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CEPAL REVIEW
First half of 1977

# Exports in the new world environment: the case of Latin America

*Barend A. de Vries**

Exports have played a crucial role in the economic growth of Latin America. The countries that fared best in the recent crisis were those which had succeeded in diversifying their domestic economies and their exports –on the basis of earlier industrialization efforts– and which continued to encourage their export trade. Similarly, if they are to cope successfully with the complications of the present and future external position, deriving from the higher cost of oil, increased external indebtedness, and the pressure on available capital resources, it will be indispensable for exports to keep up or regain their momentum.

The present article analyses the conditions that would make it possible for the Latin American countries to maintain a viable balance of payments in a context of growth: more specifically, the conditions that would enable them, by the end of the present decade, to increase their exports at an annual rate of 9 per cent or more, their imports at a lower rate and their product by 7 per cent per annum. The aspects analysed include, among others, the evolution of external markets (both those of the industrialized countries and those of the region); the role of exports of agricultural and mining products; the diversification of industrial exports; exchange policy and export incentives; and import substitution projects.

*World Bank.

## Introduction[1]

Over the past ten years most Latin American countries have, to an increasing extent, pursued measures to expand and diversify exports. These outward-oriented policies, together with a generally favourable external environment, made possible unexpectedly high export growth rates in 1968-1973. This export growth greatly enhanced the economic strength of the Latin American countries. It increased their creditworthiness for substantially higher external borrowing, which in turn helped to finance larger investments in industry, mining and infrastructure; and it substantially improved their capacity for adjusting to the adverse effects on their external financial position of the 1974-1975 recession in the industrial countries.

Continuation of export growth and diversification will be important for the development prospects of the Latin American countries over the next 5-10 years, as well as for their ability to adjust to the changes in external price, demand and supply relationships which have occurred since 1973 and to obtain adequate amounts of external financing. At the same time, however, the changes in the external environment may be putting

[1] Paper prepared for the Seminar on Export Promotion Policies held under the joint sponsorship of CEPAL, the International Bank for Reconstruction and Development (IBRD) and the United Nations Development Programme (UNDP), at Santiago, Chile, 5 to 7 November 1976. The views expressed are not necessarily those of the World Bank, of which the author is a staff member.

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pressures on the outward-oriented policies adopted in the late sixties. International conditions for the supply of capital and for export growth may be less favourable than they were in the early seventies.

This paper seeks to assess the role that continued export growth must play in Latin America's development and to discuss how export policies can best be adapted to the changes both in external and in domestic conditions which have taken place since 1973.

First, the paper focuses on developments in 1971-1975, with special emphasis on those features which are likely to have a bearing on the pattern and level of future growth. What were the factors behind the export acceleration? What role did exports play in enabling countries to adjust to the 1974-1975 recession, and how did manufactured exports fare during that time?

Secondly, it considers the role of exports and export policies in Latin America's growth during the next 5-10 years. What minimal export growth rates must be achieved in order to maintain a viable external position? Can these rates be realized? What are the factors which could cause a slow-down of the growth of industrial exports and a change in export composition? What do these factors imply for export policies, what are the pressures on these policies and what will be the case for special incentive measures? Will Latin America be able to maintain some degree of stability in its external payments position and cope with the effects of fluctuations in external demand?

Thirdly, it considers some aspects of the role of intra-regional trade in recent and prospective export development. How was intra-regional trade affected by the acceleration in exports, and what contribution can regional markets make to export growth and the countries' ability to cope with fluctuations in the demand of the major industrial nations?

# 1.

# Developments in 1971-1975

(a) *Export acceleration*

Table 1 summarizes the major elements in the GDP, balance of payments and external debt of ten Latin American countries,[2] which account for some 84 per cent of total GDP of Latin America and the Caribbean, 73 per cent of exports (excluding those of the oil exporters, Venezuela, Ecuador and Trinidad and Tobago) and 89 per cent of external debt (again excluding these oil exporters). Major characteristics of growth trends in the first three years, 1971-1973 (i.e., those preceding the increase in oil prices and the OECD recession) are:

(i) Growth in GDP, exports and especially manufactured exports reached high levels not achieved in previous years. In 1973 GDP growth averaged over 8 per cent for the ten countries, and manufactured exports increased by 31.3 per cent in real terms. These growth parameters reflect the progressive integration of major Latin American coun-

[2] Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Guatemala, Jamaica, Mexico and Peru.

Table 1

**GROWTH, BALANCE OF PAYMENTS AND DEBT: ARGENTINA, BOLIVIA, BRAZIL, CHILE, COLOMBIA, DOMINICAN REPUBLIC, GUATEMALA, JAMAICA, MEXICO, PERU**

