three main products, but at the same time it should be noted that the 1977 level of production was still 2% below the 1970 level.

If the production trends established in the first quarter of 1978 continued unchanged throughout the year, they would have given an overall increase of 16%, despite the projected 6% decline in bauxite, the sector's principal product, output of which was hindered throughout the first quarter by industrial unrest.

Current development plans in the sector include continuation of the bauxite project in the western region, completion of which has been handicapped by inadequate finance, and a major project search for uranium deposits.

(d) Manufacturing

In 1976 the manufacturing GDP rose by over 6%, and the production data for 1977 (see table 5) indicate that the overall volume of output apparently registered a modest increase in that year also, but the production data for

Table 4

SURINAME: INDICATORS OF MINING PRODUCTION

	1975	1976 ^{a/}	1977 ^{a/}	1978 ^{b/}	Growth rates	
					1976	1977
Index of mining production (1970 = 100)	89.7	92.6	98.0	100.0	3.2	5.8
Production (thousands of metric tons)						
Bauxite	4 751	4 587	4 856	1 136	-3.4	5.9
Alumina	1 130	1 163	1 215	332	2.9	4.5
Aluminium	35	46	50	13	32.3	8.9
Exports volume (thousands of metric tons)						
Bauxite	2 302	1 989	2 172	437	-15.0	9.9
Alumina	1 077	1 071	1 097	264	-2.8	4.1
Aluminium	26	46	59	11	75.4	27.4

Source: Bureau of Statistics, Suriname, Kwartaal Statistiek van de Industriale Productie 1970-1977 and le Kwartaal 1978, No 86, July 1978.

a/ Provisional.

b/ First quarter 1978.

Table 5

SURINAME: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977	1978a/	Growth rates		
					1975	1976	1977
Sugar (metric tons)	9 577	8 391	6 370	...	12.2	-12.4	-26.7
Wheat flour (metric tons)	7 049	9 257	8 834	1 843	60.2	31.3	-4.6
Butter (metric tons)	16.7	17.1	18.7	5.6	50.5	2.4	9.5
Margarine (metric tons)	774	816	866	181	38.2	5.4	6.1
Milk (thousands of litres)	6 470	7 309	8 091	2 116	19.0	13.0	10.7
Alcohol (thousands of litres)	2 243	2 067	1 371	...	-7.8	-33.7	...
Molasses (thousands of litres)	3 869	3 645	...	...	-0.8	-5.8	...
Cigarettes (millions)	309	342	354	89	12.4	10.7	3.5
Cigars (thousands)	200	228	174	33	11.1	14.0	-26.7
Shoes (thousands of pairs)	292	340	263	201	13.2	16.4	-22.7

Source: Bureau of Statistics, Suriname, Kwartaal Statistiek van de Industriële Productie 1970-1977 and 1^o Kwartaal 1978, No 86, July 1978.

a/ First quarter.

/the first

the first quarter of 1978, if maintained throughout the year, would have given a much larger volume of production than in 1977, for in 9 of the 17 products for which data are available, the volume of output in the first quarter of 1978 already approached or surpassed the full-year production levels of the year before.

(e) Services

After two successive sharp declines in 1974 and 1975, the construction GDP leaped almost 61% in 1976. The major stimulus to the sector in that year, as well as in 1977 and 1978, was provided by the commencement of a number of large development projects in agriculture, mining and energy. Preliminary indications suggest that construction enjoyed another sharp increase in activity in 1978.

Output in the energy field, after a marked decline in the mid-1970s, rose sharply in 1977 and, to judge from partial data, apparently recorded a substantial increase in 1978 as well (see table 6). These increases were due primarily to the expansion of the hydropower energy supply, on which the country has traditionally depended. By 1980 the total generation of electricity is projected to rise to 186 MW. Among the current energy projects, mention may be made of pilot schemes using rice husks, which presently generate some 2.5 MW of electricity.

3. The external sector

Official data on the balance of payments are available only up to the end of 1977.

(a) The trade balance

Traditionally the country has registered a surplus on the merchandise account, but in 1977 a deficit equal to some 18% of the value of exports was incurred (see tables 7 and 8), because although the current value of exports rose by over 14%, that of imports jumped over 40%. Although relevant official data are not available, this increase in imports is apparently mainly attributable to the import requirements of the various development projects referred to previously.

Table 6

SURINAME: INDICATORS OF GAS, WATER AND ELECTRICITY SUPPLIES

	1975	1976	1977	1978	Growth rates			
					1975	1976	1977	1978
Gas (thousands of cubic metres)	2 878	1 789	...	...	-20.3	-37.8	...	...
Water (thousands of cubic meters)	8 029	7 272	8 708	2 324 ^{a/}	-2.1	-9.4	19.8	...
<u>Electricity generation</u> (millions of KWH)								
Public	80	58	106	130 ^{b/}	9.6	-27.5	82.8	22.6
Private	1 121	1 277	1 315	1 410 ^{b/}	-23.6	13.9	3.0	7.2
Total	1 201	1 335	1 421	1 540 ^{b/}	-22.0	11.2	6.4	8.4

Source: Bureau of Statistics, Suriname, Kwartaal Statistiek van de Industriële Produktie, 1970-1977 and le Kwartaal 1978, No 86, July 1978. UN World Energy Supplies 1973-1978.

^{a/} First quarter.

^{b/} Preliminary figures.

Table 7
SURINAME: EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977	1970	1977	1975	1976	1977
<u>Bauxite, alumina and aluminium</u>	<u>210</u>	<u>199</u>	<u>225</u>	<u>277</u>	<u>86.9</u>	<u>84.1</u>	<u>-5.5</u>	<u>13.3</u>	<u>23.1</u>
Bauxite	72	50	47	66	25.7	20.0	-30.3	-5.3	38.6
Alumina	100	127	142	157	46.3	47.8	26.0	11.7	11.5
Aluminium	38	22	36	54	14.9	16.3	-42.3	65.3	48.0
<u>Agricultural products</u>	<u>22</u>	<u>32</u>	<u>36</u>	<u>42</u>	<u>4.1</u>	<u>12.6</u>	<u>44.2</u>	<u>12.8</u>	<u>16.7</u>
Rice	12	19	20	20	2.7	6.2	54.2	7.6	2.5
Bananas/plantains	3	3	4	3	1.4	1.0	29.8	14.7	-4.3
Shrimps	7	10	12	18	-	5.4	33.1	22.0	50.7
<u>Wood and wood products</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>6</u>	<u>2.7</u>	<u>1.9</u>	<u>-3.3</u>	-	<u>-6.0</u>
<u>Others</u>	<u>35</u>	<u>48</u>	<u>21</u>	<u>5</u>	<u>6.3</u>	<u>1.4</u>	<u>37.4</u>	<u>-56.6</u>	<u>-77.1</u>
<u>Total</u>	<u>274</u>	<u>285</u>	<u>288</u>	<u>330</u>	<u>100.0</u>	<u>100.0</u>	<u>4.0</u>	<u>1.1</u>	<u>14.3</u>

Source: Central Bank of Suriname and Ministry of Agriculture.

/As far

As far as exports are concerned, the rise in the current value of bauxite exports approached 39%, following a decline of similar magnitude over the previous two years, while sales of alumina and of rice grew 11.5% and 2.5%, respectively. The increases in the value of bauxite and alumina exports were mainly due to price rises. Together, these three products accounted for 69% of the value of exports in 1977, compared with 75% in 1970. Over this period the participation of shrimp exports in the value of total exports rose from nil to 5.4%, and in 1977, the value of shrimp exports jumped 51%. On the other hand, receipts from both wood and "other" exports fell in the latter case by 77%.

For 1978, it is expected that the value of imports will again have risen sharply, owing to the continued significant growth in spending on development projects and, to a lesser extent, price increases in the country's traditional imports.

Because of the marked growth in the value of imports in 1977, the deficit on the current account tripled, and equalled well over one-third of the value of exports, against approximately 13% in 1976.

(b) The overall balance of payments

Thanks to a pronounced increase in private capital inflows, the surplus on the capital account doubled in 1977 (see table 8), but even so this increase was insufficient to offset the deficit in the current account, and the balance of payments registered its first deficit in recent years. International reserves consequently declined, although they still remained sufficient to meet the foreign exchange requirements of 7 1/2 months of imports.

At the end of the third quarter of 1978, international reserves were 30% above the level of 1977, mainly reflecting the large capital inflows received under a 380 million dollars grant awarded to the government by the Netherlands Commission for Development and Co-operation.

Table 8

SURINAME: BALANCE OF PAYMENTS

(Millions of dollars)

	1973	1974	1975	1976	1977
<u>Current account</u>					
Merchandise trade	26.4	39.9	14.1	21.7	-61.1
Transport and insurance	-1.7	-4.9	-11.3	-0.8	
Foreign travel	-10.7	-20.6	-26.6	-5.3	-6.7
Salaries and pensions	-2.1	-2.6	-4.4	1.7	
Other private remittances	-4.9	-17.9	-10.9	-5.1	-3.4
Government transfers	5.2	8.2	5.8	-10.6	-12.3
Investment income	-39.2	-24.5	-11.8	-35.4	-43.7
Non-monetary gold	-0.6	-0.8	-0.8	-0.8	-1.5
Balance on current account	-27.6	-23.2	-45.8	-34.6	-128.7
<u>Capital account</u>					
Private capital	27.6	-0.4	39.3	-52.3	39.3
Migration and private grants	-0.8	-1.5	-1.9	21.3	2.8
Government grants	13.6	22.8	179.0	89.1	72.0
Government loans received	8.6	12.5	13.9	-	-
Repayment of government loans	-3.1	-3.2	-151.4	-1.3	
Other government capital	-1.7	-1.0	1.6	-1.5	-2.8
Balance on capital account	44.3	29.2	80.4	55.4	111.3
Overall balance	16.7	6.0	34.6	20.7	-17.4
Monetary gold	-3.1	-	-	-	-
Net official foreign exchange	18.5	11.1	23.7	18.6	-16.0
Foreign exchange held by commercial banks	1.3	-5.0	10.9	2.1	-1.4

Source: Central Bank of Suriname.

4. Prices

Up to the end of the first half of 1978, the annual rate of inflation approached 8%, which was rather less than the rate prevailing in 1977 (see table 9). In 1978, the price rises were led by the increases in housing and furnishing (14.5%) and in clothing and footwear (12.5%), whereas the rate of inflation in the food and beverage index was under 5% and that of the index of "other items", below 4%. The relatively low rate of increase in food and beverage prices was achieved, in part, by the control of these prices by the authorities.

No data on employment and wages are available. However, it may be noted that the chronic shortage of labour in agriculture, attributable in part to the constant flow of workers from agriculture to higher wage sectors, continued to hinder agricultural production.

5. Monetary and fiscal policy

(a) Monetary policy

In both 1977 and 1978, the real growth in the money supply was moderate (see table 10), the nominal rate of increase in the latter year being 12%, or around 4% in real terms. Factors of expansion, led by a nominal 39% increase in net international reserves, grew by almost 26%. While total credit rose by 18%, that allocated to government actually fell by the same proportion. Factors of absorption, owing primarily to a 70% leap in "other net accounts", rose by 34%.

Among the productive sectors, only agriculture and manufacturing received a real increase in credit allocations in 1978 (see table 11), and even then these increases, which were in the neighbourhood of 2 to 3%, were modest. In the services sector, however, both commerce and "other services" (this includes building loans) enjoyed substantial real increases in credit.

(b) Fiscal policy

In 1978, the rise in current income amounted to over 14%, while that of current expenditure was held to 8% (see table 12). Consequently, the unusually large current account deficit registered in 1977 was reduced by one-third in 1978. Total expenditure, in contrast, increased by over 22%, reflecting the 52% jump in capital expenditures on the various development projects mentioned in previous sections.

Table 9

SURINAME: EVOLUTION OF DOMESTIC PRICES

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Annual average variation</u>					
Consumer price index	13.0	16.9	8.6	9.8	9.8	7.6 ^{b/}
Food and beverages	22.5	16.8	7.4	9.9	7.3	4.9
Housing and furnishing	3.5	23.9	8.8	6.7	7.5	14.5
Clothing and footwear	10.9	12.5	12.9	18.0	21.0	12.5
Other items	6.8	12.7	8.3	10.2	10.5	3.9

Source: Ministry of Finance, Suriname, Financiële Nota 1979, 1 September 1978.

^{a/} Variation at the first quarter.

^{b/} As at June 30.

Table 10

SURINAME: MONETARY BALANCE

	Balance at end of: (millions of guilders)				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
<u>Money</u>	<u>168.7</u>	<u>198.3</u>	<u>219.6</u>	<u>246.1</u>	<u>17.6</u>	<u>10.8</u>	<u>12.1</u>
Currency outside banks	83.6	109.6	125.3	145.1	23.7	14.3	15.8
Demand deposits	77.7	87.9	92.3	99.5	13.1	5.0	7.8
<u>Factors of expansion</u>	<u>376.7</u>	<u>491.0</u>	<u>577.2</u>	<u>725.3</u>	<u>30.4</u>	<u>17.6</u>	<u>25.7</u>
Foreign assets (net)	205.2	242.3	211.2	292.8	18.1	-12.8	38.6
Domestic credit	171.5	248.7	366.0	432.5	45.0	47.2	18.2
Government (net)	8.7	7.6	70.3	57.8	-12.6	825.0	-17.8
Official entities	5.4	10.8	11.3	13.8	100.0	4.6	22.1
Private sector	157.4	230.4	284.5	360.9	46.4	23.5	26.9
<u>Factors of absorption</u>	<u>208.1</u>	<u>292.7</u>	<u>357.6</u>	<u>479.3</u>	<u>40.7</u>	<u>22.2</u>	<u>34.0</u>
Quasi-money (savings and time deposits)	124.5	201.2	254.6	308.8	61.6	26.5	21.3
Long-term foreign borrowing	7.4	8.9	6.3	6.5	20.3	-29.2	3.2
Other items (net)	76.2	82.6	96.7	164.0	8.4	17.1	69.6

Source: International Financial Statistics, June 1979.

Table 11

SURINAME: LOANS AND ADVANCES OF COMMERCIAL BANKS

	Millions of guilders					Percentage breakdown		Growth rates			
	1974	1975	1976	1977	1978 ^{a/}	1974	1978 ^{a/}	1975	1976	1977	1978 ^{b/}
Agriculture	10.0	11.0	19.9	30.0	36.9	6.1	10.3	10.0	80.9	52.3	32.3
Fishery	0.7	4.3	2.8	1.5	1.0	0.4	0.3	514.3	-34.9	-46.4	-52.4
Forestry	0.1	0.1	0.6	0.7	1.2	0.1	0.3	0.0	6.0	1.2	71.4
Mining	11.5	9.6	28.9	28.3	27.5	7.0	7.7	-16.5	201.0	-2.1	-0.4
Manufacturing	28.6	32.2	25.1	30.5	37.7	17.4	10.5	12.6	-22.0	21.5	34.2
Construction	3.7	4.8	8.1	11.0	13.6	2.3	3.8	29.7	97.6	19.1	3.8
Electricity, gas and water	8.3	9.7	10.8	13.4	18.0	5.1	5.0	16.9	11.3	24.1	33.3
<u>Subtotal productive sectors</u>	<u>62.9</u>	<u>71.7</u>	<u>96.2</u>	<u>115.7</u>	<u>135.9</u>	<u>38.4</u>	<u>37.9</u>	<u>14.0</u>	<u>34.2</u>	<u>20.3</u>	<u>20.3</u>
Commerce	52.9	54.9	73.3	94.7	117.2	32.2	32.6	3.8	33.5	29.2	20.8
Transport	2.5	2.8	5.4	7.5	8.0	1.5	2.2	12.0	92.9	38.9	11.1
Services	5.0	5.4	8.6	10.0	7.5	3.0	2.1	8.0	59.3	16.3	-21.0
Other (including building loans)	40.9	37.0	69.6	74.1	90.3	24.9	25.2	-9.5	88.1	6.5	24.4
<u>Subtotal services</u>	<u>101.3</u>	<u>100.1</u>	<u>156.9</u>	<u>186.3</u>	<u>223.0</u>	<u>61.6</u>	<u>62.1</u>	<u>-1.2</u>	<u>56.7</u>	<u>18.7</u>	<u>19.7</u>
<u>Total</u>	<u>164.2</u>	<u>171.8</u>	<u>253.1</u>	<u>302.0</u>	<u>358.9</u>	<u>100.0</u>	<u>100.0</u>	<u>4.6</u>	<u>-47.3</u>	<u>19.3</u>	<u>19.9</u>

Source: Central Bank of Suriname.

a/ At September 30, including Suriname Postal Savings Bank.

b/ January - September 1978, compared to the corresponding period in 1977.

Table 12

SURINAME: CENTRAL GOVERNMENT INCOME AND EXPENDITURE.

	Millions of guilders				Growth rates		
	1975	1976	1977 ^{a/}	1978 ^{a/}	1976	1977	1978
Current income	301.5	288.9	317.4	362.9	-4.2	9.9	14.3
Tax revenue	268.4	241.0	278.4	...	-10.2	15.5	...
Non-tax revenue	33.1	47.9	39.0	...	44.7	-18.6	...
Current expenditure	249.8	285.3	363.4	393.9	14.2	27.4	8.4
Wages and salaries	142.4	154.0	218.0	...	8.1	41.6	...
Transfers	41.4	43.0	27.0	...	3.9	-37.2	...
Others	66.0	88.3	118.4	...	33.8	34.1	...
Savings on current account	51.7	3.6	-46.0	-31.0			
Capital expenditure <u>b/</u>	109.9	152.6	168.0	256.1	38.8	10.1	52.4
Fixed investment	86.2	119.0	135.0	...	38.0	13.4	...
Others	23.7	33.6	33.0	...	41.8	-1.8	...
Total expenditure	359.7	437.9	531.4	650.0	21.7	21.4	22.3
Fiscal deficit	-58.2	-149.0	-214.0	-287.1	156.0	43.6	34.2
Financing the deficit	44.0	38.2	35.4	71.8 ^{b/}			
External debt	11.0	9.9	8.9	47.6	-10.0	-10.1	434.8
Governments	6.8	6.2	5.4	...	-8.8	-11.3	...
International organizations	3.8	3.6	3.4	...	-5.3	-5.6	...
Private sector	0.4	0.1	-	...	-75.0	-	...
Domestic debt	33.0	28.3	26.5	24.5	-14.2	-6.4	-7.5
Fiscal deficit as percentage of total expenditure	16.2	34.0	40.3	44.2			

Source: Republic of Suriname, Financiële Nota, 1977 and 1978, and data supplied by Ministry of Finance, Suriname.

^{a/} Preliminary figures.

^{b/} January - August 1978.

/The consequent

The consequent growth of over 34% in the fiscal deficit was completely financed by a rise in the external debt, since the domestic debt actually declined. In 1978 the fiscal deficit, which has risen sharply with the increased spending on development projects in recent years, equalled 44% of total expenditures, compared with 40% in 1977 and 16% in 1975.

TRINIDAD AND TOBAGO

1. Introduction and summary

Preliminary estimates of the gross domestic product show a nominal increase of 10.7% in 1978. And as far as real growth is concerned, Trinidad and Tobago's Central Statistical Office has estimated it at 6.2%, compared to 9.6% in 1977 (see table 1). The slower real rate of growth in 1978 reflected a slow down in activity in the petroleum sector; one of the reasons why production flagged in 1978 was the loss of petroleum export markets. Growth of product also was hindered by another decline in sugar production. On the positive side there was strong expansion of manufacturing. Even more significantly, increased construction activity helped to augment the size of the labour force in that sector and was a key factor behind the fall of the unemployment rate to 12.8% in 1978 (see table 1). In contrast, not much absorption of additional labour was noted in the agricultural sector, and indeed there was even a slight drop in the agricultural labour force at the end of June, possibly reflecting the drift away from agriculture to higher-paying sectors such as manufacturing and construction.

Agriculture continued to perform below acceptable levels in 1978. Attempts are being made, however, to make certain activities (for example cocoa production) more viable, through the institution of pure stands as opposed to the present system of mixed cultivation.

The volume of sugar produced fell by some 17% from the previous year's total of 176,000 tons. Sugar prices also fell in 1978, further adding to the gloomy performance of the subsector.

Domestic agriculture showed a better performance. Data indicate sharp increases in the production of citrus fruits and tobacco. With the exception of pork there were general gains in meat production. Output and eggs and milk exceeded the previous year. On the other hand copra production was only about 50% of the level attained in 1973.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factors cost (millions of dollars at 1970 prices) <u>b/</u>	911	876	887	872	956	1 015
Population (millions of inhabitants)	0.99	1.00	1.01	1.02	1.03	1.04
Per capita gross domestic product (dollars at 1970 prices) <u>b/</u>	923	878	879	855	929	976
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product <u>b/</u>	...	-3.8	1.2	-1.6	9.6	6.2
Per capita gross domestic product <u>b/</u>	...	-4.9	0.1	-2.7	8.7	5.1
Terms of trade	16.2	34.7	-1.7	1.0	-0.9	-5.7
Current value of exports of goods and services	26.1	159.8	-11.9	22.0	4.7	-8.2
Current value of imports of goods and services	4.5	123.6	-17.5	32.6	6.5	-3.6
Consumer price index						
December - December	...	...	13.4	12.0	11.4	8.8
Variation between annual averages	14.8	22.0	18.8	8.7	11.8	10.2
Money	...	...	...	38.1	31.7	43.2
Rate of unemployment <u>c/</u>	15.0	15.0	16.0	15.0	14.1	12.8
Current income of government	...	...	...	26.0	29.4	5.1
Total expenditure of government <u>d/</u>	...	...	...	22.4	50.8	2.0
Superavit fiscal surplus/total expenditure <u>c/</u> of government <u>d/</u>	...	...	5.2	7.6	3.5	1.9
<u>Millions of dollars</u>						
C. External sector						
Trade balance (goods and services)	70	500	551	499	485	340
Balance on current account	-19	280	313	223	227	148
Variation in net international reserves	-7	333	509	262	500	323
External debt <u>e/</u>	131	118	103	53	206	312

Source: CEPAL, on the basis of official data.

a/ Preliminary estimates.

b/ Revised estimates.

c/ Percentage.

d/ Data are not comparable with previous series of the Economic Survey.

e/ Public and publicly-guaranteed medium/long-term debt.

/With regard

With regard to the country's balance of payments, it remained very healthy as another large overall surplus was recorded, although the surplus was about 35% less than the year before, due to reduced export earnings and less abundant capital inflows.

As already noted, the rate of unemployment declined somewhat in 1978, mainly on account of increased activity in construction. However, considerable unemployment persisted side-by-side with sharply rising demands for skilled labour. To upgrade the skills of the labour force, training opportunities for unemployed persons have continued to be provided through training programmes organized by the Government and the private sector.

The Government's attempts to contain the rate of inflation were relatively successful and there was a significant reduction in the rate with respect to the previous year (see table 1). In addition to increasing price controls and subsidies in order to restrain inflation, the Government has broadened the possibilities for importation in the hope that trade markups can be reduced.

Finally, during 1978 the Government forged ahead with its medium-term development strategy based on the promotion of capital-intensive, energy-based industries that will utilize domestic natural resources and foster the diversification of the country's economic base. These industries are expected to generate foreign exchange and fiscal revenue to partially offset the possible eventual loss of petroleum export earnings and tax revenues. The most advanced projects are: (i) the TRINGEN ammonia plant, which began operations in late 1977, and (ii) the FERTRIN ammonia/urea plant which was completed in March 1978 and is now at full production, with a plant capacity of 15,000 tons of mixed fertilizers per year.

2. Recent economic trends

(a) Agriculture

Agriculture production had mixed performance in 1978. Production of sugar, one of the major export crops, fell from 176,000 tons in 1977 to 147,000 tons in 1978 (see table 2), partly because of operational problems involving a late start of harvesting. Low export prices, coupled with increasing costs of production, caused the Government to appoint a committee

Table 2
TRINIDAD AND TOBAGO: AGRICULTURAL PRODUCTION

	Tons				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Sugar <u>a/</u>	163	204	176	147	25.2	-13.6	-16.5
Cocoa beans	5 240	3 249	3 345	3 398	-38.0	2.9	1.6
Coffee beans	4 024	2 671	2 919	2 500	-33.6	9.3	-14.3
Oranges <u>b/</u>	66	153	18	54	132.2	-88.2	201.1
Grapefruit <u>b/</u>	173	242	74	154	40.1	-69.6	109.8
Copra	8 900	9 100	9 000	7 400	2.2	-1.1	-17.8
Tobacco	286	148	88	120	-48.3	-40.8	36.6
Meat							
Beef and veal	1 228	1 297	1 312	1 437	5.6	1.2	9.5
Pork	1 571	2 383	2 615	2 159	51.7	9.8	-17.5
Mutton	53	78	72	79	46.8	-8.1	10.6
Poultry <u>c/</u>	15 555	16 152	19 888	20 341	3.8	23.1	2.2
Fish	3 012	2 727	3 163	...	-9.5	16.0	...
Eggs <u>d/</u>	4 068	3 901	4 997	5 866	-4.1	28.1	17.4
Milk <u>e/</u>	7 742	6 320	5 868	5 932	-18.4	-7.1	1.1

Source: Quarterly Economic Report, April-June 1978, and data supplied by the Central Statistical Office.

- a/ Thousands of tons.
- b/ Thousands of crates.
- c/ Thousands of birds.
- d/ Thousands of doz.
- e/ Thousands of litres.

/to evaluate

to evaluate all aspects of sugar production: rationalization of the industry; existing work practices, operational methods and financial controls; alternatives to the existing sugar industry; future development of products based on sugar and/or its by-products; the introduction of advanced technologies; and the size, organization and institutional framework of any future sugar industry, taking into account economic and social considerations. The report of the Committee should provide a new direction for this subsector.

As regards other agricultural export crops, cocoa production (which had declined substantially in 1976) rose for the second consecutive year, mainly because of favourable weather conditions. Encouraged by recent successes, the Government is seeking to double the production of cocoa on existing acreage within ten years, to upgrade the variety grown, to establish pure stands of cocoa, and generally to make the industry a viable one.

Coffee production, though sharing the same good conditions as cocoa in the last two years, is estimated to have declined in 1978. The future of coffee does not hold as much promise as does cocoa. Government assistance to farmers continued through the provision of "soft" loans and ordinary loans.

Estimates indicate that citrus production greatly improved in 1978 with respect to the performance of the previous year. By the end of the year, the output of oranges had risen to a level three times that of the corresponding period of the previous year, while the output of grapefruit more than doubled. The major determinants of the citrus performance seem to have been improved weather conditions and better disease control, which more than offset the effects of reductions in the acreage under cultivation. One should add, however, that production remained below levels achieved in 1975-1976.

(b) Mining

There was a considerable slowing down in the rate of expansion of mining and refining, as the sector was affected by both marketing and labour problems.

/Crude petroleum

Crude petroleum production showed virtually no growth in 1978 (see table 3), with offshore production continuing to account for the bulk of output (some 81% of the total), while there was another large fall in refining output. Various reasons have been advanced for this decline in refining, none of them related to the performance of national production in 1978. Three major explanatory factors are: (i) a surfeit of petroleum products on the world market; (ii) a shift in the market for refined products away from one large refining company in Trinidad as a result of favourable concessions having been granted to United States-based refineries; and (iii) a major refinery's claim of disincentives to production because of increased operating costs stemming from sharp rises in wages and salaries, increases in throughput taxes and the rising cost of imported crude.

The other major activity in the sector, natural gas production, has continued to rise steadily and it is envisaged that gas will soon play a crucial role in the nation's industrial development programme. Official projections indicate that the present natural gas reserves will adequately serve domestic industry for the next 40 years.

Finally, it is worth noting that in October 1978 a substantial oil and gas discovery was made in the Atlantic Ocean, some 24 kilometers off the east coast. This find should help to boost production somewhat in 1979.

(c) Manufacturing

Although there was continued real expansion of manufacturing in 1978, the rate of growth was less than in the two previous years. Estimates are that by the end of the year the domestic production index had increased by some 7%, compared to 12% and 14% in 1977 and 1976 respectively (see table 4).

The greatest increases appear to have been achieved in the manufacture of metal products, miscellaneous goods, building materials, and the food processing industries. The expansion of output in the manufacture of metal products and building materials was probably directly related to the expansion in construction activity.

Table 3
TRINIDAD AND TOBAGO: MINING AND OIL REFINING PRODUCTION

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Petroleum <u>a/</u>	79	78	84	84	-1.1	7.6	0.2
Natural gas <u>b/</u>	3 582	3 907	4 236	4 430	9.1	8.4	4.6
Asphalt <u>c/</u>	81	66	44	60	-18.7	-32.5	-34.3
Petroleum products <u>a/</u>	85	114	99	83	35.3	-13.0	-16.5
Motor gasoline	14	20	19	17	43.2	-5.0	-11.1
Fuel oils	48	67	56	46	38.1	-15.6	-19.2
Others	22	27	24	21	24.7	-12.5	-13.4

Source: Quarterly Economic Report, April-June 1978, and data supplied by the Ministry of Petroleum and Mines.

a/ Millions of barrels.

b/ Millions of cubic metres.

c/ Thousands of tons.

Table 4
 TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION
 (1971 = 100)

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Index of manufacturing production - total	119	136	149	160	13.9	12.0	7.2
Food processing	147	152	152	160	3.7	-0.4	5.4
Beverages and tobacco	135	145	141	138	8.0	-3.1	-2.4
Textiles, knitted garments and footwear	78	86	80	74	10.8	-7.6	-6.4
Printing, publishing and paper converting	118	113	152	149	-4.3	34.0	-1.5
Wood and related products	77	99	97	72	29.1	-3.5	-25.4
Chemical products	94	105	90	93	11.5	-14.0	3.1
Building materials	99	102	111	119	3.7	8.6	7.4
Assembly-type and related industries	119	140	168	157	17.3	19.7	-6.6
Metal products	159	276	396	541	74.1	43.4	36.7
Miscellaneous manufactures	140	148	111	150	5.8	-25.2	35.7

Source: Quarterly Economic Report, April-June 1978, and data supplied to CEPAL.

/Production in

Production in a few assembly operations increased in response to demand for motor vehicles and household appliances. During the first half of 1978, the production of motor vehicles exceeded that of the corresponding period in 1977 by 30%. Whereas a year ago the waiting time between the ordering of most new motor cars and the delivery date was about one year, in most cases the lag has now been reduced to a few months.

(d) Construction

In 1978 the construction sector continued to expand despite restrictions due to shortages in the supply of cement, blocks, and concrete products. Work on the East-West road corridor linking Port of Spain with Anima and development of the new priority bus route continued in 1978. Both these projects are designed to improve the quantity and quality of the infrastructure to accommodate the ever-increasing traffic.

As regards housing, the number of building plans approved by the end of September 1978 was slightly less than it was at the end of September of the previous year, and so too was the floor space (see table 5).

The National Housing Authority (NHA) has defined its major role as that of granting and supervising government loans for housing. By September 1978 the NHA had granted 1,712 loans totalling 32 million Trinidad and Tobago dollars, at interest rates varying between 5 1/2% and 7%. A housing task force was appointed to expedite the construction of housing in the country and has begun the first phase of the Malabar Project for the construction of 340 dwelling units and 10 commercial units. Later phases will undertake projects at Caroni, Tobago, Trincity and Valencia.

It also should be noted that additional stimulus was provided to the sector through the site preparation and development of infrastructure as a prelude to the installation of a number of new industries at Point Lisas.

Table 5
TRINIDAD AND TOBAGO: APPROVED BUILDING PLANS

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
All buildings							
Number of plans	2 456	2 987	3 271	2 557	21.6	9.5	-1.3
Floor space (thousands of m ²)	348	441	528	399	26.8	19.8	-5.8
Dwelling house							
Number of plans	2 322	2 813	3 155	2 457	21.1	12.2	-2.1
Floor space (thousands of m ²)	238	368	416	330	27.6	13.2	0.2
Commercial and industrial							
Number of plans	49	61	76	61	24.5	24.6	7.0
Floor space (thousands of m ²)	31	41	52	45	32.9	27.7	14.7
Other buildings							
Number of plans	85	113	40	39	32.9	-64.6	56.0
Floor space (thousands of m ²)	29	32	60	24	11.1	85.7	-56.2

Source: Quarterly Economic Report, April-June 1978, and data supplied by the Central Statistical Office.

^{a/} January to September; the rates have been calculated compared with the same period in 1977.

3. The external sector

Although the country continued to maintain a favourable balance-of-payments position in 1978, the overall surplus fell to 323 million dollars, only 65% of the surplus recorded the previous year (see table 6). The value of exports declined by 8% with respect to 1977, due basically to reduced demand in the United States for imported refined petroleum products as a result of the more generous concessions granted to United States-based refineries. In contrast, imports declined only very slightly after two successive years of expansion. These movements on the trade account were largely responsible for the 35% reduction in the country's current account surplus in 1978.

Of the total import bill in 1978, imports of petroleum for refining comprised some 46%, while food imports represented some 10% (see table 7). The principal food commodities imported were cereals and cereal preparations, meat and meat preparations, and fruit and vegetables. On the export side, petroleum products accounted for some 90% of total sales, while food exports represented some 3% (see table 8). Major items among food exports were sugar and sugar preparations, coffee, tea, cocoa and spices, and fruit and vegetables.

Trade in goods was not favourably affected by prices, as the terms of trade declined by 6% in 1978 (see table 9). This represented a continuation of the unfavourable manner in which prices have moved against Trinidad since 1974, the year in which the big rise in oil prices caused a substantial jump in the country's terms of trade and, therefore, in the gross income of the economy (GDP adjusted for the effects of the terms of trade).

With regard to invisibles, there was a slight increase in the net foreign travel account which probably reflected the increased costs confronting visitors, rather than a significant increase in their numbers. The net outflow due to investment income declined by some 20% in 1978, but there was net income derived from interest payments due to government resources placed abroad.

Table 6
TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
<u>Current account</u>						
Exports of goods and services	950	2 468	2 173	2 652	2 777	2 550
Goods FOB ^{b/}	720	2 180	1 899	2 370	2 471	2 230
Services	230	288	274	282	306	320
Transport	98	174	150	157	169	170
Travel	59	66	75	75	82	95
Imports of goods and services	880	1 968	1 623	2 153	2 292	2 210
Goods FOB ^{b/}	718	1 716	1 413	1 844	1 988	1 910
Services	162	252	210	309	304	300
Transport	97	161	116	209	204	200
Travel	24	25	33	37	41	40
Net payments of profits and interest on foreign capital	-87	-213	-227	-256	-245	-180
Profits	-80	-213	-253	-311	-292	-235
Interest	-7	-	26	45	47	55
Net private transfer payments	-2	-8	-11	-10	-13	-12
Balance on current account	-19	279	312	223	227	143
<u>Capital account</u>						
Net external financing (a+b+c+d)	19	-279	-312	-223	-227	-148
(a) Long-term capital	66	66	178	48	275	} 175
Direct investment	66	85	191	82	138	
Private sector	-36	12	-11	-32	150	
Loans	-	23	2	1	...	
Amortization payments	-36	-11	-13	-33	...	
Official sector	36	-31	-2	-2	-13	
Loans	34	23	5	5	18	
Amortization payments	-3	-30	-14	-40	-5	
Other liabilities and assets	5	-24	7	33	...	
(b) Short-term capital	-47	-3	29	10	16	
Private sector (net)	11	-45	-7	-14	-10	
Official sector (net)	-	-	1	-	-	
Errors and omissions	-58	42	35	24	26	
(c) Official transfer payments	-7	-9	-10	-19	-18	
(d) International reserves						
(minus sign indicates an increase)	7	-333	-509	-262	-500	-323
Special Drawing Rights	-	-1	-	-	-5	-7
IMF reserve position	8	-6	-17	-11	-	-5
Foreign exchange	-1	-326	-492	-251	-495	-311

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Provisional figures.

b/ Including non-monetary gold.

Table 7
TRINIDAD AND TOBAGO: IMPORTS OF GOODS (CIF)

	Millions of Trinidad and Tobago dollars				Percentage breakdown		Growth rates		
	1976	1977	1977 ^{a/}	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978
<u>Consumer goods</u>	<u>586</u>	<u>731</u>	<u>347</u>	<u>392</u>	<u>17.7</u>	<u>15.5</u>	<u>22.7</u>	<u>24.9</u>	<u>14.9</u>
Non-durable	287	358	172	215	9.8	8.3	13.2	25.0	25.5
Semi-durable	130	207	96	92	6.0	3.6	26.1	15.2	-3.5
Durable	119	166	80	92	1.9	3.5	46.1	39.4	14.2
<u>Intermediate goods</u>	<u>3 551</u>	<u>2 992</u>	<u>1 627</u>	<u>1 773</u>	<u>72.9</u>	<u>68.7</u>	<u>52.8</u>	<u>-15.8</u>	<u>9.0</u>
Crude petroleum	2 735	2 048	1 135	1 177	48.2	45.6	68.2	-25.1	3.7
Steel materials	202	241	145	150	4.7	5.8	-16.4	19.3	3.4
Fuels, lubricants, blending agents and asphalt	24	29	12	16	1.4	0.6	-3.2	20.5	28.7
Others	590	673	334	430	18.6	16.7	36.7	14.2	28.9
<u>Capital goods</u>	<u>685</u>	<u>601</u>	<u>296</u>	<u>407</u>	<u>9.4</u>	<u>15.8</u>	<u>54.5</u>	<u>-12.2</u>	<u>37.7</u>
<u>Total</u>	<u>4 821</u>	<u>4 324</u>	<u>2 270</u>	<u>2 579</u>	<u>100.0</u>	<u>100.0</u>	<u>48.6</u>	<u>-10.3</u>	<u>13.6</u>

Source: Quarterly Economic Report, April-June 1978 and data supplied to CEPAL.

a/ January-June.

Table 8
 TRINIDAD AND TOBAGO: SELECTED EXPORTS OF GOODS (FOB)
 (Millions of Trinidad and Tobago dollars)

	1975	1976	1977	1978 ^{a/}	Percentage breakdown		Growth rates		
					1970	1978	1976	1977	1978 ^{a/}
<u>Main traditional exports</u>									
Petroleum products	1 926	3 064	2 731	1 612	70.8	48.0	59.1	-10.9	-12.8
Crude petroleum <u>b/</u>	1 439	1 820	2 056	1 393	9.1	41.4	26.5	12.9	2.0
Sugar <u>c/</u>	166	117	83	53	4.5	1.6	-29.7	28.7	-36.0
Ron	8	7	8	7	0.2	0.2	-15.9	13.0	25.0
<u>Main non-traditional exports</u>									
Petrochemicals	45	64	67	40	2.5	1.2	41.5	4.8	-4.7
Fertilizers and ammonia	64	58	61	76	4.5	2.3	-10.1	6.1	104.0
Cocoa beans	14	10	21	25	1.0	0.7	-25.2	105.9	44.3
Coffee beans	6	7	10	10	0.3	0.3	11.9	45.5	6.3
Citrus fruits and their juices	2	4	2	3	0.4	0.1	50.0	47.2	100.0
Cement	5	1	-	-	0.5	-	-72.9	-	-
<u>Miscellaneous</u>	125	138	148	142	5.7	4.2	9.7	7.2	13.8
<u>Total domestic exports</u>	<u>3 840</u>	<u>5 332</u>	<u>5 189</u>	<u>3 362</u>	<u>100.0</u>	<u>100.0</u>	<u>38.9</u>	<u>-2.7</u>	<u>-4.9</u>

Source: Quarterly Economic Report.

a/ January to August. The rates have been calculated compared with the same period of the previous year.

b/ Crude and partly refined petroleum.

c/ Refined and unrefined sugar.

Table 9
TRINIDAD AND TOBAGO: PRINCIPAL FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods						
Value	20.9	202.9	-12.9	24.8	4.2	-9.7
Volume	-7.4	1.4	-20.4	17.7	-1.6	-9.7
Unit value	30.6	198.5	9.5	6.0	6.0	-
Imports of goods						
Value	2.4	139.1	-17.7	30.5	7.8	-3.9
Volume	-8.9	7.9	-26.1	24.3	0.8	-9.3
Unit value	12.4	121.7	11.4	5.0	7.0	6.0
Terms of trade	16.2	34.7	-1.7	1.0	-0.9	-5.7
	<u>Indexes (1970 = 100)</u>					
Terms of trade	113.1	152.4	149.8	151.3	149.9	141.4
Purchasing power of exports of goods	106.9	133.6	106.7	130.6	120.4	103.9
Purchasing power of exports of goods and services	121.1	170.4	139.2	159.3	152.9	130.3

Source: CEPAL, on the basis of official data.

^{a/} Estimates.

/The sizeable

The sizeable net inflow of foreign capital in 1978 was due to a large extent to public sector borrowing. Three large external loans were raised from commercial sources: 26 million dollars in Swiss francs, 36 million dollars in Deutsche marks, and 46 million dollars in Japanese yen. By year end, the total external debt stood at 312 million dollars. Of this amount, 77% consisted of medium-term loans, the remainder being long-term (see table 10).

4. Prices and wages

The rate of inflation in 1978, as measured by movements in the index of retail prices, was 10.2%, which represents a slackening with respect to the previous year (see table 11). The greatest relative increases were observed in services, housing and beverages and tobacco, but the magnitude of the change in the "all items" index was to a great extent influenced by the weight (33%) attached to the food component, whose increase has been restrained by existing price controls and government subsidies.

Import prices exerted some influence on the general price levels in 1978, since the index of the average unit value of imports rose by 6% over the index of the previous year. As part of its programme to combat inflation, the Government encouraged modification of the distribution structure within a package of measures to restrain the rise in retail prices. One measure was the grant of a soft loan of TT\$ 1.4 million to the Federation of Consumer Co-operatives to set afoot a project for the importation of basic food items. Another was for the official sector to assume the role of importer of some basic food items.

To the extent that the index of minimum wage rates for manual workers can be used as an indicator of wage increases, it can be said that there have been real gains in the period 1975-1978 (see table 12). However, it is significant that a large part of the nominal gains have been eaten away by inflation following wage settlements.

Table 10
TRINIDAD AND TOBAGO: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of US dollars)

	1973	1974	1975	1976	1977	1978
Total external indebtedness	130.5	117.6	102.5	52.9	206.4	312.0
Servicing of external debt	11.9	43.1	23.5	42.3	11.3	22.6
Amortization and sinking fund	5.3	30.7	14.4	36.6	6.3	6.0
Interest payments	6.6	12.4	9.1	5.7	4.2	16.6
Management of loan	-	-	-	-	0.8	-
Servicing of debt as a percentage of total exports	1.7	2.1	1.3	1.9	0.5	1.1

Source: Central Bank of Trinidad and Tobago, and Ministry of Finance.

/Table 11

Table 11
 TRINIDAD AND TOBAGO: EVOLUTION OF CONSUMER PRICE INDEX
 (September 1975 = 100)

	1975 ^{a/}	1976	1977	1978
	<u>Variation December to December</u>			
<u>Total</u>	<u>13.4</u>	<u>12.0</u>	<u>11.4</u>	<u>8.8</u>
Food	12.1	...	11.2	6.8
Beverages and tobacco	13.1	...	10.6	11.7
Housing	10.4	...	14.8	14.1
Services	17.9	...	13.9	13.9
Household supplies	13.4	...	10.7	11.3
Clothing	12.8	...	10.4	6.1
	<u>Annual average variations</u>			
<u>Total</u>		<u>8.7</u>	<u>11.8</u>	<u>10.2</u>
Food		5.9	6.9	9.1
Beverages and tobacco		11.6	10.5	15.0
Housing		5.9	12.8	16.0
Services		6.6	10.6	18.3
Household supplies		9.9	12.2	10.9
Clothing		9.8	14.7	8.3

Source: Quarterly Economic Report, April-June 1978, and data supplied to CEPAL.