| | *Estimated actual* | | | | | *Projections* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* | *1977* | *1978* | *1979* | *1980* |
| ***Macro-economic parameters*** | | | | | | | | | | |
| G.D.P. growth | 7.9 | 7.6 | 8.3 | 7.5 | 2.9 | 3.7 | 5.2 | 6.0 | 6.5 | 6.9 |
| Export growth | 3.1 | 7.9 | 5.7 | 1.1 | -1.5 | 8.7 | 9.2 | 10.0 | 8.7 | 9.0 |
| (Manufactured export growth) | 16.5 | 20.7 | 31.3 | 8.3 | 4.1 | 12.4 | 11.5 | 12.5 | 12.9 | 13.0 |
| ***Ratios*** | | | | | | | | | | |
| Resource gap/G.D.P. (%) | 1.4 | 1.1 | 0.5 | 2.6 | 2.8 | 1.5 | 0.7 | 0.3 | -0.1 | -0.3 |
| Investment/G.D.P. (%) | 20.8 | 21.7 | 21.1 | 23.8 | 21.9 | 20.3 | 21.6 | 22.1 | 22.4 | 22.8 |
| Domestic savings/investment (%) | 93.3 | 95.1 | 97.8 | 89.1 | 87.3 | 92.9 | 96.6 | 98.8 | 100.4 | 101.2 |
| Incremental capital output | 2.4 | 2.7 | 2.6 | 2.8 | 8.3 | 5.9 | 3.9 | 3.6 | 3.4 | 3.2 |
| Imports/G.D.P. (%) | 10.3 | 10.1 | 9.9 | 11.5 | 10.5 | 9.3 | 8.8 | 8.8 | 8.7 | 8.7 |
| Marginal savings (%) | 25.4 | 40.2 | 18.2 | 26.9 | -40.0 | 13.7 | 61.6 | 37.2 | 30.7 | 30.8 |
| ***Terms of trade*** (1967-69 = 100) | | | | | | | | | | |
| Export price index | 109.4 | 119.9 | 158.0 | 208.5 | 108.0 | 218.8 | 234.8 | 257.0 | 276.3 | 296.3 |
| Import price index | 110.8 | 121.0 | 147.6 | 197.2 | 215.2 | 232.0 | 251.1 | 270.4 | 289.5 | 308.9 |
| Terms of trade index | 98.8 | 99.1 | 107.0 | 105.7 | 96.7 | 94.3 | 93.5 | 95.0 | 95.4 | 96.1 |
| ***Balance of payments*** (Millions of dollars) | | | | | | | | | | |
| Exports (goods + non-financial services) | 12 913.5 | 15 261.6 | 21 247.2 | 28 364.3 | 27 879.2 | 31 869.0 | 37 336.5 | 44 934.8 | 52 520.0 | 61 509.3 |
| Imports (goods + non-financial services) | 14 921.2 | 17 062.3 | 22 287.4 | 36 860.6 | 37 948.1 | 37 699.3 | 40 649.2 | 46 248.0 | 52 017.0 | 59 669.9 |
| *Resource balance* | *-2 007.7* | *-1 800.7* | *-1 040.2* | *-8 496.3* | *-10 068.9* | *-5 830.3* | *-3 312.7* | *-1 313.2* | *503.0* | *1 839.4* |
| Other services (net) | -1 594.0 | -1 878.4 | -2 371.6 | -3 022.8 | -4 248.0 | -5 595.8 | -6 366.9 | -7 123.9 | -8 004.3 | -8 629.5 |
| Interest (net) | -1 165.5 | -1 372.3 | -1 856.7 | -2 296.6 | -3 543.9 | -4 857.2 | -5 571.7 | -6 141.0 | -6 622.1 | -7 006.0 |
| *Balance on current account* | *-3 601.7* | *-3 679.1* | *-3 411.8* | *-11 519.1* | *-14 316.9* | *-11 426.1* | *-9 679.6* | *-8 437.1* | *-7 501.3* | *-6 790.1* |
| Amortization | -2 438.0 | -2 944.5 | -3 786.2 | -3 980.6 | -4 309.1 | -5 144.0 | -6 916.6 | -8 842.9 | 10 248.8 | -11 426.7 |
| *Capital required* | *6 039.7* | *6 623.6* | *7 198.0* | *15 499.7* | *18 626.0* | *16 570.1* | *16 596.2* | *17 280.0* | *17 750.1* | *18 216.8* |
| ***Financing*** (Millions of dollars) | | | | | | | | | | |
| Official sources (gross) | 1 136.6 | 1 371.8 | 1 708.3 | 2 126.9 | 2 633.4 | 2 848.0 | 3 020.5 | 3 288.7 | 3 572.7 | 3 854.6 |
| (net) | *690.1* | *937.0* | *1 165.9* | *1 446.6* | *1 786.0* | *1 761.9* | *1 807.2* | *2 074.8* | *2 231.1* | *2 326.1* |
| Multilateral | 425.0 | 505.9 | 576.7 | 769.9 | 841.8 | 1 195.3 | 1 362.8 | 1 626.7 | 1 817.7 | 1 956.2 |
| Bilateral | 265.1 | 431.1 | 589.2 | 676.7 | 944.2 | 566.6 | 444.4 | 448.1 | 413.4 | 369.9 |
| Private sources (gross) | 3 409.8 | 6 118.3 | 7 432.5 | 11 221.9 | 11 837.4 | 10 671.3 | 11 597.2 | 11 698.4 | 12 351.7 | 12 548.4 |
| (net) | *1 418.3* | *3 609.6* | *4 187.7* | *7 931.6* | *8 375.7* | *6 614.4* | *5 893.9* | *4 069.8* | *3 447.5* | *2 651.2* |
| Suppliers | 142.0 | 249.9 | 458.6 | 831.4 | 919.0 | 1 144.5 | 1 284.7 | 1 351.9 | 1 331.2 | 1 365.9 |
| Financial | 1 230.0 | 3 316.8 | 3 823.1 | 6 500.9 | 7 322.6 | 5 288.4 | 4 551.9 | 2 658.5 | 2 111.3 | 1 289.6 |
| Bonds | 85.1 | 184.6 | 19.5 | 38.4 | 204.7 | 245.5 | 124.8 | 128.5 | 75.8 | 67.4 |
| Others | -38.8 | -141.7 | -113.5 | 560.9 | -70.6 | -64.0 | -67.6 | -69.1 | -70.9 | -71.8 |
| Direct investment | 574.8 | 677.3 | 1 662.1 | 1 544.0 | 2 122.9 | 2 138.6 | 2 493.7 | 3 001.4 | 3 294.0 | 3 455.7 |
| Other capital n.e.s. | 893.3 | 1 179.0 | -581.5 | -223.7 | -299.7 | -508.1 | -55.5 | 151.3 | 28.5 | 144.7 |
| Reserve change (– = increase) | 25.2 | -2 722.8 | -3 023.4 | 830.6 | 2 331.9 | 1 420.3 | -459.8 | -859.9 | -1 496.9 | -1 786.7 |
| ***External debt*** (Millions of dollars) | | | | | | | | | | |
| *Debt outstanding + Disbursement total* | *17 659.8* | *22 746.6* | *28 819.9* | *37 870.3* | *47 900.0* | *56 489.0* | *64 422.4* | *70 926.0* | *76 902.4* | *82 229.1* |
| Debt service | 3 603.5 | 4 316.8 | 5 642.9 | 6 277.2 | 7 853.0 | 10 001.2 | 12 488.3 | 14 983.9 | 16 870.9 | 18 432.7 |
| Amortization | -2 438.0 | -2 944.5 | -3 786.2 | -3 980.6 | -4 309.1 | -5 144.0 | -6 916.6 | -8 842.9 | -10 248.8 | -11 426.7 |
| (Official) | 446.5 | 434.8 | 542.4 | 680.3 | 847.4 | 1 086.1 | 1 213.3 | 1 214.0 | 1 341.6 | 1 528.5 |
| (Private) | 1 991.5 | 2 508.7 | 3 244.8 | 3 290.3 | 3 461.7 | 4 056.9 | 5 703.3 | 7 628.0 | 8 904.2 | 9 897.2 |
| Interest | -1 165.5 | -1 372.3 | -1 856.7 | -2 296.6 | -3 543.9 | -4 857.2 | -5 571.7 | -6 141.0 | -6 622.1 | -7 006.0 |
| (Official) | 295.4 | 325.3 | 410.1 | 511.1 | 613.4 | 761.6 | 833.9 | 934.2 | 1 079.9 | 1 247.4 |
| (Private) | 870.1 | 1 047.0 | 1 446.6 | 1 785.4 | 2 870.5 | 4 095.6 | 4 737.8 | 5 206.8 | 5 542.2 | 5 758.6 |
| Debt service ratio (%) | 27.9 | 28.3 | 26.6 | 22.1 | 28.2 | 31.4 | 33.4 | 33.3 | 32.1 | 30.0 |

*Source:* Based on IBRD staff estimates, July 1976.

tries into the world economy (trade, investment and finance);

(ii) As GDP growth accelerated, the ratio between imports and GDP remained stable and the resources gap dwindled to less than 0.5 per cent of GDP, or barely more than 1 thousand million dollars in 1973;

(iii) Terms of trade improved by more than 8 per cent in these three years, despite the sharp increase in import prices associated with the higher oil prices and world inflation.

The acceleration of export growth was most marked for manufactured exports. Those of LAFTA[3] increased by an average annual rate of 39.8 per cent (in current dollars), with rates for the four countries shown in table 2 ranging from 34.5 per cent for Argentina to 52.2 per cent for Brazil. This growth reached a peak in 1973, when it amounted to 31 per cent in real terms for the ten countries shown in table 1, covering a broad range of items such as light and heavy consumer goods, machinery and electrical equipment. Many of these items started from a zero or very small base in 1968 and reached substantial amounts in 1973. Annex table 7 shows twenty-six such export items for Brazil, some of which increased to almost 100 million dollars by 1973. Similar observations can be made for Argentina, Colombia and Mexico (see Annex tables 8, 9 and 10).

The major factors underlying the acceleration of manufactured exports were:

(i) Major Latin American countries had significantly changed their foreign exchange rate policies (especially Brazil and Colombia, which introduced flexible exchange rates in 1968) and/or adopted effective export incentive measures;[4]

(ii) Their industrial production and marketing capacity had reached a stage where they were able to achieve significant export growth. A substantial part of their export production and marketing was organized with the assistance of transnational companies.[5] In fact, exports increased most to countries where these companies provided access to extensive marketing and retailing facilities (see section 3);

[3] Latin American Free-Trade Association: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

[4] 'Exchange rate flexibility' in this paper means a policy of adjusting exchange rates, frequently if necessary, to the pace of domestic inflation, maintaining as a minimum the real purchasing power parity *and* permitting the exchange rate to play a central role in resource allocation. (Generally characterized by Phase IV of the National Bureau of Economic Research (NBER) project: see Jagdish N. Bhagwati and Anne O. Krueger, "Exchange control, liberalization and economic development", *American Economic Review*, Vol. LXIII, Nº 2, May 1973.) Brazil is one of several countries which relied on a mixture of exchange rate, fiscal and credit measures to stimulate exports. "When we incorporate our measure of the incentives into the discussion of the evolution of the real exchange rate for manufactured exports over time, we see that the various incentive instruments have *more than offset* any decline in the real exchange rate since late 1964 . . . While exchange rate policy since 1968 has been used to stabilize real exporter remuneration, fiscal policy has been the instrument by which such remuneration has been increased." (William G. Tyler, *Manufactured Export Expansion and Industrialization in Brazil*, Tuebingen, 1976, p. 222.)

[5] See G. K. Helleiner, "Manufactured exports from less developed countries and multinational firms", *The Economic Journal*, Vol. 83, Nº 329, March 1973. Tyler, (*op. cit.*, page 148) states that multinational firms accounted for 43 per cent of all manufactured exports of Brazil in 1969. Foreign firms were most important for the machinery and transport equipment category, in which they undertook 76 per cent of all 1969 exports.