^{a/} September 1975 figures.

Table 12

TRINIDAD AND TOBAGO: EVOLUTION OF WAGES AND SALARIES^{a/}

(1973 = 100)

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Wages and salaries							
Nominal	145	174	198	222	19.8	13.7	12.2
Real	102	109	111	113	7.3	1.7	1.8

Source: Economic Indicators Report and data supplied to CEPAL.

a/ The information refers to the average for May and November.

5. Fiscal and monetary policy

Estimates of government revenue and expenditure indicate a budgetary surplus of 59 million Trinidad and Tobago dollars. Government revenue stood at 3,226 million Trinidad and Tobago dollars - slightly over the level of the previous year (see table 13), while the position was much the same with government expenditure, which came to 3,167 million Trinidad and Tobago dollars in 1978. The foregoing would suggest that 1978 saw no major change in the Government's fiscal policy.

At the end of the third quarter of 1978, the money supply stood at a level of 762 million Trinidad and Tobago dollars, with indications that by the end of the year the figure would have moved up to the vicinity of 1,300 million Trinidad and Tobago dollars (see table 14). The main factors influencing this growth were the increase in net foreign assets and the significant increase in the loans and advances of commercial banks to individuals and industry. The expansionary influences were partly offset by the bigger time and savings deposits held with commercial banks.

Table 13
 TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT REVENUE AND EXPENDITURE^{a/}
 (Millions of Trinidad and Tobago dollars)

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Total recurrent revenue	1 687	2 125	2 749	2 890	26.0	29.4	5.1
Income tax	1 182	1 374	1 838	1 978	16.2	33.7	7.6
Royalties on oil	179	226	263	274	25.8	16.6	4.0
Customs and excise	134	186	248	290	38.9	32.9	17.1
Purchase tax	50	61	57	64	23.0	-7.0	12.7
Total recurrent expenditure	760	969	1 152	1 765	27.4	19.0	53.2
General services	216	235	271	390	9.0	15.1	43.9
Community services	44	52	62	74	20.2	18.9	19.5
Social services	285	372	491	881	30.7	31.8	79.5
Economic services	110	155	184	230	41.3	19.1	24.6
Unallocated expenditure	127	154	144	191	21.5	-6.4	32.2
Current savings	926	1 156	1 597	1 125	24.9	38.1	-29.6
Capital revenue	83	90	463	336	9.0	414.9	-27.4
Capital expenditure	921	1 090	1 951	1 402	18.3	79.0	-28.2
Total expenditure <u>a/</u>	1 682	2 058	3 104	3 167	22.4	50.8	2.0
Total revenue	1 769	2 215	3 212	3 226	25.2	45.0	0.4
Fiscal surplus (+) or deficit (-)	88	157	109	59	78.9	-30.7	-45.5

Source: 1979 Budget Speech, Ministry of Finance, Trinidad and Tobago.

a/ The statistics are not comparable with those published in previous editions of the Economic Survey. Capital expenditures have been overvalued, and the global surplus has been undervalued due to the fact that a large amount of the tributary income has been deposited in the Government's development fund.

Table 14

TRINIDAD AND TOBAGO: MONETARY BALANCE
(Millions of Trinidad and Tobago dollars)

	Balance at end of:				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
<u>Money</u>	<u>485</u>	<u>670</u>	<u>882</u>	<u>1 262</u>	<u>38.1</u>	<u>31.7</u>	<u>43.2</u>
Currency outside banks	138	177	231	296	28.2	30.3	28.0
Demand deposits (adjusted)	347	493	651	967	42.1	32.1	48.6
<u>Factors of expansion</u>							
Foreign assets (net)	1 723	2 398	3 501	4 227	39.1	46.0	20.7
Domestic credit							
Government (net)	-1 105	-1 543	-2 693	-3 010	39.7	74.5	11.8
Private sector <u>a/</u>	950	1 291	1 798	2 414	35.8	39.3	34.3
<u>Factors of absorption</u>							
Quasi-money (savings and time deposits)	-1 021	-1 314	-1 661	-2 027	28.7	26.4	22.1
Long-term foreign borrowing	202	129	135	241	-36.4	5.0	78.4

Source: Central Bank of Trinidad and Tobago.

a/ Includes public bodies.

URUGUAY

1. Recent economic trends: Introduction and summary

In 1978 the economy continued to expand for the sixth consecutive year, with an overall growth rate of 2.5% and a per capita rate of almost 2%; however, these increases were smaller than those of preceding years. The rise in gross income was slightly lower than the increase in the domestic product, because the terms of trade suffered a moderate deterioration between 1977 and 1978. At the same time the inflationary process slowed down somewhat, and there was a substantial reduction in the deficit on the current account of the balance of payments (see table 1).

The slower overall growth rate was largely due to the appreciable fall in agricultural output, caused by poor weather. Manufacturing, on the other hand, grew slightly faster, stimulated by the development of some branches producing non-traditional exports.

Domestic demand grew relatively slowly, because of the slight fall in gross investment. Exports of goods did not increase enough to give a greater stimulus to demand, since the dynamism of non-traditional exports was accompanied by a decline in traditional exports.

Imports of goods were practically equal in value to those of the previous year, so that with the increase in exports between 1977 and 1978, the deficit on the current account of the balance of payments fell by half. The net inflow of capital was about the same as the current deficit, so that there was no substantial change in the gross international reserves.

Consumer prices, which had risen by 57% in 1977, increased by 46% in 1978, even though the rate of inflation was higher in the second half of 1978 than in the first half. Growth in the means of payment was greater than in the previous year, but the fiscal deficit was similar in both years. Real earnings declined for the fourth year in succession, although the drop of 4% in 1978 was smaller than those recorded in each of the previous three years.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (Millions of US dollars at 1970 prices)	2 577	2 658	2 776	2 849	2 945	3 018
Population (millions)	2.84	2.84	2.84	2.85	2.87	2.89
Per capita gross domestic product (US dollars at 1970 prices)	909	937	977	998	1 026	1 046
	<u>Growth rates</u>					
B. Short-run economic indicators						
Gross domestic product	0.8	3.1	4.4	2.6	3.4	2.5
Per capita gross domestic product	0.8	3.1	4.2	2.2	2.8	1.9
Gross income ^{b/}	3.9	-1.7	2.0	1.1	3.0	2.2
Terms of trade	31.4	-47.2	-19.6	-4.5	-0.7	-3.2
Current value of exports of goods and services	31.8	16.0	15.9	26.4	25.1	7.8
Current value of imports of goods and services	31.1	60.1	15.3	4.3	28.7	1.5
Consumer prices						
December to December	77.5	107.2	66.8	39.9	57.3	46.0
Variation between annual averages	96.0	77.2	81.4	50.6	58.2	44.6
Money	75.6	62.9	55.5	61.2	40.4	65.6
Wages and salaries ^{c/}	96.0	74.6	66.4	42.0	39.0	39.6
Current income of government	121.0	58.8	67.6	74.7	70.6	48.1
Total expenditure of government	107.9	94.2	70.8	51.8	55.2	49.5
Fiscal deficit/total expenditure of government ^{d/}	8.9	25.5	26.9	15.9	7.6	8.4
	<u>Millions of US dollars</u>					
C. External sector						
Trade balance (goods and services)	43	-112	-126	-10	-36	18
Balance on current account	18	-156	-199	-84	-103	-55
Variation in net international reserves	37	-8	-14	97	144	-6

^{a/} Preliminary figures.

^{b/} Gross domestic product plus terms-of-trade effect.

^{c/} Variation of average nominal wage between annual averages.

^{d/} Percentage.

2. Trends in economic activity

(a) Total supply and demand

As a consequence of the growth of 2.5% in the economy in 1978, the period of uninterrupted increase in the per capita product, which had begun in 1973, continued. However, the per capita product grew more slowly than in recent years, and this coincided with a relatively slow rise in overall demand (1.9%) (see table 2).

Although total consumption rose by almost 2%, domestic demand grew more slowly (1.4%), because of the drop of close to 2% in gross investment. While the contribution of construction to gross investment increased - reflecting greater building activity in tourist areas and progress in the implementation of some infrastructure works, particularly hydroelectric projects - the machinery and equipment component fell. Exports of goods and services increased by 5%, i.e., less than in 1976-1977.

The rate of increase in global supply was lower than that of the gross domestic product because of the drop of 2% in imports of goods and services.

(b) Growth of the main sectors

The product of the sectors producing goods rose by 4.1%, slightly less than in 1977. This result was influenced by the estimated fall of 5% in agricultural output, since greater activity was recorded in manufacturing. For the service sectors as a whole the rise was about 2% (see table 3).

(i) Agriculture. The fall in agricultural output was fundamentally due to the 15% drop in output from crop farming, since livestock production once again remained unchanged, because of unfavourable conditions on the international market (see table 4). It is calculated that production of beef, dairy products and eggs rose slightly compared with the previous year; however, this rise was offset by the lower level of wool production resulting from the adverse effect of rainfall on output, and the fall in production of poultry meat because of the good supply of beef.

Table 2
URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Total supply</u>	<u>729 409</u>	<u>766 635</u>	<u>781 479</u>	<u>113.2</u>	<u>113.2</u>	<u>2.0</u>	<u>5.1</u>	<u>1.9</u>
Gross domestic product at market prices	651 333	673 485	690 327	100.0	100.0	2.6	3.4	2.5
Imports of goods and services <u>b/</u>	78 076	93 150	91 152	13.2	13.2	-3.1	19.3	-2.1
<u>Total demand</u>	<u>729 409</u>	<u>766 635</u>	<u>781 479</u>	<u>113.2</u>	<u>113.2</u>	<u>2.0</u>	<u>5.1</u>	<u>1.9</u>
Domestic demand	619 655	641 498	650 164	101.4	94.2	-1.2	3.5	1.4
Gross domestic investment	89 910	102 156	100 317	11.3	14.5	19.6	13.6	-1.8
Gross fixed investment	95 132	102 541	100 768	11.2	14.6	27.9	7.8	-1.7
Construction	58 322	61 135	64 900	6.6	9.4	12.5	4.8	6.2
Machinery	36 810	41 406	35 868	4.6	5.2	63.2	12.5	-13.4
Changes in stocks	-5 222	-385	-451	0.1	-0.1			
Total consumption	529 745	539 342	549 847	90.0	79.7	-4.0	1.8	1.9
Exports of goods and services <u>b/</u>	109 754	125 137	131 315	11.8	19.0	24.2	14.0	4.9

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by CEPAL for the purpose.

Table 3

URUGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Agriculture	66 719	65 831	62 539	12.6	10.4	3.6	-1.3	-5.0
Mining	7 501	8 238	163 522	1.2	27.2	-14.8	12.8	7.5
Manufacturing	135 350	143 876		23.0		4.0	6.3	
Construction	23 866	27 338	29 224	3.8	4.9	-6.6	14.5	6.9
<u>Subtotal goods</u>	<u>233 236</u>	<u>245 283</u>	<u>255 285</u>	<u>40.6</u>	<u>42.5</u>	<u>2.0</u>	<u>5.2</u>	<u>4.1</u>
Electricity, gas and water	9 310	9 832	10 453	1.5	1.7	5.2	5.6	6.3
Transport, storage and communications	52 688	54 856	57 051	8.6	9.5	3.7	4.1	4.0
<u>Subtotal basic services</u>	<u>61 998</u>	<u>64 688</u>	<u>67 504</u>	<u>10.0</u>	<u>11.2</u>	<u>3.9</u>	<u>4.3</u>	<u>4.3</u>
Commerce, financial institutions and insurance	95 362	98 977	...	17.2	...	5.2	3.8	...
Real estate <u>b/</u>	27 092	27 092	...	5.2	...	-	-	...
Community, social and personal services <u>c/</u>	147 700	149 429	...	26.9	...	1.2	1.2	...
<u>Subtotal other services</u>	<u>270 154</u>	<u>275 498</u>	<u>273 802</u>	<u>49.3</u>	<u>46.3</u>	<u>2.4</u>	<u>2.0</u>	<u>1.2</u>
<u>Total gross domestic product <u>d/</u></u>	<u>566 094</u>	<u>585 083</u>	<u>599 709</u>	<u>100.0</u>	<u>100.0</u>	<u>2.6</u>	<u>3.4</u>	<u>2.5</u>

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4
URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
Agricultural production (index 1961 = 100)	108.3	116.5	104.5	98.1	-1.7	-1.9	-6.1
Crop farming ^{b/}	140.2	147.7	138.0	117.9	5.3	-6.5	-14.6
Stock raising	93.7	87.7	89.0	89.0	-6.5	1.7	-0.2
Production of main (thousands of tons) ^{c/}							
Wheat	527	456	505	173	-13.5	10.8	-65.7
Maize	157	210	121	172	33.9	-42.5	41.9
Rice	189	217	228	226	14.8	5.5	-1.2
Linseed	39	62	46	40	57.0	-24.8	-14.2
Sunflower	51	77	34	72	49.9	-55.4	108.1
Sugar beet	573	833	597	376	45.3	-28.4	-37.0
Indicators of stock raising production							
Number of cattle (thousands head) ^{d/}	11 362	10 701	10 128	10 225	-6.4	-2.5	1.0
Offtake (thousands head)	1 755	2 042	1 709	1 700	21.3	-19.7	-0.5
Offtake ratio (percentage)	15.4	19.1	16.9	16.6	...	...	...

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Agriculture and Fisheries.

^{a/} Preliminary figures.

^{b/} Including plantations and permanent pastures.

^{c/} Crop year.

^{d/} At 30 June of each year.

/In the

In the crop-farming subsector, only summer crops (including maize and sunflower) rose significantly; the remaining crops suffered drops in output, particularly in the case of wheat (-66%) and sugar-beet (-37%). The weather was the crucial factor in this regard, since the abundant rains during the year hampered sowing operations, so that for various crops the areas sown declined. Yields per hectare fell for the same reason, since difficulties arose in gathering the crops, particularly in the case of wheat.

(ii) Manufacturing. The stimulus for the 7.5% growth in manufacturing came basically from external demand, which also had an effect on branches normally directed towards the domestic market, such as beverages. Among the very few industrial branches which recorded a fall were tanneries and the manufacture of electrical machinery, which faced difficult conditions in the form of external competition (see table 5).

Almost all manufacturing activities recorded substantial increases; because of their influence on the total, mention should be made in particular of the rises in textiles and foodstuffs, of 14% and 4.7%, respectively.

In the textile industry, spinning and weaving of wool grew at a rate of 7%; among foodstuffs, there was an appreciable recovery in activity in the meat-packing industry (13%).

In contrast, processing of other agricultural products encountered difficulties arising from the limited domestic supply, which was in turn a result of the climatic problems.

3. The external sector

The value of imports of goods was almost the same as in the previous year, and this, together with the rise in exports, meant that the deficit on merchandise trade fell from US\$ 68 million to US\$ 14 million (see table 6). At the same time, the current account deficit declined from US\$ 103 million in 1977 to US\$ 55 million in 1978. It is estimated that the net inflow of capital totalled more than US\$ 50 million, so that there was no significant change in the level of gross international reserves, which remained around US\$ 450 million.

Table 5
URUGUAY: INDEX OF MANUFACTURING PRODUCTION
(1961 = 100)

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/b/}
<u>Total</u>	<u>128.8</u>	<u>134.4</u>	<u>142.2</u>	<u>152.9</u>	<u>4.0</u>	<u>6.1</u>	<u>7.5</u>
Food	142.0	157.6	151.9	159.0	11.0	-3.6	4.7
Beverages	134.2	121.2	126.0	139.1	-9.7	4.0	10.4
Tobacco	148.2	148.2	130.9	136.8	-	-11.7	4.5
Textiles	108.9	107.1	122.1	139.2	-1.6	14.0	14.0
Footwear and clothing	82.6	86.7	94.1	103.1	5.1	8.7	9.6
Paper and paper products	200.0	210.6	239.7	289.3	5.3	13.8	20.7
Printing and publishing	108.9	109.8	131.4	137.1	0.5	19.7	4.3
Tanneries	...	...	...	...	30.0	26.4	-10.8
Rubber products	119.2	87.9	103.0	113.0	-20.5	17.1	9.7
Chemical products	128.0	128.8	138.2	149.0	0.5	7.3	7.8
Petroleum products	130.0	124.2	117.2	129.4	-4.5	-5.7	10.4
Non-metallic mineral products	205.6	212.7	240.3	242.2	15.7	13.2	0.6
Metal products	58.0	65.5	80.2	81.5	12.7	22.5	1.6
Electrical machinery	53.2	64.6	74.3	68.5	20.6	15.3	-7.8
Transport equipment	...	...	...	...	1.1	16.3	5.2
Other manufacturing industries	...	...	...	...	1.5	15.9	25.5

Source: Central Bank of Uruguay.

a/ Preliminary figures.

b/ Calculated on the basis of the change in the first nine months of 1978 compared with the same period in 1977.

Table 6
URUGUAY: BALANCE OF PAYMENTS
(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
<u>Current account</u>						
Exports of goods and services	410	475	550	696	872	939
Goods FOB <u>b/</u>	328	381	384	565	612	670
Services	82	94	166	131	260	269
Transport	12	19	27	28	36	38
Travel	43	45	98	68	180	136
Imports of goods and services	367	587	676	706	908	921
Goods FOB <u>b/</u>	249	437	494	537	680	684
Services	118	150	182	169	228	237
Transport	47	76	82	78	80	81
Travel	44	44	62	60	96	100
Net payments of profits and interest on foreign capital	-25	-43	-71	-73	-69	-30
Profits	-	-4	-4	-4	-3	-4
Interest	-25	-39	-67	-69	-66	-76
Net private transfer payments	-	-1	-2	-1	2	7
Balance on current account	18	-156	-199	-84	-103	-55
<u>Capital account</u>						
Net external financing (a+b+c+d+e)	-18	156	199	84	103	55
(a) Long-term capital	-11	33	147	63	22	
Direct investment	-	-	-	-	-	
Private sector	-23	4	22	36	14	
Loans	7	14	29	45	37	
Amortization payments	-30	-10	-7	-9	-23	
Official sector	2	16	129	43	17	
Loans	15	25	140	58	31	
Amortization payments	-13	-9	-11	-15	-14	
Monetary authorities (net)	10	13	-4	-16	-9	51
(b) Short-term capital (net)	-12	58	-6	108	254	
Private sector	38	98	10	81	185	
Official sector	2	2	-6	36	-14	
Monetary authorities	-21	23	31	5	35	
Errors and omissions	-31	-65	-41	-14	46	
(c) Extraordinary financing	26	-9	-16	-2	-	
(d) Official transfer payments	19	22	8	9	5	
(e) International reserves (Minus sign indicates an increase)	-40	52	66	-94	-178	...
Use made of IMF credit	-5	38	44	29	-31	...
Other liabilities	-9	4	17	-22	2	...
Monetary gold	-	-	-	-	-3	-14
Special Drawing Rights	-4	-2	13	-2	-6	-5
IMF reserve position	-	-	-	-	-	-22
Foreign exchange	-22	12	-8	-99	-140	45

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

^{a/} Preliminary figures.

^{b/} Including non-monetary gold.

/Between the

Between the end of 1977 and the end of 1978, under the system whereby periodic adjustments are made in the nominal value of the currency, the rise in the value of the US dollar in terms of local currency was 30%, half the rise in wholesale prices (60%); as a result, the index of the real exchange rate dropped by about 19% (see table 7).

From 1974 to October 1978, there were two exchange markets: a controlled commercial market for negotiating foreign currency used for exports and imports, and a financial market in which the other foreign exchange operations were carried out. In October 1978 the two markets were merged in practice, since the Central Bank announced that it would buy and sell foreign exchange without any restrictions at the commercial exchange rate. In November 1978 an exchange rate system was introduced whereby the expected evolution of the exchange rate in the short term was announced in advance. The mechanism used to begin with was the sale of public securities in local currency with the option of redemption in foreign currency, but this system was subsequently replaced by the advance announcement of corrections in the exchange rate, the forecasting period being three months. The step was taken primarily in order to reduce inflationary expectations, facilitate the adoption of investment decisions and, in general, reduce uncertainty in economic calculations.

(a) Merchandise trade and the terms of trade

The current value of exports of goods rose by 10% in 1978 to US\$ 670 million. It is estimated that their unit value remained constant, so that the volume of exports rose by the same amount as the current value (see table 8).

The value of exports of traditional products (meat, hides and wool) fell by 3% because there was a drop of 6% in prices (see table 9) although the volume increased by about 4%, largely because of the successful marketing of stocks of wool. International meat prices fell by about 10%, but in the second half of the year there was a slight improvement in demand in the markets for the product (Europe and the United States).

Table 7
URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate <u>a/</u> (pesos per US dollar)	Index of exchange rate	Wholesale price index	Index of real exchange rate
			1974 = 100	(4)=(2)/(3)
	(1)	(2)	(3)	(4)
1974	1.20	137.9	178.7	77.2
1975	2.26	188.4	172.4	109.3
1976				
Average	3.34	278.4	259.5	107.3
June	3.23	269.3	237.5	113.3
December	3.98	331.8	315.2	105.2
1977				
Average	4.67	389.3	390.2	99.7
June	4.62	385.1	377.7	101.9
December	5.39	449.2	456.5	98.3
1978				
Average	6.06	505.1	579.6	87.2
June	5.84	486.8	548.9	88.6
December	6.98	581.8	728.4	80.0

Source: Central Bank of Uruguay.

a/ Annual or monthly average of commercial exchange rate.

Table 8
URUGUAY: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978 ^{a/}
	<u>Growth rates</u>					
Exports of goods (FOB)						
Value	35.4	16.4	0.9	46.8	8.2	9.6
Volume	-3.9	19.0	16.8	45.0	-0.9	9.9
Unit value	40.9	-2.2	-13.6	1.2	9.2	-0.3
Imports of goods (FOB)						
Value	39.1	75.7	13.1	8.6	26.7	0.7
Volume	29.8	-5.7	5.2	2.5	15.2	-2.3
Unit value	7.2	85.3	7.5	5.9	10.0	3.0
Terms of trade	31.4	-47.2	-19.6	-4.5	-0.7	-3.2
	<u>Indexes (1970 = 100)</u>					
Terms of trade	153.1	80.8	65.0	62.1	61.6	59.6
Purchasing power of exports of goods	114.2	73.4	68.6	92.1	93.0	98.9
Purchasing power of exports of goods and services	117.2	85.7	93.3	109.4	125.6	130.4

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

Table 9
URUGUAY: EXPORTS OF GOODS (FOB)

	Millions of US dollars			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1973	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Main traditional export products</u>								
Meat, hides and wool	260	263	255	75.3	37.3	33.3	1.2	-3.0
<u>Other exports</u>								
Mainly non-traditional	305	349	415	24.7	62.7	61.4	14.4	18.9
<u>Total</u>	<u>565</u>	<u>612</u>	<u>670</u>	<u>100.0</u>	<u>100.0</u>	<u>46.3</u>	<u>8.2</u>	<u>9.6</u>

Source: Central Bank of Uruguay.

^{a/} Preliminary figures.

/Non-traditional exports

Non-traditional exports increased by 19%, continuing their rapid and sustained growth, and their share in the total reached 63%, compared with only 25% in 1973. However, by the end of the year the protectionist measures adopted by the United States, which harmed Uruguayan exports of footwear and clothing, were causing serious concern.

The absolute value and the breakdown of imports of goods in 1978 were similar to those of the previous year. There was a drop of 10% in imports of capital goods after three years of strong expansion (see table 10). The value of imported petroleum and fuels was about US\$ 220 million and represented 30% of total imports.

The terms of trade worsened for the fifth year running, thus registering an overall drop of 60% since 1973 (when the highest value since 1951 was recorded), and a fall of slightly over 40% during the present decade (see table 8).

4. Prices and wages

(a) Prices

The price policy continued to be directed towards the progressive elimination of the existing arrangements regulating prices and external trade. The highlight in that context was the removal of controls on agricultural prices, and in particular the liberalization of beef marketing, which had an immediate upward effect on the price of that commodity.

Between the end of 1977 and the end of 1978, consumer prices rose by 46%, which was less than in the corresponding previous period (57%) (see table 11). The rate of inflation was higher in the second half of 1978, following the large increase in the price of meat and also the difficulties which arose in the supply of various agricultural products as a result of the bad weather during the year.

The other items in the consumer price index (clothing, housing and miscellaneous) rose more slowly than foodstuffs and meat and meat products. Among the reasons for this was the fact that tariffs for public services rose relatively slowly, and that the process of correcting rents, which had previously been controlled for many years, had already been completed in the previous year.

Table 10
URUGUAY: IMPORTS OF GOODS (CIF)

	Millions of US dollars			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1973	1978 ^{a/}	1976	1977	1978 ^{a/}
Consumer goods	19	23	25	9.2	3.4	-32.1	21.1	8.7
Intermediate goods	478	586	600	83.0	81.7	0.5	22.6	2.4
Petroleum and fuels	180	209	219	19.2	29.8	-1.8	16.1	4.8
Others	298	377	381	63.8	51.9	1.9	26.5	1.1
Capital goods	88	121	109	7.8	14.9	20.5	37.5	-10.0
<u>Total</u>	<u>587</u>	<u>730</u>	<u>734</u>	<u>100.0</u>	<u>100.0</u>	<u>5.6</u>	<u>24.4</u>	<u>0.5</u>

Source: Central Bank of Uruguay.

^{a/} Preliminary figures.

/Table 11

Table 11
URUGUAY: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	Variation in the period indicated						Variation between annual averages		
	1977			1978			1976	1977	1978
	First half	Second half	Full year ^{a/}	First half	Second half	Full year ^{a/}			
<u>Consumer price index</u>	<u>29.1</u>	<u>21.9</u>	<u>57.3</u>	<u>18.8</u>	<u>23.0</u>	<u>46.0</u>	<u>50.6</u>	<u>58.2</u>	<u>44.5</u>
Food	34.3	18.8	59.5	20.0	23.7	48.4	47.7	64.0	44.5
Meat and meat products	19.7	12.1	34.2	29.0	67.7	116.2	54.2	55.3	56.5
Clothing	21.8	20.4	46.6	16.4	19.8	39.5	47.7	46.8	39.6
Housing	25.3	32.8	66.5	21.1	20.3	45.6	56.8	59.3	54.7
Miscellaneous	26.4	18.8	50.1	15.3	25.6	44.9	52.0	52.4	37.6
<u>Wholesale price index (domestic)</u>	<u>19.8</u>	<u>20.9</u>	<u>44.8</u>	<u>20.2</u>	<u>32.7</u>	<u>59.6</u>	<u>50.6</u>	<u>50.3</u>	<u>48.6</u>
Agricultural products	12.7	38.3	55.8	23.9	54.9	92.0	37.8	52.1	78.0
Crop-farming products	14.3	32.1	51.0	48.6	25.3	86.2	24.7	35.3	81.5
Livestock products	11.5	42.6	59.1	8.1	81.0	95.6	51.2	65.9	75.7
Cattle	13.1	64.2	85.7	-2.6	125.0	119.2	28.6	98.2	96.7
Non-agricultural products	21.9	16.2	41.7	19.1	25.4	49.3	54.6	49.8	40.2
Petroleum products	23.5	8.9	34.4	10.1	17.2	29.1	52.4	46.6	22.5
Electric energy	27.1	7.8	37.0	16.0	23.1	42.8	55.2	58.0	32.3

Source: Central Bank of Uruguay and Statistics and Census Office.

^{a/} December to December.

/The rise

The rise in the wholesale prices of local goods (60%) was more than the increase in consumer prices. Because of the problems mentioned above, the rise in agricultural prices (92%) was much greater than the rise in the prices of non-agricultural products (49%).

(b) Wages

Four general adjustments in wages in the public and private sectors were decreed during the year: in March (7%), June (8%), September (10%) and December (10%). For the private sector the wage increases represented the minimum rises payable, while for the public sector both minimum and maximum rises were laid down.

These increases, added to certain minor adjustments in social benefits and in earnings for some classes of workers were reflected in the average wage index, which recorded a nominal increase over the year of almost 40% (slightly more than 40% for the public sector and 39% for the private sector). Bearing in mind the rise in consumer prices, the real average wage thus fell by 3.6% (3% for wage earners in the public sector and 4.1% for wage earners in the private sector who received only the minimum increase decreed) (see table 12).

Nevertheless, available information on the manufacturing sector indicates that between the second quarter of 1977 and the second quarter of 1978, the real earnings of the workers in industry increased by about 4%.

5. Monetary and fiscal policy

(a) Monetary policy

During 1978 the money supply (M_1) rose by 66%; according to the broader definition (M_2), which includes term deposits in local currency, liquidity increased by 102% (see table 13).

The first half of the year was marked by rapid growth in international reserves as a result of a substantial inflow of external capital. During that period the objective of monetary policy was to check the monetary impact of growth in the reserves, and to that end high reserve ratios were maintained for deposits both in local and in foreign currency, in order to minimize the multiplier effect of the expansion of the primary monetary base.

Table 12
URUGUAY: EVOLUTION OF AVERAGE WAGE
(Variation between annual averages)

	1976	1977	1978 ^{a/}
<u>Nominal</u>			
All wage earners	42.0	39.0	39.6
Wage earners in public sector	45.1	40.6	40.4
Wage earners in private sector	39.4	37.6	38.9
<u>Real b/</u>			
All wage earners	-5.8	-11.9	-3.6
Wage earners in public sector	-4.0	-10.9	-3.0
Wage earners in private sector	-7.4	-12.9	-4.1

Source: Statistics and Census Office.

a/ Preliminary figures.

b/ Deflated by the consumer price index.

Table 13
URUGUAY: MONETARY POSITION

	End-year balance (millions of pesos)		Growth rates		
	1977	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Money</u>	<u>1 860</u>	<u>3 079</u>	<u>61.2</u>	<u>40.4</u>	<u>65.6</u>
Currency outside banks	1 115	1 813	66.5	42.5	62.7
Demand deposits	745	1 266	54.3	37.3	69.9
<u>Factors of expansion</u>	<u>7 868</u>	<u>13 293</u>	<u>94.4</u>	<u>56.5</u>	<u>68.9</u>
Foreign assets (net)	2 366	4 269	...	47.6	80.4
Domestic credit	5 502	9 024	51.2	59.1	64.0
Government (net)	1 152	1 122	75.9	59.5	...
Official entities	-521	27	...	...	...
Private sector	4 871	7 875	58.9	65.2	61.7
<u>Factors of absorption</u>	<u>6 003</u>	<u>10 214</u>	<u>127.5</u>	<u>64.2</u>	<u>70.0</u>
Quasi-money	1 017	2 734	91.9	51.0	168.7
Deposits in foreign currency	2 694	3 626	153.7	91.4	34.6
Long-term foreign borrowing	179	214	...	...	...
Other items (net)	2 118	3 640	...	48.3	71.9

Source: Central Bank of Uruguay.

a/ Preliminary figures.

/From the

From the middle of the year onwards, the reserve ratios were progressively reduced in order to stimulate a rise in the supply of domestic credit and a fall in rates of interest to discourage the inflow of external capital. In this way it was hoped to restrain the expansion of the primary monetary base caused by the increase in international reserves, offsetting the expansionary effect of the reduction in reserve ratios.

Even though the rate of inflation accelerated in the second half of the year, the annual interest rate to borrowers on fixed-term operations of up to 6 months dropped from 72.8% to 71.2%, while the rate of interest to depositors fell from 46.4% to 42.6%.

(b) Fiscal policy

In 1978 the fiscal deficit represented slightly over 8% of total expenditure by the central government: a very similar proportion to that recorded the previous year.

Current income rose by 48% (2.5% in real terms), while current expenditure rose by the same amount as consumer prices. The saving on current account thus grew from 140 million pesos in 1977 to 310 million in 1978 (see table 14).

There was a rise of 85% in the current value of real investment, excluding the greater part of the expenditure on the Salto Grande and Palmar hydroelectric projects, which were financed with external resources. For that reason the fiscal deficit totalled 400 million pesos in 1978, being financed mainly with domestic resources.

Table 14

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1975	1976	1977	1978 ^{a/}	1975	1976	1977	1978 ^{a/}
Current income	986	1 722	2 938	4 350	67.6	74.7	70.6	48.1
Tax revenue	929	1 633	2 771	4 140	67.4	75.7	69.7	49.4
Non-tax revenue	57	89	167	210	72.3	57.7	87.5	25.7
Current expenditure	1 204	1 808	2 796	4 043	69.7	50.2	54.6	44.6
Wages and salaries and social security contributions	871	1 264	1 826	2 613	74.4	45.2	44.4	43.1
Other current expenditure	333	544	970	1 430	58.5	63.1	78.5	47.4
Savings on current account	-218	-86	142	307	...	...	...	116.2
Real investment <u>b/</u>	145	239	382	708	81.0	65.2	59.6	85.2
Total expenditure	1 349	2 047	3 178	4 751	70.8	51.8	55.2	49.5
Fiscal deficit	-363	-326	-241	-401	80.2	-10.3	-26.1	66.4
Financing of deficit								
Domestic financing	363	307	226	238	80.8	-15.3	83.2	5.4
Central Bank and Banco de la República	95	173	287	159	1.5	81.7	65.7	-45.4
Issue of securities (net of amortization payments)	263	127	29	91	131.4	-52.0	-77.0	311.3
Other	4	8	90	12				
External financing <u>b/</u>	1	18	15	163 ^{c/}				
Fiscal deficit as a percentage of total expenditure	26.9	15.9	7.6	8.4				

Source: Contaduría General de la Nación.

a/ Preliminary figures.

b/ Excluding investment with external resources in the Salto Grande and Palmar projects which has not yet been recorded.

c/ Including 134 million pesos in the form of loans from Citicorp to the Palmar Joint Commission.

VENEZUELA

1. Recent economic trends: Introduction
and summary

In 1978 the economy registered a high growth rate for the sixth consecutive year. As in previous years the expansion was due to the high level of activity of the sectors directed at satisfying domestic demand, which more than made up for the drop in the production of petroleum and iron ore, the two traditional export products.

Economic growth was accompanied by a moderate rise in prices, a decrease in the activity of some sectors of production and the accentuation of the downward trend which the current account of the balance of payments had been showing in the last few years.

The gross domestic product increased by 6.4%, a lower rate than the two previous years (7.8% in 1976 and 6.8% in 1977). The per capita product increased by 3% and gross income rose by 2.5%, both likewise lower rates than those of 1977 (see table 1). This slowing of the growth rate was due to the fact that the process of absorption of the surpluses accumulated in the period 1974-1976 as a result of the high oil prices was coming to an end while the gross domestic product was not yet registering the impact of the major projects being implemented in the iron and steel, cement, electrical, motor vehicle, metal manufactures and machinery and other industries.

Sectoral development in 1978 was characterized by a drop of slightly over 2% in petroleum activity and growth of 7.3% in the other sectors. What was really noteworthy was the marked growth (7%) of the agricultural sector for the second year running. Manufacturing, construction, basic services and other services (with the exception of financial establishments, insurance and real estate) recorded growth rates higher than the global average.

Parallel with the real growth of the economy there was an increase of 3.6% in employment, although the unemployment rate rose slightly (5%).

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 ^{a/}
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	14 148	14 976	15 754	16 980	18 135	19 295
Population (millions)	11.8	12.3	12.7	13.1	13.5	14.0
Per capita gross domestic product (US dollars at 1970 prices)	1 195	1 223	1 244	1 297	1 340	1 379
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	6.7	5.8	5.2	7.8	6.8	6.4
Per capita gross domestic product	3.2	2.3	1.7	4.3	3.3	3.0
Gross income ^{b/}	12.5	31.8	-5.8	5.7	5.1	2.5
Terms of trade	20.8	114.7	-8.0	-2.7	1.1	-9.1
Current value of exports of goods and services	49.0	129.6	-19.1	3.4	4.9	-6.0
Current value of imports of goods and services	16.9	48.1	41.7	24.4	39.1	16.1
Consumer prices ^{c/}						
December to December	5.1	11.6	8.0	6.9	8.1	7.0
Variation between annual averages	4.1	8.3	10.2	7.7	7.8	7.1
Money	19.7	43.6	50.6	16.6	26.8	19.1
Wages and salaries	...	17.8	13.4	10.2	9.8	...
Rate of unemployment ^{d/}	...	...	7.2	6.0	4.5	5.0
Current income of government	31.7	165.1	-3.9	-6.8	6.2	-0.9
Total expenditure of government	10.3	98.5	9.6	30.1	20.5	1.0
Fiscal surplus or deficit/total expenditure of government ^{d/}	8.0	44.2	26.4	-9.4	-20.2	-21.7
<u>Millions of US dollars</u>						
C. External sector						
Trade balance (goods and services)	1 731	6 724	2 405	996	-1 975	-4 560
Balance on current account	904	5 923	2 421	1 028	-2 003	-4 524
Variation in net international reserves	608	4 469	2 689	27	-193	-1 697
External debt ^{e/}	1 541	1 493	1 262	2 961	4 463	...

^{a/} Preliminary figures.

^{b/} Gross domestic product plus terms-of-trade effect.

^{c/} Cost of living index for the metropolitan area of Caracas.

^{d/} Percentage.

^{e/} Disbursed long and medium term State-guaranteed public and private debt.

/The external

The external sector was characterized by the substantial deficits on the trade and current accounts and on the final balance of payments, as a result of which the country's gross international reserves at 31 December 1978 had dropped by 23% compared with the same date the previous year, although the end-of-year total was still around US\$ 6 billion: sufficient to cover slightly more than five months of imports.

The trade and current account deficits were basically due to the fact that while export earnings had remained in a state of stagnation since 1975, the value of imports had quadrupled in the last five years and their volume had doubled.

In order to face up to the balance-of-payments deficit without causing a steep fall in international reserves, the Government contracted long-term loans in external private markets for over US\$ 2,500 million. The private sector also resorted to foreign bank loans of over US\$ 400 million and credits from foreign suppliers of more than US\$ 200 million. The balance-of-payments deficit - the second since 1976 - thus amounted to around US\$ 1,700 million while the external debt topped US\$ 6,400 million, a far higher level than that of the previous year.

During 1978 consumer prices increased by 7.1%, slightly less than the rate recorded in 1977 and considered very low if account is taken of the exceptional growth of the domestic supply of money in the last five years (see table 1). To a large extent the difference observed in the growth of these two variables during this period can be explained by the extensive system of retail price controls and subsidies and the growing volume of imports, which considerably expanded the domestic supply of goods.

The 1978 fiscal accounts, for their part, recorded a deficit of 11,100 million bolívares, equivalent to 22% of total expenditure.

During 1978 the Venezuelan Investment Fund (FIV), which operates with part of the petroleum surpluses, did not receive any State contributions, although this did not prevent it from being active in authorizing new loans or capital contributions for domestic investments totalling 706 million bolívares, together with ten international financial co-operation loans to four countries totalling nearly 115 million bolívares.

2. Trends in economic activity

(a) Total supply and demand

Total supply and demand grew less in 1978 than in the previous years (see table 2). Contrary to developments in recent years, the growth rate of the product exceeded that of real imports of goods and services, which increased by only 6% after their growth of 80% during the three-year period 1975-1977, when they played an increasingly important role in overall supply. Thus, in 1978 they accounted for slightly more than 25% of overall supply, while this proportion was slightly under 17% in 1973.

The substantial increase in the import coefficient over the last five years was due to the large foreign component of the investments made, particularly in the big strategic projects of the public sector, and the incapacity of national production to satisfy the growing domestic consumption of goods and services, particularly capital goods and food.

Among the components of overall demand, capital formation showed a high growth rate (14%) although it was lower than that of the previous years.

Similar behaviour was to be observed in consumption, as a result of the various measures adopted by the Government to restrict non-essential and luxury consumption. As regards public sector consumer expenditure, its slower growth was a result of the reduction in purchases of intermediate goods and services and the smaller increase in public sector wages and salaries.

In contrast to the dynamism of the domestic sector, real external demand continued the downward trend begun in 1971. In 1978 the volume of exports dropped by 5%, as a result of the contraction of the oil industry.

(b) Sectoral developments

(i) Petroleum. The product of the petroleum sector expressed in real values fell by slightly over 2% in 1977, thus continuing the downward trend begun in 1971, particularly as a result of the policy of conservation of basic resources followed by the Government and, as from 1974, the smaller world demand for petroleum (see table 3).

/Table 2

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
<u>Total supply</u>	<u>90 106</u>	<u>100 446</u>	<u>106 797</u>	<u>119.5</u>	<u>134.0</u>	<u>9.2</u>	<u>11.5</u>	<u>6.3</u>
Gross domestic product at market prices	70 121	74 890	79 683	100.0	100.0	7.8	6.8	6.4
Imports of goods and services <u>b/</u>	19 985	25 556	27 114	19.5	34.0	14.4	27.9	6.1
<u>Total demand</u>	<u>90 106</u>	<u>100 466</u>	<u>106 797</u>	<u>119.5</u>	<u>134.0</u>	<u>9.2</u>	<u>11.5</u>	<u>6.3</u>
Domestic demand	81 086	91 678	98 483	94.0	123.6	11.2	13.1	7.4
Gross domestic investment	26 370	33 536	36 655	27.0	46.0	11.3	27.2	9.3
Gross fixed investment	26 535	31 519	35 900	22.0	45.0	28.1	18.8	13.9
Public	12 931	16 366	18 853	7.0	23.6	29.0	26.6	15.2
Private	13 604	15 153	17 047	15.0	21.4	27.2	11.4	12.5
Changes in stocks	-165	2 017	755	5.0	1.0			
Total consumption	54 716	58 142	61 828	67.0	77.6	11.2	6.3	6.3
General government	12 108	12 895	13 669	13.4	17.2	14.3	6.5	6.0
Private	42 608	45 247	48 159	53.6	60.4	10.3	6.2	6.4
Exports of goods and services <u>b/</u>	9 020	8 768	8 314	25.5	10.4	-6.3	-2.8	-5.2

Source: 1970-1977: CEPAL calculations on the basis of figures from the Central Bank of Venezuela; 1978: CEPAL estimates on the basis of official data.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using indexes calculated by CEPAL for the purpose.

Table 3

VENEZUELA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of bolívares at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 ^{a/}	1970	1978 ^{a/}	1976	1977	1978 ^{a/}
Agriculture	4 307	4 754	5 091	7.5	6.6	-3.6	10.4	7.1
Petroleum	7 178	6 996	6 835	22.2	8.9	0.8	-2.5	-2.3
Extraction	5 603	5 448	5 258	18.5	6.9	-1.5	-2.8	-3.5
Refining	1 575	1 548	1 577	3.7	2.1	10.4	-1.7	1.9
Mining (excluding petroleum)	722	658	632	1.4	0.8	-17.4	-8.9	-3.9
Manufacturing	8 939	9 292	9 915	11.3	12.9	11.9	3.9	6.7
Construction	4 523	5 246	5 640	3.8	7.4	20.7	16.0	7.5
<u>Subtotal goods</u>	<u>25 669</u>	<u>26 946</u>	<u>28 113</u>	<u>46.2</u>	<u>36.7</u>	<u>6.1</u>	<u>5.0</u>	<u>4.3</u>
Electricity, gas and water	1 516	1 626	1 808	1.7	2.4	6.2	7.2	11.2
Transport, storage and communications	8 674	9 743	10 522	10.9	13.7	9.6	12.3	8.0
<u>Subtotal basic services</u>	<u>10 190</u>	<u>11 369</u>	<u>12 330</u>	<u>12.6</u>	<u>16.1</u>	<u>9.1</u>	<u>11.6</u>	<u>8.5</u>
Commerce, restaurants and hotels	8 050	8 464	9 056	11.0	11.8	7.2	5.1	7.0
Financial institutions, insurance and real estate	9 558	10 051	10 574	12.9	13.8	9.6	5.2	5.2
Community, social and personal services	13 991	15 215	16 584	17.3	21.6	8.3	8.7	8.1
<u>Subtotal other services</u>	<u>31 599</u>	<u>33 730</u>	<u>36 214</u>	<u>41.2</u>	<u>47.2</u>	<u>8.4</u>	<u>6.7</u>	<u>7.4</u>
<u>Total gross domestic product b/</u>	<u>67 241</u>	<u>71 814</u>	<u>76 410</u>	<u>100.0</u>	<u>100.0</u>	<u>7.8</u>	<u>6.8</u>	<u>6.4</u>

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela; 1978: CEPAL estimates on the basis of official figures.

a/ Preliminary figures.

b/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

/In 1978

In 1978 there was a decline of over 3% in the extraction of crude petroleum compared with the previous year, with the daily average dropping from 2,235,000 barrels in 1977 to 2,168,000 in 1978 (see table 4). However, refining rose by 2% to about 982,000 barrels a day. The total volume of petroleum products exported dropped by nearly 6% because of a decline of 7.5% in exports of crude and a drop of slightly less than 3% in exports of refined products. Domestic consumption of refined products, however, increased by 7%. As regards natural gas, net production rose by 1.5%, while consumption remained at a similar level to that of the previous year.

The total earnings of the petroleum industry, at market prices, dropped by 8.4% compared with the previous year as a result of lower production (-2%), a slight fall in export prices,^{1/} the decline in the volume of exports and the increase in domestic consumption of refined products, prices of which on the home market are very much lower than those in force in the international markets. Because of this situation, the net profits of the industry in 1978 dropped to slightly over 6,340 million bolívares compared with 7,805 million bolívares the previous year.

Despite these less favourable results, the petroleum industry made considerably larger investments in 1978 than in earlier years. These amounted to 3,000 million bolívares, compared with 2,110 million in 1977 and slightly over 1,110 million in 1976.

Other positive facts observed in this industry in the course of the year were the considerable reduction in operating costs and expenses for each barrel extracted, the slight increase in net profits, the increase of 50% in the number of wells sunk compared with the previous year, and the setting up at the end of November of the enterprise CORPOVEN S.A. as a branch of Petroleros de Venezuela (PETROVEN), through a merger of the enterprises CVP, Maraven, Palmaven, Deltaven, Boscoven and Bariven. This merger leaves only four major State operating enterprises: MARAVEN, LAGOVEN and CORPOVEN, and their parent company PETROVEN.

^{1/} The average export price in 1978 was US\$ 13.78 per barrel as against US\$ 13.87 in 1977.

Table 4

VENEZUELA: SOME INDICATORS RELATING TO PETROLEUM AND IRON ORE

	1975	1976	1977	1978 ^{a/}	Growth rates		
					1976	1977	1978 ^{a/}
<u>Petroleum</u>							
(millions of barrels)							
Production	1 172	1 198	1 170	1 149	2.2	-2.3	-1.8
Crude petroleum	856	840	817	790	-1.9	-2.7	-3.3
Refined petroleum	316	358	353	359	13.4	-1.4	1.9
Exports	761	788	738	695	3.6	-6.4	-5.8
Crude petroleum	537	502	486	450	-6.7	-3.2	-7.5
Refined petroleum	224	286	252	245	27.8	-12.2	-2.8
Domestic consumption of refined petroleum	89	94	101	108	5.7	7.2	7.0
Reserves	18 395	18 229	17 995	18 175	-1.1	-1.1	1.0
Theoretical life of reserves ^{b/} (years)	21.5	21.7	22.1	23.0	0.9	1.8	4.1
<u>Gas</u>							
Production (millions of cubic metres)	38 008	37 135	37 512	38 075	-2.4	1.1	1.5
Utilized (%)	89.0	92.0	93.0	93.5	3.5	0.8	1.2
Wasted (%)	11.0	8.0	7.0	6.5	-27.4	-8.5	-7.0
<u>Iron ore</u>							
(millions of tons)							
Production	25.0	18.0	14.4	13.8	-29.0	-20.0	-3.9
Exports	21.0	17.0	11.9	13.1	-17.6	-31.2	10.0

Source: President of Venezuela, Mensaje al Congreso de la República, March 1979.

^{a/} Preliminary figures.

^{b/} Reserves divided by production in the corresponding year.

(ii) Mining: The mining product, excluding petroleum, decreased for the fourth year running (-4%), basically as a result of the drop in the production of iron ore, which fell from 27 million metric tons in 1974 to slightly under 14 million in 1978. The drop in this latter year, however, was only 4% compared with the previous year, while the volume of exports was 10% higher, rising from 11.9 million tons in 1977 to 13.1 million in 1978 (see table 4).

Average export prices dropped by nearly 20% from 60.8 bolivares per ton to 49.1. This drop was larger for exports to Europe (-23%) than for those to the United States (-15%).

In view of the lower level of activity in iron mining and the drop in prices on the international market, the net profits of the State enterprise, in which all production is concentrated fell from 104 million bolivares in 1977 to 68 million in 1978.

Of other mining sector products, gold production dropped by 17% and coal production by 20%; however, diamond production increased by 7.5%.

(iii) Agriculture. According to preliminary estimates, the agricultural product grew by 7% in 1978, thus registering a high rate of growth for the second consecutive year, since it had already increased by over 10% in 1977. These results were above all possible because of the considerable increase in the credit aid granted to the sector by the Government since 1975. In 1978 the credit granted by State commercial banks increased by approximately 18% compared with the previous year.

Livestock raising, fishing and forestry continued to grow at a rapid pace. Cattle slaughtering in industrial slaughterhouses increased by 14% and the slaughter of poultry on farms by 3%, while production of fish and shellfish increased by 27% between January-August 1977 and the same period in 1978.

In crop farming, however, production was uneven. In some items, such as pulses, kidney beans, black beans and sugar cane, substantial decreases were recorded, owing to the reduction of the area cultivated and the drop in yields; in others, such as coffee, cocoa, rice, soya, potatoes, copra and fruit and vegetables, increases were noted.

/Purchases of

Purchases of domestic agricultural products by the Corporación de Mercadeo Agrícola grew during the first nine months of the year by 18% in volume and 22% in value, compared with the same period in 1977.

(iv) Manufacturing. According to very preliminary estimates based on indirect indicators, such as employment and electricity consumption in the sector and the evolution of some specific branches of industry, the manufacturing product grew by nearly 7% in 1978. Industry thus showed some recovery from its moderate increase in 1977, although it did not achieve the high growth rates of the 1975-1976 period (see table 3). The slowing of the pace of industrial development in 1977 and 1978 was especially due to the shortage of skilled labour and of several raw materials, particularly of agricultural origin, the rise in the prices of industrial inputs and the relatively smaller volume of financial resources available compared with previous years. It is estimated, however, that this exceptional situation will be overcome in the next few years when the major industrial projects in progress come into full production; noteworthy among these are the expansion of the installed capacity of the SIDOR iron and steel industry from 1.2 million tons to 5 million, the expansion of the aluminium industry's capacity from 50,000 tons to 400,000, and that of the cement industry by more than 2 million tons, together with the construction of a special steel plant with a capacity of 480,000 tons of liquid steel. These projects represent an investment of more than US\$ 5 billion.

The industries which operated with greatest dynamism in the course of the year, achieving growth rates of more than 10%, were those producing aluminium, motor vehicles, iron and steel and cement.

The aluminium industry nearly doubled its 1970 production from 48,000 tons in that year to around 90,000 tons in 1978. The Aluminio del Caroní S.A. (ALCASA) plant completed the expansion of its installed capacity to an annual 120,000 tons and at the end of the year 180 cells of the project were in operation, with an investment of nearly US\$ 200 million. The enterprise C.A. Venezolana de Aluminio (VENALUM) brought the first line of 70 cells into operation at the beginning of the year and the second at the end of the year, thus giving a total of 140 cells. Annual production was 15,000 tons, of which 7,000 were exported to Japan.

/The motor

The motor industry increased vehicle production by 14% from 164,300 units in 1977 to 186,400 in 1978. Car production was 105,000 units, 8% higher than the previous year. Commercial vehicles - trucks and buses - recorded the largest increase (27%), with the production of 60,400 units, while station wagon production increased by 11% to 21,400 units.

Higher vehicle production was favoured by the new motor industry policy in force as from 1976 and the prohibition of the importation of vehicles of makes and models not produced in the country.

Under the provision of Decision 120 of the Commission of the Cartagena Agreement on the sectoral programme for the development of the motor vehicle industry, an agreement was signed with Ecuador for the manufacture of a six-cylinder engine in Venezuela and synchronized gearboxes in Ecuador, for type B 1.2 light trucks. An agreement to assemble commercial vehicles of category B 3 was also signed with that country. It was agreed with Bolivia to carry out joint negotiations with the Ford Motor Company and Renault to manufacture the second type of six-cylinder engine assigned to Venezuela. Negotiations were held with Colombia to draw up the vehicle assembly agreements for categories A 3, A 4 and B 4, and these agreements are expected to be completed in 1979. Lastly, Venezuela authorized FIAT to manufacture four-cylinder engines, General Motors to manufacture six-cylinder engines and PEGASO diesel engines of more than 180 HP.

Another feature of the evolution of manufacturing in 1978 was that the majority of the basic State enterprises - iron and steel, aluminium, petrochemicals and sugar - registered a recovery in their production levels.

As regards the iron and steel industry, production was far below the requirements of the domestic market, which were estimated at around 3 million metric tons, and it was therefore necessary to import more than 2 million tons. It was expected, however, that once the expansion of Siderúrgica del Orinoco S.A. (SIDOR) was completed and other iron and steel plants in the process of being set up had come into operation, these imports could be replaced.

/The estimates

The estimates for industrial employment show an increase of 9.4% between the first half of 1978 and the same period of the previous year. The biggest increases were recorded in basic metal industries (24%), metal manufactures and machinery (16%), non-metallic minerals (12%) and food, beverages and tobacco (12%) (see table 5).

Another indicator confirming the growth of manufacturing was the sizeable increase (11.6%) in electricity consumption.

It should be noted that the amount of financing made available to manufacturing by the public sector in 1978 was much less than the annual average for the period 1974-1977, which is a further indication that the process of absorption of petroleum surpluses had practically come to an end (see table 6).

(v) Construction. During the year the rate of growth of construction lost much of its impetus as a result of the fact that the level of public sector construction activity was only slightly higher than that of the previous year, while in the private sector the growth rate was similar to that of 1977.

Public sector construction had grown notably over the past three years and in 1978 many projects were at an advanced stage of implementation, such as those connected with the basic industries (particularly iron and steel and aluminium), drinking water supply works, educational establishments and hospitals, and others. However, there were other public projects which were intensified in 1978, such as investments in the oil industry, hydroelectricity and the Caracas Metro.

Housing construction by the private sector was affected in the first months of the year by the credit restrictions placed on both buyers and constructors, which led to some accumulation of unsold dwellings. This situation was overcome in the second half of the year when the Central Bank raised the yield of mortgage bonds from 3% to 8.5% per year and increased the authorized credit cover per square metre by the mortgage banks.

As regards total employment in the construction sector, this increased by 8.7% in 1978, and the scarcity of skilled labour persisted.

Table 5

VENEZUELA: EMPLOYMENT IN MANUFACTURING

	Thousands of persons		Growth rates 1978
	1977 ^{a/}	1978 ^{a/}	
Food and beverages	130.0	145.8	12.2
Textiles, clothing and leather	145.7	150.7	3.4
Wood and furniture	56.0	59.7	6.6
Paper and printing	36.6	38.9	6.3
Chemicals, petroleum products and rubber	60.4	65.7	8.8
Non-metallic minerals	31.2	34.8	11.5
Basic metals	15.2	18.8	23.7
Metal manufactures and machinery	112.9	131.3	16.3
Others	8.7	7.2	-17.2
<u>Total</u>	<u>596.7</u>	<u>652.9</u>	<u>9.4</u>

Source: Oficina Central de Estadística e Informática (OCEI), Encuesta de Hogares.

a/ First half.

Table 6

VENEZUELA: PUBLIC FINANCING OF THE INDUSTRIAL SECTOR

Institution	Annual averages 1974-1977		1978	
	Number of operations	Millions of bolívares	Number of operations	Millions of bolívares
Venezuelan Investment Fund (FIV)	3	1 566	2	423
Venezuelan Development Corporation <u>a/</u>	86	1 661	71	1 805
Industrial Credit Fund	38	394	22	128
Corporation for Small and Medium Industry	352	386	111	221
<u>Total</u>	<u>479</u>	<u>4 007</u>	<u>206</u>	<u>2 577</u>

Source: Ministry of Development, Memoria 1978; Venezuelan Investment Fund, Memoria y cuenta 1978.

a/ Nearly 80% of the value of operations corresponds to guarantees for foreign credit.

(c) Employment

In line with the slowing of the growth rate of the economy, employment increased less than in previous years, rising by 3.6% compared with the year before, in contrast with the 6% recorded in 1976 and the 5% recorded in 1977. The unemployment rate, which in 1977 had dropped to 4.5%, rose to 5% in 1978.

Employment grew considerably in basic services (13.3%), in the manufacturing sector (9.4%), in the financial services (9.3%) and in construction (8.7%), but it continued to drop in the agricultural sector and remained steady in commerce. These, together with other services, are the activities which absorb most labour (see table 7).

3. The external sector

(a) External trade

(i) Exports of goods. In 1978 both the value and the volume of exports of goods dropped by nearly 7%, while their unit value remained unchanged (see table 8). The decrease in value from their 1977 level of US\$ 9,670 million to around US\$ 9,000 million in 1978 was basically due to the reduction in exports of petroleum, which continued to account for 95% of the total value of exports but whose value dropped by 8%. The value of exports of iron ore also dropped from US\$ 167 million to US\$ 150 million. Exports other than petroleum and iron ore, however, increased from US\$ 277 million in 1977 to US\$ 326 million in 1978, thus continuing the upward trend they had been showing since 1972.

(ii) Imports of goods. In 1978 the exceptional rate of growth recorded in the value of imports over the previous four years dropped appreciably. Thus, after increasing by more than 40% annually between 1974 and 1975 and at a rate of around 30% the following two years, it increased by only 18% in 1978. This slowing-down was due to a sharp drop in the rate of increase of the volume, since the unit value increased just as rapidly as during the two previous years (see table 8).

Table 7

VENEZUELA: EMPLOYMENT BY SECTORS OF THE ECONOMY

Sector	Thousands of persons				Growth rates		
	1975	1976	1977	1978 ^{a/}	1976	1977	1978 ^{b/}
<u>Production of goods</u>	<u>1 517</u>	<u>1 595</u>	<u>1 677</u>	<u>1 702</u>	<u>5.8</u>	<u>4.8</u>	<u>2.9</u>
Agriculture	682	695	695	651	2.5	2.0	-5.5
Petroleum and mining	45	43	46	51	4.6	4.2	3.4
Manufacturing	537	577	607	653	6.8	5.0	9.4
Construction	254	280	329	346	11.8	9.9	8.7
<u>Basic services</u>	<u>240</u>	<u>252</u>	<u>271</u>	<u>308</u>	<u>4.7</u>	<u>3.6</u>	<u>13.3</u>
Electricity, gas and water	43	41	38	44	3.6	4.0	18.1
Transport and communications	197	211	233	264	4.9	3.5	12.6
<u>Other services</u>	<u>1 701</u>	<u>1 798</u>	<u>1 881</u>	<u>1 909</u>	<u>5.0</u>	<u>4.2</u>	<u>2.9</u>
Commerce	646	673	699	679	4.8	4.1	-0.4
Finance	123	136	150	163	5.0	4.5	9.3
Miscellaneous services	927	985	1 029	1 063	3.9	3.7	4.0
Unspecified	5	3	4	5	80.1	71.1	138.1
<u>Total</u>	<u>3 459</u>	<u>3 645</u>	<u>3 829</u>	<u>3 919</u>	<u>6.0</u>	<u>5.0</u>	<u>3.6</u>

Source: Oficina Central de Estadística e Informática (OCEI), Encuesta de Hogares.

a/ First half.

b/ First half of 1978 compared with the first half of 1977.

Table 8

VENEZUELA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977	1978
	<u>Growth rates</u>						
Exports of goods							
Value	2.0	49.2	135.7	-20.2	5.6	3.5	-6.9
Volume	-4.7	4.6	-11.6	-25.3	-0.4	-8.1	-6.9
Unit value	7.0	42.7	166.7	6.8	6.0	11.4	-
Imports of goods							
Value	17.6	18.2	47.6	40.9	26.2	33.7	18.4
Volume	11.1	0.1	18.8	21.4	15.6	21.3	7.6
Unit value	5.9	18.1	24.2	16.1	9.0	10.2	10.0
Terms of trade	1.1	20.8	114.7	-8.0	-2.7	1.1	-9.1
	<u>Indexes (1970 = 100)</u>						
Terms of trade	118.7	143.3	307.7	283.2	275.5	278.4	253.1
Purchasing power of exports of goods	108.0	136.3	258.8	177.6	173.6	160.1	135.4
Purchasing power of exports of goods and services	109.2	143.3	269.0	184.6	175.4	169.2	145.3

Source: CEPAL, on the basis of official figures.

(iii) The terms of trade. The stability of the unit value of exports and the increase of 10% in the unit value of imports meant that in 1978 there was a 9% deterioration in the terms of trade. Because of their exceptional increase in 1974, however, they remained at a level 150% above that at the beginning of the decade. Owing to the systematic reduction in the volume of exports of goods in 1978, their purchasing power was only 25% higher than in 1972, while if services are added the increase compared with that year was 33% (see table 8).

As regards the breakdown of imports, there was an increase of 16% in 1978 in public sector purchases, attributable not only to capital goods acquired for the basic projects but also to imports of equipment and machinery for the petroleum industry and various public works, especially the Caracas Metro. Imports made by the private sector also maintained their upward trend of previous years, but at a slower rate.

(b) The balance of payments

In 1978 trade in goods showed a deficit of US\$ 1.9 billion in contrast to the surpluses of previous years. This was accompanied by the already traditional deficit on services, which amounted to over US\$ 2.6 billion and was equivalent to nearly 30% of exports (it may be recalled that in 1973 the deficit was equivalent to only 7% of exports). Moreover, although there was net income from the interest on the Government's financial placements abroad, it was almost entirely offset by the net amounts of remittances of profits and private transfer payments. Adding together all the current account balances, the result was a deficit of US\$ 4,524 million, representing 47% of exports of goods and services. This deficit was more than double that of 1977, when Venezuela had its first big deficit of this decade (see table 9).

No information is available on the exact composition of the flows of non-compensatory capital in 1978. It is known, however, that the Government and the decentralized State bodies obtained sizeable loans abroad which served to cover a large part of the current account deficit. Following a strategy begun in 1976, the public sector contracted substantial loans

Table 9
VENEZUELA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 ^{a/}
Current account						
Exports of goods and services	5 104	11 722	9 488	9 807	10 285	9 670
Goods FOB b/	4 705	11 092	8 846	9 342	9 669	9 000
Services	399	630	642	465	616	670
Transport	159	304	260	132	221	230
Travel	119	174	180	224	276	300
Imports of goods and services	3 373	4 998	7 083	8 811	12 260	14 230
Goods FOB b/	2 626	3 876	5 461	6 890	9 209	10 900
Services	747	1 122	1 622	1 921	3 051	3 330
Transport	342	468	776	1 030	1 689	2 000
Travel	198	289	420	610	996	950
Net payments of profits and interest on foreign capital	-722	-671	162	224	223	285
Profits	-720	-850	-344	-202	-195	-165
Interest	-2	179	506	426	418	450
Net private transfer payments	-105	-130	-146	-192	-251	-249
Balance on current account	904	5 923	2 421	1 028	-2 003	-4 524
Capital account						
Net external financing (a+b+c+d)	-904	-5 923	-2 421	-1 028	2 003	4 524
(a) Long-term capital	-105	-642	152	-273	966	
Direct investment	-85	-343	471	-618	270	
Private sector	-14	-8	-44	-199	50	
Loans	45	38	59	95	276	
Amortization payments	-8	-6	-8	-16	-5	
Other net assets and liabilities	-51	-40	-95	-278	-221	
Official sector	-6	-291	-275	539	646	
Loans	204	126	302	2 450	2 152	
Amortization payments	-124	-305	-314	-1 554	-1 166	2 827
Other net assets and liabilities	-86	-112	-263	-357	-340	
(b) Net short-term capital	-186	-748	146	-662	894	
Private sector	212	-307	-64	-2 715	-802	
Official sector	73	5	22	69	5	
Monetary authorities	-4	6	-23	-44	28	
Errors and omissions	-467	-452	211	2 028	1 663	
(c) Official transfer payments	-5	-64	-30	-61	-50	
(d) International reserves (minus sign signifies and increase)	-608	-4 469	-2 689	-27	193	1 697
Use of IMF credit	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Monetary gold	-	-	-	-	-4	-41
Special Drawing Rights	-	-2	-4	-3	-12	-52
IMF reserve position	-	-349	-491	-139	109	245
Foreign exchange	-608	-4 118	-2 194	115	100	1 545

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/in the

in the Eurocurrency market; as can be seen from table 10, loans of nearly US\$ 2 billion were arranged with the international banks. In addition to this increase a further US\$ 700 million entered the country as a result of the placement of State bonds on private capital markets (particularly Japan). Generally speaking, the Government was able to carry out its foreign credit operations under relatively favourable conditions, as can be seen from the fact that loans were frequently granted to it with a surcharge of only 0.75% over the London Interbank Offered Rate (LIBOR) and terms of 10 and 12 years. These conditions were possible thanks to the excellent credit rating of the public sector in Venezuela and the high liquidity level of the international banks.

Although the Government had no difficulties in obtaining funds in the Eurocurrency market, the rapid pace of indebtedness of recent years meant a considerable accumulation of overseas financial liabilities. As may be seen from table 11, the balance of the external public debt amounted to US\$ 4.5 billion in 1977 (US\$ 330 per capita), three times the 1973 debt of US\$ 1.5 billion (US\$ 130 per capita). With the new bank credits agreed upon in 1978, it is estimated that the external debt reached around US\$ 6.4 billion.

In addition to using external capital, the Government had to have recourse to its international reserves to cover the current account deficit. Thus it used US\$ 1,545 million in foreign exchange in addition to other assets totalling around US\$ 1.7 billion. The 1978 balance-of-payments deficit was the second in a row after ten years of surpluses. The country's international reserves thus dropped from US\$ 7.7 billion in 1977 to US\$ 6 billion in 1978.

4. Prices and wages

In 1978 the rise in domestic prices was slightly less than that recorded in 1977. The annual average variation in consumer prices for the metropolitan area was 7.1% compared with 7.8% the previous year, while in wholesale prices it was 7.6% compared with nearly 11% in 1977. In both categories the December to December increase was less than the annual average variation.

Table 10

VENEZUELA: BORROWING IN INTERNATIONAL CAPITAL MARKETS

(Millions of US dollars)

Year	Bonds	Loans on the Eurocurrency market	Total
1974	2	50	52
1975	-	200	200
1976	-	1 129	1 129
1977	438	1 650	2 088
1978	689	1 950	2 639

Source: World Bank, Borrowing in International Capital Markets, several issues.

Table 11

VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS^{a/}

(Millions of US dollars)

	Amount disbursed at end of year				
	1973	1974	1975	1976	1977
External debt	1 541	1 493	1 262	2 961	4 463
Debt servicing	308	506	538	407	829
Amortization payments	206	384	435	285	607
Interest	102	122	103	122	222
Debt servicing as a percentage of exports	6.0	4.3	5.7	4.2	8.1

Source: CEPAL, on the basis of official figures.

a/ Medium-term and long-term debt, including guaranteed debt.

/As in

As in the last six years, the average increase in food prices considerably exceeded the overall variation in consumer prices and the increase in the wholesale prices of national products was greater than that of imported products for the sixth consecutive year (see table 12).

The consumer price indexes in other large Venezuelan cities such as Maracaibo, Mérida, Valencia, Ciudad Guayana and the Puerto La Cruz-Barcelona area once again showed more rapid growth than that calculated for the metropolitan area.

Although no information is available on wages and salaries, Central Bank estimates indicate that real wages and salaries grew less than in 1977 (9%) and that this increase mainly favoured the private sector.

5. Monetary and fiscal policy

(a) Monetary policy

The growth of money in the last three years was less than in 1974 and 1975, when the means of payment increased around 50% each year. The main reason for this slower pace was the progressive reduction of the net international reserves of the banking system as a result of the appearance of deficits in the balance of payments, which helped to alleviate pressure on domestic prices. The monetary policy, however, was designed to avoid too much slowing-down in the growth of money, so as to ensure an adequate level of liquidity for the banking system.

During 1978 the money supply grew 19% less than the previous year, and international reserves shrank by around 18%, although this was offset by the vigorous growth of domestic credit (48%). Savings and term deposits recorded an increase of 11% (see table 13).

During the first half of the year, the drop in the money supply through banking operations was particularly strong, and led the monetary authorities to adopt measures to counter it and adjust the credit capacity of the national financial institutions. At the beginning of the year, the authorities decided not to institute the additional legal reserve of 5% for the months of January and February on public sector deposits, and the legal reserve of 65% in force since October 1977 was maintained. Moreover, in view of the growing difference between the interest rates of the international

Table 12
VENEZUELA: EVOLUTION OF DOMESTIC PRICES

	1972	1973	1974	1975	1976	1977	1978
	<u>Variation between annual averages</u>						
Consumer prices <u>a/</u>	2.9	4.1	8.3	10.2	7.7	7.8	7.1
Food	4.9	7.6	12.7	14.7	8.8	12.3	9.3
Clothing	2.9	7.7	20.2	17.0	16.5	10.0	8.5
Wholesale prices	3.5	6.6	16.7	13.7	7.2	10.9	7.6
Domestic products	2.7	7.2	16.8	14.3	6.0	13.4	8.3
Imported products	4.5	5.7	16.7	12.8	6.1	6.9	6.2
	<u>Variation December-December</u>						
Consumer prices <u>a/</u>	3.5	5.1	11.6	6.0	6.9	8.1	7.0
Food	7.4	8.1	18.3	8.7	8.2	14.8	7.0
Clothing	9.3	7.9	21.8	19.3	10.4	9.3	12.9
Wholesale prices	2.7	11.0	19.9	6.2	8.8	11.0	5.8
Domestic products	3.7	12.1	17.0	10.3	7.6	17.0	4.5
Imported products	2.1	10.3	21.9	5.4	10.4	5.1	6.7

Source: President of Venezuela, Mensaje al Congreso de la República, March 1976, 1977, 1978; Central Bank of Venezuela, Informe económico, 1972, 1973, 1974 and 1975.

a/ Cost-of-living index for the Caracas metropolitan area.

Table 13

VENEZUELA: MONETARY POSITION

	End-year balance in millions of bolívares					Growth rates			
	1974	1975	1976	1977	1978	1975	1976	1977	1978
<u>Money</u>	<u>17 348</u>	<u>26 121</u>	<u>30 465</u>	<u>38 621</u>	<u>45 980</u>	<u>50.6</u>	<u>16.6</u>	<u>26.8</u>	<u>19.1</u>
Currency outside banks	3 807	4 723	5 820	7 383	9 012	24.1	23.2	26.9	22.1
Demand deposits	12 506	18 260	22 803	29 117	35 247	46.0	24.9	27.7	21.1
<u>Factors of expansion</u>	<u>31 836</u>	<u>47 132</u>	<u>58 355</u>	<u>69 042</u>	<u>79 006</u>	<u>48.1</u>	<u>23.8</u>	<u>18.4</u>	<u>14.4</u>
Foreign assets (net)	27 588	38 411	37 086	35 323	29 078	39.2	-3.4	-4.7	-17.7
Domestic credit	4 248	8 721	21 249	33 719	49 928	105.3	143.7	58.7	48.1
Government (net)	-15 973	-21 012	-19 360	-15 109	-11 263				
Official entities	531	557	611	810	754	4.9	9.7	32.6	-6.9
Private sector	19 045	28 718	39 295	46 776	57 733	50.8	36.8	19.0	23.4
<u>Factors of absorption</u>	<u>14 489</u>	<u>21 010</u>	<u>27 671</u>	<u>30 427</u>	<u>33 026</u>	<u>45.0</u>	<u>32.7</u>	<u>9.2</u>	<u>8.6</u>
Quasi-money (savings and time deposits)	9 965	15 349	20 985	25 960	28 778	54.0	36.7	23.7	10.9
Other items (net)	4 524	5 661	6 886	4 467	4 248	25.1	21.6	-35.1	-4.9

Source: International Monetary Fund, International Financial Statistics, June 1979.

capital markets and those of the domestic market, in July 1978 the authorities raised the ceilings for these rates so as to discourage the placement of funds abroad and steer them towards the national financial system.

These measures were accompanied by the expansive effect of the growth of public spending (for example through the Venezuelan Investment Fund) in the second half of 1978.

(b) Fiscal policy

For the second year running the Treasury accounts showed a substantial deficit, amounting to 11,100 million bolívares (equivalent to 22% of fiscal expenditure). In 1977 this deficit had been 10,200 million bolívares (equivalent to 20% of such expenditure). These imbalances contrasted with the substantial surpluses recorded during the years of high petroleum prices (see table 14).

The fiscal deficit was the reflexion of the progressive reduction in earnings from petroleum - the main source of public sector revenue - and the persistence of a high level of expenditure. In 1978, however, there was a clear restriction of fiscal spending, expressed in the growth of only 1% in total expenditure.

During the year the Government's petroleum earnings fell by 13%, mainly as a result of the lower volumes of production and exports and a slight drop in prices compared with the previous year, but also due to the drop of 1% in the liquidation price of petroleum royalties. This loss of petroleum resources was, however, almost entirely offset by the sharp increase in other current income, so that the final result was a minimal drop in total government revenue.

The structure of fiscal revenue continued to change, as in previous years. In 1974 petroleum contributed 86% of total government income, but due to the subsequent decline in the yield from this source of revenue and the rapid growth of other sources as a result of the increasing activity of sectors of the economy other than petroleum, the share of the latter dropped to slightly over 60% in 1978.

Table 14

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of bolívares					Growth rates			
	1974	1975	1976	1977	1978	1975	1976	1977	1978
<u>Current income</u>	<u>42 559</u>	<u>40 898</u>	<u>38 130</u>	<u>40 474</u>	<u>40 106</u>	<u>-3.9</u>	<u>-6.8</u>	<u>6.2</u>	<u>-0.9</u>
Petroleum	36 451	31 655	28 024	38 734	25 056	-13.2	-11.5	2.5	-12.8
Direct	2 634	3 297	4 182	5 198	6 542	25.2	26.8	24.3	25.9
Indirect and others income	3 474	5 946	5 924	6 542	8 508	71.2	-0.4	10.4	30.1
<u>Current expenditure</u>	<u>14 415</u>	<u>18 244</u>	<u>20 687</u>	<u>24 643</u>	<u>25 107</u>	<u>26.6</u>	<u>13.4</u>	<u>19.1</u>	<u>1.0</u>
Wages and salaries	6 228	7 275	8 704	10 181	11 115	16.8	19.7	17.0	9.2
Economic subsidies	1 854	1 627	1 159	1 159	813	-12.2	-28.8	-	-29.8
Other current expenditure	6 333	9 344	10 824	13 303	13 179	47.6	15.8	22.9	-0.9
<u>Saving on current account</u>	<u>23 144</u>	<u>22 654</u>	<u>17 443</u>	<u>15 831</u>	<u>14 999</u>	<u>-19.5</u>	<u>-23.0</u>	<u>-9.2</u>	<u>-5.1</u>
<u>Capital expenditure</u>	<u>10 835</u>	<u>12 330</u>	<u>13 456</u>	<u>17 846</u>	<u>18 239</u>	<u>13.8</u>	<u>9.1</u>	<u>32.6</u>	<u>2.7</u>
Real investment	3 461	3 487	4 234	5 778	6 481	0.8	21.4	36.5	12.0
Transfers	4 889	5 062	4 141	10 101	9 987	3.5	-18.2	144.0	-1.1
Financial investment	1 995	3 774	5 069	1 929	1 739	89.2	34.3	-62.0	-9.0
Other capital expenditure	490	7	12	40	32	-98.5	60.8	233.3	-20.0
<u>Expenditure on refinancing operations</u>	<u>-</u>	<u>-</u>	<u>4 292</u>	<u>2 902</u>	<u>1 914</u>	<u>-</u>	<u>-</u>	<u>-32.4</u>	<u>-34.0</u>
<u>Expenditure on debt servicing</u>	<u>4 269</u>	<u>1 771</u>	<u>3 636</u>	<u>5 301</u>	<u>5 953</u>	<u>58.5</u>	<u>105.3</u>	<u>45.8</u>	<u>12.3</u>
<u>Total expenditure</u>	<u>29 519</u>	<u>32 345</u>	<u>42 071</u>	<u>50 694</u>	<u>51 213</u>	<u>9.6</u>	<u>30.1</u>	<u>20.5</u>	<u>1.0</u>
<u>Fiscal deficit (or surplus)</u>	<u>13 040</u>	<u>8 553</u>	<u>-3 941</u>	<u>-10 220</u>	<u>-11 107</u>	<u>34.4</u>	<u>-</u>	<u>159.3</u>	<u>8.7</u>
<u>Financing</u>									
External	48	77	4 372	8 519	...				
Domestic	193	25	641	2 153	...				
Venezuelan Investment Fund	-13 000	-7 532	-2 500	-	...				
Others	-281	-1 123	1 428	-452	...				

Source: CEPAL, on the basis of official statistics.

/As regards

As regards expenditure, the growth rate of both current and capital expenditure showed a sharp drop compared with previous years. The former increased by only 2% in 1978, compared with a 19% increase in 1977, and expressed in real values there was actually a decline (see table 14). Capital expenditure also grew by 2% in 1978: far below the 33% recorded the previous year. The only item which showed real growth was gross capital formation, which increased by 12% in the course of the year.

The distribution of expenditure continued to be characterized by a definite social orientation. As may be seen from table 15, nearly a third of total fiscal expenditure was earmarked for education and health.

Table 15

VENEZUELA: DISTRIBUTION OF TOTAL FISCAL EXPENDITURE

(Percentages)

	1974	1975	1976	1977	1978
State organs and administrative services	12.9	10.6	9.8	10.6	11.9
National defence	7.2	5.5	4.5	5.4	5.4
Hydrocarbons and mining	2.9	3.8	5.3	0.4	0.3
Agriculture	15.2	15.6	12.3	9.9	7.3
Industry	6.2	7.2	3.6	7.4	3.9
Education and science	15.1	17.3	15.6	16.4	17.1
Health and social security	8.9	8.7	8.7	12.7	15.5
Legal and social security	1.3	1.6	1.5	1.6	1.6
Transport	8.8	7.4	6.3	10.8	12.5
Urban development	2.1	1.3	3.1	1.3	1.6
Information and tourism	0.3	0.5	0.7	6.5	0.5
Regional bodies	11.7	20.3	14.4	12.1	12.3
Servicing and refinancing of the debt	14.6	5.5	18.9	16.3	15.4
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL, on the basis of official statistics.

Part Three

LATIN AMERICA AND THE INTERNATIONALIZATION OF THE WORLD ECONOMY:
SIGNIFICANCE AND OPTIONS

This study deals with the internationalization of the world economy and the resulting problems and opportunities, particularly for Latin America.

Chapter I examines its significance and historical background, its main features in the post-war period and the principal changes it has brought in the centre-periphery system.

Chapter II focusses on Latin America, distinguishing between groups of similar countries. A description of the evolution of external links since the 1950s is followed by a discussion of the reasons for and variety and dangers of the policies of openness to the exterior. Finally, there is an outline of the options and possibilities for achieving new forms of insertion in the world economy, based on "inward-directed" industrial development also directed towards the regional and world markets.

I. DEVELOPMENT AND CHARACTERISTICS OF THE PROCESS: CENTRE-
PERIPHERY RELATIONS AND A TENTATIVE BALANCE-SHEET

1. A brief historical sketch

Among the waves of interest in particular subjects which periodically arise and predominate in the general discussion, few in recent times have been more vigorous and widespread than that regarding the "internationalization" of the world economy.

As usually happens, it was a few traumatic episodes - the world monetary crisis which burst upon us at the beginning of this decade, the parallel rapid increase in the prices of many primary commodities, followed a little later by the radical change in the price of oil, together with the beginning of a phase of "stagflation" in the central countries which has cast its shadow over the entire world scene - which gave rise to general awareness of this harsh underlying reality.

/Although this

Although this matter clearly goes beyond the scope of the present modest study - as is shown by the mountains of documents written about it - it might be worth identifying and systematizing some of its main aspects in order to understand it better.^{1/}

In order to place this study on a systematic basis, the general features of the phenomenon will be examined and an attempt will be made to bring out their continuity and the elements of change and novelty with regard to tendencies which have old historical roots. The aim is to see if they have modified the basic structure of the centre-periphery system and, in particular, if there has been a change in the links between the two spheres and in this system's representation of the world economy. We will not go into the question of this interdependence in depth, however, except in a few special aspects and in drawing up the final balance.

The primary sense of the process under consideration could not be clearer and goes back, as everyone knows, to a past which is now far removed, at least from the viewpoint of present-day society. It corresponds to and is expressed through the gradual and many-faceted process of assembly of the various local, regional, national, continental and other components of the world jigsaw puzzle. Originally set in motion by the great imperial structures of yore and of more recent times, the exploits of sailors, explorers and colonizers, the progress of science and technology and the dissemination of religious and political beliefs, it took an important leap forward with the advent of commercial and industrial capitalism. By way of technology, trade, the profit motive and competition and - when necessary - the undisguised use of force, this historical formation assails either directly, indirectly or surreptitiously all the secluded areas, particular features and enclaves of whatever type, unleashing pressures which tend towards a growing interlinkage and - within certain limits and characteristics to which we shall refer later - homogenization of the various pieces making up international society.

^{1/} It should be noted that a necessarily selective criterion has been adopted with regard to the background information and bibliography used.

The two great nineteenth century currents of thought in this field, the classical liberal and the Marxist approaches, shared to a considerable extent some basic assumptions regarding these tendencies and consequences, although they differed radically in their critical appraisal of these.^{2/}

To a certain extent, these visions did materialize, but the manifest and significant internationalization which took place was very far from disseminating to all points in the globe the logic and structures of industrial capitalism, and still less did it promote the homogeneization of production systems and social conditions. Rosenstein-Rodan summed up the balance sheet of this opening phase of the centre-periphery complex in the following terms:^{3/}

"Between 1815 and 1914 we had an exceptional century of peace, which is quite a long time even for classical economists and during which technical and economic progress was stupendous. During this century all the postulates of the classical economists were complied with: minimal government intervention, free trade, high international investment and, what is more, not only the free movement of capital but also great mobility of the labour factor in the form of international migrations.

^{2/} Summing up the criterion of the first group, Professor Rosenstein-Rodan noted in an admirably lucid study that:

"The classical doctrine was based on the principle of competition and the mobility of capital. The poor countries had abundant labour but were short of capital. Wages were low, and it was of advantage for capitalists to invest in these countries and take advantage of this fact. International movements of capital would be oriented towards areas where there was abundant cheap labour, and so, in the long run, they would tend to reduce the differences in real wage levels" ("Las razones del atraso económico", in Panorama económico (Santiago, Chile), No. 94, February 1954).

The founders of Marxism, for their part, in one of the most widely disseminated documents of that ideology, saw the world repercussions of capitalist dynamics in different terms: In exploiting the world market they said, the bourgeoisie has imparted a cosmopolitan nature to the production and consumption of all countries, so that instead of the old system whereby needs were satisfied by the countries' own production new needs arise which have to be satisfied with products from the remotest regions and climes. In the place of the old isolation and local and national autarky, unlimited traffic and the interdependence of the nations have been introduced (Communist manifesto, 1848).

^{3/} Rosenstein-Rodan, op. cit. This analysis forms part of his concept of the so-called "big push". See in this respect H. Ellis (ed.), Economic Development for Latin America, New York, St. Martin's Press, 1961.

"The first part of the predictions of the classical economists was fulfilled, in that the century did witness a great increase in wealth. The second part proved blatantly unfounded, however, since most of the increase in wealth was enjoyed by only 30% of the world population, with the other two-thirds remaining as poor as before."^{4/}

This period, which coincides with the rise and fall of the so-called "Pax Britannica", ended with the First World War and the Great Depression, which involved - among other things - the paralyzation and subsequent retreat of the tendencies towards integration as well as of those towards fragmentation into different more or less exclusive areas of influence of the great capitalist powers.

(a) The internationalization of the post-war period

After the prolonged interregnum which began with the First World War, was accentuated with the Great Depression - after the brief recovery during part of the 1920s - and closed with the dawning of peace in 1945, the process of internationalization began again on a more extensive and dynamic level, covering in the period up to the mid-1970s, when the traumatic events referred to earlier checked its further progress and gave rise to serious uncertainty as to the nature of its subsequent development.

To harck back briefly to the preceding argument, before embarking on this question, it seems appropriate to recall that in this new phase there is to some extent a revival of the nineteenth century hypothesis or illusion regarding the vigour and world-wide spread of central capitalism. Once again, of course, the appraisals of the process differ, but both ideological currents agree on its power to transform the world "in the image and likeness" (to borrow the metaphor of the Communist Manifesto) of the dominant nucleus or, to put it more discreetly, in accordance with its interests.

For some, the drive towards, and the considerable success of, the recreation of a scenario of free trade and unrestricted flows of capital,

^{4/} It hardly seems necessary to note the similarity between this reasoning and that set forth by Raúl Prebisch in the Economic Survey of Latin America, 1949, (United Nations publication, Sales No. E.51.II.G.1) regarding the slow and irregular propagation of technical progress from the countries which generate it to the rest of the world.

technology and business organization heralded an outcome very similar to that described by Rosenstein-Rodan. For others, the predicted trends of the vigorous spread of the capitalist mode of production seemed to have grown stronger, although this entailed further sacrifice and distortion in the countries exposed to its effects.

Once again, as in the past, the predictions were borne out to some extent, but with limitations and distortions which vitiated the essence of the thesis, as will be seen below.

Returning now to the main line of this study, the resumption of this historical tendency towards internationalization took various paths and operated at different levels.

As in the past, while tending towards the horizontal articulation of the most developed economies it did the same thing in a vertical direction, drawing the periphery into this process, and while nation-states are obviously its main protagonists, there are other actors - such as transnational enterprises - which play roles of growing importance in which they back up and sometimes, as has happened more recently, even surpass or take the place of the first-named actors, all of this in a dynamic and contradictory play of congruences and conflicts.