Table 2

**EXPORTS TO LAFTA AS PERCENTAGE OF EXPORTS TO ALL DESTINATIONS FOR TOTAL LAFTA, ARGENTINA, BRAZIL, COLOMBIA AND MEXICO**

*(1968 and 1973)*

| | *Exports to LAFTA (%)* | | | *Average annual growth of exports* |
|---|---|---|---|---|
| | *1968* | *1973* | *% change in share* | *(1968-1973)* |
| *LAFTA* | | | | |
| Manufactured products | 35.7 | 26.8 | -24.9 | 39.8 |
| Basic and miscellaneous manufactures | 32.2 | 20.4 | -36.6 | 40.5 |
| Chemicals | 27.1 | 39.3 | 45.0 | 21.2 |
| Machinery and transport equipment | 58.4 | 34.1 | -41.6 | 54.0 |
| *ARGENTINA* | | | | |
| Manufactured products | 47.3 | 53.3 | 12.7 | 34.5 |
| Basic manufactures | 34.7 | 38.0 | 9.5 | 38.0 |
| Chemicals | 35.5 | 50.7 | 42.8 | 13.6 |
| Machinery and transport equipment | 71.0 | 77.4 | 9.0 | 48.0 |
| Miscellaneous manufactures | 68.3 | 37.9 | -45.5 | 32.8 |
| *BRAZIL* | | | | |
| Manufactured products | 45.6 | 25.9 | -43.2 | 52.2 |
| Basic manufactures | 44.1 | 18.5 | -58.0 | 47.8 |
| Chemicals | 14.1 | 24.1 | 70.9 | 32.3 |
| Machinery and transport equipment | 70.4 | 49.2 | -30.1 | 49.2 |
| Miscellaneous manufactures | 37.0 | 14.8 | -60.0 | 111.2 |
| *COLOMBIA* | | | | |
| Manufactured products | 28.0 | 22.2 | -20.7 | 41.9 |
| Basic manufactures | 19.3 | 12.2 | -36.8 | 41.7 |
| Chemicals | 51.3 | 60.7 | 18.3 | 42.5 |
| Machinery and transport equipment | 55.7 | 62.7 | 16.8 | 34.5 |
| Miscellaneous manufactures | 28.5 | 21.6 | -24.2 | 78.5 |
| *MEXICO* | | | | |
| Manufactured products | 18.3 | 11.4 | -37.7 | 37.3 |
| Basic manufactures | 9.5 | 4.7 | -50.5 | 26.8 |
| Chemicals | 21.1 | 25.0 | 18.5 | 19.8 |
| Machinery and transport equipment | 24.3 | 9.7 | -60.1 | 66.3 |
| Miscellaneous manufactures | 27.0 | 12.8 | -52.6 | 20.1 |

*Source:* Based on United Nations *Commodity Trade Statistics* (1968-1973).

*Note: SITC nomenclature.*

*(5 to 8 excluding 68) Manufactured products.*

*(5) Chemicals:* chemical elements, compounds, dyes, perfume, fertilizers, plastics, pesticides.

*(6 excluding 68) Basic manufactures:* leather, rubber articles, wood and cork manufactures, veneers, plywood, paper, textile yarn (natural and synthetic), cement, glass, iron and steel, metal tools and structures.

*(68) Non-ferrous metals:* silver, platinum, aluminum, copper, nickel, lead, zinc manufactures.

*(7) Machinery and transport equipment:* boilers, steam engines, aircraft engines, turbines, harvesting and threshing machinery, tractors, office machines, metal-work machines, industrial machinery, pumps, appliances, telecommunications, electric machines and tools, railway vehicles, road motor-vehicles, aircraft, ships.

*(8) Miscellaneous manufactures:* lighting fixtures, furniture, travel goods, clothing, footwear, professional, scientific and controlling instruments, musical instruments, printed matter, articles of artificial plastic, toys, jewelry, works of art, artisanry.

(iii) Market conditions were favourable, partly because of good business conditions prevailing simultaneously in the United States and the other OECD countries, and partly because of the effects of import liberalization and preferential tariff arrangements;

(iv) Country shares in import markets were still relatively low at the start of the period.

Latin American countries had to adjust to the increase in oil prices and the subsequent 1974-1975 recession, especially those which were not self-sufficient in oil and which, through diversification of manufactured exports to industrial countries, had become more integrated with the world economy. Notable examples are Brazil, Chile and Uruguay. Although the movements of prices for major commodities, especially agricultural, were not strictly parallel in the most recent cyclical downturn – with weather conditions even causing increases for some (e.g., sugar and coffee) –, demand for manufactured exports did generally decline or decelerate.

At the end of 1973 most of the countries were in a relatively strong position to cope with the adverse impact of the OECD recession:

(i) Exports had been rising dynamically and, in fact, the year-to-year increases in export earnings covered a substantial portion of total service payments on external debt (for example, in 1974 the increase in Brazil's exports of goods and services was equivalent to 73 per cent of its total debt service, while for the ten-country group the figure was even larger: 113 per cent);

(ii) The debt service ratio was relatively low – 22 per cent for the ten-country group in 1974 compared with 28 per cent in 1971. Although total debt rose sharply in 1974 and terms generally hardened in 1975, the increase in service payments lagged behind, and in fact these payments declined in relation to export earnings. Hence, countries were in a strong position to utilize the large amounts of private credits available for financing imports and investments while taking the necessary short- and long-term adjustment measures;

(iii) Imports were at a sufficiently high level in relation to GDP for some compression to be achieved without severely endangering longer-term growth.

In the first phases of the 1974-1975 adjustment process imports did, however, increase faster than GDP in most countries – notable exceptions being Chile and Colombia. External capital facilitated the maintenance of import levels and hence made the adjustment process more gradual than it could have been otherwise. Between 1973 and 1975 import payments rose by 16 thousand million dollars for the 10-country group (or by 70 per cent), the resource gap increased from 1 thousand million dollars to 10 thousand million (or 2.8 per cent of GDP) and external debt climbed from 29 thousand million to 48 thousand million dollars.

A notable feature of the capital inflow was the increased importance of private credits. The net inflow of capital from private sources doubled between 1973 and 1975 to 8.4 thousand million dollars. The share of private credits in total external debt increased from less than 49 per cent in 1970 to 71 per cent in 1975.

Up to 1974 the growth of external debt was roughly in line with the growth of exports. In 1967-1970 external debt increased by 12.6 per cent per annum while export earnings rose by 12.2 per cent. As the growth rate of exports accelerated in 1971-1974, so did that of

external debt – 29 per cent per annum for exports as against 23.5 per cent for external debt.[6] In 1974-1975 external capital was used in part to help offset the adverse balance-of-payments effects of the recession. External debt increased more rapidly than exports, i.e., on average by 29.1 per cent per annum as against an export growth rate of 15.7 per cent. In addition, in 1975 private credit terms hardened markedly.

(b) *Manufactured exports in the 1974-1975 recession*

Some observations on the behaviour of manufactured exports in the two recession years, even if incomplete and tentative, are useful for understanding the issues confronting countries in their export strategy.

First, in real terms exports decelerated markedly. Table 1 shows real growth rates of manufactured exports of 31.3 per cent in 1973, 8.2 per cent in 1974, and 4.2 per cent in 1975. In current dollars exports increased by 53.9 per cent in 1974 and 7.2 per cent in 1975.[7] While the 1974 and 1975 growth rates are clearly more favourable than those achieved for traditional staple products, they are much lower than the 1971-1973 rates, and the experience of some countries suggests that certain manufactured exports also suffered considerably, in terms both of volume and of prices. In Colombia, for example, the increase in volume in 1975 was more than offset by the decline in unit values; non-traditional agricultural exports did better than manufactured goods. In Brazil, while unit prices of total exports rose by 0.7 per cent, prices of manufactured exports *declined* by 6 per cent in 1975 (as against a 44 per cent increase in 1974) and prices of semi-processed goods[8] fell by 18 per cent. Export prices of capital goods –a rapidly growing category– decreased by 5 per cent (as against an *increase* of 21 per cent in capital goods import prices). In general, exports of the more 'traditional' items (shoes, textiles, wood products) did not do well – these also tend to have the larger market shares in the United States. Those produced and marketed by the transnationals (automotive products and machinery) generally did better than other exports.