Furthermore, this historical tendency deploys itself through the most varied channels. Although a sound case can be put forward for claiming that its main fulcrum was formed by the changes in the system of production and the corresponding international linkages, it is also true that there are other important circumstances connected with this, which warrant a quick glance before devoting ourselves to our real field of analysis.

(b) The political and ideological factor

One of these circumstances, although not always prized at its true value, is the political dimension and, more specifically, the multiple incidences of the so-called "cold war".

This phenomenon is, it is true, apparently contradictory. Viewed from the most usual angle, it appears as a factor of division and dispute between basic segments of the world conglomerate, but at the same time it plays an undoubted role as an agglutinating factor, both of the blocks which are in dispute and within them (for example, the formal and de facto

/integration of

integration of Western Europe and the corresponding situation on the Eastern European socialist side),^{5/} to say nothing of other repercussions along the same lines such as the grouping of the "non-aligned countries".

Among the few who have correctly evaluated the significance of this situation and of the possible implications of subsequent détente is that great thinker José Medina Echavarría. Therefore, in spite of its length, it is worth reproducing one of the propositions that he set forth in a challenging work published shortly before his lamented death:^{6/}

"Thus, the way the cold war fitted together is a phenomenon which is easily visible and can be grasped with the greatest clarity. And the same is true both for the main protagonists and for the third parties involved. A situation arose in which, just as in the lasting social stratification of the Ancien Régime, everybody was perfectly conscious of the place he should and in fact did occupy. All the forms of internal or external, national and international conduct only exist and can be understood as obvious in the light of the inevitably present antagonism. This is so up to the point that when in certain years some countries define themselves as non-aligned, they do not need to declare the meaning of this nor ask what it means to abandon the ranks. The clear, sharp confrontation between the two superpowers brought with it a similar clarity or absence of doubt in the positions of allies and satellites, although sometimes among the latter there were those who were neither beloved nor sought. For this reason, it is necessary to bear clearly in mind the lineal expression of the profiles of the socio-political structure of the cold war in order to understand immediately the confusion produced when attempts to eliminate it or diminish it lead to the introduction of shades of colour in the depiction of its features."

^{5/} The Chinese-Soviet conflict represented a substantial inversion of this process, but at the same time it implied the development of other links by China, now with the Western powers and Japan, and perhaps in the future with South-East Asia.

^{6/} José Medina Echavarría, "Latin America in the possible scenarios of détente", in CEPAL Review, No. 2, second half of 1976, p. 22.

Let us repeat in passing - because of the importance which this has for the analysis below - that the phenomenon of the "cold war" is an essential ingredient for the dynamism and the unity of the central economies, since it relegates to a minor position obstacles and disputes which were previously of great importance.^{7/}

An inevitable concomitant of this political situation has been what might be called "ideological internationalization". Of course, this is not a completely novel phenomenon, and it would be impossible to ignore, for example, the distant reflections of the Enlightenment and of the French and Russian revolutions. Its modern version, however, has acquired such scope and extension - both geographical and social - that it dwarfs everything that went before it. Thus it was that even in the furthestmost and darkest corners of the earth, with peoples and economies at various pre-feudal stages and structures, the ruling circles and sometimes also the masses began to unite and struggle for categories historically rooted in European society, such as liberal democracy, socialism, or the dictatorship of the proletariat. This subtle but incisive form of imperialism, responsible for so many errors and distortions on the periphery,

^{7/} With reference to this matter, Herber Marcuse put forward the shrewd and provocative thesis that while it is evident that there are many contradictions between the imperialist powers which it is not necessary to list in detail, it is not likely that these contradictions will give rise to wars between the capitalist countries in the future. This is one of the respects in which coexistence shows how decisively important it is for the stabilization of capitalism. Up to a certain point, it can be maintained without the slightest cynicism that in reality Communism has become the doctor sitting at the bedside of capitalism (although it remains to see exactly in what sense). Without Communism, it would be difficult to explain the economic and political unification of the capitalist world: a unification which more or less seems to be the materialization of the old Marxist spectre of the worldwide cartel. It should be noted, moreover, that this integration of the capitalist world is not something superficial but rests on an extraordinarily real economic base (from Industrial society and Marxism).

represents a chapter of the present state of affairs which has been little studied, in spite of its enormous importance.^{8/}

(c) The transmission of the consumerist way of life

Another aspect which enters into the present discussion and is familiar to all is the dissemination and copying of the ways of life, the mores, of the central societies. More specifically, this means the transfer and absorption of their consumption patterns, which become the supreme objective of those enthralled by their influence. In other words, this concerns the recurring theme of the demonstration effect and the giddy "consumerist" spiral which is its most striking result.

This internationalization of habits and aspirations, as well as constituting another basic ingredient in the overall process, is relatively independent, it should be noted, of the production substrate and the levels and changes of the economic structure. Although the motive force and the effective social incidence are naturally different, the winds which carry this phenomenon blow just as strongly in a small Central American country as in Argentina, Algeria, the Philippines or Nigeria, and they even reach the socialist world, although of course only to a limited extent. In short, as we shall see later on, the internationalization of consumption patterns advances much more rapidly than that of modes of production.^{9/}

^{8/} China's "own way", which claimed to be different from the ways of both the capitalist West and the USSR, actually fell - despite the original contributions of Mao Tse-Tung - within strict Marxist orthodoxy, although the actual socioeconomic practice was more or less heretical in fundamental aspects in comparison with the European socialist or capitalist experiences.

The new circumstances of China's external links and internal "modernization" have naturally considerably modified this picture.

See in this respect the reflections of Celso Furtado in Creatividade e Dependencia, Rio de Janeiro, Editorial Paz e Terra, 1978.

^{9/} This is not the place to go into the implications and problems of this dissociation, which in any case has been dealt with on a number of occasions in CEPAL studies. In these, emphasis has been placed on the great contradiction underlying the attempt to reproduce the consumption structure characteristic of the central economies in countries whose low average level of income (and productivity) is only a small fraction of that which is usual in the former. Herein lies one of the main causes of the tendencies towards concentration of income and the inevitable passing over of the basic needs of the majority.

As Raúl Prebisch recently noted: "... The periphery is by no means backward in the propagation and irradiation of the more and more technically more advanced patterns of consumption. Consumption - the consumer society - is therefore being rapidly internationalized, whereas in contrast formidable obstacles are encountered by the internationalization of production from the standpoint of foreign trade".^{10/}

Paraphrasing a well-known statement, it could be said that something similar is happening at the international level to what is taking place in national circles, in the sense that the leading society - not the leading class any longer - sanctifies and imposes its values and habits beyond its own frontiers, with greater or lesser force depending on the permeability of the local situations.

This is not a new question, either. In Latin America, for example, this topic has been frequently discussed ever since last century, leading to the coining of the well-known saying that "we are civilized for consuming but primitive for producing".^{11/} Its present proportions and significance, however, show a qualitative change with regard to the situation which used to exist.

A significant factor in this, of course, has been the formidable progress of the means of communication and the part played by the transnational enterprises. No further comment is called for on this, as it is already sufficiently well known, but there are some other factors, such as the change in the origin of the centres of irradiation and the nature and social destination of a considerable part of the types of consumption disseminated, which have received less attention.

Until probably about the time of the First World War, it was Great Britain and France which set the patterns of selective consumption transmitted to the moneyed classes on the periphery, but filtration of these patterns to the

^{10/} Dr. Raúl Prebisch, "Socioeconomic structure and crisis of peripheral capitalism", CEPAL Review, No. 6, second half of 1978, p. 183.

^{11/} These words were said by Enrique Molina, the late rector and founder of the University of Concepción in Chile, but the same idea is repeated in many countries.

small middle classes and the great masses was minimal or non-existent.^{12/} The emergence of the United States as the leading power radically changed this picture,^{13/} and the "élite" types of consumption were forced into the background by the consumption of goods of generalized and massive use, this being made possible by the high level of average income, its more equitable distribution (more equitable, that is to say, compared with the more highly stratified European societies of the pre-war era), the size of the market and its vigorous rate of expansion.

The nature and smaller unit values of a large part of these goods are associated with the growing social diversification observed in the peripheral economies, whose growth rates were increased and changed by the increase in primary exports and complementary activities, the expansion of the State machinery, and subsequently the advance of industrialization.

While the higher-income groups continue to be the main recipients of this irradiation of consumerism - and generally the only ones as far as the more expensive goods are concerned - the new circumstances described mean a considerable expansion of the social field involved.^{14/}

Thus, the internationalization of consumption patterns is founded upon and expands from the basis of a myriad of common goods which are repeated in different degrees even in the furthest-flung corners of the world and are promoted primarily by the great United States sales machine, increasingly accompanied by similar machines of other countries.^{15/}

^{12/} The leading products in this "élite" type of consumption were a number of well-known goods ranging from Limoges or Rosenthal china, Baccarat glassware or Sheffield cutlery to English textiles, Italian silks and Havana cigars.

^{13/} See in this respect D. Felix, "Changing consumer preference in economic growth", St. Louis, Washington University, 1978.

^{14/} See C. Filgueira, Consumo y estilos de desarrollo, CEPAL, DS/Preliminary Version/190 (mimeo), March 1979.

^{15/} These goods include such items as blue jeans, Coca-Cola and razor blades; common household appliances, chewing gum and deodorants; ice cream, cigarettes, transistor radios and T-shirts. In addition, within the more restricted circle referred to earlier, there are such products as motor cars, television sets, etc.: i.e., the costly durables which are mainly responsible for the contradiction referred to earlier in this study. Finally, in the "cultural" sphere, the main harbingers of this trend have been such items as comics, jazz, the cinema and the best-seller industry.

Although these are the most visible and ubiquitous manifestations of this phenomenon, care should be taken to avoid a pejorative unilateral appraisal of the nature of the phenomena, as sometimes happens in certain circles. Internationalization also makes it possible to share in the scientific, technological and cultural riches of the more advanced countries. The positive nature of these impulses towards homogenization is to be seen at the most varied levels, from the heights of pure science to the progress in everyday technical and productive activities to say nothing of the fundamental contribution to the preservation of life and health. The humble aspirin, penicillin or anti-polio vaccine are vivid illustrations of the historic revolution which has taken place in this field.^{16/}

We must now end this brief digression on some of the less widely covered aspects of this question in order to analyse the outstanding economic effects of this phenomenon and its general significance for the centre-periphery system.

2. The economic dimensions: international trade

The course of world trade and its performance vis-à-vis national products, on the one hand, and the evolution of investment and loans on the other, are usually considered as the most significant phenomena regarding the topic under examination, without prejudice to the also important role of migrations and of the incorporation of the labour force into the world system, which we referred to earlier and to which we will return at a later point.

^{16/} Radical thinkers of the past, unlike certain present-day critics, had a very clear picture of the contradictory incidences of internationalization as effected under the aegis of industrial capitalism. Among many other references, we may recall a well-known reflection of Leon Trotsky in his History of the Russian Revolution: "The privilege of long-standing backwardness - and this privilege does exist - permits and even forces the adoption of any advance which is available ... without going through any of the intervening stages. Thus, savages changed their bows and arrows for rifles, without following the long path which existed between these arms in the past". Although the image used is not perhaps the most felicitous one for evoking the comprehensive nature of this phenomenon, it does suggest its main features.

From these two main angles, it is easy to see how the tendencies towards internationalization were intensified in this period, although with major changes in their components. Broadly speaking, the process is characterized in both respects by the dynamic growth of the flows and its concentration in the central countries and in the industrial area.

With regard to the world trade, let us look at some interesting details from various points of view.

Taking a global view, table 1 shows that world exports grew more rapidly than the sum of the domestic products and industrial activity between 1950 and 1970. South America is a conspicuous exception to this, since in its case the first of these factors shows a smaller expansion than the other two. It would therefore appear that in this period it represented the most typical case of "inward-oriented development". It may be noted that even in the Soviet Union, where exports were mostly directed to its own sphere of influence, they exceeded the performance of the other items, while in the case of Asia exports at least exceed the increase in the domestic product.

From another point of view, table 2, which covers periods coinciding with the intensification of this kind of behaviour (1965-1970 and 1970-1973), reveals that the rate of expansion of exports as a whole with respect to the components in question was considerably higher than that of production as a whole. The gap is smaller in the group of developing countries (although it does increase somewhat in 1970-1977), the situation being most marked in the case of Latin America, which registers the relatively lowest rates of increase of exports.

(a) Industrialization and the centralization of flows

Similar tendencies are observed when the problem is considered from a sectoral viewpoint, but this has the advantage of bringing in a qualitative aspect of the overall evolution which is of prime importance for the analysis. As will be noted from table 3, the three main sectors considered (agriculture, mining and manufacturing) show the same tendency, but manufacturing is far ahead in the growth of exports, for between 1960 and 1977 these grew by 326% with respect to the base year, whereas agricultural exports only grew by 81%.

Table 1

INDEXES OF EXPANSION OF THE WORLD ECONOMY, 1970
(1950 = 100)

	Gross domestic product	Industrial product	Exports
<u>World</u>	270	280	385
North America	210	250	295
Europe	260	310	470
Soviet Union	435	700	740
South America	250	300	195
Asia	325	820	440
Africa	-	-	305

Source: CEPAL, Economic Survey of Latin America, 1971 (United Nations publication: Sales No.: E.73.II.G.1).

Table 2
 WORLD GROWTH AND TRADE, BY MAIN ECONOMIC GROUPINGS
 (Annual growth rates, at constant prices)

	1965-1970	1970-1973
1. <u>World as a whole</u>		
Product	5.4	6.0
Exports	9.1	9.4
2. <u>Developed market economies</u>		
Product	4.6	5.1
Exports	9.5	9.5
3. <u>United States</u>		
Product	3.1	4.8
Exports	6.5	10.3
4. <u>European Economic Community</u>		
Product	4.8	4.2
Exports	11.2	10.0
5. <u>Japan</u>		
Product	11.5	8.9
Exports	14.9	10.5
6. <u>Developing countries</u>		
Product	5.9	6.3
Exports	6.8	8.9
7. <u>Latin America</u>		
Product	5.9	6.7
Exports	4.5	6.3

Source: United Nations, World Economic Survey, 1977 (United Nations publication: Sales No.: E.78.II.G.1) and United Nations Statistical Yearbook, 1976 (United Nations publication: Sales No.: E/F.77.XVII.1).

Table 3
WORLD PRODUCTION AND EXPORTS, BY SECTORS, 1960-1977

	Annual growth rate	Variation 1960-1977
<u>Agriculture and stock-raising</u>		
Production	2.5	51
Exports	3.6	81
<u>Mining a/</u>		
Production	4.3	103
Exports	5.0	129
<u>Manufacturing</u>		
Production	6.0	170
Exports	8.9	326

Source: FIDE, Buenos Aires, Coyuntura y Desarrollo, N° 5, January 1979,
on the basis of data from GATT.

a/ Including fuels and non-ferrous metals.

/If we

If we take a broader time horizon, this tendency appears even more clearly (see table 4). In the course of the long and irregular cycle between 1900 and 1950, world manufacturing production expanded at an average rate of 2.8% per year, whereas external trade only increased by 1.7% per year. Between 1950 and 1975, in contrast, manufacturing grew by 6.1% and external trade by 8.8% per year; over the same period, industrial exports rose from 43.2% to 64.4% of total trade, and if fuels, whose share increased notably after 1973 are excluded, the increase is from 48.5% in 1950 to 76% in 1975.^{17/}

The preferential action of internationalization through manufacturing has an obvious and well-known result: the growing role of the industrialized economies in world trade and the increasing importance of the links within that group of countries.

We thus arrive at a clear expression of the aspect which is perhaps fundamental in the change of structure between the two scenarios under consideration: that before the great depression (or before the First World War, if preferred) and that subsequent to 1945.

In dealing with this question, Aldo Ferrer notes that the growing integration of international trade, the movement of capitals and emigration were expressed through three main channels: the exchange of primary commodities for manufactures between the centre and the periphery; the trade in primary commodities between the industrialized economies, and the trade in manufactures between the same countries.^{18/}

In the first period, extending up to the First World War, the first two channels predominated to an overwhelming extent, the main position, particularly in the field of tropical and mineral products, being occupied by the centre-periphery flows.^{19/} In the stage after the Second World War, however, it was the third form of expansion which predominated.

^{17/} CEPAL, Analysis and prospects of Latin American industrial development, ST/CEPAL/Conf.69/L.2, 8 August 1979.

^{18/} Aldo Ferrer, "América Latina y los países capitalistas desarrollados: una perspectiva del modelo centro-periferia", in El Trimestre Económico (Mexico City), N° 169, 1975.

^{19/} As A. Ferrer says in the study referred to above: "In the seventy or eighty years before the Second World War, two-thirds of world exports were made up of foodstuffs and raw materials. The period of (cont.)

Table 4

WORLD GROWTH OF INDUSTRY AND TRADE IN MANUFACTURES

(Percentage growth rates)

	1900-1950	1950-1975
Production of manufactures	2.8	6.1
Trade in manufactures	1.7	8.8

Source: CEPAL, Análisis y estructuras del desarrollo industrial latino-americano, op. cit.

In other words, internationalization through external trade leads to industrialization on the one hand and centralization on the other.

Some illustrative details were already given regarding the first of these.

With regard to the second of these phenomena, it should be borne in mind that at the beginning of the 1970s (1970-1972) trade between the central economies represented 77% of the total (this figure went down slightly in subsequent years). At the same time, they received around 73% of the exports from the periphery and 24% of those from the centrally planned economies, the latter figure rising to 29% in the years 1976-1977.^{20/}

Table 5, for its part, shows the changes in the shares of the main groups of countries in world trade between 1950 and 1975, the most notable features being the increase in the share of the central economies from 62 to 66% and the drop in the share of the non-oil-exporting peripheral countries from 24 to 10%. This table also reveals the change among the central countries to the detriment of the United States and to the advantage

^{19/} (concl.) fastest expansion was between 1870 and 1913 ... when ... around 70% of European imports were made up of primary commodities and nearly two-thirds of the total imports of the United States - despite its formidable endowment with natural resources and capacity for commodity production - consisted of foodstuffs and raw materials".

^{20/} CEPAL, Economic Survey of Latin America, 1977 (E/CEPAL/1050/Rev.1), Santiago, Chile, 1978.

Table 5

SHARES OF MAIN ECONOMIC AREAS IN WORLD TRADE

	Exports FOB	
	Percentage share in total	
	1950	1975
<u>A. Developed market economy countries</u>	60.2	66.3
United States	16.6	12.2
Canada	4.7	3.7
European Economic Community (EEC) (9 countries)	26.5	33.9
European Free Trade Association (EFTA) (8 countries)	5.6	6.1
Japan	1.3	6.4
Others	5.6	3.8
<u>B. Centrally planned economies</u>	8.1	9.8
Eastern Europe	6.8	9.0
Asia	1.3	0.8
<u>C. Developing countries</u>	31.7	23.9
Oil-exporting countries	7.3	13.4
Non-oil-exporting countries	24.4	10.5
Africa	4.0	1.8
Latin America	10.4	3.9
Asia	9.1	4.3
Middle East	0.8	0.4

Source: CEPAL, The economic and social development and external economic relations of Latin America (E/CEPAL/1061), vol. II, 1979.

of the European Economic Community and Japan, although this is doubtless influenced by conditions in the base year, when the post-war reconstruction process was hardly beginning.

This confirms what was already pointed out regarding the centripetal tendency of world trade and the loss of relative significance of the periphery during the period under consideration.

At the same time, however, it is essential to make a distinction between this structural variation and the appreciable and generalized growth of trade already referred to. Even in the case of the underprivileged periphery, the drop in its total share did not prevent the annual growth rate of its exports from amounting to 7.6% (6.8% for Latin America) in the period 1950-1975. This growth rate may be compared with that recorded by commodity exports in one of the most vigorous phases of past growth (1871-1913), when they expanded at the rate of 3.5% per year.^{21/}

Strictly speaking, then, that fundamental readjustment represents the relative relegation of a large part of the periphery to a second place, rather than its exclusion from the great wave of internationalization through external trade.^{22/}

Obviously, the big exception to these changes appears after 1973, with the substantial rise in oil prices (see table 5), which will be discussed later on.

Another noteworthy element of undoubted importance is the growing share of industrial exports by the periphery, which to some extent reduce its relative losses.^{23/}

^{21/} A. Ferrer, op. cit.

^{22/} This appraisal would appear not to be valid, however, for the countries which the World Bank has classified as those of lowest income, among which are a number of countries with very large population, such as India (620 million), Indonesia (80 million), Bangladesh (80 million), and Pakistan (71 million). Their exports increased by 3.6% per year between 1960 and 1970, but went down by 0.4% between 1970 and 1976. See World Development Indicators, Washington, The World Bank, 1978.

^{23/} Professor A. Lewis's optimistic judgement on this matter is of interest. In the Evolution of the International Economic Order (The Eliot Janeway Lectures, Princeton, N.J., Princeton University, 1971), he notes that as far back as 1975 manufactures made up 33% of the exports of the developing countries (excluding the oil-exporting countries), and if the present tendency continues, by 1985 they will represent more than half. In his view, the division of the world into developing countries which export agricultural products and import manufactures and developed countries which do the opposite is on the point of ending.

Between 1960 and 1975, at constant prices, these exports grew at 12.3% per year, which was twice as much as the total exports of those countries and also compares favourably with the growth rate of world trade in that period, which was 7% per year.^{24/} In the case of Latin America, this meant that the share of manufactured goods rose from 13% of its exports to 23% between 1970 and 1975, and this tendency was maintained subsequently, despite the deterioration in the international situation.^{25/}

It is worth recalling, however, that this performance has been limited to a small number of countries on the periphery: a feature which is also to be noted in Latin America, although to a smaller extent.

Without anticipating the recapitulation which will be made later on in this study, it may be stated that the details given regarding international trade not only bring out its significant role in the development of internationalization but also highlight certain changes and tendencies which show the different implications it has for the centres and the periphery.

3. The role of movements of capital

It seems superfluous to recall the correlation - not necessarily symmetrical - between trade flows and capital flows, which, as we already noted, constitute the economic fulcrums of the internalization process.

As regards the second of these, we shall limit ourselves to the analysis of direct investments and their fundamental agents, the transnational enterprises. We shall therefore leave aside everything connected with financial flows, the size and composition of which have undergone great changes during this decade. Quite apart from the fact that many valuable studies have been made on this subject,^{26/} we shall return to it in chapter II from the standpoint of Latin America.

^{24/} See "The changing composition of developing country exports" by H.B. Chenery and D.B. Keasing, in World Development Report, 1978.

^{25/} CEPAL, Economic Survey of Latin America, 1977, op. cit.

^{26/} See, for example, C. Massad, "The revolt of the bankers in the international economy: a world without a monetary system", CEPAL Review, N° 2, second half of 1976; R. Devlin, "External finance and commercial banks", CEPAL Review, N° 5, first half of 1978, and "Commercial bank finance from the North and the economic development of the South: congruence and conflict", which appears in the present issue of CEPAL Review.

From the comparative viewpoint of the continuity and contrasts between the experience of the past and that subsequent to the Second World War, the interesting points in this connexion are those connected with the growth rates and forms of capital movements, the spatial distribution of the resources and their sources, and their sectoral destination, all of which are essential considerations for appraising their incidence on the general question under consideration.27/

As regards growth rates, there is no information which permits a proper comparison of the experience of the two periods, although there are significant data on their vigour in the first of these periods.28/ We shall have to content ourselves, then, with the information collected for a relatively recent period, which is presented in table 6 and figure 1. What immediately stands out is the overall growth rate of almost 12% per year, which is more than that cited above for the world product and exports (see table 2).

The rate of growth is strongest in the central countries, particularly in Europe, and in Asia (almost 17% per year), due to the well-known weight of the small group of industrial exporting economies. In contrast, the rate for Latin America is slower, although it rises somewhat in the case of Brazil and Mexico.29/

27/ It should, however, be noted that the changes in the composition of the loans - highlighted in the studies referred to - involving an increase in the share of private lenders and borrowers at the expense of the share accounted for by loans made by governments or international agencies to other governments or public sectors also constitute a significant structural modification, although of more uncertain durability.

28/ See the important study prepared by CEPAL in 1965, External financing in Latin America, E/CN.12/649/Rev.1; Sales N°: E.65.II.G.4.

29/ It should be borne in mind that a considerable part of the accumulated value is accounted for by the reinvestment of profits made in the same country. A study on the situation regarding United States investments showed that such reinvestment of profits represented a little over 50% of the cumulative total between 1966 and 1976. See US Department of Commerce, Survey of Current Business, Washington, August 1977.

Table 6

WORLD CUMULATIVE DIRECT INVESTMENT IN THE DEVELOPED COUNTRIES AND IN THE VARIOUS DEVELOPING REGIONS

	Millions of dollars at end of year		Percentage breakdown		Annual growth rates
	1967	1975	1967	1975	1967-1975
<u>World investment</u>	<u>105 300</u>	<u>258 900</u>	<u>100.0</u>	<u>100.0</u>	<u>11.9</u>
Investment by United States	56 600	124 200	53.8	48.0	10.3
<u>Investment in the developed countries</u>	<u>70 172</u>	<u>186 500</u>	<u>66.6</u>	<u>72.0</u>	<u>13.0</u>
<u>Investment in the developing countries</u>	<u>35 128</u>	<u>72 400^{a/}</u>	<u>33.4</u>	<u>28.0</u>	<u>9.5</u>
In Europe ^{b/}	2 000	6 400	1.9	2.5	15.6
In Africa	6 600	11 100	6.3	4.3	6.7
In Asia	5 000	17 300	4.7	6.7	16.8
In the Middle East	3 100	...	2.9	...	...
In Latin America (23 countries plus other territories)	18 400	37 600	17.5	14.5	9.3
In Latin America (19 countries)	15 250	27 750	14.5	10.7	7.8
Brazil	3 728	9 100	3.5	3.5	11.8
Mexico	1 787	4 800	1.7	1.9	13.1

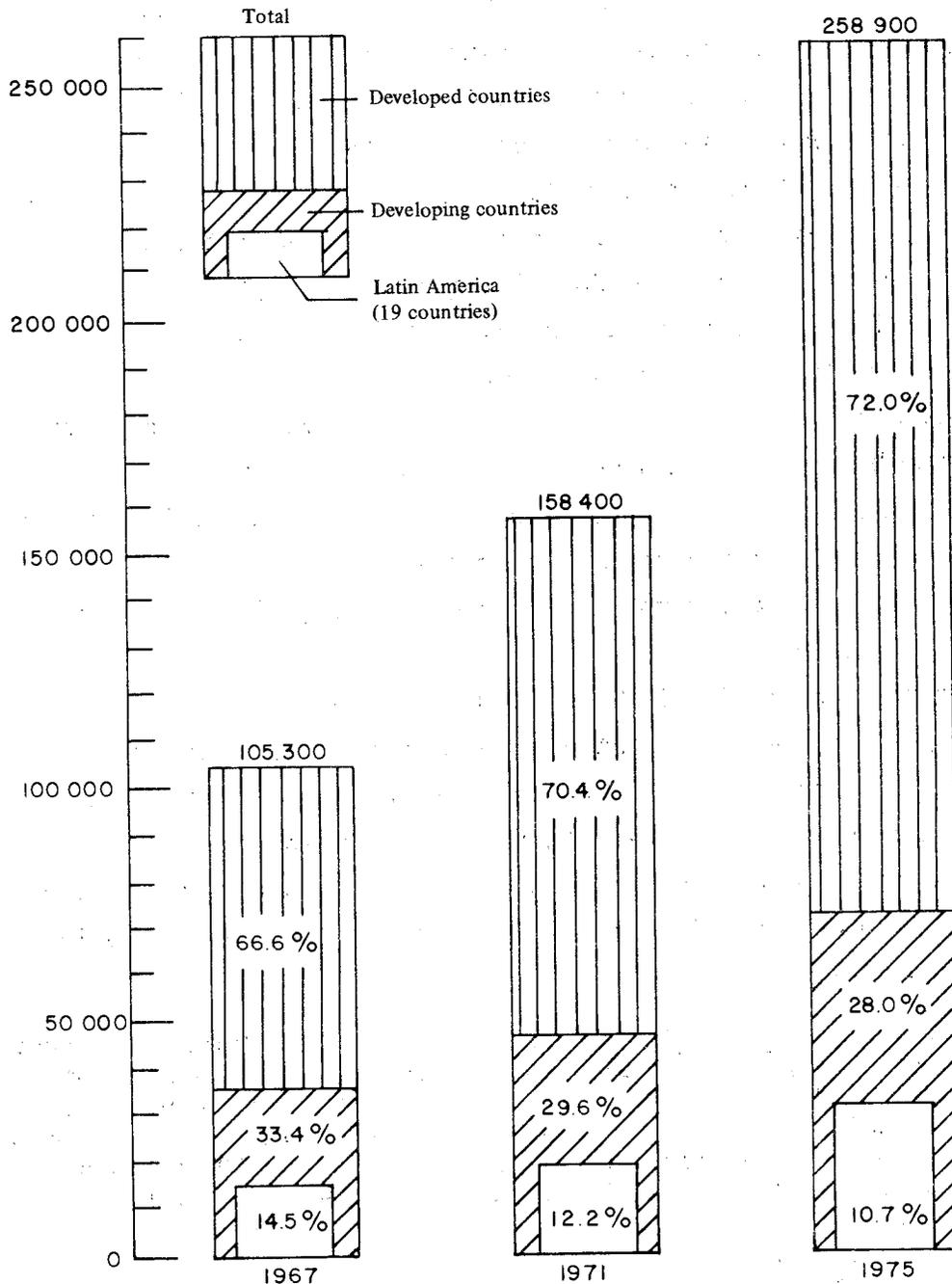
Source: CEPAL/CTC, Documento de Trabajo Nº 12, September 1978.

^{a/} Not including the Middle East.

^{b/} Including Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Spain, Turkey and Yugoslavia.

/Figure 1

Figure 1
WORLD ACCUMULATED DIRECT INVESTMENT IN THE DEVELOPED COUNTRIES
AND IN THE DEVELOPING COUNTRIES
(Millions of dollars)



/As regards

As regards the spatial distribution of the export of capital and the sources from which it came, the situation in the nineteenth century was very clear. Despite the considerable representation of centre-periphery trade, the truth is that during this period the predominant movements of capital were the horizontal circulation within Europe and to the United States and Canada and the vertical circulation to the British colonies. Argentina was the most conspicuous exception to this, for well-known reasons.^{30/} If this country is excluded, about two-thirds of the total investment around 1913 was concentrated in the first group.^{31/} This fact, and the scanty mobility of the peripheral labour force to the centres, were the main reasons for the frustration of the classical optimism about the dynamizing and homogenizing effects which would be caused by the expansion of industrial capitalism to the exterior.

Developments after the war confirmed this tendency and structure: the rapid growth of the total accumulated direct investment was concentrated mainly in the developed economies, whose share rose from 66.6% in the first year mentioned to 72% in the second (see table 6).

It is also interesting to examine the unfolding of this inclination from other viewpoints.

As regards the origin of the flow, the supremacy of the British source of supply in the first historical scenario was subsequently replaced by another and perhaps even more overwhelming one, that of the United States until well into the post-war era. Subsequently, however, the full recovery of Europe and Japan undermined this dominance, as is shown by the reduction of the United States share during the most recent phase from 53.8% in 1967 to 48% in 1975.^{32/}

^{30/} A. Ferrer, in La economía argentina (Mexico City, Fondo de Cultura Económica, 1963), notes: "From the second half of the nineteenth century onwards, Argentina received a substantial proportion of the flow of capital ... to the developing areas ... the capital invested in this country rose from practically nothing in 1860 to 2.5 billion dollars at today's prices (1962) in 1904 and nearly 10.5 billion dollars in 1913".

^{31/} A. Lewis, op. cit.

^{32/} One of the most significant elements in this development is the growth of foreign investment in the United States. From an average of some 923 million dollars in 1967-1969, this rose to almost 4 billion (cont.)

It is also interesting to take into account the distribution of investment in the periphery (see table 6). In the light of its share of world population (a little over 10%, compared with 31% for Asia (excluding Japan and Israel) and a little over 12% for Africa (excluding South Africa)), the large share of Latin America is quite striking. At the same time, however, quite apart from the considerable decline during the period under examination, it is essential to take into account the countries in which these investments are made. Thus, Brazil and Mexico, which accounted for about a third of the total in 1967, came to account for half by 1976.

As in world trade, the sectoral structure of investments inclines towards the industrial field, in contrast with the past, when it was preferentially oriented towards mining and basic services. This is due to the influence both of the dynamics of the sector and the post-war tendencies which favoured the nationalization of the previously dominant areas. The variations are appreciable even if we only take the relatively brief period between 1967 and 1975, during which - as regards the capital accumulated by the United States - industry's share in Latin America rose from 33% to 49%, while the share of the petroleum and mining sectors dropped from 41% to 19%.^{33/} Partial data give grounds for assuming that this tendency is even more pronounced in the case of European capital.^{34/}

^{32/} (concl.) dollars per year in 1973-1975, according to information from the United Nations Centre on Transnational Corporations, TNCs in world development: a re-examination (United Nations publication: Sales N°: E.78.II.A.5), 20 March 1978. Regarding the decline of the United States dominance, see inter alia L.G. Franko, "Multinationals: the end of US dominance" in Harvard Business Review, Boston, Massachusetts, November-December 1978.

^{33/} See CEPAL, Economic Survey of Latin America, 1977, op. cit. The other sector where there was rapid expansion in the recent past was that of finance, the share of which rose from 14% to 20% of the total, for well-known reasons.

^{34/} In the case of West Germany, for example, it would appear that 77% of the total investments are in the industrial sector, according to the United Nations study Multinational corporations in world development (Sales N°: E.73.II.A.11), 1973.

(a) The weight of the transnational enterprises

It is generally agreed that an overwhelming proportion of direct investment is made by the transnational enterprises: consequently, there is no need to repeat or enlarge on here what has already been observed from examination of the tendencies and structures of investments. We shall therefore concentrate on discussing some qualitative elements which may help to identify the present character of the phenomenon, compared with similar situations in the past,^{35/} the aim being to make a better appraisal of the role of these enterprises in the internationalization process since the end of the war.

The magnitude of this phenomenon must be underlined from the very start. According to a well-known United Nations study, around 1971 a relatively limited number of parent corporations (7,276) and their subsidiaries (27,300) generated about one-fifth of the total value added in the world gross product, not counting the centrally planned economies.^{36/}

Comparable data regarding Latin America are not available, but perhaps the most important consideration is that involving a well documented fact: that the transnational corporations play the leading and sometimes exclusive role in some key sectors of production - precisely those of greatest dynamism and highest technological level - just as occurred in the past with the primary commodity exporting complex.

There is considerable documentation regarding this matter which makes it unnecessary to go into it here in detail. It does seem useful, however, to go into a little more detail about some common features and also some notable differences in the particular situations of the Latin American countries. In order to do this, we have taken data regarding the industrial sector in Brazil, Colombia and Mexico.^{37/}

^{35/} With regard to the existence of such situations, Professor A. Lewis comments - rather ironically - that the recent discovery of their existence by political theorists leaves the historian a little perplexed (A. Lewis, op. cit.).

^{36/} United Nations, Multinational corporations ..., op. cit.

^{37/} Regarding Brazil, see the data collected by the CEPAL/CTC Unit; regarding Colombia, see Michael Mortimore, CEPAL/CTC Unit, Foreign participation in Colombian development: the role of TNCs, 1979, and regarding Mexico see C. Bazdresch Parada, "La política actual hacia la inversión extranjera directa", Comercio Exterior, Mexico City, November 1972.

In all these countries, from an early stage, foreign participation has been relatively highest (between 50 and 100%) in the chemical, basic metals and metal manufactures and machinery industries, with the proportions varying according to the specific lines in each subsector. While the smaller degree of diversification and development of Colombian manufacturing may explain some of the contrasts noted, it is nonetheless true that these are very marked compared with the situations in Brazil and Mexico. As regards the metal manufactures and machinery group, for example, foreign control in various main items in the second country was complete until at least 1970 (the last year of the study quoted), but it was more varied and relatively smaller in Brazil. The motor industry may be taken as an illustration: even when the terminal plants are foreign owned, domestic motor-component firms account for about one-third of the total sales in this branch.^{38/}

Obviously - and beyond any value judgement - the situation sketched above implies decisive influence on the growth rates and orientation of the production systems and on one of the crucial links of the external relations of the countries, precisely where this is most important.

It is difficult to say categorically whether this new form of internationalization implies more or less dependence on the exterior than that which characterized the primary commodity exporting growth. This is not the place to go into the terms of the controversy over this matter, but what does seem to be beyond doubt is that the phenomenon involved is much more complex and comprehensive than the previous type of linkage.^{39/}

^{38/} Dercio G. Muñoz, "Capitais extranjeiros - a espera de pragmatismo", in Revista de Anpec, N° 2, 1978.

^{39/} Without this constituting an answer to this query, it seems useful to recall that in various recent CEPAL studies prominence has been given to the bigger capacity of the region to defend itself against the cycle of the central economies, which can be explained in the final analysis by the greater diversification of production of many of the economies of the region. When referring to this topic in his statement at the eighteenth session of CEPAL, the Executive Secretary of the Commission emphasized the following relevant aspects: the greater structural solidity of the economies of the region, due basically to the diversification of their production apparatus thanks to industrialization; the more diversified structure of exports and, in particular, the (cont.)

(b) The "motivations" of the transnational corporations

What are the forces or motivations which impelled this process? If we look back over the way the problem was expressed in the previous system of trade, it seems obvious that the central impulse came from the need to promote exports of primary commodities so as to ensure supplies of food and raw materials at relatively low prices (which, among other things reduced the cost of the labour force), while at the same time opening up other profitable horizons for the export of capital.

In the post-war phase, these incentives continued to be present, but other conditioning factors also entered into the matter. One of them arises from technological development and the tendencies towards the concentration of enterprises, which created the possibility and necessity of going beyond national boundaries.

With regard to the first and most decisive element, it seems unnecessary to stress the influence of progress made in the fields of communications and transport, cybernetics, and business management, to which was added the "capacity and ... technical skill to 'fragmentize' the productive processes, even in relatively more complex activities, separating the segments of higher labour density from those which, although characterized by high capital density, can be carried out by unskilled or semi-skilled workers".^{40/}

To these familiar reasons are added some others from other sources which complement them and accentuate problems connected with "capitalist accumulation", especially the unsatisfactory tendencies of profit rates in the centres (although this question only became of importance in the present decade), the pressure of the organized working class of the

^{39/} (concl.) increase in exports of manufactures; the domestic potential for producing intermediate and capital goods, which could previously only be obtained through imports; the greater access to international financing (above all of a private nature), even at times of serious balance-of-payments disequilibrium in some countries, and the limited but significant changes in agriculture and particularly in a modernized sector with quite a high growth rate.

^{40/} P. Vuskovic, "América Latina ante nuevos términos de la división internacional del trabajo", in the review Economía de América Latina, CIDE, Mexico City, March 1979.

central countries themselves to share in the advances in productivity, and also the alternative and compensatory attraction of the low wages paid in the periphery.

Without denying the degree of validity of this second group of explanations, it seems clear that it comes from the same stock as the classical assumptions on this matter which we referred to earlier through a quotation from Professor Rosenstein-Rodan. As regards specifically the attraction exerted by the lower wages paid on the periphery, it is necessary to recall once again the well-proven fact that the bulk of the investments of the central countries has been concentrated in their own sphere - i.e., precisely where substantially higher wages predominate - and that even in the periphery itself they tend to recruit workers at wages which are usually higher than the average, although obviously they are far below those prevailing in the industrialized economies.^{41/}

A sounder approach, therefore, is to take into account the generic reasoning over the possibilities of profit - visible or hidden profit on inter-enterprise transfers, payments for technology rights, and other well-known tricks - which acquires even greater significance if we consider the global or supranational strategies and the logic behind the oligopolistic competition between the big corporations. In other words, what interests them is not so much the profitability of each investment in particular as the global effect over the whole of their profits and the situation as regards competition with similar firms in the same field.

(c) The export of capital and the production cycle

The elements of continuity and change in the presence of the transnational enterprises and their investments give rise to other queries which lead us to ask, as was done in a study already referred to: what is really new, if there is indeed anything new, in the recent trends?^{42/}

^{41/} From the point of view of Marxist categories, it could be said that the extraction of the relative surplus value (conditioned by the differential growth rates of productivity and wages) has been more attractive than the extraction of the absolute surplus value (created by the intensification of the efforts of workers and/or the compression of wages).

^{42/} P. Vuskovic, op. cit.

In this sense, for some analysts the former phase was characterized by the export of capital from the central economies, while the phase which began after the Second World War was distinguished by the "internationalization of the production cycle" ^{43/} or, to put it another way, by "the incorporation of the labour forces of many countries into an integrated and corporate world production structure" ^{44/} in which the transnational enterprises play a decisive role.

Without denying the substantial change which took place between the two periods as regards the composition of the flows of capital, this did not prevent the fact that in the first stage, and even long before, as in the revealing case of the sugar plantations of the West Indies and Brazil, the other phenomenon mentioned above also took place. Particularly from the end of the nineteenth century onwards, there was a considerable increase in the centre-periphery links based on the trading of raw materials and food for manufactures, thus internationalizing the global production cycle through the reciprocal significance of the flows of goods and capital involved. Obviously, the centre laid down the forms and rates of the links, but the mainly endogenous nature of their functioning was not in contradiction to the minor but still strategic role of the peripheral universe which was incorporated in this relationship and whose growth was subordinated to its rate and forms.

Moreover, this evolution, as a logical corollary of the direct or indirect promotion and control of production units by the guiding economies, also meant the forced or spontaneous mobilization and recruitment of an enormous reserve of labour. As is well known, two enormous international migration movements were set afoot: the approximately 50 million people who left Europe had as their counterpart a similar number of people who left the periphery for the tropical plantations, the mines or the construction projects. Added to the migrants were many more millions of people who were

^{43/} C. Palloix, "Impérialisme et mode d'accumulation international du capital", Revue Tiers Monde, Paris, January-March 1974. Quoted by Pedro Vuskovic, op. cit.

^{44/} S. Hymer, "The internationalization of capital", Journal of Economic Issues, Lincoln, Nebraska, March 1972.

incorporated into the primary commodity export activities in their own lands. These amounts seem to be considerably greater than those now estimated with regard to the foreign operations of the transnational enterprises.^{45/}

While the thesis thus unravelled may give rise to valid objections, it is nonetheless true that it does point to a clear and main fact: the greater complexity of the pattern of international relations (intra-centre and centre-periphery) established by the present agents in the articulation process. The socialization of economic activities (and not only of these activities) shows a greater advance under the simultaneously paradoxical and contradictory aegis of the transnational corporations, which are private but in whose activities para-State and government bodies also play a part.

(d) The internalization of investment

In seeking the novel features of the new situation it may be useful to recall the well-known image of Hans Singer who, referring to foreign investment in the primary commodity exporting field, maintained that it was umbilically rooted in the central country which gave rise to it, whereas its link with the peripheral country was a factor more of geographic than economic significance.^{46/}

This picture underwent a profound change in the period after 1945. As foreign investment abandoned or was displaced from the field of commodity exports and began to be concentrated in industry and other activities, an "internalization" process took place to a degree which was more or less significant but in any case undoubtedly greater than in the past. The basic reason for this fact, as we know very well, is that the enterprises came to depend on the domestic market for their profitability and expansion, although they continued to be subordinated to the exterior through various channels

^{45/} S. Hymer, op. cit., calculated that the foreign employees of the 500 biggest United States firms amount to between 13 and 14 million persons, while C. Vaitsos, op. cit., estimates the number of persons employed by the transnational enterprises in industries in the developing countries at between 2.5 and 4 million.

^{46/} Hans Singer, "The distribution of gains between investing and borrowing countries", in American Economic Review, Papers and Proceedings, Nashville, Tennessee, Vol. II, No 2, May 1950.

(imports of inputs and capital, technological subjection, finance, etc.). On the other hand, depending on the host countries' bargaining power, this was accompanied by an expansion of the manoeuvring capacity of national policies and even the emergence of new forms of linkage with the transnational enterprises.^{47/}

This "internalization" has many important consequences. One of them is the bigger irradiation of its effects over the societies which act as hosts to such enterprises, extending from the intensification and extension of the demonstration effect, with the consequent reproduction of the consumption patterns of the transmitting centres, to social and political impacts. It has been convincingly argued that all this has increased the co-optation capacity of the foreign presence, which covers the political, business and wage-earning classes, to say nothing of that part of the population which is incorporated (or hopes to be incorporated) in the market for consumer goods which are characteristic of the process. Paradoxically, in consequence, this "internalization" becomes a force which activates the tendencies towards internationalization already referred to.

Without prejudice to the foregoing, it is clear that these impulses run counter to other very powerful impulses in the opposite direction: i.e., towards the absolute or relative (but in any case conflictive) exclusion of a considerable part of the population of the periphery, with the proportions varying according to the particular situations of the countries, as many studies have convincingly demonstrated.^{48/}

^{47/} See in this respect CEPAL, The economic and social development and external economic relations of Latin America (E/CEPAL/1024), vol. II, 1979. Prominent among these new forms are: co-production and specialization agreements; sub-contracting; co-operation arrangements limited to aspects of technology and marketing, and agreements between foreign and domestic enterprises to carry out joint ventures.

^{48/} Among these studies, those concerning income distribution and situations of extreme poverty and on the subject of basic needs are particularly pertinent. See, for example, CEPAL, The economic and social development and external economic relations of Latin America, 1979, op. cit., vol. I.

With regard to the general phenomenon of integration-exclusion, the studies by Osvaldo Sunkel, "Capitalismo transnacional y desintegración nacional" in El Trimestre Económico, Mexico City, N° 150, and by S. Hymer, op. cit., are worthy of mention.

There is no room here to go into greater detail on this topic of such outstanding importance, but we cannot proceed without stopping to speak about a manifestation which is new in this matter and which is of particular significance for the central discussion.

Going to the root of the matter, we must recall the undoubted export-orientation of the former system of investment, which had as its counterpart - and made possible - the flow in the reverse direction represented by imports and service payments on foreign capital.

The new circumstances, and particularly the "internalization" mentioned, radically changed this circuit. With the international enterprises transformed into the main actors in the so-called second phase of substitution industrialization (which only really flourished it may be noted in passing, in the larger countries of Latin America), the trend towards imports replaced the former export trend.

Some selective data make it possible to illustrate this phenomenon: although they refer to changes which took place after 1950 they nevertheless bear witness to the change which took place in the period within the general framework of inward-oriented development.

Thus, for example, if we compare the growth rates of the domestic product and of the imports of Latin America in the period 1950-1960 with those for 1965-1974 (see table 7), we see that in the second period there was a substantial rise in the growth rate of imports, while there was only a relatively modest increase in the product. The same evolution is repeated with greater force in the large countries in which the second stage of substitution was concentrated, since in these countries the growth rate of purchases abroad increased four-fold.

Of course these disparities are not due exclusively to the phenomenon under consideration. They are also influenced by the expansion in world trade and the relative improvement of the terms of trade noted in the second period (1965-1974). At the same time, however, it should be noted that the average growth rates of the region's exports are similar in both periods, although they increase appreciably for the bigger countries, largely because of the performance of Brazil. External indebtedness consequently assumes outstanding importance in explaining the difference in the growth rates of the two flows.

Table 7

GROWTH RATES OF THE LATIN AMERICAN DOMESTIC PRODUCT AND IMPORTS

	Latin America as a whole		Large countries of Latin America	
	1950-1960	1965-1974	1950-1960	1965-1974
Domestic product	5.2	6.7	5.4	7.5
Imports	3.5	9.4	2.8	12.2
Exports	4.0	4.6	3.1	6.2

Source: CEPAL, Long-term trends and prospects of the development of Latin America (E/CEPAL/1076), document presented at the eighteenth session of CEPAL in La Paz, Bolivia, 1979.

This matter is made clearer if we look at fragmentary figures on the relation between exports and imports (and financial payments) for the case of Brazil, where the phenomena under consideration are to be seen more clearly and significantly affect the fields selected.

A study carried out by the Ministry of Planning of Brazil, which refers to the year 1974 and to 115 of the main transnational enterprises, revealed that the trade balance of the latter showed a negative balance of 2,161 million dollars,^{49/} which rises to 2,412 million dollars on the current account (i.e., taking into account payments for services) and which is reduced to 1,731 million dollars if we take into account investments and loans under the movement of capitals. From the point of view of the current account, this balance is equivalent to one-third of the total deficit recorded for 1974 (7,286 million dollars).^{50/}

It hardly seems necessary to stress the great importance of the structural turnabout in the internal and external projections of the activities of these corporations. For a start, it raises a clear contradiction

^{49/} The exports of the 115 enterprises totalled 837.5 million dollars as against 3,000 million dollars of imports.

^{50/} See SUBIN, Ministerio de Planejamento, Balanco de Pagamentos de 115 empresas multinacionais, Brasilia, 1976, and CEPAL, Economic Survey of Latin America, 1976, op. cit.

between the need for foreign exchange and the inward effects on the level and composition of domestic demand, which stimulates an increase in imports. Moreover, it obviously represents an obstacle to the progress of the internationalization of the economy (or, if one prefers, its "transnationalization"), insofar as it makes payments on foreign capital and the growth of imports more difficult. New net investments and an increase in other exports and credits can obviously make up for this dissociation to some extent, but their growth capabilities suggest that only a change in the structure of external relations of these enterprises - in the direction of increasing their export trends - could restore a manageable level of harmony to the opposing trends if, of course, these are going to continue playing such a decisive role as in the recent past.

Be that as it may, the change in question seems to imply that, in the second historical period under consideration, foreign enterprises or investments did not so much contribute to the progress and change of the international division of labour as help to deepen national divisions in this, i.e., within each country, as expressed in movements of labour and capital between and within the productive sectors. Of course, the outlook would be different if we forgot about the national framework and took as our reference a unified world system. From that point of view, this inward-directed change would have a sense equal to that of the international division of labour as it is normally understood.

4. Oil and internationalization

It would be a serious omission not to include some brief remarks about the incidence of the change in oil prices on the question under examination. Although the difficulties of the world economy, and particularly those of the central countries, had already begun to show themselves earlier,^{51/} there can be no doubt that this price rise has been of decisive importance in the second half of the nineteen-seventies and it seems that it will be even more important in the future.

^{51/} See in this connexion the analysis which appeared in CEPAL, Economic Survey of Latin America, 1971, op. cit.

The truth is that this abrupt change gave rise to universal awareness of the realities of internationalization (and interdependence), however their nature and content might be viewed.

It may be, as has been suggested, that this was simply the detonator which dramatically brought to the surface the various disequilibria generated by the kind of development followed since the war, but at the same time few will deny that it has a personality of its own and effects which go far beyond the mere moment of the explosion.

For the particular purposes of the present study, what is worth stressing more than anything is the fact that this episode constitutes the first and unprecedented case in which the impulse towards internationalization - with all the consequences which it involves - has originated from a decision of a sector of the periphery, thanks to its partial but strategic domination and handling of a product which is essential for modern society and especially for the most highly industrialized core of that society.

Many appraisals shared by analysts of diverse and opposed tendencies probably exaggerate the negative repercussions of this phenomenon and underestimate, in contrast, the capacity of adaptation of the centres. There seems to be general agreement, however, that the adjustment process (quite apart from having a striking influence on the growth rate, inflation and the terms of trade) may involve substantial changes in their style of development and, more specifically, in their resource assignment matrix. Recalling an oft-repeated metaphor, it could be said that the type of economy based on oil at less than 2 dollars a barrel can hardly be the same when the price in mid-1979 is already over 20 dollars.^{52/} A more direct and equally transcendental result could be the massive reallocation of investments called for by energy programmes.

^{52/} See J.W. Mullen, "World oil prices: prospects and implications for energy policy-makers in Latin America's oil-deficit countries", Cuadernos de la CEPAL, Santiago, Chile, 1978. In practice, the price of a barrel of oil before the 1973 increase, in constant 1975 dollars, was equivalent to less than half that prevailing at the beginning of the 1950s. It would be difficult to find a more eloquent illustration of the historic short-sightedness of the "market forces".

All this raises great queries which are far from being clarified, but their consideration goes beyond the scope of the present study, except as regards the repercussions of the general phenomenon on the periphery and the reactions of the industrialized economies.

A contradictory aspect immediately comes to our attention in this respect. There can be no doubt that the rise in oil prices represented a global strengthening of the bargaining position of the periphery vis-à-vis the centres, and this is the main reason for the political solidarity which is to be observed within the group of peripheral countries with regard to the OPEC. On the other hand, however, as is even clearer, it represented a differentiating and weakening factor in this group in view of the contrast which it created between the oil-exporting countries and those dependent on the importation of petroleum.^{53/}

Moreover, if we look at the situation of the latter countries, it is easy to see the multitude of negative consequences following upon the rise in fuel prices and transmitted from the central economies, the most readily visible of which are those deriving from "stagflation"; weakening of demand for the non-oil countries' exports, rises in the prices of their imports, and in addition the recrudescence of protectionism. In the more distant future, however, there loom other disquieting factors also, such as those which may result from the changes in the patterns of growth and investment already referred to.^{54/}

Without weighing the various positive and negative elements against each other, there is a striking contrast between the effective impulse towards internationalization represented by the oil problem and the contrary

^{53/} The first open manifestation of this split was seen at the UNCTAD Conference held in Manila in 1979.

^{54/} By way of illustration, we may consider a tendency which was already taking shape before the oil crisis. Thus, between 1970 and 1973 over 80% of the total expenditure on the exploration of mineral resources was concentrated in only four countries: the United States, Canada, Australia and South Africa. See United Nations, Development Forum, Geneva, May 1978.

influences - towards marginalization - which affect in particular the oil-importing peripheral economies.^{55/}

Looking at the same problem from the angle of the central countries, we also note a contradictory situation. On the one hand, the energy crisis has so far stimulated joint decisions for tackling it, but few would deny that if it persists or gets worse this could well be the source of future conflicts.

5. A structural balance-sheet

In order to give a broad picture of the changes which the internationalization process has helped to bring about, two approaches have been selected. One stresses the changes in the pattern of trade of the main groupings in the world system, while the other stresses the structural shifts in the centre-periphery complex in its usual sense, i.e., without taking into account the socialist economies, although details are given regarding them.

With regard to the first approach, an attempt is made to establish to what degree there has been a change in the "classic" division between exporters of commodities and exporters of manufactures. See in this respect table 8, prepared for a recent CEPAL study, which clearly illustrates this matter.

As may be seen, there is a clear predominance of industrial exports in the export structures of the central economies and the European Socialist countries. In contrast, despite the significant changes which took place between the years in question, industrial exports represent only a small fraction of the sales of the peripheral countries, although the Asian market economies constitute a significant exception to this because of the

^{55/} The so-called recycling of the oil surpluses and their contribution to international liquidity facilitated the flow of credits to the non-oil-exporting economies, and some measures have also been taken by the oil-producing countries to reduce the difficulties of the former. It is obvious, however, that these elements are far from representing adequate solutions to the problem. On the other hand, the allocation of a large part of the OPEC countries' resources to investments and purchases in the central economies has significantly aided the latter.

Table 8

RELATIVE VALUE OF MANUFACTURES a/ IN WORLD AND REGIONAL TRADE
IN GOODS (EXCLUDING FUELS), 1955 AND 1975
(Percentages)

	Exports		Imports	
	1955	1975	1955	1975
<u>World</u>	49	70	49	70
North America (Canada and USA)	51	63	42	76
Western Europe	69	80	39	69
Eastern Europe and USSR	59	68	47	68
Japan	83	94	13	33
Other developed countries <u>b/</u>	11	23	78	89
Latin America and the Caribbean	5	22	71	78
Africa (excluding South Africa)	6	12	72	79
Asia (excluding Japan and Asian socialist countries)	19	55	59	67
China and other Asian socialist countries <u>c/</u>	17	39	78	73

Source: CEPAL, on the basis of data from UNCTAD, Handbook of International Trade and Development Statistics, 1976 (United Nations publication: Sales N°: E/F.76.II.D.3) and 1977 (Sales N°: E/F.78.II.D.1).

- a/ SITC sections 5, 6, 7 and 8, except for division 68 (non-ferrous metals). Figures based on FOB values.
- b/ Australia, New Zealand and South Africa.
- c/ North Korea, Mongolia and the former Socialist Republic of Viet Nam.

well-known weight of the group of countries which began their industrialization process with a view to the external market.

The situation is very different if we look at the composition of imports, since in all cases (with the exception of Japan) 56/ imports of manufactures clearly predominate. This situation, of course, implies a marked distortion in the external trade structure of the periphery because of the scanty relative weight of their industrial exports in comparison with the very high value of their imports of such goods. In contrast, the symmetry in the imports and exports of the central economies in this respect is very clear.57/

In view of the decisive role which exports of commodities will continue to play in the periphery and in Latin America, it is worth referring again here to an aspect which was already mentioned and which is of essential importance within the CEPAL conceptions of the centre-periphery system. We refer to the different demand dynamics for the goods which make up foreign trade and their influence on its structure. As we can see from table 3, between 1960 and 1974 the growth rate of industrial exports - at constant values - was two and a half times higher than the rate for primary commodities and foodstuffs, although it was not so much higher than that for mining.

In order to try to draw up a balance from the other angle, we assembled and rearranged known data which enable the situations in 1950 and 1977 to be compared. These are given in table 9. As already noted, the socialist area has been excluded for the basic reason that it does not form part of this group, although it is linked to it by various channels and does form part of the world picture. Furthermore, this exclusion was due to more substantive reasons connected with the particular characteristics of these economies, which are based on collective, or, according to some,

56/ This situation is largely explained by the shortage of natural resources. It is also influenced, however, by policies restricting the access of industrial products, which are frequently criticized, it may be noted in passing, by those who claim to be adversely affected by these policies.

57/ See in this respect G. Fichet and Norberto González, "The production structure and the dynamics of development", in CEPAL Review, N° 2, second half of 1976.

Table 9

CENTRE AND PERIPHERY: DISTRIBUTION OF POPULATION, TOTAL PRODUCT AND PER CAPITA PRODUCT IN 1950 AND 1977

	1950				1977			
	Population	Total product	Per capita product		Population	Total product	Per capita product	
	Percentage		Percent	In 1970	Percentage		Percent	In 1970
			age	US dollars			age	US dollars
<u>Centre and periphery a/</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>627</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>1 448</u>
<u>"Modern" sector</u>	<u>34.3</u>	<u>86.0</u>	<u>250.0</u>	<u>1 565</u>	<u>26.6</u>	<u>82.2</u>	<u>309.0</u>	<u>3 543</u>
North America (Canada and USA)	10.2	51.4	506.0	3 172	8.6	41.9	487.0	5 595
Western Europe <u>b/</u>	17.4	29.1	168.0	1 052	12.3	28.9	235.0	2 696
Japan	5.1	3.0	59.0	367	4.0	8.9	221.0	2 532
Other developed countries <u>c/</u>	1.6	2.5	138.0	866	1.7	2.5	148.0	1 698
<u>"Intermediate" sector</u>	<u>10.0</u>	<u>5.8</u>	<u>57.0</u>	<u>360</u>	<u>12.1</u>	<u>7.7</u>	<u>63.0</u>	<u>725</u>
Latin America and the Caribbean	10.0	5.8	57.0	360	12.1	7.7	63.0	725
<u>"Primitive" sector</u>	<u>55.7</u>	<u>8.2</u>	<u>15.0</u>	<u>93</u>	<u>61.3</u>	<u>10.1</u>	<u>17.0</u>	<u>191</u>
Africa (excluding South Africa)	12.6	2.3	19.0	117	14.1	2.6	19.0	214
Asia (excluding Israel and Japan)	43.1	5.9	14.0	86	47.2	7.5	16.0	183

Source: CEPAL, on the basis of data taken from official United Nations publications.

a/ Includes only market economies and therefore excludes the centrally planned economies of Europe, Asia and Cuba.

b/ All the EEC and EFTA countries, Greece, Malta and Spain.

c/ Australia, Israel, New Zealand and South Africa.

State ownership and planning, and with their internal or regional relations in the case of the USSR and the countries of Eastern Europe.^{58/} At all events, reference will be made to their evolution later in this study.

As will be noted, the statistical picture reflects the approach applied in Latin America for characterizing the structural heterogeneity of the region.^{59/} This procedure is not arbitrary, since a similar picture is to be observed at the world level, where several outstanding universes coexist and are interrelated: that of the predominantly prosperous countries (in relative terms and with the exception of some special cases which are of little significance for the group as a whole); that of the predominantly backward or poor countries (except for the case of small rich élites which are also of little significance for the total), and that of the countries which are "intermediate" in the Latin American style, namely, countries which are neither one thing nor the other because they contain markedly heterogeneous productive strata which represent significant proportions of the population and/or the product.

^{58/} With regard to the second element, it should be stressed that this group of countries, despite some similarities with the centre-periphery scheme of the capitalist sphere (such as the fact that there is a "main centre" and other economies which are dependent on it in essential aspects), there are differences in other important aspects, such as the fact that the "classic" system of trade between exporters of industrial goods and exporters of basic commodities does not apply. In practice, the main producer of primary commodities is the USSR, and some of the smaller countries have an economic structure which is more homogeneous and "developed" than the "main centre". For a longer and more fully documented discussion of this subject, see A. Pinto and J. Kfiakal, América Latina y el cambio en la economía mundial, Instituto de Estudios Peruanos, Lima, 1973.

^{59/} Paraphrasing one of Marshall Wolfe's definitions (CEPAL, Economic Survey of Latin America, 1973, p. 291) for this purpose, it could be said that this corresponds to a situation marked by the coexistence of economic groups characterized by profound differences of productivity and "modernity" but connected by complex links of trade, dominations and dependence within the world as a whole. With regard to its application to Latin American analysis see inter alia A. di Filippo and S. Jadue, "La heterogeneidad estructural: concepto y dimensiones", El Trimestre Económico, N° 169, January-March 1976.

The global system then, resembles the Latin American formation in its structure. A modern sector (the central economies) accounts for a high proportion of the product and a low proportion of the population; the "primitive" sector (Asia and Africa) 60/ is marked by the opposite features, while the intermediate sector (Latin America) shows something of a balance between the two positions (see table 9).61/

The first element to consider is the expansion of the system and of its parts, for which purpose we may look at the increase in the per capita product. What strikes us immediately from this point of view is the dynamic evolution of the whole and the different increases of each segment of this. Thus, while the global increase was 83%, that of the centre exceeded 126%, that corresponding to Latin America rose by 100%, and that of the most backward area by 105%.62/

60/ In order to facilitate the statement of this position, the oil-exporting countries have not been separated in these groupings. In any case, the comparisons are on the basis of the real product in money of constant value, so that they do not take into account the variations in fuel prices.

61/ Another factor already referred to is the internal structure of Latin America. At the end of the 1960s, this was approximately as follows: the modern sector generated 53% of the product and gave employment to 12% of the labour force (not, it should be noted, of the total population); the figures for the intermediate sector were 48% and 42%, respectively, while those for the "primitive" sector were 5% of the product and 34% of the labour force. Naturally, there are marked differences between countries. Argentina, for example, differs considerably from the general picture in that the "primitive" sector only accounts for 5% of the labour force, whereas the modern sector employs 21% of the total labour. See in this respect A. Pinto, "Styles of development in Latin America" in CEPAL Review, first half of 1976.

62/ The rates of annual increase were 2.3% for the whole, 3.1% for the modern sector, 2.6% for the intermediate sector and 2.7% for the primitive sector. In order to have a point with which to compare these, they may be placed alongside the increases in the per capita product in the United States in a similar period of active expansion (1897-1900 to 1928-1930), which came to 1.7% per year (US Bureau of the Census, Historical Statistics of the United States, Colonial times to 1957, Washington, D.C., US Government Printing Office, 1960).

/Despite the

Despite the significant contrasts, the intermediate and primitive sectors slightly improved their share in the total product at the expense of the modern sector. The variations in absolute terms, however, are extremely unequal (almost 2,000 dollars for the centre, almost 100 dollars for the most backward countries, and 365 dollars for Latin America).^{63/}

It is easy to see that the change in the relative population of the areas affected this evolution. Thus, in keeping with well-known factors, the population growth rate of the industrialized economies went down considerably, whereas that of the other groups went up. Clearly, however, this is only a minor factor compared with the centripetal tendencies of the system as regards the absorption of technical progress.

It would be tiresome to go into all the details of the various aspects arising from the information presented, but it seems useful to draw attention to the shifts within the modern sector, which confirm the rise in the relative position of Western Europe and, in particular, of Japan, whose per capita product increased seven-fold. This is obviously due largely to the year taken as a reference, when these areas were only beginning their period of post-war reconstruction. Moreover, even in 1977 the specific and proportional weight of the United States continues to be striking.

In order to complete this balance-sheet, we include the information given in table 10, which shows the changes regarding the European Socialist countries. Even taking into account the year taken as a base, which likewise reflects the upsets of the war, the variations in all the indicators are still substantial; in this respect, it is sufficient to note that this group's share in the world product rose from a little over 12% in the base year to 23% in 1977, while their per capita product rose at an annual rate of 6% over the period in question.^{64/}

^{63/} The figures make possible a realistic appraisal of the references to Latin America as an international "middle class". Apart from the fundamental factor of the distribution of this increase by social classes and countries - which meant very small advances for the 50% of the population with the lowest income - the distance between Latin America and the levels of the centre is very much greater than that between Latin America and the most backward area.

^{64/} By way of reservation regarding this evolution, it has been argued that the amount of expenditure on defence constitutes a larger part of the product than in the central capitalist economies and that the official exchange rates over-estimate the real significance of the figures; even so, however, the changes are substantial.

Table 10

RELATIVE WEIGHT OF THE EUROPEAN SOCIALIST COUNTRIES IN
THE WORLD ECONOMY a/
(World = 100)

	1950	1977
Population	14.8	12.2
Total product	12.2	22.9
Per capita product	82.0	189.0

Source: CEPAL, on the basis of data taken from official United Nations publications.

a/ Eastern Europe (Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and Yugoslavia) and the USSR.

6. Recapitulation

As we have seen, the rate of internationalization - except for the interval between the First World War and the end of the Second World War - undoubtedly accelerated during the second period, while the process also became more complex and all-embracing, especially at certain superstructural levels. From the more directly economic point of view, however, the process continued to be concentrated in the developed countries, as the driving forces and guides of the overall movement, whereas it took place in relatively few countries of the periphery and even then only in certain dynamic activities now closely linked to the consumption patterns of the central economies and the middle and upper groups. Thus, the phenomenon continued to be primarily horizontal (North-South), selective with respect to the periphery (as regards countries, activities, social groups, spatial location, etc.), and, as a result, a source of relative or absolute marginalization in all these dimensions as far as the great majority of the world population is concerned.

In short, the expectations regarding "the world-wide expansion of industrial capitalism" 65/ did not materialize, not so much because of

65/ R. Prebisch, "Towards a theory of change", an unpublished study to appear soon in CEPAL Review.

overdoses of the supposed medicine, but rather because these doses were insufficient or unsuitable for transforming the world economy in the image and likeness of the centres.

As we already noted at the beginning of this study, we have not gone into the question of "interdependence" which is so often intermingled with that of internationalization.

This matter does, of course, involve related realities, and it can thus be maintained in general terms that the development of the second process necessarily promotes the first situation, but the problem is considerably more complex than this in reality, due mainly to the ambiguity of the concept of interdependence.

In order to go straight to the heart of the matter, let us recall one of the elements which form the backbone of the centre-periphery theory formulated by Raúl Prebisch. As we know, he started from the analysis of the economic cycle and the dominating role of the "main centre of the cycle", reflected in the dependence of the peripheral countries. This analysis was progressively enriched through the identification of the structural contrasts which condition the links between the two spheres beyond the periodical fluctuations. Within the framework of this conception, the various functions discharged by the periphery for the development of the central countries are not ignored, but it is established beyond all doubt that it is the centres which impart their special features and dynamics to the evolution of the system as a whole and that of the periphery in particular.^{66/} In other words, the overall interdependence has as its basis these two substantially different roles.

The course of the processes since the war has not changed the essence of this composition: indeed, the world projections of the "stagflation" suffered by the centres is sufficiently eloquent proof of this. Although there can be no doubt that the "oil challenge", which we discussed earlier, is a prime exception of great present and potential

^{66/} In this connexion, see O. Rodríguez, "On the conception of the centre-periphery system", CEPAL Review, N° 3, second half of 1977.

significance, it is no less true that it has also brought out the very different capacities for response and adaptation of the industrialized and peripheral economies.

In reality, as Dr. Prebisch pointed out, this is a situation of interdependence between unequals.^{67/}

The moral of the analysis which we have tried to make is clear. The dynamic continuation of the process of internationalization is not enough to significantly alter the classic system of centre-periphery relations. For this, there must also be a profound change in the ways in which the peripheral countries are fitted into the world economy, and this, in its turn, is intimately connected with the shift in their own productive structures. There lies the nub of the discussions and policies on the New International Economic Order, on which the second part of this study centres.

^{67/} In his statement at the UNCTAD Conference in March 1979.

II. THE SEARCH FOR A NEW PATTERN OF EXTERNAL RELATIONS: CASES, REASONS, DANGERS AND OPTIONS

This chapter deals with some of the main features of the external relations of Latin America and of groups of countries within the region, the problems, performances and objectives identified and the prospects of securing other patterns of relations based on the development of industrialization and its projection to other parts of the world.

1. A retrospective sketch

(a) The evolution of external links since 1950: trade and trade relations

When examining the evolution of external relations in the period from 1950 (after the readjustment which immediately followed the war) until recently, it is usual in an overall approach to distinguish a first phase lasting roughly until the mid-1960s; a second running from then until 1973-1974, ending with the simultaneous occurrence of the oil crisis and the economic-financial difficulties of the central economies; and a third, current stage characterized by ongoing disequilibrium and accommodation whose nature and terms are still far from clear.^{68/}

If we concentrate our attention on the first two stages for the time being, it is again evident that the second is usually viewed as a stage in which the internationalization of the region's economy accelerated and expanded. This steadily increasing openness is seen as contrasting with the relatively closed nature of the preceding phase. In brief, as it has sometimes been put, the introverted or inward-looking development of the first stage is said to have been succeeded by an extroverted or outward-looking phase.

We shall study quite carefully the content or validity of this hypothesis further on. Let us begin now by comparing it with the available data on its foundations, highlighting from the outset the field of foreign trade, the basic channel and underpinning of international links.

^{68/} The analysis in this part draws heavily on an internal discussion paper by Charles Rollins, entitled The foreign sector in Latin America: 1950-75.

Figure 2 shows a somewhat paradoxical situation. On the one hand it is clear that in the mid-1960s a period of dynamic growth of trade flows set in which lasted until 1973-1974, when it was interrupted, only to resume subsequently, in both cases the fluctuations in the flow of exports being the more severe. From this angle, then, the hypothesis is confirmed.

But a comparison of these trends with the evolution of the gross regional product in order to check to what extent the corresponding coefficient changed - i.e., if you like, the degree of openness of the economies - shows a quite different picture. The relative importance of both imports and exports declined in comparison with the growth of the product, a trend which began in the late 1950s and continued (particularly in the case of imports) until about 1965. Subsequently, for reasons which will be seen shortly, the import coefficient tended to rise moderately and shakily. This was not true of exports, which remained well below the mid-1960s level. In fact, and irrespective of these changes, what is most important for our discussion is that the margin of openness in the second phase was considerably smaller than in the 1950s, and particularly the first half of that decade. For example, while the import coefficient then varied around 12 to 13%, in the course of the second phase it barely exceeded 9%; and the export coefficient, although smaller, followed a similar trend.

As may readily be understood, a decisive reason for these performances and coefficients was the relatively steady and rapid growth of the Latin American gross product in these decades. In other words, while it is true that foreign trade increased in the mid-1960s, there was still higher growth of production activity aimed at or based on the domestic market: the two were complementary. This should be borne in mind for our subsequent analysis of this issue.

- The differences among groups. This overall view should be rounded off by breaking down this by no means homogeneous whole and examining the specific situations of, at least, groups of countries with some resemblance to each other. This is the purpose of figures 3, 4 and 5 which show the trends of the import coefficients of the three major economies, of a number of intermediate ones and of Central America and the Dominican Republic.

Figure 2
LATIN AMERICA: TRENDS OF EXPORTS AND IMPORTS, THE GROSS DOMESTIC
PRODUCTION AND THE EXPORT AND IMPORT COEFFICIENTS

(Indices 1950 = 100)

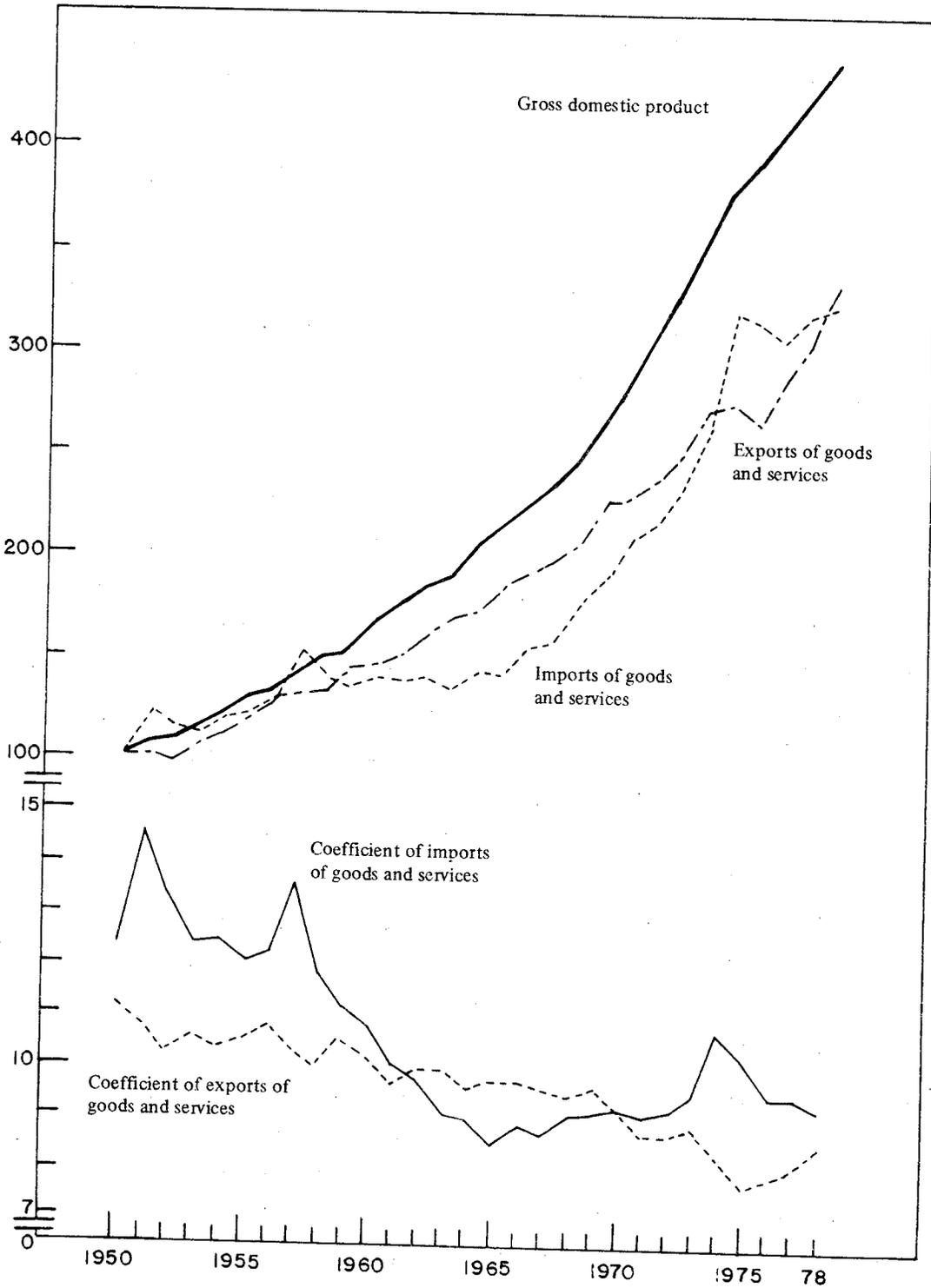


Figure 3
ARGENTINA, BRAZIL AND MEXICO: COEFFICIENT OF IMPORTS OF GOODS AND SERVICES
AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT

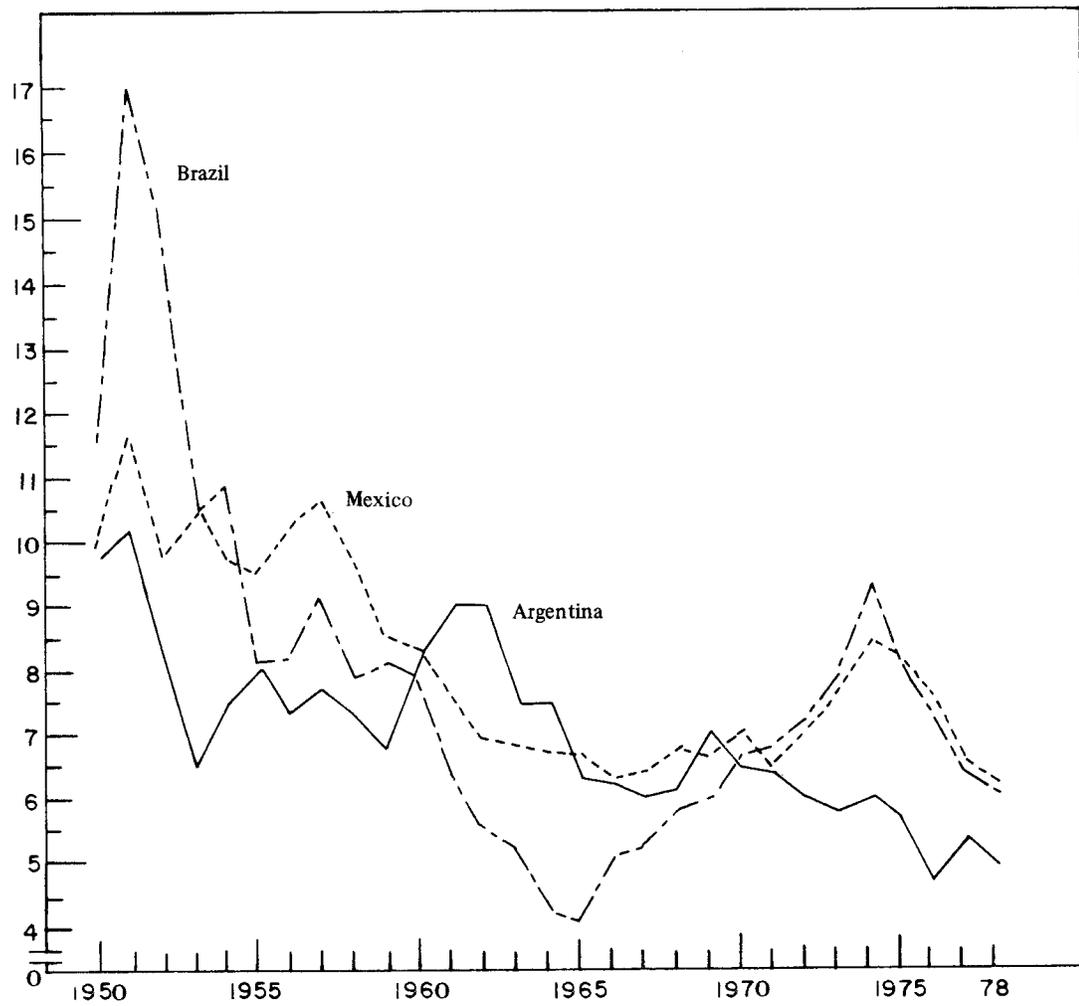


Figure 4
CHILE, COLOMBIA AND PERU: COEFFICIENT OF IMPORTS OF GOODS AND SERVICES
AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT

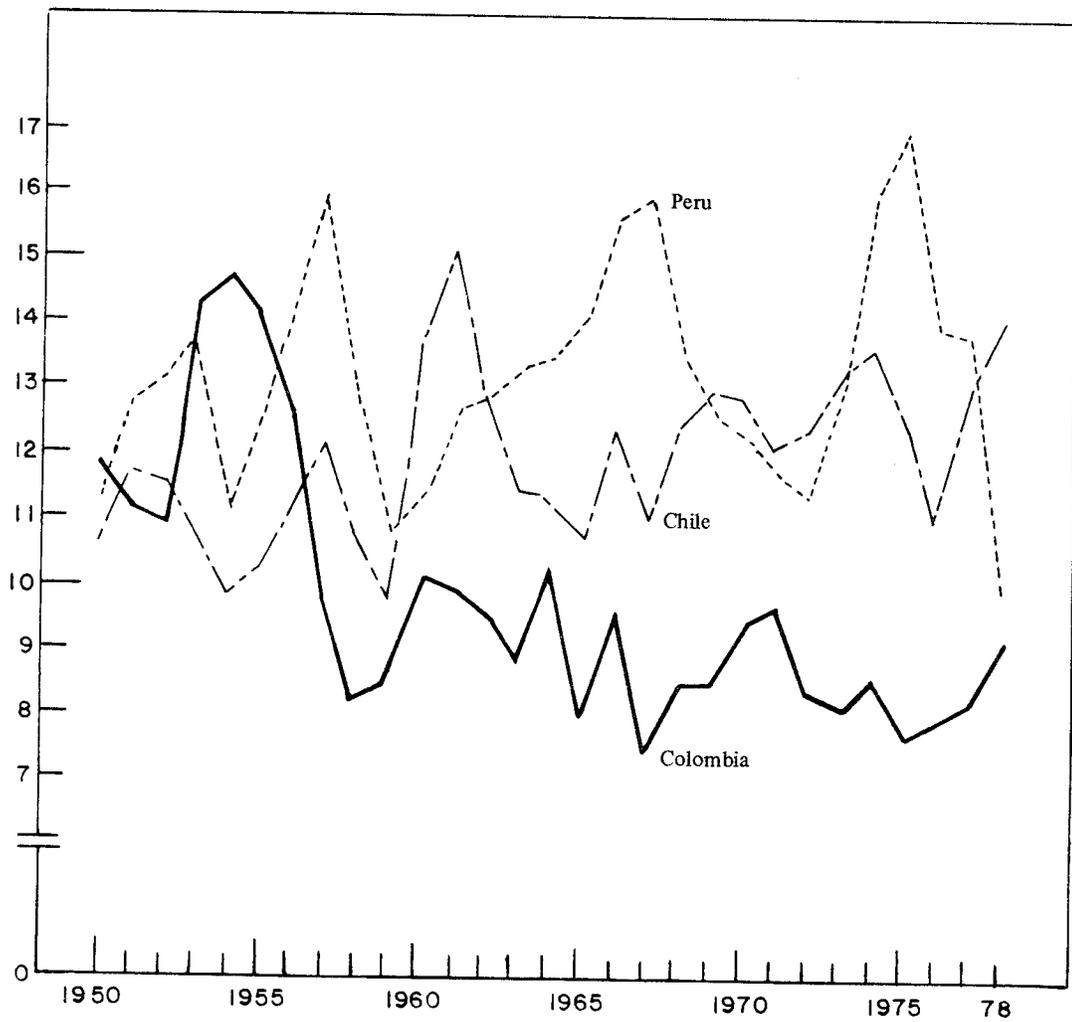
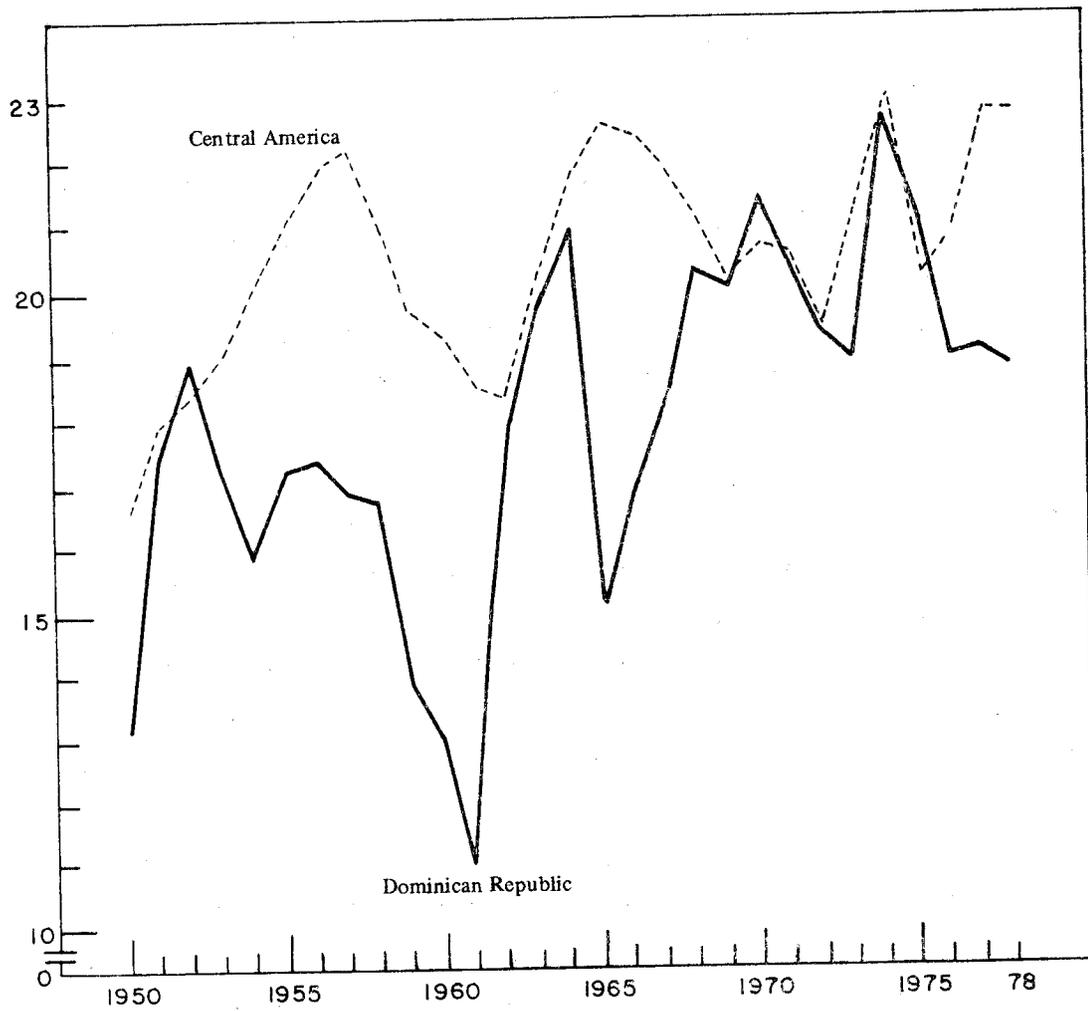


Figure 5

CENTRAL AMERICA AND THE DOMINICAN REPUBLIC: COEFFICIENT OF IMPORTS OF GOODS AND SERVICES AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT



/The differences

The differences are clear both in the levels of the countries' links with the exterior and in the pattern of the trends and fluctuations. In the three biggest markets the trends and levels resemble those which appear in figure 2, as is logical given their great weight in the total. At the other extreme, in the case of Central America the percentages in the mid-1950s are somewhat above 20% and remain constant with small variations until the end of the period in question, when some are close to 23%. In the case of the other countries selected (Chile, Colombia and Peru), the facts fit very well with their intermediate position from the standpoint of the level of openness, with the exception of Colombia which in this respect and in its trends in the different periods comes closer to the overall and Mexican trends. This may help to explain its interest in the policies aimed towards greater openness which we shall discuss below. Chile and Peru, on the other hand, while starting from levels similar to that of Colombia in the early 1950s, show very sharp changes and only Chile, in recent years, shows a tendency towards greater openness which, in any event, is no greater than what existed in some years in the 1950s.