Policies affecting general price competitiveness clearly had an effect on the behaviour of manufactured exports in these recession years. This is apparent from a comparison between Chile and Uruguay, on the one hand, with Mexico and Peru on the other. In Chile –where real devaluation of 37 per cent occurred in 1974-1975– manufactured exports increased from 226 million dollars in 1973 to 675 million in 1975. Continuation of this growth trend, even at a slower pace, would significantly alter and enhance Chile's development pattern and prospects. Likewise, changes in Uruguay's policies (exchange rate flexibility, export subsidies and import liberali-

[6] The figures in this sentence and in the previous one are for a group of 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. The 1971-1974 data for the 10-country group in table 1 would show increases of 29.5 per cent per annum in exports and 29.0 per cent in external debt.

[7] These percentages are for a group of 5 countries: Brazil, Chile, Colombia, Mexico and Peru.

[8] Including, among others, cocoa butter (20 per cent), soybean oil (31 per cent), castor oil (31 per cent), pig iron (24 per cent), and wood pulp (27 per cent).

zation) made it possible for non-traditional exports to expand by 50 per cent in 1975, thereby offsetting the decline in exports of meat and wool tops caused by EEC restrictions and other adverse market conditions. (Non-traditional exports as a percentage of the total increased from 18 per cent in 1973 to 45 per cent in 1975.) On the other hand, in Peru and Mexico, countries which continued to apply a fixed-rate policy in an inflationary environment, such exports suffered relatively large decreases in volume (14.7 per cent for Mexico in 1975 and 27.9 per cent for Peru). And Mexico's share of United States imports tended to decline in both years.

The conclusions emerging from these preliminary observations are:

(i) General policy measures, especially concerning exchange rates (but also investment policies in the private sector) were important in achieving export growth in the adverse conditions of 1974 and 1975;

(ii) Manufactured exports, while faring better than most staples, were adversely affected by the recession. Some sub-categories did better than others, but in general industrial exports slowed down markedly and prices of many products declined. In some countries the performance of non-traditional agricultural exports was more satisfactory than that of manufactured goods. In these circumstances *general* incentive measures –affecting a broad range of exports– would seem to be more desirable than measures focusing on selected items.

# 2.

# Future export growth

(a) *Main characteristics of growth*

The projections in table 1 for the group of 10 Latin American countries sum up those prepared for the individual countries on the basis of uniform assumptions about the external environment (e.g., demand in industrial countries, prices of raw material exports, international inflation). Country growth rates reflect growth potentials and strategy, investment and export plans and policies, and the necessary adjustments in the balance of payments during the projection period. The projections bring out certain key issues to be considered in an export development policy:

(i) Exports have become a leading sector in relation to Latin America's growth. And they are fundamental for maintaining a country's ability to obtain and service adequate amounts of external capital. The scenario presented in table 1 assumes that real growth of total exports can reach 8 - 10 per cent per annum – reflecting growth of *all* major categories (agricultural, mineral and manufacturing); manufactured exports would increase by 10 - 15 per cent per annum, a good growth rate, but below the super-growth levels (23 per cent) achieved in the early seventies. Terms of trade are projected to improve only marginally for the remainder of the decade. Export growth lower than the projections would depress GDP growth because of the direct impact of the export sector on the economy, and the reduced

foreign exchange available for importing investment goods; capital inflows would also be adversely affected, with the consequent aggravation of the cut in external resources;

(ii) The projection assumes that imports can be reduced from 11 per cent of GDP in 1974 and 1975 to less than 9 per cent by the late seventies (as compared with 10 per cent in 1971-1973; in 1974 imports were somewhat inflated by inventory building in some countries). A decline in the import ratio would seem to be feasible, given the possibilities of adjusting to the new external environment (which in some countries has already entailed some real devaluation of the exchange rate) and the plans for import substitution projects, especially in Brazil (e.g., capital goods, fertilizers and steel). Combining policies which will reduce imports with those which will permit a resumption of vigorous export growth may prove to be a difficult task in certain cases;

(iii) Overall GDP growth would accelerate to 6 - 7 per cent. Significantly lower growth rates would not be compatible with the objective of improving the levels of living of the lowest income groups;

(iv) The external resource gap would decline progressively (from 2.8 per cent in 1975) and turn into a small surplus after 1979. This turn-around, if achieved and sustained, would, of course, be the most important single factor in containing the build-up of external debt. Interest on debt outstanding has risen substantially in the last few years –because of both the hardening of terms and the higher level of debt– and is expected to remain a substantial charge on available resources (3.5 thousand million dollars in 1975 and 7 thousand million in 1980). In all, the build-up of external debt would decelerate in relation to export earnings – 12 per cent per annum growth in debt in 1975-1980 as against 18 per cent in export earnings.

Balance-of-payments and growth prospects are, of course, highly sensitive to increases in petroleum and mineral production. Without substantial new oil production, countries that are now self-sufficient in oil, or nearly so, would have to step up their imports considerably. Moreover, in most countries other than the petroleum exporters, increased exports of mineral products will be fundamental for the maintenance of the growth momentum achieved in the past decade. This is true, for example, for Peru and Colombia (phosphate, coal, nickel, copper, and petrochemical developments). These projects will require substantial external capital investments, many of which will not bear fruit until well into the eighties. In Brazil both major agricultural export increases (e.g., soya beans) and mineral exports (e.g., iron ore) are key elements in the export growth scenario. Besides Brazil, agricultural exports will play a key role in Argentina, Uruguay, Paraguay, and Colombia. Mineral and agricultural products are essential in supplementing the potential growth of manufactured exports.

The projections present one possible scenario for the medium-term growth of the major Latin American countries. They should definitely not be regarded as a forecast, and, as will be clear from the discussion in the subsequent subsections, several comments should be made on them which can be briefly summarized as follows:

(i) The real growth rate for *total* exports – 9 per cent or more per annum in 1978-1980– is well above the performance in 1971-1973 (when the average

was 5.6 per cent). This improvement is related primarily to exports of staples, both agricultural and mineral, in an environment of marginally improving terms of trade;

(ii) Manufactured export growth is projected at what must be regarded as a moderate level (averaging 12.8 per cent for 1978-1980 in real terms). The rate of growth of imports in the most important market for Latin American exports, the OECD countries, would reach 15 per cent, assuming a GDP growth rate of 5 per cent and an income-elasticity of 3. Latin American manufactured exports would exceed the 15 per cent growth rate if they continued to increase their share in total OECD imports, mainly by displacing supplies from such developed countries as Italy and Japan, an achievement which would exempt Latin American exports from being affected by import restrictions in industrial countries;

(iii) Vigorous export promotion policies would require that countries, in adjusting their imports, should refrain from direct controls and maintain a flexible, 'realistic' exchange rate policy, and confine import substitution to economically justifiable projects. Such policies need not imply higher import levels than those envisaged in table 1, but the attainment of high growth rates for manufactured exports could easily entail levels of imports above those envisaged in the projections;

(iv) It is conceivable therefore that the growth-*cum*-adjustment policies would result in higher levels of both exports and imports. In these circumstances the resource gap –and hence the accumulation of new debt– could continue to decline progressively in the late seventies. At the same time, GDP growth would come closer to the 8 per cent rate which is more compatible with the creation of sufficient employment opportunities than the 7 per cent rate envisaged for 1980 in table 1.

(b) *External factors determining export growth*

Crucial external factors are GDP growth rates in customer countries, income-elasticities of demand for imports in these countries, liberalization of import tariffs and restrictions, and shares of less developed countries' (LDCs') products in importing markets.

Given the uncertainties surrounding any forecast dependent on as many variables as affect LDC exports, and the poor record of most past projections and forecasts, it is futile to claim precision for the projections underlying table 1. Certain identifiable changes in the major factors pinpoint several of the policy features of interest to LDC export growth.

Official projections suggest that the growth of industrial markets in the late seventies would be about the same as the favourable 1971-1973 record.[9] Yet one can have doubts as to the realism of these projections for planning industrial export policies. The industrial countries

[9] The growth rates of the recovery years, 1976 and 1977, are most likely to turn out higher than those of the recession years, 1974 and 1975. For the intermediate-term outlook a comparison between 1978-1980 and 1971-1973 is more meaningful. For these years the actual figures and those projected by OECD are:

| | *1971-1973* | *1978-1980* | *1981-1985* |
|---|---|---|---|
| United States | 4.3 | 4.8 | 4.6 |
| Japan | 8.7 | 6.8 | 6.4 |
| Western Europe | 4.2 | 4.8 | 4.6 |
| OECD total | 5.1 | 5.1 | 4.9 |

are still suffering from higher unemployment and inflation rates than they experienced in the early seventies. While inflation at present is lower than in the previous 12 months, concern with reducing it further continues to be a central element in the policies of major industrial countries. This concern can hardly be considered a passing phenomenon, as the persistence of inflation may, in fact, be influenced by deep-seated structural, institutional and social factors. In such an environment, attempts to hold back inflation may dampen growth performance.