Be that as it may, it can be argued that for each of the groups their is general confirmation of an appreciable rise in foreign trade in the mid-1960s, together with declining, constant or slightly increasing coefficients of openness.

We cannot consider here other basic factors such as the purchasing power of exports or import capacity, which have in any case been amply documented in recent CEPAL literature. Nevertheless, mention must be made of the terms of trade, albeit in passing, not only because of the role of this indicator in CEPAL studies but also because the emphasis on the expansionary external setting in the second stage led many authors to believe that a radical change of direction had occurred, with the result that CEPAL thinking on this question had become obsolete.

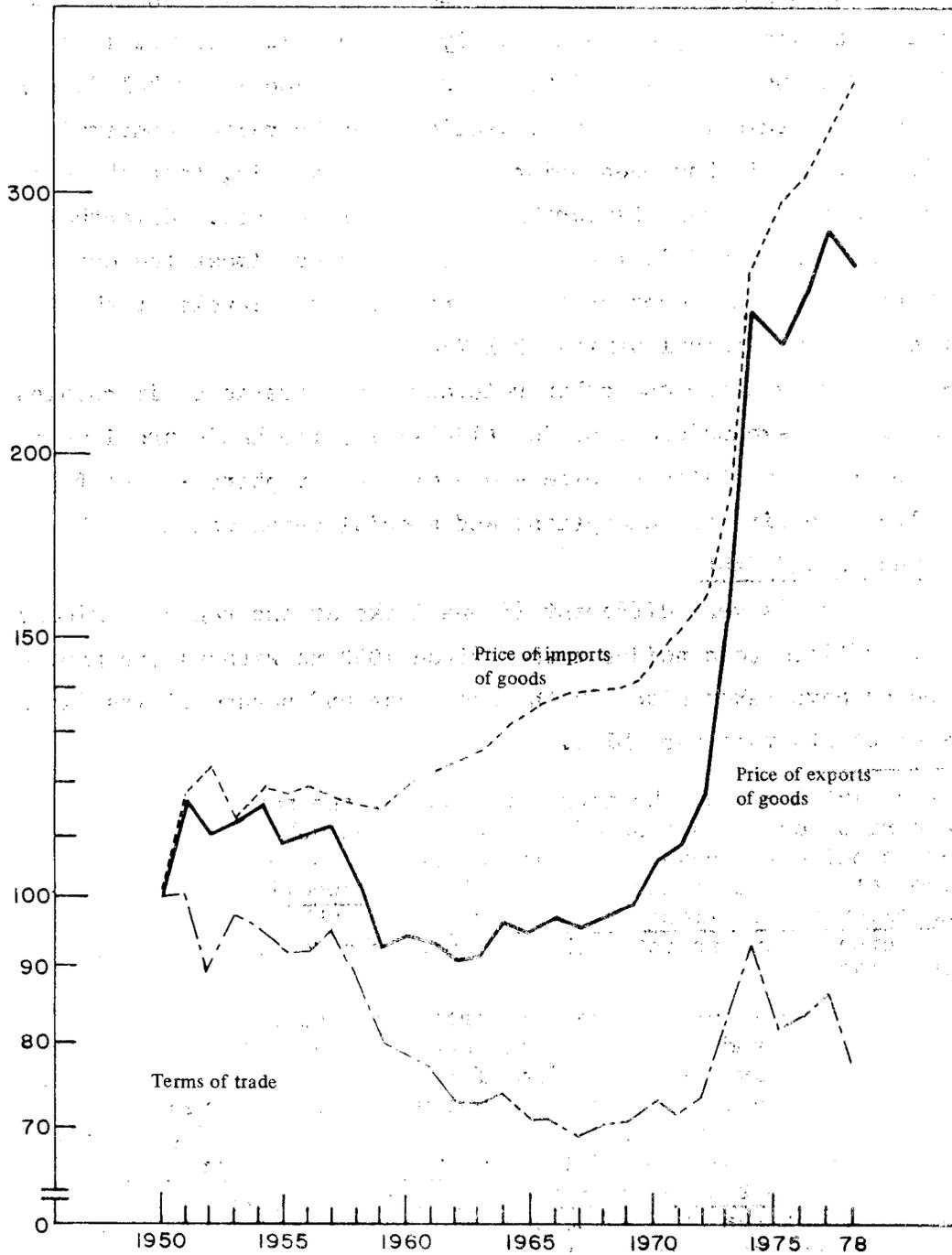
Figure 6 presents the main elements to be taken into account for the region - including, it should be noted, the oil exporters, which heavily influence trends following the price rise at the end of 1973.

Figure 6

**LATIN AMERICA: PRICES OF EXPORTS AND IMPORTS AND
TERMS OF TRADE**

(Indices 1950 = 100)

Semilogarithmic scale



What is immediately striking is that the dynamic period identified between the mid-1960s and 1973 fell far short of offsetting the negative trend in the terms of trade which became visible in the late 1950s. The most that can be said is that it prevented them from getting any worse. The upturn which began in 1971-1972 and ended with the rise in oil prices in the following year only managed briefly to draw close to the level of the early 1950s, and was followed by the deterioration in 1977-1978.^{69/}

As usual in this field, many objections may be raised concerning this indicator.^{70/} It has been pointed out, for example, that the Korean War provided a misleadingly favourable point of reference. Nevertheless, looking again at figure 6 it may be seen that during almost the entire decade of the 1950s the terms of trade were above the levels of the 1970s, save during the exceptional period of 1973-1974.

Leaving aside these and other relevant considerations, it remains clear that in the expansionary period (1965-1974) the basic problems of the terms of trade of Latin America - and of the periphery - were far from resolved, despite the exceptions and special cases which may be adduced.

(b) Financing and debt

The picture is very different if one looks at the region's financial links. It suffices to consider trends since 1960 to witness the profound changes which have taken place in the magnitude and nature of its financing and in some of its main variables.

^{69/} Taking 1970 as 100, the terms of trade of the non-oil-exporting countries rose to a peak of 108 in 1974 and subsequently slumped to levels below the base year. In the period 1950-1954 the terms of trade stood at a level of 124. See CEPAL, The economic and social development and external relations of Latin America (E/CEPAL/1024), document presented at the seventeenth session of the Commission, Guatemala City, 1977.

^{70/} The arguments about the real or statistical nature of the trends of the terms of trade often miss the crux of the CEPAL thesis on this question, namely, its criticism of the assumption in traditional economic theory that progress in productivity is shared between the centre and the periphery. Given the faster growth of productivity in the centre, this should lead to an unmistakable trend towards an improvement in the terms of trade of the periphery, which is obviously not the case. The question of the causes, intensity, consequences and so forth of the problem remains open, of course.

Before examining this question, however, it is worth mentioning in passing two important aspects, although we shall not focus on them in this brief overview.

The first of these is the unprecedented level of external finance, at least since the upheavals of 1973-1974. Although there is nothing odd about this growth in the mid-1960s as shown in figure 7 (measured in dollars at 1970 prices), it is surprising that after a brief decline in 1973-1974 the flows subsequently increased rapidly, and were always well above the levels of the first half of the 1960s.

This is the first time that a crisis in the central system, instead of interrupting or reducing financial flows to the periphery - as was always the case in the major or minor upheavals of the past - has led to a spectacular rise in the flows. In a sense it might be said that this represented an (unintentional) application of Keynesian remedies at the international level, precisely when the Keynesian approach was proving inadequate in the central economies.

This is not the place to recall the causes of the phenomenon (the United States deficit, Euro-currency boom, oil surpluses, etc.); we merely wish to stress here its exceptional nature, which must be taken into account in any analysis of the outlook for the future, as must the possibility of the continued impact of this factor of flexibility and adjustment that seems so unexpected in the light of past experience.

The second point concerns the drastic changes which have taken place in the composition and destination of the financial flows obtained by Latin America. As has been pointed out in a number of CEPAL studies, private bank sources have substantially increased their share in comparison with institutional sources (multilateral government agencies) and direct investment, with obvious effects on the costs, length and terms and conditions of the loans and their servicing.^{71/} Furthermore, in a number of countries this change has coincided with a shift of resources towards the private sector at the expense of the public sector. Finally, in many cases the

^{71/} See Robert Devlin, "External finance and commercial banks", CEPAL Review, First half of 1978.

Figure 7
LATIN AMERICA: NET EXTERNAL FINANCING
(Millions of 1970 dollars)



beginnings may clearly be seen of a circle in which foreign enterprises are both the mainspring of the demand for foreign resources and major users of them; and these funds are mainly provided by banking corporations with which they are closely and often umbilically related.

This picture, quite novel in comparison with the past, obliges one to reflect upon the resulting vulnerability and costs, and also upon the more complex interrelations which have sprung up between the parties involved. In this connexion, for example, it should be clearly understood that the high levels of indebtedness of some countries vis-à-vis international banks involve commitments for both debtor and creditor which oblige the latter to act warily even with regard to any possible reduction in credits, for fear of worse consequences. Questions such as these become more evident if it is remembered, that, for example, in 1977 the value of accumulated United States loans in Latin America represented 50% of total foreign loans by United States banks, amounting to 46 billion dollars.^{72/}

- Amount, distribution and ratios. Proceeding from these general observations, it is worth drawing attention to the amount, regional distribution and some basic relationships of external finance.

As regards the first of these, it may clearly be seen from table 11 that despite the rapid increase in regional external financing it remains very small in comparison with the enormous flow of financial resources of all kinds in recent years, basically concentrated in the central economies.

However, from the narrower angle of Euro-currency loans to Latin American countries (see table 12), it may be seen that the amounts and percentages accounted for by the selected group of countries (Argentina, Brazil, Chile, Mexico and Venezuela) are considerable. They doubled in value between 1976-1977 and 1978, and amounted to about one-quarter of total loans and half of those obtained by the developing economies.

^{72/} Ten years earlier, in 1966, only 16% went to Latin America. Paper by Fred Bergsten, Deputy Secretary for International Affairs, United States Treasury Department, at the Foro de las Américas, São Paulo Brazil, June 1979, "New directions in international investment relationships", Department of the Treasury News, June 13, 1979.

Table 11

INDEBTEDNESS OF NON-OIL-EXPORTING-DEVELOPING COUNTRIES WITH COMMERCIAL BANKS, AT END OF DECEMBER 1977^{a/}

(Billions of dollars)

	Developing countries					World total
	Latin America	Middle East	Africa	Asia	Total	
	<u>b/</u>	<u>c/</u>		<u>d/</u>		
Gross	71.1	1.9	14.0	21.6	108.6	657.3
Net <u>e/</u>	36.2	-7.1	3.0	-1.2	30.9	658.3

Source: Bank for International Settlements (BIS), Forty-Eighth Annual Report, Basilea, 12-June-1978, pp. 94-95.
 Quoted in R. Devlin, Transnational Banks and their penetration of the external finance of the Third World: the experience of Peru, 1965-1976, CEPAL, study under preparation.

- a/ Includes short-term debt.
- b/ Excludes Panama and the Caribbean area.
- c/ Excludes Israel and residual estimate.
- d/ Excludes Hong Kong and Singapore.
- e/ Indebtedness less deposits in banks.

/Table 12

Table 12

LATIN AMERICAN COUNTRIES: GROWTH OF EUROCURRENCY LOANS

	1976	1977	1978
Total loans (A)	28 850	41 765	70 179
Industrial countries (B)	11 254	17 205	28 952
Developing countries (C)	15 017	20 976	37 300
Some Latin American countries (D)	7 575	8 647	17 444
Argentina	957	849	1 461
Brazil	3 232	2 814	5 634
Chile	208	591	1 045
Mexico	1 993	2 727	7 250
Venezuela	1 185	1 666	2 054
Quantities expressed as a percentage of (A):			
(B)	38.9	41.7	41.2
(C)	52.1	50.2	53.1
(D)	26.4	20.6	24.8

Source: World Financial Markets, published by Morgan Guaranty Trust.

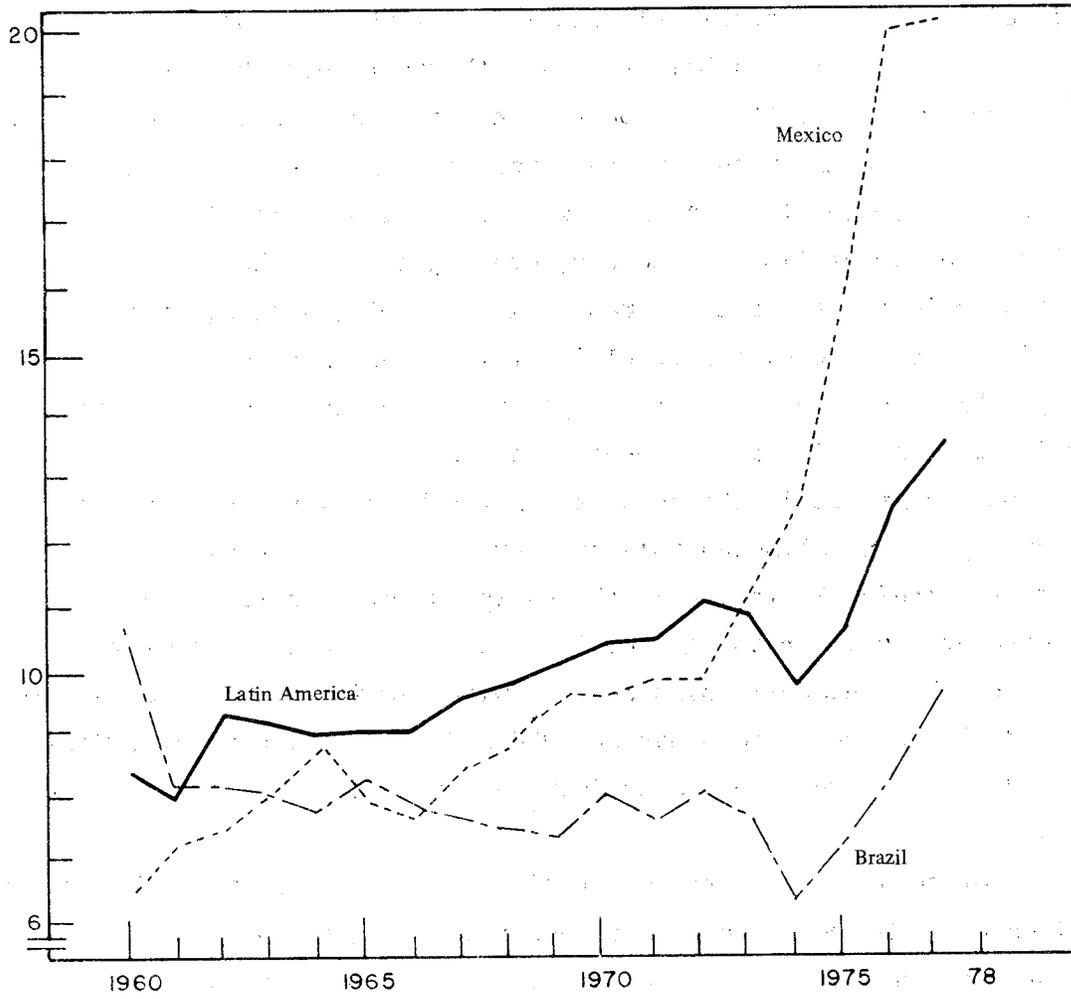
/As regards

As regards the distribution of total external financing, - and bearing in mind the data on Euro-currencies given in table 12 - figure 7 shows the enormous proportion accounted for by Brazil and Mexico: 62% in 1978 and 77% in 1975. The situation was similar at the beginning of the 1960s: these two countries accounted for almost 80% of the total in 1960; in the middle of the decade, however, the situation was less pronounced; in 1965, for example, they accounted for merely 40%. In any event, the subsequent concentration did not prevent a broad regional distribution of funds, because of the enormous absolute increase in the financial flows.

The relationship between the level and growth of external borrowing and the gross domestic product is usually the first ratio to be considered, and is shown in figure 8. Looking at the region as a whole, it appears that in the period covered the former rose slightly, from a little over 8% in the 1960s to over 9% at the end of the decade and over 10% in the early 1970s (except in 1974, when the Latin American product grew vigorously) and continuing to rise until 1976, when it was over 13%. This is unquestionably a clear trend, but perhaps less pronounced than is often supposed, except as regards the recent past.

Looking next at the two main recipients of these financial resources, what is most striking is the rise in the debt ratio of Mexico, stemming primarily from its external account problems which led to the abrupt and troubled devaluation of the Mexican peso in 1976. Meanwhile Brazil, which in the 1970s took over from Mexico as the main recipient of external financing, followed quite a smooth trend until 1973-1974, at a level below that of the region as a whole, and thereafter shared the fluctuations of the latter. Needless to say, this was largely the result of the steady and vigorous growth of production in this period which slackened and fluctuated towards the end of the period.

Figure 8
LATIN AMERICA: EXTERNAL DEBT IN RELATION TO THE GROSS
DOMESTIC PRODUCT
(Percentages)



/Naturally, and

Naturally, and particularly in the peripheral countries, these overall proportions - although important - are of limited significance, and it is essential to examine aspects directly related to the external accounts, such as its relationship to exports and imports.^{73/}

With regard to the former (see figure 9), and considering only the relationship between exports and the servicing of the public external debt, the regional picture was relatively stable until the turning point of 1973-1974, when it changed substantially with the result that annual service payments rose from about 15% of export earnings to over 20% in recent years.

The corresponding trends in the case of Brazil were strikingly different. The burden of remittances was quite high until 1966, and thereafter began to decline noticeably, drawing near to the regional average and following the rising trend quite closely, although more pronounced. Nevertheless, its level is still lower than in the 1960s. Obviously, this was affected by the rapid growth of exports since the late 1960s which is continuing in the present decade.

The Mexican trend is the opposite of the Brazilian case, and follows the regional pattern, although more exaggerated. Starting with a coefficient similar to the regional average in the early 1960s, it soared from 1964-1965 onwards without any major change until the 1970s, when after a slight decline it reached unusually high levels, with service payments accounting for 33% and 48% of export earnings in 1976 and 1977, respectively. This extremely delicate situation was decisively affected by the rise in oil revenues.

In order to appreciate the other significant dimension of the question we shall examine the relationship between net external financing and imports of goods and services, a particularly pertinent indicator.

As may be seen in figure 10, the regional trend and the trend of the two selected countries is quite clear: there is a greater dependence of the rising flow of imports on the extra external resources, and particularly

^{73/} On this question, professor Arthur Lewis points out with his proverbial insight that in the neoclassical world the foreign exchange is not a problem in itself: domestic resources can always be translated into foreign exchange, given the right fiscal, monetary and exchange rate policies. The evolution of international economic order, Princeton University Press, 1972.

Figure 9
LATIN AMERICA: SERVICING OF THE PUBLIC EXTERNAL DEBT IN RELATION TO
EXPORTS OF GOODS AND SERVICES
(Percentages)

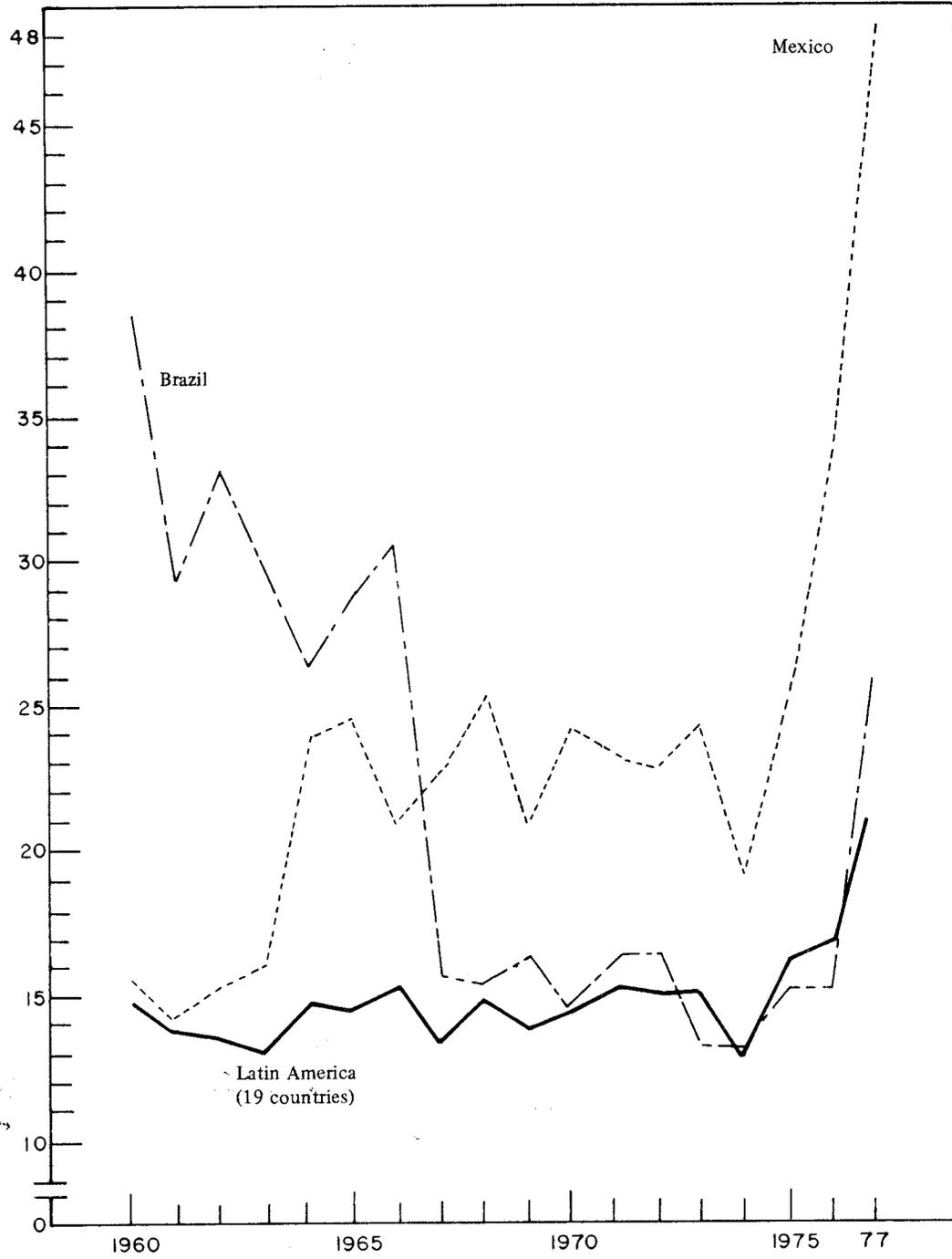
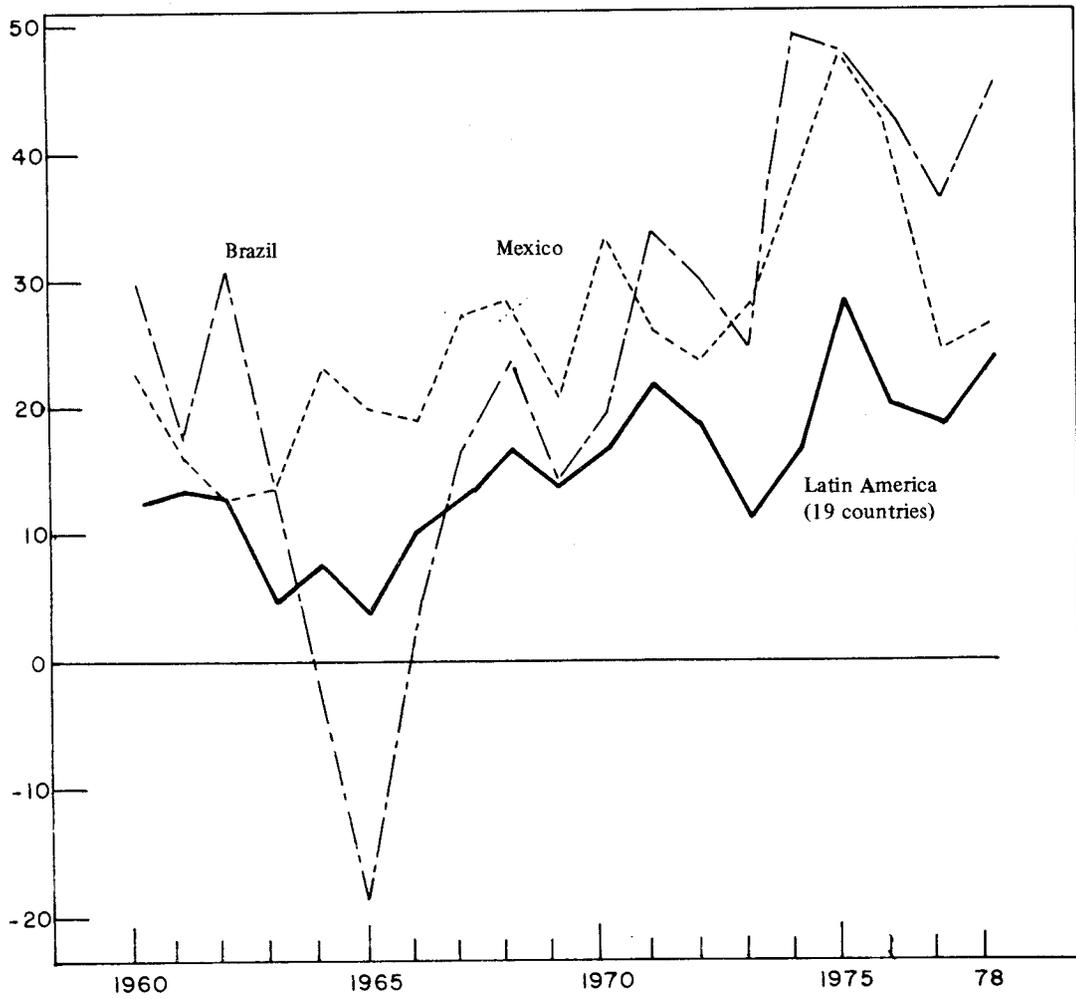


Figure 10
LATIN AMERICA: EXTERNAL FINANCING IN RELATION TO IMPORTS OF
GOODS AND SERVICES
(Coefficients)



so - with more pronounced fluctuations - in Brazil and Mexico. In these two countries, the percentages reach extraordinarily high levels after 1974, so that external funds finance between 40 and nearly 50% of the purchases of foreign goods and services, although this figure dropped sharply in 1977. In other words, this was a decisive factor in sustaining the high levels and growth of imports in this troubled period (see figure 2).

(c) Retrospective sketch: summary

It appears necessary to pause at this stage in our observations in order to summarize some of the major conclusions which may be drawn from the above remarks. These must of course be tempered in the light of the particular experience of individual countries or groups of countries which, as we have seen, differ in many respects although the basic picture remains the same.

In the first place, the pattern of trade relations from 1950 until recently shows both the considerable growth of export and import flows (particularly after the mid-1960s) and also that this growth only represented a partial return to the degrees of openness to the exterior which prevailed at the beginning of the period. This is also more or less true of the trends in the terms of trade.

Secondly, it is clear that financial flows followed a very different course, increasing substantially - even during the difficult international period following 1973 - and changing in some fundamental regards (for example, the privatization of the flows). The main consequence in recent years has been the dependence of a considerable proportion of imports upon external financing and the absorption of a large proportion of export earnings by debt servicing (and it should be recalled that only public debt could be considered). In addition, there are more moderate changes in the relationship between the regional product and debt, although here again there is a clear deterioration over the period.

The consequence has been a very troublesome vicious circle in which the growth of imports has called for a rising amount of external financing, the servicing of which in turn absorbs increasingly large proportions of the value of exports, despite the growth of the latter.

/These circumstances

These circumstances raise clear-cut and difficult choices, especially if the underlying situation remains the same or grows worse. On the one hand, to hold down the growth of imports in order to reduce the burden - and vulnerability - involved in the absorption of export earnings by rising service payments can unquestionably affect the rate of economic development, with foreseeable consequences and whatever opinion one may hold of that indicator's significance. On the other hand, if this approach is rejected and it is desired to maintain the growth of imports - albeit at more moderate rates - it will be necessary to secure either more external financing or a more vigorous growth of exports - or both at once, in varying combinations.

The discussion which follows must be placed against this background.

2. Openness to the exterior: prospects

In embarking on this part of the study it may be useful to start from the central idea that for the reasons expounded in chapter one, as well as those suggested by the analysis in the preceding section, the process of internationalization of the world economy (and society) will continue, as will that of a steady linkage of Latin America with the world economy and within the region itself. Naturally, the possibility that the process will lose ground or fail to make headway - as has occurred in other periods and is suggested at present - cannot be ruled out, but the long-term outlook does seem to lie along those lines.

(a) Isolation and linkage with the international economy

It must be admitted that the above premise runs counter to a position which became quite widespread in the 1960s and is still held in some circles in the periphery, although it is now less prominent in Latin America. We are referring to the school of thought which advocates "delinking" from the centres and from the global system in which they predominate.

"In short, the argument is not just that the international links are the conduits through which the dependent country is drained of its surplus for the benefit of the dominant countries. The international links also penetrate and deform the internal socio-political structures of the peripheral country, leading to the waste and misallocation of whatever is left behind by the foreigners. A decreasing number of delinkers argue that under these circumstances

/the dependent

the dependent country is unlikely to industrialize and certainly will not be able to develop its heavy and capital goods industries. Most delinkers will now admit that dependent industrialization and growth are possible, but they argue that such processes will feature not only the polarization and unevenness of classical capitalist expansion but an exaggerated and even more monstrous version of it."74/

Without pausing to make a detailed analysis of this approach, it is worth pointing out that in the work of some of its more representative advocates 75/ it forms part of a historical approach to the problem inspired to some extent by that well-known aphorism, "reculer pour mieux sauter".

"Saying that the development of the periphery requires the setting up of autocentric national structures which break with the world market means expressing an undeniable contradiction. Capitalism has unified the world, in its own way, by imposing a hierarchy of centre and periphery. Socialism, which cannot exist unless it is superior to capitalism in every way, cannot be a juxtaposition of national socialisms. It must organize the world into a unified whole without inequality, and cannot be completed until it has attained this objective. However, the road that leads to this passes by way of the self-assertion of those nations that are victims of the present set-up, and which cannot assemble the conditions for their prosperity and full participation in the modern world unless they first of all assert themselves as complete nations."76/

What is more, this position either has been undermined by the recent tendency of the socialist countries - including China, whose past experience was often given as an illustration - to become integrated in the world market, or else suffer from the rather unattractive nature of its concrete examples (such as Burma, Cambodia or Albania).77/

74/ C. Díaz-Alejandro, "Delinking North and South: unshackled or unhinged?" in Rich and Poor Nations in the World Economy, (New York, McGraw-Hill Book Co., 1978), p. 103.

75/ See, for example, S. Amin, Accumulation on a World Scale: A Critique of the Theory of Underdevelopment, vol. I (Monthly Review Press, New York and London, 1974), p. 33, and A. Emmanuel, L'échange inégal. (Paris, 1969), François Maspero.

76/ S. Amin, op.cit., p. 33.

77/ The case of Japan has also been adduced in these arguments, but this is to overlook, among other things, the imperialist dimension of its economic transformation prior to the Second World War, although its relative delinking from the western centres in a number of aspects which cannot be recalled here is undeniable.

In brief, the discussion has centred on the paths which internationalization can or should follow, particularly from the standpoint of the periphery and, within it, the Latin American universe which has long formed part of it, with the characteristics and consequences described above. In sum, the emphasis has now shifted to the selectivity of the process, i.e., the forms of integration (or relative delinking) within the prevailing current.^{78/}

(b) A basic imperative: the imported component

Going straight to the heart of the matter, it might be said that the essential and most concrete reason why Latin America should continue fostering and developing its links with the world economy is its growing need and demand for a variety of imported goods both now and in the future. This is the prime and most obvious reason for internationalization. Of course, it has its evident counterpart in the need of a suitable quantity of foreign exchange which must be provided by exports and/or external financing.

A recent CEPAL study on this question provides a tentative estimate of the region's future needs of imports of goods and services assuming a growth rate slightly below that of the period 1965-1974 (6.4% annually) and an income-elasticity of demand for imports somewhat lower than in that period.^{79/} Needless to say, these are not forecasts and it would be perfectly legitimate to start from other estimates. However, the figures in table 13 are sufficiently striking to stand the test of reasoned objections.

As may be seen, even at constant prices the value of purchases abroad will very nearly double in each decade considered.

^{78/} In the study mentioned earlier, C. Díaz-Alejandro recalls a well-known article by J.M. Keynes ("National self-sufficiency", The Yale Review, June 1933) in which, together with expressing his sympathy with those who would minimize rather than those who would maximize economic entanglements between nations, particularly in the financial field, he warns that the point is not so much to attempt to dig out the plant roots and all, but rather to train it to grow in another direction.

^{79/} CEPAL, Long-term trends and prospects of the development of Latin America, (E/CEPAL/1076), 1979.

Table 13

LATIN AMERICA: IMPORTS OF GOODS AND SERVICES
(Millions of dollars)

	Current prices	1970 dollars
1970	17 420	17 420
1976	51 302	25 703
1980	81 237	32 431
1990	261 957	63 916
2000	741 163	121 783

Source: CEPAL, Long-term trends and prospects of the development of Latin America, (E/CEPAL/1076), 1979.

The buoyancy of this demand is shown by the growth rates (see table 14). While the rates calculated for the years 1980-2000 are below those for 1965-1974, which were exceptional in many respects, they are almost double those recorded in 1950-1960. As may be seen, it is estimated that this growth will be particularly strong in the larger countries.

This picture should immediately be contrasted with the prospects on the export side, since exports are at once the primary means making possible these flows of imports, a telling component of global demand and the other basic channel of internationalization.

Looking once more at table 14, it is easy to see that here too the region is expected to develop dynamically, at rates above those of both 1950-1960 and 1965-1974, the period in which the two flows were most asymmetrical. In any event, there is one striking difference among the groups considered: this is the case of the group of medium-sized countries whose exports increased very little in volume during the second period, but grew considerably in 1950-1960.^{80/}

^{80/} This is primarily due to the influence of the volume of oil exports by Venezuela, which were deliberately held down to conserve reserves.

Table 14

LATIN AMERICA: ANNUAL GROWTH RATES OF THE VOLUME OF IMPORTS AND EXPORTS

	Latin America		Large countries <u>a/</u>		Medium-sized countries <u>b/</u>		Small countries <u>c/</u>	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1950-1960	3.5	4.0	2.8	3.1	4.3	5.7	4.3	2.8
1965-1974	9.4	4.6	12.2	6.2	6.3	1.6	7.5	6.7
1980-1985	7.1	6.3	7.7	6.8	6.6	5.5	6.3	6.1
1985-1990	6.9	6.2	7.5	6.8	6.4	5.2	6.2	6.0
1990-2000	6.6	6.8	7.1	7.5	6.2	5.9	6.2	6.1

Source: CEPAL, long-term trends and prospects ..., op. cit.

a/ Argentina, Brazil and Mexico.

b/ Colombia, Chile, Peru and Venezuela.

c/ Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay and Uruguay.

(c) Structural implications

Accepting that the flows of imports and exports will increase considerably, it is necessary to ask how this may affect the structure of the external links of the region's economies, particularly from the standpoint of the future proportions which foreign supply and demand will represent in the overall system. In other words - to use the terms in which the question is usually phrased - does this mean that the region is shifting from a stage of inward-directed growth to a stage of outward-directed growth or unequivocal "openness" to the exterior?

From an overall viewpoint, the answer appears to be in the negative.

It may be seen from the data presented in table 15 that the estimated import and export coefficients in 1980-2000 suggest a situation resembling that in 1970, more open from the standpoint of imports and more closed from that of exports, and in both cases with lower levels than in the 1950s and 1960s.^{81/}

However, the data also show clear differences among the groups of countries. The levels of external linkage are lower in the larger economies (although these do show differences which cannot be examined here), rise significantly in the medium-sized countries, and are highest in the small countries, where they are well above the levels recorded in 1950 and 1960.

There are many causes underlying these differences; and it is almost tautological to mention the present and potential size of domestic markets.

In this connexion, and because of its significance for a later discussion, it is worth recalling the distinction perceptively drawn by A. Lewis regarding the role of foreign trade in development, either as the "lubricant" of the process or as its engine.^{82/}

^{81/} With respect to the differences between the two coefficients - particularly marked in the case of the medium-sized countries - it should be remembered that these are primarily affected by the behaviour of the terms of trade, net external financing and payments of profits and interest on foreign capital. The study in question does not anticipate major changes in these factors from the regional standpoint, but it is assumed that the terms of trade of the medium-sized economies will improve appreciably (basically due to trends in Venezuela following the rise in oil prices), as will the external financing coefficient in the small economies (see CEPAL, Long-term trends and prospects..., op.cit.)

^{82/} A. Lewis, op.cit.

Table 15

LATIN AMERICA: IMPORT AND EXPORT COEFFICIENTS WITH RESPECT TO THE GROSS DOMESTIC PRODUCT

	Latin America		Large countries		Medium-sized countries		Small countries	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1950	15.7	14.0	12.8	10.4	23.2	22.3	18.2	18.6
1960	13.4	12.5	10.0	8.3	20.8	22.9	19.3	17.2
1970	11.5	11.3	8.3	7.7	16.6	19.0	22.8	19.8
1980	11.7	10.3	7.4	7.5	20.3	14.7	24.9	24.1
1990	12.5	10.3	8.6	7.6	22.5	14.7	26.7	25.4
2000	12.8	10.7	8.9	8.2	24.1	15.2	27.9	26.3

Source: CEPAL, Long-term trends and prospects ..., op. cit.

/In the

In the case of the larger economies, the growth of exports is an essential condition for securing the increased volume of exports called for by the expansion of the global product, which is mainly destined for the domestic market - although, of course, this is not to underestimate the dynamic effect of external demand. Consequently, for these economies exports primarily act as a "lubricant".

In the economies with more or less limited domestic markets the situation is obviously quite different, since exports represent a considerable proportion of total demand and ultimately have a bigger effect on the growth of the economy. Thus they are closer to the 'engine of growth' image, although the role of the domestic market remains dominant.

Naturally, this distinction cannot be carried to extremes, but it is acceptable in general terms and allows a variety of combinations in the case of concrete activities or countries.

This passing digression should not obscure our basic conclusion regarding the question raised earlier, namely, that (bearing in mind the differences among the various groups) the outlook for energetic growth of international links does not entail a substantial change in the structural or historical pattern of the process. In other words, inward-directed development will continue to predominate, both for the region as a whole and for most of its countries.

3. The reasons for openness to the exterior

The above data and the corresponding deductions appear to contradict some lines of thought and praxis which have recently gained great significance in Latin America and elsewhere. We shall begin by examining their general direction and the reasoning on which they are based, and then go on to consider some variants of them.

Broadly speaking, they can be summarized as sharing the premise that it is necessary to foster external relations, take greater advantage of the opportunities arising from the international division of labour, and

/consequently attach

consequently attach priority to boosting exports, imports and external financing.^{83/} All of this is covered by that familiar blanked term "openness to the exterior".

What are the underlying reasons for this general approach?

It is worth mentioning some of them in passing, although they are doubtless well known, since they have a place in this discussion.

(a) The international setting and the enduring external bottleneck

Two elements appear particularly salient. One of these relates to the international setting, and the other to some issues which have troubled Latin American economic policy.

The first stems from the well-documented expansion of world trade following the war, and particularly during the period 1965-1973, the magnitude and significance of which can only be appreciated fully in the light of the conditions that framed the region's development in the prolonged period ranging from the great depression to the end of the 1940s.

The most important factor in this overall picture was the openness of the United States economy, which in the course of the post-war period managed to double its import-product coefficient (from less than 5% to over 10%) and transform the dollar shortage of the beginning of the period to a dollar-glut which has ended up as one of the biggest problems of the central economies and of the international monetary disequilibrium.^{84/}

Within this transformation of the external setting the importance must be stressed of the impact caused by the experience of a group of

^{83/} It is worth noting that these objectives are also set in countries with very different styles of development and institutional systems, such as Cuba. Concerning the new guidelines of that country's economic policy in the 1970s, the Economic Survey of Latin America, 1978 states that "the new approach to production strategy made it essential for the economy to have the necessary foreign exchange both to proceed with the process of capitalization and to supplement the domestic production of consumer goods, and this called for the dynamic and sustained growth of exports.

^{84/} It is worth noting in passing that this is one of the few bases of CEPAL thinking circa 1949 to be set right by subsequent events, although this has not detracted from the great significance of the shift of the "principal cyclical centre" from Great Britain to the United States.

- quite dissimilar - Asian countries 85/ which took advantage of its opportunities with great flexibility and energy and developed a form of open or exporting industrialization which some have seen as an alternative to the model prevailing in Latin America and elsewhere.

We cannot stop here to examine this experience and the comparative judgements it involves. Suffice it to stress the essential point: that the differences in the historical and structural patterns are so deep that superficial analogies merely call to mind the aphorism that such exercises are the main enemy of the social sciences. Besides, it is enough to review any conscientious analysis of such cases, even by their advocates, to recognize their peculiar identity (or identities).86/ Nevertheless, their influence should not be underestimated.

Finally, the external setting was radically altered by the unprecedented fluidity and magnitude of credit flows, particularly from private international banks, referred to a little earlier.

(b) Endogenous factors

These changes in the international setting have had their counterpart in the development of relations with the exterior as outlined above. This development has involved a characteristic facet of Latin American experience since the crisis: the chronic bottleneck and disrupting fluctuations of trade, stemming from the imbalance in the relative dynamism of imports and exports, and also from the overwhelming importance of a few basic export commodities.

Thus if the international factors implied increased opportunities and, specifically, demand for exportable products, these endogenous factors brought one of the most acute problems of regional growth, which had to be alleviated or resolved.

In addition to these elements, others should be mentioned which also spring from the domestic setting and the polyvalent and from some angles contradictory repercussions of the industrialization process. Summarizing,

85/ Primarily South Korea, Taiwan, Hong-Kong and Singapore.

86/ See, for example, CEPAL Políticas de promoción de exportaciones, E/CEPAL/1046, October 1977, a study on the Korean case by Larry Westphal with a commentary by F. Berger.

a familiar CEPAL line of analysis, this development was subjected simultaneously to two forms of pressure. The first arose from the higher demand for imports stemming from a number of inherent characteristics of the process, such as the lack of vertical complementarity of the emerging industrial activities and the spur of service payments on foreign capital and loans.

The second source of pressure stemmed from the constraints of the domestic markets which, along with other factors such as the distribution of income, and according to the particular situation of each country, hindered the follow-up of certain stages of industrialization.^{87/} While the small countries with difficulty approached the limits of "easy substitution", based on branches of light or traditional industry and basic inputs, these constraints became serious for the large countries embarking upon "difficult substitution" - linked with the growing presence of the transnational corporations, whose effects were mentioned in chapter one. We shall return to these points later.

(c) The domestic potential

All these aspects led, as mentioned earlier, to the need and desirability of altering the pattern of relations with the exterior. But other factors which also affect the process from another angle, should not be overlooked, such as the domestic capacity to undertake this task thanks to the new structures and potential created by the advance of industrialization in the broad rather than the sectoral sense.

As is shown by the experience of the countries which have advanced furthest in this direction, the process involved establishing a fulcrum or spring-board whereby manufacturing exports could reach external markets; and this is obviously important for the prospects and options open in the future, a question discussed below.

As indicated earlier, we are not referring merely to the specific contribution of manufacturing activities in this field. Equally important has been the multifarious irradiation of industrial praxis in labour and

^{87/} In this connexion see CEPAL, Economic Survey of Latin America, 1975, Part Two.

entrepreneurial training, in the quantitative and qualitative growth of the public and private technocracy, in the modernization and readjustment of the institutional and instrumental apparatus of economic policy, and so forth. Indeed, this is another application of the principle of "learning by doing".

It is true, as sometimes pointed out, that many lines of export diversification were set up prior to postwar industrial development or have nothing to do with it. However, it is difficult to believe that these would have broken into world markets without all the transformations which we have outlined.^{88/}

In brief, if the first set of factors induced or encouraged a reappraisal of the approach to external links, this last factor was for some the objective condition of the viability of doing so.

4. The variants of openness to the exterior

The form in which these motivating forces have been translated into economic policy guidelines varies considerably from country to country, partly in line with their particular situations and partly - and sometimes decisively - as a result of the way in which they interpret the problem. There is certainly an enormous range of ideas about the forms and functions of the global process of internationalization.

At a high level of abstraction two lines of thought and action can be distinguished, characterized primarily by the more or less comprehensive and radical nature of the alternative diagnosis of the situation prevailing until roughly the mid-1960s. These two broad currents may in turn be broken down into different conceptions of a number of more specific and relevant questions for the purpose of this analysis, such as the nature and role of industrialization, the degree and form of openness to the exterior, protectionism and import policy.

^{88/} It is worth bearing in mind the impact on the growth of non-traditional exports of investment in infrastructure - basic services, roads, refrigeration and packing plants (with large-scale State participation) - and institutional and technocratic modernization.

From the first more general angle, it is not to distort or caricature the facts to distinguish two basic approaches to the question. One might be termed the ideological approach, with no pejorative undertones; the other is rather pragmatic. From an overall point of view, look at the Latin American picture in recent years it might be said that the experience of the southern countries (Chile, Argentina and Uruguay) falls within the first category while Colombia and Brazil and the other countries of the region are closer to the second.

With regard to the ideological approach, it seems clear that the transformation of external relations is part of a much broader - what used to be called "totalizing" - context and is in fact only a fragment of a readjustment which covers practically all dimensions of social reality, although its impact is not the same in all of them.

This outstanding feature also signifies a substantial degree of discontinuity with respect to the past, both in general and in particular, which is part and parcel of an alternative "ideal type". If this is not found explicitly or implicitly in the present scenarios,^{89/} by opposition one can go back to earlier ones, and particularly those of the nineteenth century, reviving the approaches discussed at the beginning of chapter one of this study.

The other main variant differs in both these respects, i.e., both in its degree and in its components. It does not have the same multidimensional nature and does not involve an essential break with the preceding trends and structures which it wishes to modify. In other words, it is based on the varying interplay of change and continuity.

To illustrate these contrasts, and given the impossibility of undertaking a systematic comparison here, let us turn to firmer ground and examine some specific aspects.

^{89/} The "social market economy" of the Federal Republic of Germany is usually given as the archetypal reference, although many characteristics of that country's experience do not correspond to the postulated "ideal type".

(a) Approaches to industrialization

There is little doubt that views on the past and future significance of industrialization, and of so-called substitution industrialization in particular,^{90/} are one of the main points of difference both between the two abovementioned approaches and between them and others which may be distinguished.

Without returning to the critique of the process recalled above, it is clear that the first position views openness to the exterior in general, and the promotion of exports and liberalization of imports in particular, as a drastic about-turn with respect to the earlier approach focussed on the domestic market and based on import substitution and selectivity. The objective is in fact to move from inward-directed to outward-directed development.^{91/} In addition, within its overall view of the matter it subjects the general process of industrialization (and development) to the logic of comparative advantage, the decisions of the market mechanism and open competition with the exterior.

The "pragmatic" approach, as may readily be supposed, adopts a different view which basically goes beyond the apparent contradiction between the opposite terms and attempts to bring them together in new combinations. To illustrate this approach it is worth saving time by recalling some observations by

^{90/} With regard to the concept and raison d'être of substitution industrialization, see Cuadernos de la CEPAL, No. 13, Desarrollo, industrialización y comercio exterior, 1977.

^{91/} In a recent study, for example, it was argued that "in the middle of the previous decade ... some Latin American countries began to implement the outward-looking development strategy by means of policies to stimulate non-traditional exports" (R. French-Davis and José Piñera, in CEPAL, Políticas de promoción de exportaciones, vol. I). Professor Rosenstein-Rodan, criticizing the negative trends in the development of some countries, attributes them to the continuation of a mistaken policy of import substitution instead of outward-directed development (a successful example of which being Brazil), in Characteristics of Latin American Development, paper presented at the Segunda Convención Bancaria de Panamá, April 1979, mimeo.

C. Díaz-Alejandro in his famous study of the Colombian case.^{92/} He states that the picture which emerges from the policies followed since 1967 is somewhat different from the text-book descriptions of the shift from import-substitution to export-promotion policies. He adds that the change from an import-substitution policy to an export-promotion policy in Colombia should not be viewed as a volte-face. More precisely, he stresses that the launching of the 1967 policies has directed relative incentives towards exports in contrast with import substitution. However, and perhaps more importantly, it has strengthened the incentives for chosen import-substitution and export activities in relation to the non-trade sector.

A similar interpretation and approach to the problem may be seen in other cases, including that of Korea.^{93/}

^{92/} The quotations are taken from a paper on that study given at the Fundación para la Educación y el Desarrollo, Bogotá, in 1973 and reproduced for the ILPES course, 1979. Attention focusses on the Colombian case because it is usually considered to have been more open than Brazil, besides having been a pioneer in this direction. The Brazilian case, on the other hand, self-styledly pragmatic, differs more profoundly from the ideological approach in a number of key aspects - the role of the State and of public enterprises, and the determined continuation of the process of substitution industrialization.

^{93/} In this connexion, L. Westphal states that stimulated by the substitution of imports of non-durable consumer goods, the growth of the industrial product was quite rapid (12% annually) during the second half of the 1950s. However, at the beginning of the following decade the opportunities for "easy" import substitution began to dwindle rapidly, and ultimately industrial growth to slacken. He adds elsewhere that selective import substitution made it possible to concentrate scarce investment resources in one or a few sectors at a time, which has made it easier to exploit economies of scale and linkages among related activities. See "El desarrollo industrial orientado para la exportación: la experiencia de Corea", CEPAL, Políticas de promoción, vol. I, op.cit. In the same document, with regard to the case of Yugoslavia the comment is made that import substitution and export promotion do not appear to have been viewed as alternatives but rather as approaches which could be applied in different sectors and at different times.

(b) Other related aspects

The contrast between the two approaches, as pointed out above, is also visible in a number of subsidiary aspects of the overall approach to industrialization: comparative advantages, protectionism, liberalization of imports.

It would be ridiculous to attempt a suitable review of the first of these aspects, which is the subject of a longstanding and unresolved controversy that becomes more nebulous with the inclusion in the analysis of legitimate and significant non-economic variables (national imperatives, social, humanitarian and cultural values, etc.). It is nevertheless worth mentioning from the standpoint of this discussion.

Starting from the other end of the range of positions, it is obvious that the pragmatic approach - by its very nature - has not managed to produce a clear and comprehensive theoretical corpus on this issue, which is unquestionably extremely complex in that it necessarily goes beyond an "economistic" framework.

However, it is important not to underestimate the valuable contribution to the analysis of this issue contained in studies and proposals in the field of planning, since these are the concrete manifestation of resource allocation criteria both within the domestic economy and with regard to the external sector.

Indeed, these contributions have made it possible to blend the different senses of the concept of comparative advantage - which can be absolute (where natural resource endowment is what counts), relative (which emerge from the contrasting of viable options) and acquired (in which national determination is crucial, and which involves "learning by doing").^{94/}

^{94/} The experience of the industrial latecomers, whether developed or peripheral countries, provides a clear picture of the different combinations and focal points in each particular case. Broadly speaking, it seems evident that relative and acquired advantages have tended to weigh more than absolute comparative advantages in the modern setting, although this can in no way be interpreted as an expression of arbitrary "voluntarism". Needless to say, market size and natural resources endowment are important elements of comparative advantage and in particular of the degrees of openness, as was shown earlier.

The ideological approach may not ignore the complexity of the problem, but its inhibitions are swept away by the value placed on an unmistakably clear and categorical guiding criterion, "namely, that of comparison with international standards, which are basically determined by the levels of productivity and prices prevailing in the central economies. Greater or lesser competitiveness as compared with this point of reference will determine the "economic viability" or "efficiency" of the activities in question. "Comparability" with these levels will justify their existence; "comparative disadvantages" their elimination".^{95/}

This is, of course, the extreme version of a Darwinian logic which has never actually existed, but it would be wrong to underestimate its past and present influence in sympathetic circles both in and outside the region.

(c) Protectionism and Liberalization

The different approaches to protectionism and liberalization of imports, which should be reviewed within the context of the general attitudes to industrialization, are sufficiently well-defined to require merely a cursory examination.

In the southern countries, and particularly Chile, the change of direction on both these fronts has been radical. In the others, on the other hand, it is moderate and sometimes interrupted. In the case of Colombia, for example, the free-trade experiment of 1965-1966, following the traditional recommendations of the International Monetary Fund, was, in the words of an expert, a "traumatic experience" which paradoxically paved the way for export promotion within a context of much greater control over imports.^{96/} Brazil's protectionist armour remained virtually intact,

^{95/} A. Pinto, "False dilemmas and real options in current Latin American debate", in CEPAL Review, No. 6, second half of 1973, p. 38.

^{96/} C. Díaz Alejandro, Colombia, National Bureau of Economic Research, New York, 1976. Elsewhere the author states that the Colombian experience indicates that a drastic liberalization of imports is neither a necessary nor a sufficient condition for the growth of exports. Going further into the matter, he adds that while there does seem to be a decline in extravagant and large-scale new initiatives in the field of import substitution, it remains true that the import-control mechanism is still used vigorously to protect existing (and some new) activities.

/although it

although it was substantially revamped in the mid-1960s in order to adjust it to the new stages of industrialization. On the import side there was also some freeing of imports,^{97/} although heavy duties were levied on luxury goods - the opposite of what happened in some countries further south.

It should be recalled here that on both these issues there had for long been some degree of consensus about the need to rationalize the system of protection inherited from the times of severe disequilibrium in the external accounts, to which attention had been drawn repeatedly in CEPAL studies.^{98/} Policy on non-essential or luxury imports was likewise the subject of recurrent discussion. One representative attitude stressed that drastic restrictions on such imports meant that resources would be siphoned off to produce them domestically, and therefore advocated some margin of freedom which in turn would provide an attractive field of taxation.

Be that as it may, the crux of the disagreement appears to lie in the differing approach to the interrelated functions of protectionism, export promotion and the flow and nature of imports within the development process. The ideological approach places all these elements in the framework of the greatest possible openness which should thus draw close to the ideal of perfect competition both domestically and in foreign trade. The different varieties of the pragmatic approach agree on the need for rational and effective protection and that export promotion should be the basic instrument for increasing the purchase of those imports which contribute most to development and wellbeing, all of which cannot be achieved without the application of selective criteria concerning their nature.

^{97/} A direct reflection of this is the growth of imports of non-durable consumer goods, although its share of the total (about 5%) did not increase significantly. See CEPAL, Economic Survey of Latin America, 1975.

^{98/} See, for example, "Problemas de la industrialización en América Latina", Cuadernos de la CEPAL, No. 14, 1977.

5. The dangers of openness

Going beyond the reasons underlying the search for a new pattern of external links and the major forms which can be distinguished in this connexion, it is worth pausing to consider a number of dangers latent or already encountered in this experience. This must be done before proceeding to examine the options visible for the future.

A recent study makes a valuable contribution to the analysis of this problem and can guide our approach to it.^{99/} The study argues that a distinction must be drawn from the outset between the risks "that make themselves apparent in the behaviour of the more generic - primarily macroeconomic - variables", and "those which arise out of changes in the structure of domestic prices and in the remuneration of the factors of production, as well as in the existing relations between earnings and prices". Both these kinds of effects are obviously closely related, the latter principally being dependent upon the former, although as they develop dynamically the two mutually reinforce each other.

Within this overall picture one singularly important possibility is that the "open economy" approach may involve a very serious error of perspective inasmuch as it focusses excessively or solely on the significance of external demand rather than the present or potential importance of the domestic market.

We have already shown the actual relative importance of these factors in the past and estimated their future weight. There can therefore be no doubt about the predominance of the domestic market, all the more so if its potential continues to be developed, as advocated in most official policies and patently justified on social and economic grounds.

It should be pointed out immediately that this argument does not postulate a naive or mutually exclusive contradiction between these two engines of growth or alternative patterns of production activity. On the contrary, as was mentioned earlier, it is clear that they must be complementary as has very often been the case in the past.

^{99/} H. Assael, "The internationalization of the Latin American economies: some reservations", CEPAL Review No. 7, April 1979.

However, the seeds of conflict, perhaps only relative but nonetheless important, do exist, as past experience shows. For frequency the extension of external links has not gone hand in hand with an equal strengthening (in relative and sometimes in absolute terms) of the domestic market and the production activities geared to it, with the consequences which have been fully documented in the literature on the question.

Some examples show the cause of this possible or actual contradiction.

The orientation of investment is an outstanding example. If the level of investment does not rise significantly, the preference for export-linked investment inevitably means that the sectors primarily or exclusively directed towards the domestic market will fall behind in relative or absolute terms.

Clearly, economic policy can and should guide the investment process - equally to avoid the opposite bias of neglecting investment in activities with some degree of export potential. But if instead policy is directed disproportionately or excessively the other way (despite doctrinaire proclamations on non-involvement of the State) the cumulative distortions may be substantial within not too long a period.^{100/}

In addition, these latent or real possibilities are strengthened by the social implications of a change of policy which is very radical or lacks the necessary balance.

The prevalence of the inward-looking approach was naturally accompanied by the priority objective of expanding the domestic market for the activities directed towards it, and social policy (on wages, subsidies, social security and so on) was geared to this end - with all the limitations and shortcomings which can be attributed to it.

^{100/} It might be added that some legislation aimed at the unilateral promotion of industrial and non-traditional exports may give rise to administrative and discriminatory problems which were often a feature of legislation fostering import-substitution activities. This has been suggested, for example, in criticism of the legislation adopted by Peru in this field at the beginning of 1979 (see *El Mercurio*, Santiago, Chile, Informe Económico, July 1979).

The alternative approach implies a more or less substantial change on this front, naturally enough because its very nature is to give pride of place to external rather than domestic demand, above all in terms of the relative and dissimilar growth of each. Furthermore, since the level of earnings is a decisive element in external competitiveness, a rise in the former must by definition have a negative effect upon the latter. The broader implications are equally clear. Using the means in its control, this policy will aim to hold down earnings, while the approach focussing on the domestic market must simultaneously and primordially seek to increase the effective demand for goods and services which must be satisfied.

Finally, it should be noted - as the abovementioned study stresses - that the interplay of incentives and disincentives in an injudicious export strategy may mean that "favourable conditions are generated or reestablished for the operation of the traditional system of the international division of labour and of comparative advantages in the orthodox sense". The limited or smaller importance placed on inward-directed industrial development would seem to accentuate this tendency, while the enhanced opportunities in some primary branches would tend to encourage their falling into foreign hands, particularly in the case of mining because of the scale of the investment involved and other well-known factors.

(a) Imports and regional integration

Still on a general level, it seems clear that these potential or emerging trends will be strengthened if the export-oriented approach is combined with a determined or indiscriminating policy to free imports, either as a functional part of the open-economy ideology or as a means of tackling the problem of the occasional spillover of the inflow of foreign exchange. The substantial and often undifferentiated cuts in tariffs and the

/rejection of

rejection of other protectionist measures (such as import deposits or exchange-rate management) 101/ and of progressive internal taxation are common elements in this approach.

Repeating judgements quite widely advanced in the region during the past century to censure attempts at protectionism, it is argued that in this respect external openness places within reach of "the consumer" the goods and services offered in the industrialized economies with high average incomes. However, it is perfectly clear that many of these - precisely those for which the demand is most dynamic - are beyond the effective purchasing power of the majority of the population, whose income level only barely allows them to meet their basic needs. Of course, this is not to deny the "trickle-down" effect in the case of many goods of low unit value which abound in modern consumption (whether imported or not) but in this case it is important not to underestimate the possible distortions caused if this occurs at the expense, absolutely or relatively, of expenditure on necessities.

Finally, we cannot close this review without referring to the negative effects on regional integration projects.

Besides the many different domestic obstacles which affected its course, it is well known that the propitious winds of international trade and the availability of abundant financial resources doused the flame of integration, although without in any way removing its deep-seated historical raison d'être. Furthermore, in some countries these factors were compounded by the deliberate or implicit repercussions of the "open economy" approach, despite the changes in the world economy since 1973 - a point to which we shall refer below.

101/ This instrument, much used and abused in earlier times, has become an object of ideological execration - whose equivalent, in the opposite camp, might be said to be currency devaluation. However, it seems clear that a very selective and limited differentiation of rates may be a useful and expeditious instrument on many occasions, particularly in economies with a marked structural heterogeneity - for example, where the export sector (or its main branches) have much higher levels of productivity than the average level in the economy. This would also appear to be a very important aspect for directing industrialization towards the exterior.

The opposition to the economic and general logic of regional integration, which is only seen as a means of reproducing the errors of substitution industrialization in a broader context, goes together with a rejection or elimination of incentives and machinery designed to promote it, such as the establishment of a common tariff towards the rest of the world, the orchestrated, preferential cutback in duties on trade among members and the joint planning of investment.

(b) Repercussions on prices and wages

From the other angle selected for this analysis, what stands out is the hypothetical or proven impact on the level and structure of prices and wages resulting from the injudicious application of a policy of openness to the exterior.

As argued in the abovementioned study, "domestic prices of goods ... tend to be assimilated to world market quotations ... and are affected by the more extensive and expeditious export and import possibilities". However, "the trends that are generated in respect of the remuneration or profitability of the factors of production in the developing countries in process of internationalization are not so clearly defined".^{102/}

The difference in effect stems largely from the relative supply and cost of capital and labour, as well as the lower domestic or international mobility of the latter which tends to accentuate the divergence.

Thus forces are unleashed which produce a situation whose extreme case has been described as "international prices and domestic wages".

Obviously, to emphasize these contrasts is not to postulate that the purchasing power of wage-earners could be the same in all countries whatever their level of development or levels of productivity. What is clear is that some policies of external openness have increased the gap between wages and the prices of many essential products by bringing the latter up to international levels.^{103/} Consequently, the factors which

^{102/} H. Assael, op. cit.

^{103/} A defender of such policies, besides confusing the sense of the contrast described above by arguing that it overlooks the manifest and inevitable differences in real incomes between the countries compared, recognizes that for many decades "our prices were below international levels" and adds elsewhere that "in general prices in Chile are similar to (cont.)

might have caused losses in real wages are strengthened by changes of a regressive nature in the price system. What is more, it should not be forgotten that in well-known cases this tendency is worsened by the (relative or absolute) drop in prices and greater availability of products for the higher income groups as a result of the freeing of imports.

This trend is also linked with the nature of the goods which make up the so-called non-traditional exports. Although this category varies from country to country, as we shall see below, it is well known that many, and sometimes most, are agricultural goods and light industrial products (processed foods, clothing, footwear, etc.). It is therefore these products which receive the strongest price effect, both because of the fact that external market prices are usually higher and because of the incentives which they are given, all of which has a "backwards" effect on the domestic prices of these goods and of related products. An additional danger, which has materialized in some cases, is that the unbalanced emphasis on exportable agricultural products results in a decline or slow growth of crops for domestic consumption.

These effects become even more serious if a significant or increased proportion of imports consists of non-essential or luxury articles. In a word, a growing proportion of wage goods is being exchanged for others primarily or exclusively destined for the top income groups.

When all is said and done, through these and other channels an unfettered opening-up of the economy runs the risk of reestablishing, creating or deepening economic and social features which have long been criticized in Latin America, and the correction of which is a priority objective of most official policies proclaimed in the region, sometimes even in the very countries which appear to be taking a different road.

103/ (concl.) or even often above international levels due to the openness of our economy to foreign trade" (our underlining). R. Luders, "Precios internacionales y sueldos chilenos", in La Tercera, Santiago, 8 August 1979, in reply to the article by the sociologist Pablo Huneeus, "Precios y prices" in the 23 July issue of that newspaper.

6. The meaning and options of an alternative strategy

If we now return to the premises set forth at the beginning of this chapter, it is easy to see that to secure a dynamic, synchronized rate of growth of foreign trade calls for policies that can avoid what we have described as the dangers of openness as well as the difficulties that have arisen in the past, with the consequences which we have reviewed. In other words, the process of internationalization should be placed on foundations which allow a different, more favourable and more dynamic insertion in the world economy.

There is no need to recall that an approach to this issue must cover all of its many dimensions, some of which do not lie within the economic sphere but are nonetheless extremely important. Even within that sphere, it will not be possible to deal with all its aspects, although some of them such as the attitude to imports, have been outlined above. Others, such as the problem of indebtedness, cannot be examined here, and in any event there is an abundance of recent literature on the question.

Instead we shall focus on what is seen as the crucial issue in the discussion, namely, the role of manufactured exports. These combine two very important functions: first, to facilitate and promote the continued development of the industrialization process, expanding its domestic and external underpinning; and secondly, to alter the "outdated order" of the international division of labour, the main lines of which still exist in the relationship between centre and periphery, as we had occasion to see in the first part of this study.

(a) Differing views of exports

First of all, an obvious question must be asked: why single out manufactured exports? Do not basic commodities offer similar or better opportunities?

Without returning to the past record, which speaks for itself, a convincing reply is given by World Bank data on the prospects of world exports. As shown in table 16, the projections of the probable evolution of the components of world exports between 1975 and 1985 suggest that manufactured exports will be well ahead of all others, thus continuing the trend in the period 1960-1975. With regard to the less developed countries, the growth

Table 16

PAST AND PROJECTED REAL GROWTH RATES OF EXPORTS, BY PRODUCT GROUPS^{a/}

	World (1960- 1975)	Less- developed countries (1960- 1975)	World (1975- 1985)	Less- developed countries (1975- 1985)	Breakdown of exports of less- developed countries			Percentage share of increment	
					1960	1975	1985	1960- 1975	1975- 1985
Fuels and energy	6.3	6.2	3.6	3.4	39	40	30	42	18
Agricultural products	4.2	2.6	4.4	3.1	43	27	20	16	12
Minerals excluding fuels	3.9	4.8	4.2	5.8	7	7	7	6	6
Manufactures	8.9	12.3	7.8	12.2	11	26	43	36	64
<u>Total goods</u>	<u>7.1</u>	<u>5.9</u>	<u>6.4</u>	<u>6.4</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: World Bank, World Development Report, 1978, tables 13 and 25 and unpublished projections for the World Development Report.

^{a/} Rates refer to exports in 1975 dollars.

/rates will

rates will be much more differentiated than in the case of the world average. There will again be a growth rate of slightly over 12% annually. Consequently, by 1985, 43% of the exports of those economies will consist of manufactures, which will account for 64% of the rise in their sales between 1975 and 1985.

To round off this picture, table 17 compares the growth rates in the volume of the main agricultural and mining exports - excluding oil - in the years 1960-1976 and estimates until 1990. The breakdown by products gives a better view of the more global trends presented in table 16.

Needless to say, this is not to underestimate the present and future importance of commodity exports, particularly in the case of Latin America and above all in the countries with good possibilities of increasing them, or where industrialization is still in its early stages and needs more complex support, such as that provided by subregional integration.

In this connexion it is worth drawing attention to the widespread progress made in the diversification of commodity exports. According to a study of 55 non-oil-exporting economies, "the proportion of countries dependent on one commodity for more than half of their primary export earnings fell from 49% in 1960 to 18% in 1974".^{104/}

(b) Industrialization and manufactured exports

Resuming a discussion which began when examining the varieties of openness to the exterior, it is now necessary to stress the symbiotic relationship between industrialization and manufactured exports: as suggested above, such exports are essentially a means of obtaining the "lubricant" (imports) needed to continue with the process of industrialization in its broadest sense, and of expanding the market so that the process can be more dynamic, profound and economically efficient.

In other words, export-directed openness, far from being a break or volte face with respect to past industrialization, should be viewed - to paraphrase Clausewitz's famous aphorism ^{105/} - as the continuation of industrialization by more propitious and historically necessary means.

^{104/} See H.P. Chenery and D.B. Keesing, The changing composition of developing country exports, World Development Report, 1978, Background Paper, N° 5.

^{105/} That war is the continuation of politics by other means.

Table 17

DEVELOPING COUNTRIES: PAST AND PROJECTED GROWTH OF THE
VOLUME OF THE MAIN AGRICULTURAL AND MINING EXPORTS

	Value in 1974 <u>a/</u>	Growth rates	
		1960-1976	1974/1976- 1990
Copper	5 320	3.7	3.3
Sugar	5 083	2.8	2.7
Coffe	3 984	1.7 <u>b/</u>	2.6
Fats and oils	3 877	5.7 <u>b/</u>	5.2
Logs	2 747	8.8 <u>b/</u>	2.2
Sawnwood		8.6 <u>b/</u>	3.0
Cotton	2 291	-0.2 <u>b/</u>	-0.3
Rubber	2 212	3.6	3.6
Iron ore	1 693	6.9	3.9
Phosphates	1 692	5.2	5.1
Cocoa	1 555	2.2 <u>c/</u>	2.5
Tin	1 256	0.9	1.5
Maize	1 153	5.4 <u>d/</u>	3.6 <u>d/</u>
Rice	1 094	-0.7	0.0
Tobacco	691	3.9 <u>b/</u>	5.3
Tea	672	1.8 <u>b/</u>	2.3
Meat	609	-1.7 <u>e/</u>	5.4
Bananas	602	3.3	2.1

Source: World Bank, Division of Commodity and Export Projections.

a/ No year is entirely representative because of price fluctuations; for example, in 1974 copper and phosphate prices were exceptionally high.

b/ 1961-1976.

c/ 1955-1976.

d/ Growth rates refer to all cereals.

e/ 1961/1963-1974/1976.

/The other

The other side of the coin is even clearer. If it is considered possible and necessary to expand manufacturing exports in future, how can this be done without maintaining or strengthening the industrial development capable of generating the goods in question?

All of this should of course be viewed in a context, in which as we have already seen, the present and future demand of the domestic markets will continue to require the steady, preferential growth of manufacturing supply, of which it is at the same time the main or a significant support (as the case may be).

The emphasis placed on these aspects may appear excessive bearing in mind that nowadays nobody is in principle against industrialization. Even the extreme orthodox ideological current has moderated its previous total antipathy, which nonetheless remains considerable. However, the heavy one-sided emphasis placed on export promotion and the subjection of the manufacturing process to the rigorous satisfaction of the rules of international "competitiveness" intrinsically involves self-imposed constraints upon its development and its hierarchical, functional relationship with the other objective.

In brief, then, the false choice between inward-looking and outward-looking industrialization (or between earning foreign exchange from exports and saving it for the other more suitable purposes by producing for the domestic market) is resolved by blending the two options, which rather than being mutually exclusive in fact strengthen each other within the framework of the overall diversification and expansion of manufacturing. Thus an advance along the lines of inwards-directed industrialization may have as its direct or indirect consequence an immediate or future rise in exports (as has usually been the case) and progress in exporting may also stimulate inward-directed industrialization as a result of its forward or backward linkages (as has also occurred in other cases).^{106/}

The harmonization and ranking of these factors raises complex and to some extent novel problems for development and industrialization policies, which have lead to different formal or informal forms of planning and of

^{106/} See, A. Pinto, False dilemmas..., op. cit.

State intervention. The "invisible hand" or absolute free play of market forces has been relegated to the limbo of pseudo-academic abstraction.^{107/} The real discussion is in fact confined to weighing up the respective roles of planning (or the deliberateness of economic policy) and of the market, to the relationship between these two determinants of the allocation of resources and, above all, to the nature of the economic and social objectives pursued.

Clearly, we cannot discuss here all these aspects which together constitute the bulk of an industrialization strategy.^{108/} Limiting ourselves to the issue under consideration in this section, the following statement from a CEPAL document referred to earlier may be taken as a guideline:

"In brief, unless the development policy changes sufficiently to boost manufacturing exports still further and at the same time achieve an active and efficient substitution of imports in the less developed sectors, it will be difficult to modify the structural characteristics hindering the development of the Latin American economy."^{109/}

In another opposite summary, an eminent Peruvian economist couched the dilemma in the following terms:

"Either industry must begin to generate its own income in foreign exchange in order to maintain its high rate of growth, or the growth rate of industry (and therefore of the entire economy) must decline until it reaches the rate of growth warranted by the availability of foreign exchange; in other words, in general terms, the rate of growth of output of commodities."^{110/}

^{107/} This is also true of the industrial-exporting economies of Asia and for those which apply radical policies of external openness. In fact all of them use a battery of conventional and unorthodox instruments to stimulate their outward-directed development; what is difficult to find in these cases is the integration of these provisions (which are sometimes in themselves positive) within the overall context of the economy and the development of industrialization.

^{108/} See CEPAL, Analysis and prospects of Latin American Industrial Development, document presented at the Second Latin American Conference on Industrialization, Colombia, September 1979.

^{109/} Norberto González, in CEPAL, Políticas de promoción de exportaciones, op. cit.

^{110/} See Daniel M. Schydrowsky, "Policymaking for national economic growth", Latin America in the 1970s, Rand Corporation, 1972.

While endorsing this view of the link between industrialization and exports of manufactures, it remains to be seen whether the ensuing objectives are viable and what unknown factors and obstacles surround them.

(c) A digression on substitution industrialization

At the risk of interrupting the thread of our argument, it is necessary to pause here to introduce an issue closely linked with the question under discussion which we have deliberately left aside. We are referring to the controversial question of what is known as substitution industrialization. For some, as is well known, this form or aspect of Latin American growth is a kind of "original sin" which fortunately has fallen into not only disrepute but also disuse. Others, on the other hand, are perhaps more understanding about its origins and functions, but sometimes entertain comprehensible doubts about its present significance and validity.

An albeit cursory discussion of the question is therefore worthwhile in order to single out some points which may be useful for the general discussion.

Without reviewing here what has actually been proposed on this question in the literature of CEPAL,^{111/} it should be stated at the outset that essentially the concept has a historical connotation; in other words, it is set in a particular time and place, primarily that of the relatively more developed economies of the region in the period roughly ranging from the great depression to the early 1950s. This is the true setting in which substitution industrialization took place - and CEPAL did not invent but merely incorporated it in its analysis and diagnosis of the regional economy.

What was its raison d'être? That the constraints of the external sector forced or induced domestic supply to meet the demand that could no longer be satisfied by imports (which were insufficient and had been reallocated to higher-priority ends) and which also represented a market

^{111/} See for example Cuadernos de la CEPAL, N° 13, Desarrollo, industrialización y comercio exterior and N° 14, Problemas de industrialización en América Latina; and Rise and fall of the import substitution process in Brazil, CEPAL Economic Bulletin, N° 1, vol. 9, 1964, a study directed by Maria Conceição Tavares.

/which was

which was safe, known and within the reach of the real, human and financial capacities of the existing enterprises. This is the context of the phase of "easy substitution" in the general framework of inward-directed development.

The situation tended to change steadily and substantially in the course of the 1950s. In addition to the major obstacles such as economies of scale, market size and technological and financial requirements, there was the capital factor that the attractive potential and opportunities stemming from existing demand were relatively exhausted. Thus it was no longer mainly a question of replacing existing imports by national production but rather of anticipating and in fact creating (by the demonstration effect, consumer credit, advertising and so forth) a demand for goods neither produced nor imported, except in small quantities which fluctuated in accordance with the varying supply of foreign exchange. This is the picture which characterized the second stage, wrongly labelled "difficult substitution" since essentially it was not filling a void left by the restriction or elimination of imports which satisfied a preexisting market. In other words, it would be better to speak instead of "difficult industrialization" to define the subsequent period which, in any event, also followed the general approach of inward-looking development, i.e., directed towards and based upon the domestic market.

The example of the motor-vehicle industry or of "heavy" or dearer durable goods takes us to the heart of the matter. For well-known reasons, even in the larger countries (perhaps with the relative exception of Mexico because of its more liberal import policies) the abovementioned problems have made it difficult to respond to the latent or embryonic demand for such goods either through imports or through domestic production. Since the first path was closed or very narrow, only the second remained, primarily opened up by the transnational corporations. It is they, and in other fields the State or large national consortia, which broke the barriers of "difficult industrialization" that did not fundamentally involve import

/substitution, except

substitution, except in contrast with a hypothetical, non-existent alternative, i.e., the satisfaction of that demand by purchases abroad. To hammer home this point, it is obvious that following such a path Brazil could never have imported annually nearly one million motor vehicles - its output in recent years.

In sum, then, substitution proper becomes relatively less important as inward-directed industrialization advances and now begins also to be directed outwards as part of its growth effort and of the general requirements of development.

But the fact that the role of industrialization via import substitution has diminished does not mean that it has become obsolete or invalid. This is by no means the case. As shown by the experience of some economies of the region, the advance of manufacturing and of overall growth also creates and increases the demand for imports - primarily of capital goods and basic inputs - which makes it possible to embark on their substitution at the national or regional level and/or will make it necessary to do so, in view of the growing need of foreign exchange which it is difficult to satisfy given the state of the external accounts as described above. This variant of substitution industrialization therefore remains valid, although without the decisive importance it had in the past and within a new general context.

Of course, the problem presents different features from country to country, as we have seen, and the relative emphasis placed on the above approaches varies, but this does not detract from the validity of our general position. Thus substitution proper, diversification aimed towards an emerging or anticipated market and relations with the exterior - the region or the rest of the world - are so many aspects of the general effort to promote industrialization and forge links with the world economy.

We shall now continue dealing with the questions raised before this digression.

7. Viability and dilemma of manufactured exports

We shall first examine the possible capacity of the Latin American economies to expand and redeploy their industrial sectors in such a way as to aspire to a different form of insertion in the world economy. In other words, we shall begin by gauging the elements which weigh on the supply side.

(a) The supply picture

From a general standpoint it could be argued that doubts on this matter are being answered by a number of different cases. However, taking the region or the periphery as a whole it is well known that only a few countries have managed to "industrialize" their exports in a significant proportion.

As is quite clear - and bearing in mind the comments made in the preceding section - this "industrialization" of exports depends to a large extent on the industrialization of the production system itself. It is therefore worth looking at some background data on the structure of the sector, taken from a study referred to earlier.^{112/} As may be seen in table 18, this structure varies considerably in the different groups. In the larger countries the proportion of basic inputs, durable consumer goods and capital goods is considerably higher and increases between 1950 and 1975, whereas in the smaller countries non-durable consumer goods predominate, although their relative importance declined between those years. It should be noted that in 1975 the proportion of such manufactures is similar to that in the large and medium-sized countries in 1950.

Needless to say, these countries primarily stem from the size of the domestic markets, which establish the platform supporting structural diversification. This not only opens up export possibilities in the "heavier" subsectors but also, by increasing vertical integration in the sector, encourages the more autonomous (i.e., less dependent on imports) development of the traditional industries and of the economy in general.^{113/}

^{112/} See CEPAL, Analysis and prospects ..., op. cit.

^{113/} Of course, there are other countervailing pressures such as the rise in the propensity to import resulting from the prevailing style of development or more general influences, such as the process of internationalization itself.

Table 18
 LATIN AMERICA: STRUCTURE OF INDUSTRIAL PRODUCTION, BY ECONOMIC SIZE OF COUNTRIES
 (Percentage of the value added of the manufacturing sector)

	Year	Non-durable consumer goods					Intermediate manufactures		Consumer durables and capital goods	Total manufactures
		A	B	C	D	B+C+D	E			
Large countries	1950	64	10	10	4	24	12	100		
	1975	35	9	21	7	37	28	100		
Medium-sized countries	1950	86	10	15	3	28	6	100		
	1975	48	9	20	6	35	17	100		
Small countries	1950	85	8	6	0	14	1	100		
	1975	65	11	14	1	26	9	100		

Source: CEPAL, on the basis of official data from 13 countries (industrial output indexes and cesuses).

Notes: A = Food, beverages and tobacco (division 31), textile, wearing apparel and leather industries (division 32), furniture and fixtures, except of metal (major group 332), printing publishing and allied industries (major group 342), pottery, china and earthenware (major group 361) and other manufacturing industries (division 39), according to ISIC, Rev. 2.

B = Wood and cork products, except furniture (major group 331), paper and paper products (major group 341), glass and glass products (major group 362) and other non-metallic mineral products (major group 369), according to ISIC, Rev. 2.

C = Chemical, petroleum, coal, rubber and plastic products (division 35, ISIC Rev. 2).

D = Basic metal industries (division 37, ISIC Rev. 2).

E = Fabricated metal products, machinery and equipment (division 38, ISIC Rev. 2).

/The differences

These differences are clearly reflected in the origin of manufactures and their share of total exports of the groups, as well as in the composition of manufacturing exports (see tables 19 and 20).^{114/}

The picture shown in table 19 substantiates what we have said about the very large share (nearly 70% in 1977) taken by the manufacturing exports of the larger economies within the regional total. This predominance is repeated on a smaller scale in their proportion of total exports of each group, where the figure for the member countries of the Central American Common Market is striking (despite the decline in the last year under consideration), and is largely accounted for by trade within the group.

In any event, over and above the differences there is one salient fact - the steady and significant rise of manufactures in total exports between 1965 and 1977, a period, it should be recalled, in which the latter expanded appreciably (see table 19).^{115/} In rounded figures, the proportion rises from 9 to 24% for the region, from 14 to 33% for the large economies, from 4.5 to 17% for the medium-sized countries excluding Venezuela, and from 19 to 26% (1975) for the Central American Common Market countries, which had already felt the main effects of their integration.

As part of this picture for the region as a whole and for the different groups, it should not be forgotten that in few countries was the figure over 20% of the total.^{116/}

It remains true, however, that there is a clear trend towards the industrialization of exports, which is obviously important for the question under examination.

^{114/} See CEPAL, Analysis and prospects ..., op. cit.

^{115/} The relatively slow growth of the medium-sized countries in this table results from the inclusion of Venezuela, as mentioned earlier.

^{116/} These were, in 1975, Mexico (52%, including border industries), Brazil (27%), Argentina (25%) and Colombia (20%). See The changing composition ..., op. cit. Uruguay is also in this group (39% of the total in 1977) while Chile and Ecuador were close to the 20% mark. See CEPAL, Analysis and prospects ..., op. cit.

Table 19

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF MANUFACTURES BY ORIGIN AND
AS A PERCENTAGE OF TOTAL EXPORTS, BY GROUPS OF COUNTRIES

(Percentages of FOB values)

	Origin of manufacturing exports				Manufacturing exports as a percentage of exports of goods			
	1965	1970	1975	1977	1965	1970	1975	1977
<u>Latin America and the Caribbean</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>8.7</u>	<u>15.3</u>	<u>19.0</u>	<u>23.6</u>
Large <u>a/</u>	57.9	62.6	68.1	69.9	13.8	25.4	31.9	33.0
Medium <u>b/</u>	14.0	10.5	12.4	12.7	2.7	3.8	6.3	8.0
(Medium-sized countries excluding Venezuela)	(9.6)	(9.1)	(10.8)	(11.1)	(4.5)	(6.5)	(16.4)	(17.0)
CACM <u>c/</u>	15.2	13.6	8.6	8.4	19.4	28.7	26.0	21.8 <u>d/</u>
Other small countries of Latin America <u>e/</u>	4.1	2.3	2.3	3.1	9.1	7.6	6.6	11.2
Caribbean <u>f/</u>	8.7	10.9	8.6	5.9	10.7	22.4	17.5	16.6

Source: CEPAL, on the basis of official data from countries and LAFTA.

a/ Argentina, Brazil and Mexico.

b/ Chile, Colombia, Peru, Uruguay and Venezuela.

c/ Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

d/ Partially estimated figures.

e/ Bolivia, Ecuador, Paraguay and the Dominican Republic.

f/ Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Suriname and Trinidad and Tobago.

Table 20

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF MANUFACTURES, BY TYPE OF PRODUCT AND COUNTRY GROUPS, 1975

(Percentages of FOB values)

	Structure				Origin			
	Manufac- tures	Non-durable consumer goods <u>a/</u>	Interme- diate pro- ducts <u>b/</u>	Metal products, machinery and equipment <u>c/</u>	Manufac- tures	Non-durable consumer goods	Interme- diate	Metal products, machinery and equipment
<u>Latin America and the Caribbean</u>	100.0	39.5	32.3	27.3	100.0	100.0	100.0	100.0
Large <u>d/</u>	100.0	41.0	23.6	35.4	68.1	71.0	48.7	89.4
Medium <u>e/</u>	100.0	40.5	45.7	13.5	12.4	12.5	16.9	6.1
CACM <u>f/</u>	100.0	40.9	48.4	10.7	8.6	8.9	12.6	3.4
Other small Latin American countries <u>g/</u>	100.0	66.9	32.4	0.7	2.3	3.2	1.9	0.1
Caribbean <u>h/</u>	100.0	20.4	76.4	3.1	8.6	4.4	19.1	1.0

Source: CEPAL, on the basis of official data from countries and LAFTA.

a/ Includes textiles, clothing, footwear, furniture, printing, publishing and related industries, food, beverages and tobacco manufactures and other manufacturing industries.

b/ Includes wood and cork, paper and paper products, chemicals and plastic articles, rubber articles, pottery, china and earthenware, glass and glass products, other non-metallic mineral products and iron and steel.

c/ Includes metal products, machinery and transport equipment and professional and scientific instruments.

d/ Argentina, Brazil and Mexico.

e/ Chile, Colombia, Peru, Uruguay, and Venezuela.

f/ Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

g/ Bolivia, Ecuador, Paraguay and the Dominican Republic.

h/ Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Suriname and Trinidad and Tobago.