Even at a somewhat reduced rate of expansion the OECD market would remain a major growth factor for Latin American exports, because of its large size and the relatively high income-elasticity of imports.[10]

Concern with unemployment is bound to make industrial countries more sensitive to increases in imports of labour-intensive products as well as of other products where imports offer severe competition to existing domestic industries, even if the demonstrable employment effects of further import liberalization are small. This may be particularly relevant for the products whose exports grew most rapidly in 1967-1973, and in which market shares have increased substantially (viz, clothing, textiles, wood and leather products, electrical machinery[11]). A relatively small group of products (clothing, textiles and electrical machinery) alone make up close to one-half of total LDC manufactured exports; for these products, import market shares in the major customer countries (United States and Japan) can no longer be regarded as small. On the other hand, a more basic consideration is the share of LDC imports in the *total* market of the developed countries. These total market shares are still very modest for the majority of products, although for some of the most rapidly growing LDC export products they have increased in the last decade.[12] Moreover, LDC exports have progressively displaced imports from developed countries in a dynamic process of adaptation to shifting comparative advantage. Total market shares of LDCs are as yet negligible for non-electrical machinery and other capital goods – products which could form the

[10] Based on an analysis of data of manufactured exports from Hong Kong and on studies of the United States and West German markets (by M. E. Kreinin and Hans H. Glismann). Donges and Riedel point to an income-elasticity of about 3. (See Juergen B. Donges and James Riedel, *The Expansion of Manufactured Exports in Developing Countries: An Empirical Assessment of Supply and Demand Issues,* Kiel Institute of World Economics, Working Paper No 49, June 1976, pp. 38-39.)

[11] In the United States import market LDC shares have increased significantly for several commodities:

| | *1967* | *1974* |
|---|---|---|
| Clothing | 40 | 74 |
| Travel goods and handbags | 33 | 68 |
| Wood and cork manufactures | 38 | 55 |
| Electrical machinery | 10 | 45 |
| Textiles | 40 | 45 |
| Leather and leather products | 24 | 43 |

(See Donald B. Keesing and Phi Anh Plesch, "Industrial Countries' Manufactured Imports from Developing Countries", IBRD (mimeographed text), May 5, 1976, table 6.)

[12] LAFTA's manufactured exports to the developed countries amounted to 2 thousand million dollars in 1973, compared with a total market for manufactured goods in the developed countries of close to 2 billion dollars ($ 2 000 000 000 000).

spearhead of the new export growth phase of key LDCs.[13]

In the sixties and early seventies, LDC exports benefited considerably from the Kennedy Round of liberalization of import tariffs and restrictions.[14] In the future the effects of further trade liberalization may well be slower, in particular, in those categories in which LDC exports in the past 10 years enjoyed the most spectacular growth. On the other hand, to the extent that they displace imports from industrial countries, Latin American exports will not suffer from the effects of import restrictions. Cline and Associates, in a Brookings Institution study, conclude that the present Tokyo Round may result in 60 per cent cuts in tariffs and non-tariff agricultural trade barriers which would probably increase exports of the developing countries by 2.5 thousand million and 0.5 thousand million dollars, respectively (in 1974 values), raising their annual non-oil export earnings by somewhat more than 3 per cent. Although politically unlikely, a similar liberalization of textiles would add another 2.3 thousand million dollars in export gains, raising the total gains from import liberalization to approximately 6 per cent of non-oil exports.[15]

A 3-6 per cent effect –and 3 per cent would seem more certain than 6 per cent– is only a fraction of the year-to-year total export increase projected for the major Latin American countries in table 1. On the other hand, the liberalization effect, excluding textiles, computed by Cline and Associates, is equivalent to one entire year's growth (12 per cent) as projected for total LDC manufactured exports. Absence of renewed import restriction on the part of industrial countries in the 1974-1975 recession augurs well for the continuance of relatively liberal import policies.

The major conclusions which emerge are: (i) continuing manufactured export growth need not be significantly slowed down by restrictive policies in the industrial countries; and (ii) dynamic growth of manufactured exports will need to be accompanied by continuing diversification to incorporate new items –especially those in which even the major LDCs (Brazil, Korea, Taiwan) are still in the early stages of development.[16] These new exports –capital goods, non-electrical machinery and other technologically more complicated products– will necessitate the opening-up of new lines of production, both for import substitution and for export. Once the LDCs manage to enter the markets for

[13] The relatively small total market shares of LDCs and the role of country substitution (imports from LDCs displacing those from developed countries) are emphasized in Juergen B. Donges and James Riedel, *op. cit.*

[14] Cf. J. M. Finger, "Effects of the Kennedy Round tariff concessions", *The Economic Journal*, Vol. 86, Nº 341, March 1976. This article also points out that the success of manufactured exports from LDCs resulting from the tariff cuts suggests that LDCs benefit from *general* (most-favoured-nation) tariff reductions, and that a system of general preferences may not be to their advantage in the long run. This conclusion is also stated in the Brookings Institution study quoted below.

[15] William R. Cline, Noboru Kawanabe, T.O.M. Kransjo and Thomas Williams, *Trade, welfare and employment: Effects of multilateral trade negotiations in the Tokyo Round*, Brookings Institution draft, chapter 7, "Trade negotiations and the less-developed countries".

[16] The importance of flexibility in exports is stressed by Hollis B. Chenery in "The Structuralist Approach to Development Policy", *The American Economic Review*, Vol. 65, Nº 2, May 1975, page 314.

these new products, the potential for further growth is very substantial. Given their present industrial structure, several LDCs should be able to embark upon these new production lines –Brazil and Korea are good examples of countries already preparing themselves for this new phase.

(c) *Domestic factors*

The favourable turn in the trade and exchange policies of Brazil and Colombia initiated in 1968 has since been followed by similar action on the part of Argentina, Chile and Uruguay. Mexico also introduced export incentive measures. Will these policies continue in the face of changing external conditions? On the one hand, since these conditions may, in some respects, be less favourable to export growth than they were in the early seventies, and since competition among LDCs can be expected to intensify in several product lines, export industries in LDCs will press for the continuation of outward-looking policies. They will be supported by those concerned with overall growth and creditworthiness. Without clear continuity in policies, export industries will hesitate to make the substantial investments needed to maintain the forward momentum of the past decade.[17]

On the other hand, the changes in external environment may exert pressures on the maintenance of outward-looking policies, especially flexible exchange rates, in various ways. The control of inflation has become a much more difficult task than in the sixties and early seventies. In the wake of the 1974-1975 recession most Latin American countries will reduce their balance-of-payments deficits, in part because the net inflow of external capital is bound to recede. Hence, the balance of payments will not exert the same contractive effect as it has in the last two years. At the same time, prospects are that external inflation –the rate at which import prices, especially for capital goods, are rising– will proceed at 5 - 10 per cent per year.

In this environment –and most Latin American countries have themselves inflation rates of 20 per cent or more– continued exchange rate flexibility is the cornerstone of a successful export policy. But this flexibility cannot be taken for granted. When the government encounters increasing difficulties in containing inflation, and external factors exert an inflationary pressure, the exchange rate adjustments themselves may come to be regarded as part of the forces feeding into the process of continued price inflation. In this respect various exchange rate adjustments –mini-devaluations, crawling-peg, managed free rates– have the same disadvantages as universal indexing. Although they are necessary as a defence against the ill effects of (accelerating) inflation on the balance of payments, fitting them into a programme of containing or reducing inflation will cause steady strain. A commitment to maintain and improve the competitiveness of industry –and its integration into world markets– is needed to ensure the continuance of exchange rate flexibility.

[17] Outward-looking policies are 'good' for export growth but not necessarily for other objectives, e.g., increasing the lowest incomes and improving income distribution. The consequences of outward-looking policies for employment and real wages are not discussed here. Some of the different views on these policies are mentioned in P. P. Streeten, "Trade strategies for development: Some themes for the seventies", *World Development*, June 1973.

The adjustments to the changes in the external environment are putting flexible exchange rate policies under pressure in several other ways.

Reductions in imports have, in some countries, been achieved through increases in direct restrictions, heavier deposit requirements or higher tariffs. The import cost increases effected outside the exchange rate system indirectly put exports at a disadvantage (e.g., in the case of Brazil).

Recovery of major export commodity prices (e.g., those of coffee and copper) will make the overall balance-of-payments case for rate adjustments less apparent. Yet given high domestic inflation rates, adjustments continue to be necessary if manufactured exports are to be competitive.

Greater emphasis on resource-based export developments may divert attention from the need for exchange rate flexibility. The economic case for the mineral and other resource-based export projects has been strengthened by external price changes and, in the case of oil importers, by the greater foreign exchange requirements associated with the higher cost of oil. These projects are less dependent on domestic labour and input costs –in effect they have more of an 'enclave' nature– and hence, the case in favour of exchange rate flexibility seems less evident than it is for manufactured exports.

The next phase of industrialization –and in fact also of export diversification– in certain countries, e.g., Brazil, Argentina and Mexico, may involve substantial investment in capital goods industries and other technologically more complicated products. Initially these industries may be primarily oriented toward the domestic market, and they may therefore be less concerned with the continuation of present export-oriented policies.

(d) *Defence against recession: how stable is the growth path?*

The growth profile given in table 1 does not envisage fluctuations in export demand, prices and volumes. The 1973 oil crisis and the ensuing 1974-1975 recession brought major changes in export prospects, price structures, creditworthiness and investment strategies. While Latin America was in a strong position to make the necessary adjustments, and is now resuming a more vigorous growth trend, it may not be so well fortified to face another recession should one strike in the next 3 - 5 years. Even after the recovery envisaged in the next few years, the countries represented in table 1 would, in combination, be in a weaker position than they were in 1973:

(i) External debt service would be higher in relation to exports (and the year-to-year increases in exports), and hence countries would be less able to obtain private compensatory financing;

(ii) Imports would be lower in relation to GDP and hence less 'compressible', i.e., import reductions might more quickly affect growth;

(iii) Reserves might be lower in relation to imports.

Clearly, if growth rates were to exceed the levels envisaged in table 1, Latin America would be in a stronger position to withstand the adverse impact of external recessions. Continued vigorous growth and internal diversification are the most essential ways of combating external fluctuations. At the same time, closer linkage with the more rapidly growing customer markets will help to mitigate the effects of recessions. Normally, one would expect that faster

growth will make it easier to cope with external fluctuations. Trade with more rapidly growing countries may be subject to less severe reductions or decelerations than trade with slower-growing groupings subject to recessions. It has already been observed that the OECD market will continue to be a major factor in the export growth of Latin America, particularly if the region continues to displace imports from other industrial countries. On the present world scene it would seem that OPEC and the Latin American region itself are among the more rapidly growing groups and hence should be important export markets. The next section explores to what extent regional trade can contribute to the growth and stability of Latin American exports. This paper leaves aside the question of expanding trade with the non-Latin OPEC countries.

# 3.

# Intra-regional exports

The regional arrangements –LAFTA, the Central American Common Market, the Caribbean Free Trade Association and the Andean Group– have attracted a great deal of attention over the years. The first two of these, at least, exerted considerable influence in the sixties. The liberalization measures of the Andean Group, however, did have an initial impact in the early seventies: but further encouragement of trade –and investment– must await the resolution of crucial issues in the treatment of foreign investment, and agreements on the level of the common external tariff and regional industrial programming. The Andean Group will have to find common ground, in the interest of all, among the divergent economic philosophies of its members. The prospects are that progress will be slow at best –and that it will need to be encouraged by a shared political concern. Yet, even if slow, it could make, eventually, a significant contribution to the development of all members. Only in combination can they begin to form a market of sufficient size for the technologically more complicated industries which constitute the cornerstone of the next major phase of LDC export development.[18]

With growth rates for Latin America projected some 40 - 50 per cent above those for the OECD, exports to the region should necessarily assume a special place in any country's strategy. What has happened in respect of intra-regional exports, especially of manufactured goods, and what can realistically be done to encourage them?

(a) *Regional export trends 1968-1973*

While exports of manufactured goods to all destinations, as well as exports to the region, increased rapidly,

[18] The difficult problems and issues confronting the smaller economies of Central America and the Caribbean are not considered in this paper. Questions of capital transfers to small countries are discussed in Barend A. de Vries, "Development aid to small countries", in Percy Selwyn (ed.), *Development Policy in Small Countries*, London, Croom Held, Ltd., and Sussex, Institute of Development Studies, 1975.

Table 3

**LAFTA, ARGENTINA, BRAZIL, COLOMBIA AND MEXICO: DIRECTION OF MANUFACTURED EXPORTS, 1968 AND 1973**

| *SITC (5-8)-68* | *1968* | | | | | *1973* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *LAFTA (%)* | *Argentina (%)* | *Brazil (%)* | *Colombia (%)* | *Mexico (%)* | *LAFTA (%) of world total* | *Argentina (%) of world total* | *Brazil (%) of world total* | *Colombia (%) of world total* | *Mexico (%) of world total* |
| *World total* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* |
| I. *To developed economies* | 56.0 | 45.8 | 48.5 | 49.7 | 72.3 | 59.8 | 37.6 | 63.0 | 59.7 | 80.3 |
| U.S.A. | 38.2 | 25.7 | 27.3 | 26.4 | 62.7 | 36.0 | 17.3 | 25.9 | 27.3 | 66.9 |
| Western Europe [a] | 14.2 | 18.3 | 17.9 | 18.1 | 6.9 | 16.7 | 15.8 | 25.8 | 19.9 | 8.9 |
| Other Developed Economies [b] | 3.6 | 1.8 | 3.3 | 5.2 | 2.7 | 6.8 | 4.5 | 11.3 | 12.5 | 4.5 |
| II. *To developing economies* | 42.2 | 50.9 | 50.4 | 49.8 | 27.5 | 36.7 | 57.9 | 34.9 | 39.9 | 19.2 |
| LAFTA [c] | 35.7 | 47.3 | 45.6 | 28.0 | 18.3 | 26.8 | 53.3 | 25.9 | 22.2 | 11.4 |
| – Andean Group [d] | – | 23.9 | 8.8 | 19.9 | 11.5 | – | 26.3 | 11.4 | 18.3 | 7.0 |
| CACM [e] | – | 0.3 | – | 4.4 | 5.0 | – | 1.0 | 0.7 | 3.7 | 3.9 |
| Caribbean area [f] | – | 0.1 | – | – | – | – | 0.2 | 0.6 | 4.1 | 1.3 |
| Other developing economies [g] | 6.5 [h] | 3.2 | 4.8 [h] | 17.4 [i] | 4.2 [i] | 9.6 [h] | 3.4 | 7.7 | 9.9 | 2.6 |
| III. *Centrally planned economies* [j] | 1.3 | 3.4 | 1.1 | 0.5 | 0.2 | 2.6 | 4.5 | 2.1 | 0.4 | 0.5 |

*Source:* U.N. *Commodity Trade Statistics* (1968-1973).
UNCTAD *International Trade & Development Statistics*, 1976.

[a] Mainly EEC and EFTA countries.
[b] Includes Canada, Japan, Israel, Australia, New Zealand and other developed economies of Asia and Africa.
[c] Latin American Free Trade Association: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.
[d] Andean Group: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.
[e] Central American Common Market: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.
[f] Caribbean: Antigua, Bahamas, Barbados, Dominican Republic, Haiti, Jamaica, Netherlands Antilles, Trinidad and Tobago, etc.
[g] All developing economies of Asia, Africa, Europe and Oceania.
[h] Includes CACM and the Caribbean.
[i] Includes the Caribbean.
[j] Includes Socialist countries of Eastern Europe and Asia.

the latter generally tended to lag behind those to industrial countries. Hence, while in 1962-1968 Latin American intra-regional exports grew more rapidly than exports to all destinations, the situation was reversed in 1968-1973:

Latin American manufactured exports[19]
*(Annual growth rates)*

| | *To all destinations* | *To Latin America* |
|---|---|---|
| 1962-67 | 31.9 | 34.1 |
| 1967-68 | 21.2 | 22.7 |
| 1968-73 | 39.8 | 32.0 |

The percentage of Latin American manufactured exports that went to LAFTA tended to shrink in 1968-1973; for LAFTA exports in the aggregate, it declined from 35.7 per cent in 1968 to 26.8 per cent in 1973.[20] From the data presented, it appears that the drop in LAFTA shares during this period occurred in the exports pertaining to the major industrial commodity categories, the main exception being exports of chemicals.[21]

(i) Brazil's manufactured exports grew most rapidly (52.2 per cent average annual growth in current dollars compared with 39.8 per cent for total LAFTA exports), while the proportions it exported to LAFTA fell most (by 43.2 per cent compared with 24.9 per cent for total LAFTA manufactured exports)[22] (see table 2);

(ii) For the three largest countries, which also have relatively more developed industrial structures (Argentina, Brazil and Mexico), exports of machinery and automotive equipment grew relatively faster than other sub-groups, with the exception of 'miscellaneous' exports from Brazil and Colombia;

(iii) For the machinery and automotive equipment group, and for miscellaneous products, the faster was the growth of exports to all destinations, the sharper tended to be the decline in the shares going to LAFTA.