/To complete

To complete this picture it is worth taking into account the composition of manufacturing exports in the different groups. Some of the data in table 20 on this question may be unsurprising but some less foreseeable points come to light and they are of interest for our subsequent analysis.

Naturally, the higher share of metal products, machinery and equipment in the structure of exports of the larger economies was to be expected, and this opens up horizons which will be examined below. The levels in the medium-sized and small economies are quite modest. What is surprising, however, is the small difference between the medium-sized countries and the Central American Common Market countries - another speaking sign of the possibilities opened up by integration in the latter area, despite all its problems. In contrast, the progress made in the second group, which includes four members of the Andean Pact, appears to be slight. The main reason for this contrast seems to lie in the greater weight of the domestic markets in the latter and the still insufficient use made of the opportunities for joint development within the Pact. Even so, the Central American experience is an indication of the potential of joint action in this field.

The structural proportions of the other two manufacturing groups - intermediate industry and non-durable consumer goods - are less expected and clearly suggestive.

With regard to the former, the hypothesis may be repeated that the domestic demand of the larger and more industrialized countries, together with the lag in investment in some key sectors, such as iron and steel have hindered a higher level of exports, although given the experience acquired in these fields there are evident possibilities if more dynamic rates of growth can be achieved. In the case of the other groups of countries, the present proportion of such exports suggests that significant opportunities again exist, all the more so if strengthened by subregional strategies.^{117/}

^{117/} It is worth noting that the high share of the Caribbean countries in this heading is due primarily to exports of aluminium oxide. See CEPAL, Long-term trends and prospects ..., op. cit.

The most complex and at the same time significant feature is the relatively high (by world trade standards, where the weight of the central economies swings the balance in favour of technologically more sophisticated goods) and above all even share of light or traditional industry in the three main groups.

Does this mean that despite the other differences among the groups these branches are the principal means of promoting the new forms of insertion in world trade? We shall return at a later stage to this crucial question in the current debate, since it cannot be broached without considering the question of foreign demand and other major aspects of the question.

To conclude this simplified review of significant factors on the side of industrial supply, it is useful to glance at the data in table 21 concerning the share of exports within the various components of industrial output in the larger countries and the Andean subregion.

This turns out to be strikingly small, so much so that only very rarely does it represent roughly 10% or slightly more of the total in each section.^{118/} Naturally, this may not be true of specific goods, but that does not belie the fact that this proportion does not yet represent a very significant strengthening of industrial demand. Nevertheless, it may also be noted that these low figures suggest that the percentage can be increased without appreciably sacrificing domestic supply, especially if this is combined with a vigorous advance of industrialization.

In sum, the data examined appear to corroborate the fact that in Latin America as a whole, and each of the groups distinguished within it, the foundations have been laid for a significant process, now underway, of transforming the structure of exports, which is the first step towards the central objective with which we are concerned.

^{118/} The corresponding percentages in the central countries - especially in the more dynamic industries (chemicals, machinery, transport equipment) frequently exceed 50% of total output. See G. Fichet and N. González, Cooperación regional y desarrollo, una propuesta de política latinoamericana para la industria y el comercio, 1970, mimeographed document.

Table 21

LATIN AMERICAN COUNTRIES: PROPORTION OF MANUFACTURING OUTPUT EXPORTED, 1974

(Percentages of gross value of output)

	Argentina	Brazil	Mexico	Andean subregion
Food, beverages and tobacco	4.4	3.3	1.2	1.6
Textiles, clothing and leather manufactures	5.0	6.5	4.3	3.9
Wood and wood products, including furniture	0.2	6.3	5.1	6.1
Manufacture of paper and paper products; printing and publishing	5.6	2.1	1.9	5.6
Manufacture of chemical products from oil and coal, rubber and plastics	4.6	1.5	6.5	7.2
Manufacture of non-metallic mineral products, excluding oil and coal products	1.8	1.3	3.3	2.9
Basic metal industries	6.5	2.3	10.5	3.9
Manufacture of metal products, machinery and equipment	6.9	3.5	6.2	1.8
Other manufacturing industries	5.9	7.8	10.3	11.4
Total manufacturing industries	5.2	3.2	4.4	3.6

Source: CEPAL, International Trade Division.

Note: Andean subregion: Venezuela, Colombia, Ecuador, Peru, Bolivia and Chile. Petroleum refining excluded in the case of Venezuela and non-ferrous metals in the cases of Bolivia, Chile and Peru.

(b) Demand and its markets

The incentives and constraints on the demand side are the first and most visible factor conditioning the expectations which may be awakened by the real opportunities for stepping up exports. To review this subject in an orderly manner, it is best to distinguish aspects concerning the central markets and the regional ones and the periphery in general.

Needless to say, attention is focussed, perhaps disproportionately, on the first of these, although this may be explained by the desire to secure in exchange high-technology goods and freely convertible foreign exchange.

From this standpoint it is worth considering another unprecedented aspect of the upheavals of the present decade: the fact that they have not interrupted the growth of world trade. By way of example: the volume of trade grew at an annual rate of 5% in 1977 and 1978, and the exports of the non-oil-exporting developing countries increased by 6% and 8% in those two years, respectively.^{119/} With regard to the imports of the industrialized economies, figure 11 summarizes their growth (in current dollars) by origin.^{120/} However, it should be noted that these data by no means warrant the assumption that such trends will continue in the near future, particularly if the present sluggishness of the industrialized economies continues or increases. Some estimates on this issue will be given below.

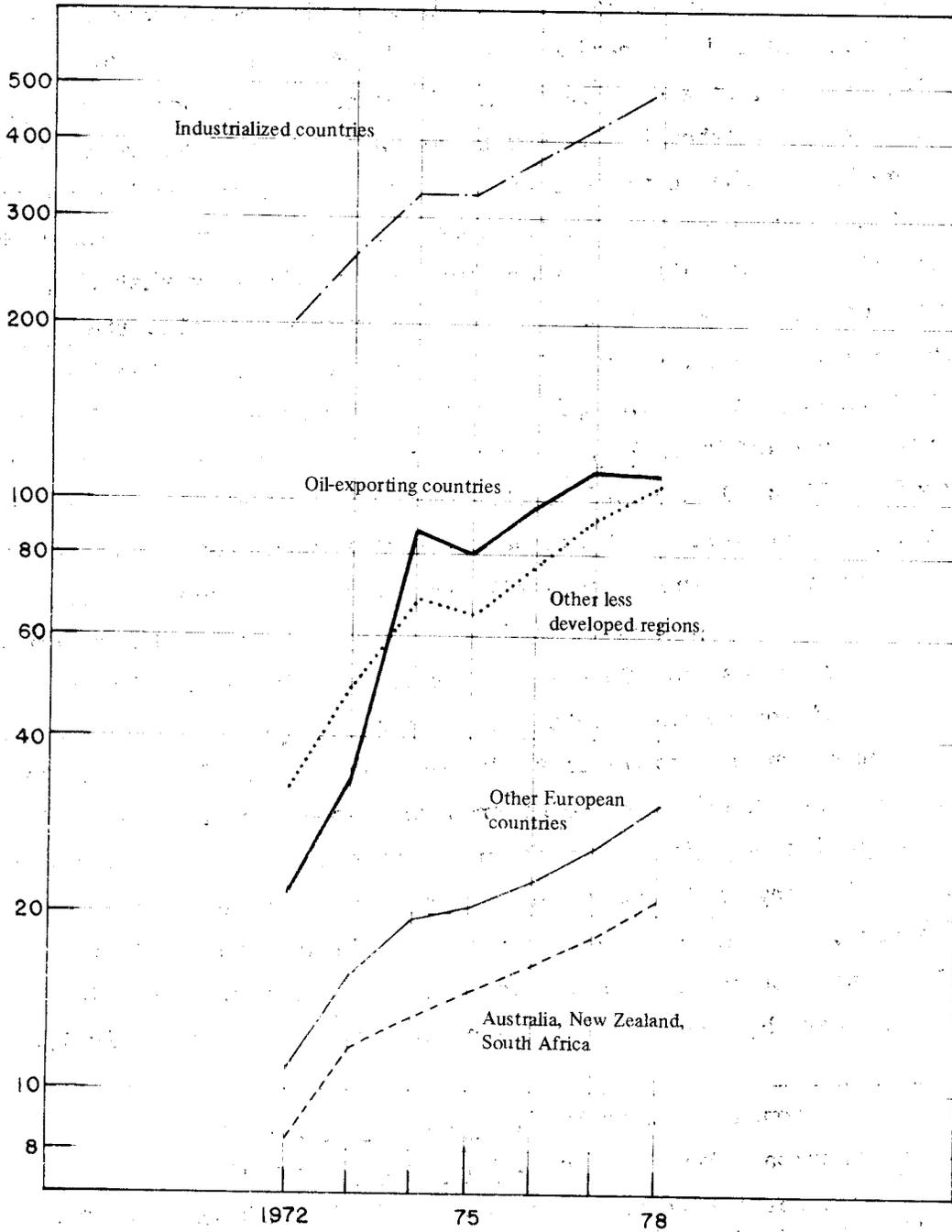
In addition to these data and the above caveat, it is worth stressing the impact of an ostensibly contradictory situation. On the one hand there is the evident capacity of the centres to absorb more industrial imports from the periphery, given that the proportion of the latter in their total purchases is very small and indeed insignificant compared with their total consumption. As may be seen from table 22, in 1975 these figures stood at nearly 9% and barely 1.2% of the totals, respectively. According to World Bank estimates, by 1985 they may reach 13.6 and 2.7%, respectively.^{121/}

^{119/} International Monetary Fund, Annual Report, 1979.

^{120/} International Monetary Fund, Memorandum, July 1979.

^{121/} It is important to remember that the World Bank includes Spain and Yugoslavia among the developing countries, which appreciably affects the total.

Figure 11
IMPORTS OF INDUSTRIALIZED COUNTRIES, BY ORIGIN
(Billions of dollars)



Source: IMF, Direction of Trade Yearbook, 1977.

Table 22.

EXPORTS OF MANUFACTURES OF THE DEVELOPING COUNTRIES AS A PERCENTAGE
OF THE MARKETS OF THE INDUSTRIALIZED COUNTRIES

	1960	1970	1975	1985
Imports	5.9	5.8	8.9	13.6
Consumption	0.4	0.7	1.2	2.7

Source: World Bank, World Development Report.

But in the face of this situation, obviously hardly a disturbing challenge for the central economies, there is the well-documented fact, now scarcely denied, of the upsurge of protectionist measures of different kinds in the central markets. Thus the far from negligible obstacles faced by the periphery in organizing and encouraging its manufacturing exports are compounded by the barriers raised precisely by the countries which have always upheld the doctrine of free trade and the principle that "trade not aid" should be the foundation of transactions between the two spheres.^{122/}

(c) A digression on protectionism in the centre and periphery

It seems appropriate and necessary to open another parenthesis here to deal with a criticism sometimes made of the alleged contradiction between the defence of protectionism in the periphery and the censure of protectionism by the centres.

Without returning to the ideas put forward by CEPAL many years ago,^{123/} it is easy to see that postwar and recent experience fully bear out the argument that there is no such contradiction.

^{122/} This problem cannot be divorced from the policies designed to reduce protectionism in some countries of the region. Analysing this paradox, a Latin American authority stated the following "... the fact that a number of countries, however important they may be in the market, because of their own domestic situations have taken a path which we judge mistaken, neither warrants nor justifies nor obliges us to follow an equally mistaken path", (Minister of Finance of Argentina in the seminar on international protectionism organized by CEPAL and UNDP in Buenos Aires, 1978).

^{123/} See Problemas de la industrialización en América Latina, Cuadernos de la CEPAL, No. 14, p. 20.

In the first place, it is evident and unquestionable that, for example, Latin American protectionism did not depress a demand for imports which, as was seen earlier, stubbornly tended to exceed their own capacity to pay for them and to a growing external debt. It is true that it may have caused other problems - for the balance of payments, inter alia - but not that particular one. From this standpoint, then, there is no basis for suggesting that the reduction of protectionist obstacles could lead to an appreciable rise in imports from the centres. In the conditions examined, the liberalization often advocated - even for countries with disturbing current-account deficits - might have an effect on the composition of imports, as was pointed out above, but not necessarily on their volume.^{124/}

The picture is quite different in the case of the central economies and their trade with the periphery. Their direct or indirect restrictions on the access of certain exports from the developing countries unquestionably affects trade in both directions: it limits the latter's capacity to import, and affects the growth of exports from the centre to the periphery. In this case, consequently, it has a negative effect on the volume of international trade and in particular on trade between the two spheres.^{125/}

Of course, the situation of the central economies with "chronic" surpluses, such as the Federal Republic of Germany and Japan, is totally different. Leaving aside the reasons underlying their policy on the issue, it seems evident that their reluctance to allow a more proportional rise in their imports in comparison with the growth of their export earnings does affect world trade. But this has nothing to do with the particular situation of the periphery in this sphere.

^{124/} Naturally, liberalization could facilitate external indebtedness in order to finance the favoured imports, but this would not change the crux of the problem.

^{125/} The differences are again clear if the effects on the export side are considered. The growth of exports from the periphery to the centres has the immediate consequence of increasing the former's imports from the latter, sometimes more than proportionally. On the other hand, an increase of exports from the centre to the periphery does not proportionally increase the former's demand for goods from the periphery but rather primarily its demand for imports from other industrialized economies - among other reasons because of the higher income elasticity of such imports, as shown by the trends for the preferential development of trade among the centres.

(d) Reasons and outlook for protectionism

CEPAL has repeatedly dealt with the question of protectionism in the central countries in recent years, and therefore a discussion of its different facets would not be justified here.^{126/} However, it is worth recalling some explanations of it.

As pointed out above, and as is well known, the problems of the central economies have had a manifest effect on protectionism, above all because of the effects on the level of employment.

But as Raúl Prebisch has pointed out in a number of studies, the fact is that the boom that previously characterized these economies was equally devoid of policies aimed at easing access of exports from the periphery, although trade among them was indeed facilitated.

It also appears that the impact on employment has been appreciably exaggerated, while underestimating the positive effects on exports and the economic activity and even on the inflationary pressures of the centres.^{127/} In fact, the exports of these countries to the periphery, after a period of relative stagnation between 1974 and 1976, thereafter, resumed their upward trend rising by more than 13% by 1978.^{128/} In addition, few deny that a larger and easier flow of imports from the periphery could help to hold down price rises in the centres.

^{126/} See inter alia, Pedro Mendive, "Protectionism and development", CEPAL Review, No. 6, second half of 1978.

^{127/} In this connexion see, inter alia, Jan Vitek, "Third world imports - impact is negligible", Development Forum, June 1978. The study includes a recent bibliography on the question.

^{128/} In this connexion, a recent publication pointed out that in 1977, for example, the developing countries which do not belong to OPEC imported goods from the industrialized countries for an amount of over 100 billion dollars, which constitutes about 10% of total world trade. Since 1970, the non-OPEC developing countries have more than doubled their imports. In 1977, the trade of manufactures of the United States with the non-OPEC developing countries ran a surplus of over three billion dollars (and the surpluses of Japan and of the European Economic Community were still larger). During most of the recent past, United States exports to the non-OPEC developing countries have grown more rapidly than their exports to other developing countries; not only have they provided markets for western products during a difficult economic period, but they have also helped to maintain employment in the developed countries. However, this process cannot continue indefinitely. The indebtedness of the Third World has grown spectacularly since 1973; before that year, this debt had never been a source of major concern. See Anil Agarwal, "No quick answers", Development Forum, August-September 1979.

In sum, rather than to specific repercussions of the possible growth of exports from the developing countries, protectionism may be attributed to the inability or impotence of the policies applied by the centres to harmonize the moderate redeployment required by the process with the fiscal and monetary stringency of a global nature which typifies the traditional approach to inflation.

How far does this picture affect the expectations of the periphery as regards access to the industrialized economies?

Evidently, no-one can give a categorical reply to this question, particularly since account must be taken of the particular situations of countries, regions or products.

However, looking once again at the problem of the moderate structural adjustment required to satisfy those expectations, it hardly needs to be stressed that almost by definition the central economies have the elements of flexibility at all relevant levels - human, technological, financial, etc., - to undertake this task. An eloquent demonstration of the malleability of their production and employment structures may be found, for example, in the changes which took place after the war with the gradual and steady rise in the share of the private and public service sectors in the global structure. In the light of the experience of various central economies it may be seen that employment in these areas rose as follows between 1953 and 1970: in France from 34 to 47%; in West Germany, from 34 to 41%; in Italy, from 29 to 40%; in Belgium, from 44 to 52%; in Denmark, from 41 to 54%; in Sweden, from 39 to 54%; and in the United States, from 39 to 54%. As may be seen, these are changes and proportions which justify speaking of service-oriented economies.^{129/}

In addition, and apart from the other data given above, it is illustrative to mention some estimates of future trends by the World Bank, which explicitly link the growth possibilities of the exports of the periphery with different possible growth trends of the industrialized economies for the period 1975-1985.^{130/}

^{129/} See United Nations, Long-term trends in the economic development of the regions of the world, Annex 1, 1977. It should be recalled that these trends have little or nothing to do with the so-called service sector inflation in the peripheral countries.

^{130/} World Development Report, 1978.

According to the basic scenario, which assumes an annual growth rate of 4.2%, world trade would grow at a rate of 6.4% and the exports of the developing countries at 6.3%, rising to 12.2% for manufactures.

A pessimistic estimate, assuming a growth rate in the centres of only 3.7% annually in this period, would mean that exports from the periphery would only rise at a rate of 5.4%, rising to 10.2% in the case of manufactures.

Besides showing the primordial significance of the growth of the industrialized economies for these variables, the conclusion which may be drawn is relatively auspicious for the industrial exports of the periphery, despite all the reservations and qualifications applicable to specific situations and the major question-marks hanging over world trends in the near future.^{131/}

In brief, then, and again ceteris paribus, it may be argued that there will continue to be room in the centres for the manufacturing export drive of the developing countries.

^{131/} One clear danger, of course, is the exacerbation of protectionism not only towards the developing countries but also in trade among developing countries, i.e., a picture similar to that of the 1930s, which cannot be altogether ruled out.

Another frequently mentioned possibility is that the steady rise in the number of peripheral countries exporting manufactures (for example, China) would radically alter the present reference scenario. This is unquestionably true, but other elements should also be taken into account. One of these is that studies on this question (World Development Report, op. cit.) do not foresee radical changes in this sphere in the near future, for the obvious reason that a strategy in this area involves many preconditions which cannot easily be met rapidly. Another, more substantial factor is the counterpart of those trends in the sense of the stimulus to imports from the centres and to their redeployment processes. It may be pointed out in passing that the growth of trade among the industrialized economies has developed upon these foundations.

8. Criticism of the possibilities of a new insertion

While there is no shortage of observers who express doubts and reservations about this hypothesis, there are others who criticize the possibility from the opposite angle: in other words, they accept the possibility of such a change in the pattern of trade, but do not consider that it would benefit the periphery. In the words of one of the spokesmen of this current, world-market-oriented industrialization does not break but rather perpetuates the historic process of dependent, unequal development of the countries of Africa, Asia and Latin America.^{132/} Repeating this idea, another author defines and broadens it as follows: so long as the industrial exports of the periphery take place on capitalist terms of trade and still more within the framework of the new patterns of capitalist accumulation, they will continue to be a mechanism for the external expropriation of surpluses, of unbalanced and unfair trade.^{133/}

These opinions may cause some surprise since they appear to forget the age-old complaint of the periphery about its commodity-exporting status, and rule out one of the central objectives of the new international order. When all is said and done, this may be considered another variety of the "disaster" viewpoint, in which any possible change turns out worse than the existing situation unless it conforms to other rules which are rarely defined with any degree of depth.

Of course, this risk does not escape the attention of the more hardened proponents. Thus one of them remarks that his approach does not mean that he underestimates the importance of any process of export diversification, and still less should it be viewed as an expression of yearning for the old forms of world trade and of the international division of labour.^{134/}

^{132/} Otto Freye, World market oriented industrialization of developing countries: free production zones and world market factories, Max Planck Institute, Federal Republic of Germany, 1977. Quoted by P. Vuskovic, op. cit.

^{133/} P. Vuskovic, op. cit.

^{134/} Ibid.

In fact, they base their criticism and warnings both on some cases of opening up of the exterior (such as forms of international subcontracting or "free zones") and also in other cases on the nature of the more orthodox or "ideological" policies reviewed above.

However, there are more general questions which transcend those aspects and have considerable significance for the topic of this study.

One of these - as mentioned earlier - concerns the nature of the manufactured goods which have in the recent past constituted the main means of entering the central markets, i.e., non-durable consumer goods.

The criticism on this subject is well known and highly respectable, and ranges from the lower technological sophistication and low demand elasticity of such products to the possible effects on supply and prices in the countries of origin - a matter on which we commented earlier. Furthermore, from a dynamic standpoint, there is concern about the possible freezing of a pattern of trade which would reserve for the periphery only or primarily a place in those branches with all the relative disadvantages and limitations this would imply.

Two aspects of the problem should be distinguished here: this path may be the most accessible for a developing country "to be able to enter the export market"; but this does not prevent it from continuing to diversify towards activities with greater technological potential and more dynamic demand.^{135/}

^{135/} This concern has also been shown by economists of the centres, as may be seen from the following major article on the question: "A serious approach to increasing the international division of labour in manufactures through foreign trade must adopt a more dynamic and longer-term point of view than current comparative advantages if the developed countries do not wish to be accused of a new wave of neo-colonialism.

"While concentrating on labour-intensive products may be the only path by which a developing country can enter the export market, the earnings obtained by raising incomes should be invested in modifying the structure of exports. In the long term, the industries in which technological progress and future growth are highest must be widely distributed among all countries, developed or not, in line with the new lines of comparative advantage, just as they are currently distributed among the developed countries." (Hollis Chenery, "La división internacional de la fuerza de trabajo: el ejemplo en la industria", in El Trimestre Económico, No. 155, July-September 1972, Mexico City.)

In fact this has been verified in a number of countries recently, although as is natural it is strongest and most prevalent in the more industrialized countries. Thus between 1965 and 1975, for example, exports of capital goods in Brazil and Argentina increased their share of total manufacturing exports from 16.8 to 24.4% and from 14.7 to 18%, respectively.^{136/}

Naturally, this trend or possibility is by no means necessary or inevitable, and it would be naive to underestimate the obstacles standing in its way, which will very often call for the intermediation of regional groupings, as will be argued below. However, it would be even more mistaken to view it as a cul de sac.

Furthermore, it is worth stressing the historical perspective of the problem. As a general rule, and for obvious reasons, the industrial late-comers entered foreign trade not through the faster-growing, more sophisticated activities but through relatively simple manufactures or goods accessible to their stock of human and material capacities.^{137/}

Consequently, it is historically groundless and to some extent naive to suppose that the periphery could immediately launch its manufactured exports in the branches that are technologically most complex and are decisively affected by factors such as economies of scale and entrepreneurial and State organization, which must be created gradually, often through the very links with the world or regional markets.

^{136/} In The changing composition ..., op. cit.

^{137/} The most conspicuous example is that of Japan, which has been described as follows in a well-known study: Japan first imported manufactures from more developed countries, then began to produce domestic substitutes, and finally managed to become an exporter of those products. At first, Japanese exports of manufactured products tended to go to countries which were less developed than Japan itself. Subsequently, it was capable of exporting to industrially more advanced countries, as its labour force became more skilled and experienced, the quality of its products improved and the commercial skills of its businessmen became more sophisticated. (S.H. Robock, "Una dicotomía falsa: industrialización a través de sustitución de importaciones o mediante industrias de exportación", El Trimestre Económico, No. 159, Mexico City).

To close this discussion, and remembering the many allusions to the effect of the capitalist setting, it may be worth bearing in mind that the traditional or emerging trade structures also occur in relations between the periphery and the socialist countries, and also to a lesser extent among the latter. Thus most exports from the periphery to the socialist countries consist of commodities and light manufactures, and among the latter it is primarily the more industrialized economies which export the technologically more advanced products. Naturally, all this takes place within a setting of growth and change of those relations.^{138/}

(a) The problem of wage levels

The second objection in this field relates to the level of remunerations in the export industries of the periphery. It is argued that these entail conditions of "super-exploitation", which are besides a fundamental requirement for their development, with a number of understandable social and economic internal and external repercussions.^{139/}

The existence of this problem cannot be denied, and to illustrate it some heart-trending examples have been given of how in some places the miserable level of wages is used as an incentive for attracting investment, above all from abroad to "industrial free zones".^{140/}

^{138/} This statement is substantiated by the composition of imports of the Soviet Union from the developing countries. According to an UNCTAD study, in 1975-1976, the traditional branches, including miscellaneous manufactured articles, accounted for more than 82% of the total, the remainder being made up of chemicals, machinery and transport equipment and manufactured articles (SITC Section 6). See UNCTAD, Trade relations among countries having different economic and social systems, July 1978.

^{139/} The concept of "super-exploitation" has a double meaning in the literature in which it is used: one is absolute and refers to the physical hardship of the work involved and the extremely poor conditions of subsistence; the other is relative and refers to the extremely unfair distribution of the value created by the labour force (between the latter and the owners of the means of production). In other words, a wage-earner may be "super-exploited" from one standpoint or the other, or both at once. The lack of precision in the use of the concept makes it ambiguous, all the more so since the meanings are historically relative.

^{140/} O. Kreyer, op. cit.

/However, in

However, in a proper appraisal of the question other considerations mentioned earlier in another context (see "Repercussions on prices and wages") must be taken into account.

Of course, the relative lowness of wages in the periphery is one of the main reasons for the viability of manufactured exports, in conjunction with other equally important factors - the general level of development and size of the domestic market, resource endowment, geographical position, policies followed, and so on. These differences from the level of remuneration in the industrialized economies have always had some effect on the development of the international division of labour and of industry, by smoothing the way for newcomers to the manufacturing 'club'.^{141/} However, they have never been decisive, as shown in chapter one, and therefore investment and industrialization have continued to be concentrated in the nucleus of central countries, in other words, where wage levels are highest.

The question becomes still clearer if one starts from the explicit or implicit (for lack of an alternative statement) proposal that salaries in the export industries should be the same as those prevailing in the developed centres. Apart from the obvious obstacles such a situation would involve for international or regional competitiveness, it would also greatly increase local structural heterogeneity (including of course social inequality), inasmuch as it would cause technical progress to be still more concentrated in that segment of the production structure, thus further hindering its spread throughout the economic and social structure (even with the necessary priorities). In a sense, it would involve establishing a developed enclave within an overall peripheral situation which would continue with average levels of remuneration and productivity merely a fraction of those of the industrialized economies; not to mention the relegation of the population and activities stagnating in the so-called primitive strata.

^{141/} As is well known, the United States is the great exception to this rule. The relative shortage of labour, the abundance of natural resources and other factors led to a relatively high wage level from the outset, which in turn spurred the advance and spread of technology. It must be stressed, however, that these circumstances have not recurred in the great majority of cases.

/In fact,

In fact, paradoxically this argument tends to coincide with the orthodox approaches starting from a different standpoint. While the latter argue that industrialization in general and export activities in particular should meet international standards of efficiency, competitiveness and prices (and also wages, although this is a desideratum over an indefinite period), this approach sanctions manufacturing exports only if wage levels are on a par with those of the central economies.

The approach taken in CEPAL studies to the options raised by industrialization may be useful for shedding light on this problem.^{142/} In brief, CEPAL argued that international comparability should not be a guiding element in decisions on this process, since the latter was based on a number of internal and external reasons - absorption of redundant labour; necessary impact of the introduction of technical progress on primary activities; effects on the external sector and terms of trade, general training, etc. Thus the choices to be made in the process involved weighting up these elements and the relative advantages in the allocation of resources which could be identified and assessed.

Paraphrasing this general argument, it could be maintained that the essential point as far as wages are concerned does not lie in the comparison of absolute levels between the periphery and the centre but rather in a comparison of levels within the developing economies. In other words, they might be lower in the periphery than in the centres, but what really matters is the relationship between wages paid in export industries and those typical of the peripheral economies as a whole, or from a narrower standpoint, in related activities.^{143/}

^{142/} See, inter alia, R. Prebisch, Problemas teóricos y prácticos del desarrollo latinoamericano, commemorative series of the twenty-fifth anniversary or _____ and Problemas de la industrialización en América Latina, Cuadernos de la CEPAL, No. 14.

^{143/} There is no need to consider open or disguised unemployment, because this would be to take the hypothesis to an extreme. However, when studying the options of industrialization it has usually been considered that the use of idle human or material resources is an important factor in deciding on the economic and social justification of activities which do not satisfy orthodox canons.

/This question

This question clearly raises other problems which cannot be sidestepped. Chief among these are issues relating to the distribution of the income generated by the export sector. Let us assume that due to various factors - relatively low wages, incentives provided, creation or expansion of foreign markets and so on - a large surplus is created or increased. What happens to it? How is it distributed between the labour force, enterprises (national or foreign) and the State? Or in the case of a State-owned enterprise, between the State and the workers?

Some extreme replies may be imagined from the standpoint of the alternative doctrines. Taking one approach that surplus should be absorbed by the labour force, with the deliberate or de facto purpose of raising wages to international levels. Taking the other, in the interests of competitiveness and of the requirements of accumulation, the profits should go primarily to the owners of capital, while wage rises should be held down to the lowest socially and politically acceptable level - although in abstract it is also postulated that they should rise to international levels.

In both cases, it should be noticed, the surplus should fundamentally go to the private sector - except for the treasury's usual share. In both cases, the productivity of labour or of capital is used to justify these aspirations. In addition, it seems clear that these are microeconomic approaches in the sense that worker-enterprise relations are considered outside the global context of the system and its interrelations. The conflict of interests and classes is individualized or particularized, even though in the political formulation it is seen as collective.

Hence these two extreme perspectives - which of course have their nuances and qualifications - neglect or underestimate the social origin and component of surpluses, and, if you like, of much of the earnings or value added. This component stems from a number of different sources, ranging from the myriad influences of economic policy and politics to the significant contribution of the national heritage - resource endowment, accumulated know-how, inherited infrastructure, and so forth.^{144/}

^{144/} See A. Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", El Trimestre Económico, No. 125, Mexico City.

When this collective dimension is taken into account and weighed in the balance, it becomes less difficult to answer the question raised above. The heart of the matter is that the opposing claims of the labour force and of the owners-entrepreneurs must be harmonized with the social appropriation and use of some of the value created, a process which in all known capitalist and socialist systems takes place through the State (all the more so, obviously, in the case of State-owned or controlled enterprises). To some extent, this corresponds to what Dr. Prebisch has called the "socialization of the surplus", although the concept has other connotations in his work.^{145/}

From the narrower viewpoint of this discussion, that approach would mean, roughly speaking, that the levels and margins of wages and profits in export industries should not draw away from the "historical" and representative (i.e., more or less average) levels of the economy in which they are rooted, without prejudice to the preferential and qualified situations which might arise temporarily for their development or in the light of exceptional circumstances (for example, dangerous work, inhospitable location, etc.). Naturally, these general rules will inevitably be conditioned by the balance of power among the protagonists involved. Nevertheless, this does not negate its possible usefulness as an alternative to the simplifications or errors of the traditional approaches.

In brief, "super-exploitation" or the private retention (by entrepreneurs or wage-earners) of the profits from the activities in question (whether or not their aim is to lead to equivalence with the industrialized economies or the international market) represent extreme options which may not necessarily exist in fact - and this is what has actually happened. Often the profits and wages of the export industries are above the average levels of the system and sometimes above those prevailing in the modern sector. However, it is usually also the case that direct or indirect fiscal action makes it possible to redistribute part of this surplus to the community, particularly if the activities are State-owned.

^{145/} See the articles on peripheral capitalism by Dr. Prebisch in the CEPAL Review, Nos. 1, 6 and 7.

9. Regional props

Following this cursory review of some aspects of the state of supply and demand which affect the goal of "industrializing" exports, mention must now be made of other more general factors.

The first of these is the present and above all potential importance of regional and subregional trade in Latin America.^{146/}

There is no need to review the theoretical and practical work of CEPAL in this field. As is well known, in the early 1950s it began stressing the need to progress beyond a form of industrialization based on "watertight compartments", as Dr. Prebisch put it. This was no doubt the first call for greater openness, based on the need to continue the process in a broader, more favourable framework, boost manufactured exports and lay more solid foundations for directing the world market.

There is little doubt that the inherent difficulties in the road towards this objective were compounded in the mid-1960s by the relative easing of the external bottleneck, either because of the better performance of some commodity exports or due to the larger inflow of foreign credit. There are good reasons for maintaining that the latter was at least as important as the former, if not more so, in damping the drive towards integration.

The changes in the international setting during the present decade and particularly the loss of dynamism of the central economies may in some degree reestablish the priority of regional trade, which has continued to grow at a satisfactory rate. But it would be mistaken to assume that only a major external bottleneck could stimulate that trade. What is most significant is that the development of industrialization and the volume and growing needs of imports have opened promising horizons for reciprocal trade within the region.

Another point is that some orthodox approaches consider that an incompatibility may be detected between the promotion of regional agreements and taking advantage of the opportunities offered by international trade.

^{146/} It has not been possible to discuss here the question of "horizontal co-operation" among countries of the periphery.

The opposite view would appear to be better founded, i.e., that by affecting the speed of the process and the advance in lines with greater export potential, progress in the first of these directions, helps to create a more solid platform for seizing those opportunities. At least, this is what is suggested by experience in this field elsewhere, such as the EEC and the socialist bloc in Europe.

It is quite clear that the imperatives here vary according to the size of the domestic markets and other factors, but this does not warrant the deduction that the larger economies could remain indifferent to the potential of regional trade, especially since they have better possibilities of benefiting from it and their absolute dimensions are relatively small in comparison with the main industrial economies. For the smaller economies, on the other hand, membership in larger economic groupings enjoying reciprocal preferences does appear a sine qua non for the advance of their industrialization and external sectors, despite the fact that such links present major difficulties precisely due to the more incipient state of that process.

Be that as it may, regional integration stands out as an essential ingredient of the industrial-exporting strategy in that it limits risks and increases opportunities and independence from the central economies.

10. The role of the transnationals

What part can or should the transnational corporations have in the effort to change the periphery's position in the world economy?

This issue is crucial to the matter due to the dominant and often exclusive position of the corporations in the technologically more sophisticated industries which have the best external and domestic demand prospects. In other words, the chances of qualitatively diversifying the structure of manufacturing exports depend to a high degree on the part played by the transnational corporations, at least within the present context.

Past experience in this respect shows clearly that they have concentrated on the domestic market and that their propensity to import is far greater than their contribution to exports, as was emphasized earlier.

/In addition,

In addition, it is equally well known that intra-firm transactions predominate in both these flows, thus giving rise to transfer pricing and other well-documented shortcomings.

Various studies have shed light on this state of affairs,^{147/} although satisfactory or complete data are not available. For the purposes of this study it may suffice to consider the data in table 23, although these refer only to the exports of United States corporations.

As is perfectly clear, the bulk of these exports is directed towards the other central economies, and this also represents an appreciable percentage of the corporations' total sales. This figure is again high for the group of countries of Asia and the Pacific (especially the Philippines) whose industrialization was developed on the basis of the external market. The picture is very different as far as Latin America is concerned. While current values rose appreciably between 1966 and 1974, their absolute level is low (1,421 million dollars compared with total exports of some 40 billion dollars in 1974) as is the percentage this represents of their global sales (less than 7% in 1974), which are primarily directed towards domestic markets, as was emphasized above.^{148/}

Some researchers in this field, such as C. Vaitsos, are skeptical about any change in these relations. He argues in the above-mentioned study that, at least in the medium term it is unlikely that the transnational corporations will make a major contribution to the world redeployment of manufacturing activities through strong exports from the less developed countries. He believes instead that their major role will continue to be in import-substitution manufacturing activities in those countries.^{149/}

^{147/} See for example UNCTAD, Transnational corporations and the growth of trade in manufactures and semi-manufactures, Geneva, 1978; UNCTAD, Dominant positions of market power of transnational corporations, New York, 1978; see Vaitsos, World industrial development and the transnational enterprises, Sussex University, mimeo, 1978.

^{148/} The higher figure in the case of Argentina appears to be due to exports of transport equipment to other Latin American countries, including Cuba.

^{149/} See World industrial development and the transnational enterprises, The Lima target as viewed by economic actors, by Constantine Vaitsos, Sussex University, 1978.

Table 23
 EXPORTS BY FOREIGN MANUFACTURING SUBSIDIARIES OF UNITED STATES CORPORATIONS
 (Millions of dollars)

	Total exports		Exports to United States		Exports to other countries		Exports (percentage of sales)	
	1966	1974	1966	1974	1966	1974	1966	1974
World	8 817	40 998	2 679	11 228	6 138	29 770	18.6	23.3
Developing countries	578	2 792	219	1 024	359	1 768	8.4	10.6
Latin America	362	1 421	129	509	233	912	6.2	6.8
Argentina	...	295	...	73	...	222	...	10.4
Brazil	...	423	...	175	...	248	...	5.5
Colombia	18	97	4	11	14	86	5.9	8.2
Mexico	49	233	23	152	26	81	3.2	4.7
Other countries of Asia and the Pacific	208	1 184	88	480	120	704	23.2	24.9

Source: Bureau of Economic Analysis of the United States Department of Commerce, Survey of Current Business, Washington, D.C., vol. 56, No 5, May 1976, pp. 25-34.

/Without insisting

Without insisting on the interrelations and possible reciprocal reinforcement of these two approaches, it is worth recalling some of the progress made to include the transnational corporations in the export drive. As is pointed out in a study referred to earlier, in recent years exports of manufactured products by the transnational corporations have become quite important, partly because the developing countries have brought pressure to bear upon the corporations to export more; in some cases the condition has been imposed that they must reach specific export levels in order to be allowed to expand their installations and import goods. In the case of new corporations in a specific industry and in other import-substitution activities, prior commitments on exports are also required.^{150/}

Bearing these observations in mind, it is worth noting that not too long ago - even as late as the mid-1960s - it was difficult to find Latin American manufactured products, particularly equipment and machinery, in the markets of the region. Furthermore, various cases were known in which the parent companies of international corporations had actually prevented such exports.

There is no need to stress that this panorama has changed substantially. Unquestionably, the exports of the larger and more industrialized countries continue to predominate, and exports to the central markets are much smaller - although they too have begun (see table 23) - but these limitations do not belie the fact that bargaining power vis-à-vis the corporations has grown although long-standing obstacles still remain and new ones are arising.

In fact, in studies of this and other questions there is usually a lack of historical perspective and of understanding of the contradictory and continually changing nature of the course of the economy and society. For this reason, facts and considerations such as those given above are usually confused with professions of naive optimism or, worse still, common conformism. But the picture is different if the identification of new developments - promising or negative, or both at once - goes hand-in-hand with a critical spirit and the search for positive transformations, as has usually been the case in the approach taken by CEPAL.

^{150/} UNCTAD, Transnational corporations and the growth ..., op. cit.

Consequently, it does not seem justified to reject out of hand or entertain excessive reservations about the hypothesis of a greater contribution of foreign corporations to the diversification of manufactured exports. Ultimately, this will depend to a large extent on how the questions discussed below are tackled and resolved.

11. The responsibility of national policies

One fundamental question is the nature (and the resulting opportunities) of national policies and decisions in this field and in relation to the overall problems we have been examining.

The responsibilities of the State are as broad as they are pressing; and in practice in most cases they have been faced up to in varying degree and manner. Of course, there are exceptions but these appear as eccentric and probably transient deviations from the rule; and besides, as mentioned above, even in these cases the State has in fact exercised its power, although in a direction contrary or different to the majority of cases.

This public role is obviously conditioned by the social and political power relations within each country and at the international level.

The picture formed by the trends which we have examined would appear to indicate that there is a sizeable margin for manoeuvre to orient the industrialization strategy in such a way that it helps to secure a different form of insertion in the world economy, by entering into partnership with the transnational corporations and bringing pressure to bear upon them. The familiar argument regarding the virtually total identification of national entrepreneurs (private and public) and of the State technobureaucracy with foreign interests now appears rather less valid or indisputable than a few years ago - although this is not to neglect or underestimate the problem. This is the result both of the strengthening of these circles' own interests and objectives and also of the emergence of new forms of association with foreign corporations which go beyond the simple choice between foreign or national control.

/In addition,

In addition, and what is perhaps more decisive, this change stems from the upheavals which have occurred in the central economies and particularly the United States, and also from the shifts in relative power and the increased competitiveness among them. The first of these has increased the periphery's degree of independence and the second has strengthened its hand at the negotiating table. It is enough to think back to the picture prevailing 10 or 20 years ago in this sphere to realize the extent and importance of these changes.

All in all, it is clear that the possibilities which have arisen vary significantly according to the specific weight of the countries. And here we encounter once again an aspect which necessarily recurs in CEPAL analyses: the importance of regional and subregional integration. Both from the standpoint of the requirements and opportunities of industrialization, inward- and outward-directed, and from that of the periphery's bargaining power at the world level and vis-à-vis foreign corporations, this must be a key objective, underpinned, of course, by the preferential development of domestic markets.

We shall not discuss here another vital aspect of the question, namely, the precise nature of the policies and instruments to carry these purposes into practice. There is a wealth of Latin American experience in this field in the last decade, analysed in many studies.^{151/} We shall only point out that while considerable progress has been made in studying and identifying the factors designed to promote exports, much remains to be done in terms of including this objective within the global industrialization strategy and the process of integral development.

12. Conclusions

The following basic conclusions can be drawn from the foregoing discussions:

(i) to secure relatively dynamic development in the forthcoming decades will require the maintenance or intensification of the flow of exports and particularly of manufactured exports, because these offer

^{151/} See, in particular, CEPAL, Políticas de promoción de exportaciones, 6 volumes, 1978.

better prospects than commodity exports, constitute a requirement for fostering industrialization and represent the main path for achieving a new form of insertion in the world economy;

(ii) this objective does not involve a structural change in the nature of Latin American industrialization in the sense of a volte face or an opposition between the inward-directed or outward-directed forms of the process. The two are complementary, and domestic markets will continue to be its main support - reinforced by regional and subregional agreements in this field;

(iii) some variants of "openness to the exterior" have rejected or underestimated this relationship, advocating instead a line of conduct which follows or reproduces nineteenth-century approaches to the question which involve various potential or already visible dangers affecting economic, social and political variables of the utmost importance;

(iv) a suitable strategy in this sphere - at least from the standpoint taken by CEPAL studies - must from the outset include the question of the promotion of manufacturing exports in the broader framework of the process of industrialization and of development in general;

(v) the analysis of the present or foreseeable prospects of strengthening this process by means of such exports suggests that this is a viable approach, despite the constraints which have appeared in the central markets, and as long as the policies followed are - inter alia - capable of developing regional links, negotiating with the transnational corporations and ensuring the State's role of guide and guardian.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data. The second part of the document provides a detailed breakdown of the financial data, including a list of all items purchased and their respective costs. This information is crucial for understanding the overall financial performance and identifying areas where costs can be reduced. The final part of the document summarizes the key findings and provides recommendations for future actions. It suggests that regular audits should be conducted to ensure that all records are up-to-date and accurate. Additionally, it recommends that the company should consider implementing a more robust accounting system to streamline the record-keeping process and reduce the risk of errors.