There are two noteworthy exceptions where the proportions exported to the region increased: Brazilian exports of motor vehicles (the LAFTA share

[19] Data for 1962-1967 and 1967-1968 from Hollis B. Chenery and Helen Hughes, "Industrialization and trade trends: Some issues for the 1970s", in Helen Hughes (ed.), *Prospects for Partnership, Industrialization and Trade Policies in the 1970's*, IBRD and The Johns Hopkins University Press, 1973, tables 1 - 5. Data for 1968-1973 for LAFTA countries only: table 2 in the present article and Annex table 1.

[20] Table 2 and Annex tables 1 to 6 give data for all manufactured exports and major SITC sub-groups for LAFTA as a whole, Argentina, Brazil, Colombia and Mexico. Annex table 5 presents data on Colombian exports to the Andean sub-region. The direction of manufactured exports is shown for LAFTA and for Argentina, Brazil, Colombia and Mexico in table 3.

[21] Chemicals make up the smallest of the 4 sub-groups studied –accounting for 1.6 per cent of total exports in 1968 and 2.0 per cent in 1973. LDC exports of chemicals to industrial countries tended to lag behind other LDC manufactured exports: imports of chemicals of fifteen industrial countries from LDCs showed an increase of 15.4 per cent per annum in 1967-1973 as against 30.0 per cent for all manufactures. Similarly, the share of United States imports of chemicals and compounds from LDCs declined from 31 per cent in 1967 to 19 per cent in 1973 and 21 per cent in 1974, as against an increase for miscellaneous manufactures from 19.5 per cent in 1967 to 26.6 per cent in 1973, and 32.3 per cent in 1974 (see Keesing and Plesch, *op. cit.*, tables 3 and 6).

[22] Tyler (*op. cit.*, p. 270) also observes that LAFTA's importance as a determining force and stimulant of Brazilian manufactured exports has been curtailed since 1967.

*increased* from 61.8 per cent in 1968 to 87.1 per cent in 1973), and Colombian exports of machinery and transport equipment to LAFTA and to the Andean Group (the LAFTA share *increasing* from 55.7 per cent to 62.7 per cent). The proportion of Colombia's non-coffee exports (agricultural and manufactured) destined to the Andean Group also rose from 11.6 per cent to 15.2 per cent.[23]

As can be expected, intra-regional trade is most important where location and geography favour trade with neighbouring countries. About one-half of Argentina's manufactured exports goes to LAFTA –and this share even increased in the period for all manufactures and for three of the four sub-groups.[24] On the other hand, the proportion of Mexican exports going to LAFTA is small, and it declined from 18 per cent to 11 per cent.

(b) *What prospects for the future?*

Even after noting the exceptions, and they are important, the conclusion remains that the pull of trade with an increasingly integrated world market was stronger than the pull exerted by demand within the region. Perhaps one should say that given the dynamic increase in manufactured exports to the industrial countries, it is amazing that intra-regional exports performed as well as they did. It is possible that in the two recession years, 1974 and 1975, the shares of exports going to LAFTA increased somewhat, as demand in the region suffered declines less steep than those in the industrial countries. Nevertheless, over the next several years the forces pulling Latin America into a broader world market are likely to remain strong, especially if the relatively more developed Latin American countries succeed in entering industrial country markets for machinery and other technologically more complicated products. Interdependence with the industrial countries will also be enhanced by the development of resource-based exports, which, as has been noted, are expected to be important for certain countries (e.g., Peru and Colombia).[25]

Given the close interdependence with the rest of the world, there is clear need for adequate compensatory financing mechanisms to help offset the effects of external fluctuations and recessions. These mechanisms will make it possible to develop export production along the most economic lines –and without undue subsidization burdens or intra-regional protection. Yet, given the imperfections which are likely to remain in any system of compensatory arrangements, it would seem desirable that regional export measures supplement the extra-regional forces which have exerted themselves strongly since the late sixties. These measures must necessarily

[23] Of Colombia's exports to the Andean Group in 1974 only 10 per cent was covered by the liberalization programme (information from F. Thoumi, based on unpublished *Incomex* data).

[24] A closer inspection of Argentina's exports indicates that for several of the most rapidly growing items, the LAFTA share actually did decline –as in the case of similar categories in the other countries– e.g., paper and paper-board, textile yarn and thread, agricultural machinery and machines n.e.s., non-electrical. It is also worth while to note that even in Argentina the share of miscellaneous exports to LAFTA decreased sharply (see Annex table 2).

[25] The integration of Latin America into the world economy is the special focus of *Latin America, A Broader World Role*, by Adalbert Krieger Vasena and Javier Pazos, London, 1973.

be different in nature in different countries, allowing for considerable variations in the importance of exports to the region. In 1973, Argentina exported 56 per cent of its manufactured goods to LAFTA and Central America, compared with a corresponding figure of 15 per cent for Mexico.

The development of exports will necessarily have to exploit the considerable differences in natural endowments existing among some countries. Agricultural and food exports may, therefore, be at least as important as manufactured exports in increasing intra-regional trade, as is evident from the experience of Colombia, which significantly enlarged its percentage of non-coffee agricultural exports to the Andean sub-region. Once again, this point stresses the importance of adopting incentive measures in relation to a broad range of items, both agricultural commodities and manufactures.

A further measure needed to boost intra-regional exports is a strengthening of the complementarity of export production. This will call for close sub-regional co-operation in the location of production of intermediate goods, machinery and transport equipment, especially among the middle-sized countries. Hence special importance attaches to the efforts at co-ordination of investment in certain key industries within the Andean sub-region. Assuming it is carried out without excessive intra-regional protection, industrial co-ordination of this kind may, at least over the longer term, make an important contribution to export development. To be successful, this type of industrial co-operation will require direct assistance from national governments and international finance, both public and private, in addition to receiving the necessary price incentives.

Annex

Table 1

**EXPORTS FROM LAFTA COUNTRIES TO THE LAFTA REGION[a]**

| *SITC classification* | *SITC code* | *Composition of exports to all destinations (millions of dollars)* | | *Composition of exports to all destinations (%)* | | *Composition of exports to LAFTA (%)* | | *Exports to LAFTA as percentage of total, by categories* | | *Average annual growth of exports to LAFTA* | | *Average annual growth of total exports* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968-1973* | *1970-1973* | *1968-1973* | *1970-1973* |
| *Total exports* | 0,1,2,3,4,5,6,7,8 | 10 390 | 22 150 | 100.00 | 100.00 | 100.00 | 100.00 | 9.7 | 10.8 | 19.0 | 23.1 | 16.4 | 20.5 |
| I. *Manufactured goods* | 5,6,7,8,-68 | 675 | 3 595 | 6.5 | 16.2 | 24.0 | 40.1 | 35.7 | 26.8 | 32.0 | 31.6 | 39.8 | 43.3 |
| (1) Basic and miscellaneous manufactures | 6,8,-68 | 380 | 2 080 | 3.7 | 9.4 | 12.0 | 17.6 | 32.2 | 20.4 | 28.2 | 28.3 | 40.5 | 44.8 |
| (2) Chemicals | 5 | 170 | 445 | 1.6 | 2.0 | 4.6 | 7.3 | 27.1 | 39.3 | 30.6 | 33.9 | 21.2 | 25.5 |
| (3) Machinery and transport equipment | 7 | 125 | 1 070 | 1.2 | 4.8 | 7.2 | 15.2 | 58.4 | 34.1 | 38.0 | 34.5 | 54.0 | 51.5 |
| II. *Non-manufactured goods* | 0,1,2,3,4,68 | 9 710 | 18 190 | 93.5 | 82.1 | 75.7 | 58.6 | 7.9 | 7.8 | 13.0 | 17.9 | 13.4 | 17.0 |
| (1) Food items | 0+1+22+4 | 3 890 | 8 600 | 37.4 | 38.8 | 37.1 | 29.5 | 9.6 | 8.3 | 13.6 | 19.6 | 17.2 | 20.1 |
| (2) Agricultural raw materials | 2-(22+27+28) | 910 | 1 180 | 8.8 | 5.3 | 13.4 | 6.0 | 14.8 | 12.3 | 1.5 | -1.3 | 5.3 | 9.5 |
| (3) Crude fertilizers and minerals, metalliferous ores and metal scrap | 27+28 | 750 | 1 510 | 7.2 | 6.8 | 1.2 | 2.0 | 1.6 | 3.1 | 31.3 | 20.5 | 15.0 | 11.8 |
| (4) Mineral fuels, lubricants and related materials | 3 | 3 010 | 5 660 | 29.0 | 25.6 | 16.3 | 16.8 | 5.5 | 7.2 | 19.7 | 37.8 | 13.5 | 22.7 |
| (5) Non-ferrous metals | 68 | 1 150 | 1 240 | 11.1 | 5.6 | 7.7 | 4.4 | 6.8 | 8.5 | 6.1 | 0.0 | 1.5 | -1.1 |

*Source:* Based on U N *Commodity Trade Statistics* (1968-1973);
UNCTAD *International Trade and Development Statistics* (1976).

[a]LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex
Table 2

**EXPORTS FROM ARGENTINA TO LAFTA[a]**

| *SITC classification* | *SITC code* | *Composition of exports to all destinations (thousands of dollars)* | | *Composition of exports to all destinations (%)* | | *Composition of exports to LAFTA (%)* | | *Exports to LAFTA as percentage of total, by categories* | | *Average annual growth of exports to LAFTA* | | *Average annual growth of total exports* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968-1973* | *1970-1973* | *1968-1973* | *1970-1973* |
| *Total exports* | 0,1,2,3,4,5,6,7,8,9 | 1 367 865 | 3 266 003 | 100.00 | 100.00 | 100.00 | 100.00 | 24.7 | 24.4 | 18.7 | 29.5 | 19.0 | 22.5 |
| I. *Manufactured goods* | 5+6+7+8-68 | 165 923 | 730 103 | 12.1 | 22.4 | 23.2 | 48.8 | 47.3 | 53.3 | 37.7 | 34.0 | 34.5 | 43.7 |
| (1) Chemicals | 5 | 49 929 | 94 496 | 3.7 | 2.9 | 5.2 | 6.0 | 35.5 | 50.7 | 22.0 | 20.5 | 13.6 | 19.6 |
| (2) Basic manufactures, excluding non-ferrous metals | 6-68 | 57 711 | 288 060 | 4.2 | 8.8 | 5.9 | 13.7 | 34.7 | 38.0 | 40.5 | 43.1 | 38.0 | 49.3 |
| (a) Leather | 611 | 17 155 | 97 551 | 1.3 | 3.0 | 0.04 | 0.5 | 0.7 | 4.4 | 108.0 | 231.0 | 41.5 | 40.5 |
| (b) Paper and paperboard | 641 | 660 | 11 200 | 0.1 | 0.3 | 0.1 | 0.8 | 68.6 | 57.6 | 70.0 | 68.0 | 76.0 | 101.0 |
| (c) Textile yarn and thread | 651 | 513 | 14 538 | 0.04 | 0.5 | 0.05 | 0.5 | 31.8 | 25.4 | 86.7 | 61.2 | 95.0 | 138.0 |
| (d) Iron and steel shapes | 673 | 14 285 | 71 582 | 1.0 | 2.2 | 1.2 | 3.7 | 28.2 | 41.6 | 49.4 | 60.2 | 38.1 | 65.3 |
| (3) Machinery and transport equipment | 7 | 35 842 | 254 944 | 2.6 | 7.8 | 7.5 | 24.8 | 71.0 | 77.4 | 50.5 | 59.0 | 48.0 | 45.5 |
| (a) Agricultural machinery | 712 | 2 357 | 21 832 | 0.2 | 0.7 | 0.7 | 2.4 | 96.1 | 86.8 | 53.0 | 53.5 | 58.0 | 60.6 |
| (b) Office machines | 714 | 11 690 | 32 274 | 0.9 | 1.0 | 1.4 | 2.2 | 40.3 | 53.4 | 29.6 | 17.7 | 22.5 | 16.4 |
| (c) Machinery n.e.s., non-electrical | 719 | 4 191 | 41 643 | 0.3 | 1.3 | 1.1 | 4.1 | 88.1 | 78.4 | 54.0 | 55.0 | 58.5 | 50.2 |
| (d) Electrical machinery, n.e.s. | 729 | 1 446 | 10 895 | 0.1 | 0.3 | 0.4 | 0.8 | 86.5 | 59.2 | 38.9 | 37.0 | 49.8 | 58.0 |
| (e) Road motor vehicles | 732 | 4 294 | 86 719 | 0.3 | 2.7 | 1.1 | 9.9 | 88.3 | 90.6 | 83.5 | 107.6 | 82.5 | 109.0 |
| (4) Miscellaneous manufactured goods | 8 | 22 441 | 92 603 | 1.6 | 2.8 | 4.5 | 4.3 | 68.3 | 37.2 | 17.6 | 24.0 | 32.8 | 35.1 |
| (a) Clothing, not of fur | 841 | 2 514 | 13 061 | 0.2 | 0.4 | – | 0.1 | – | 3.4 | – | 26.5 | 39.0 | 49.0 |
| (b) Fur clothing, etc. | 842 | 1 264 | 14 911 | 0.1 | 0.5 | – | – | – | – | – | – | 63.0 | 8.3 |
| (c) Footwear | 851 | 176 | 20 284 | 0.01 | 0.6 | – | – | – | 0.6 | – | – | | |
| (d) Printed matter | 892 | 15 251 | 24 373 | 1.1 | 0.8 | 3.7 | 2.5 | 81.5 | 81.3 | 9.8 | 17.4 | 9.9 | 17.6 |
| II. *Residual* | 0+1+2+3+4+68+9 | 1 201 942 | 2 535 900 | 87.9 | 77.6 | 76.8 | 51.2 | 21.6 | 16.1 | 9.7 | 18.5 | 16.1 | 18.5 |
| (a) Meat, fresh, chilled | 011 | 204 948 | 639 902 | 15.0 | 19.6 | 3.9 | 4.3 | 6.5 | 5.4 | 21.0 | 29.6 | 25.6 | 28.0 |
| (b) Wheat, etc., unmilled | 041 | 139 085 | 273 775 | 10.2 | 8.4 | 28.0 | 16.9 | 68.1 | 49.2 | 7.3 | 22.8 | 14.5 | 29.6 |
| (c) Cereals, n.e.s., unmilled | 045 | 45 687 | 200 488 | 3.3 | 6.1 | 0.7 | 3.6 | 5.0 | 14.2 | 65.5 | 70.0 | 34.3 | 24.5 |
| (d) Sugar and honey | 061 | 17 858 | 102 958 | 1.3 | 3.2 | 0.6 | 2.0 | 10.4 | 15.5 | 54.2 | 103.1 | 42.0 | 83.0 |
| (e) Wool and animal hair | 262 | 111 296 | 188 202 | 8.1 | 5.8 | 3.5 | 1.2 | 10.7 | 5.2 | (2.0) | (11.0) | 11.1 | 28.5 |

*Source:* Based on U N *Commodity Trade Statistics.*

[a]LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex

Table 3

**EXPORTS FROM BRAZIL TO LAFTA[a]**

| SITC classification | SITC code | Composition of exports to all destinations (thousands of dollars) | | Composition of exports to all destinations (%) | | Composition of exports to LAFTA (%) | | Exports to LAFTA as percentage of total, by categories | | Average annual growth of exports to LAFTA | | Average annual growth of total exports | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1968 | 1973 | 1968 | 1973 | 1968 | 1973 | 1968 | 1973 | 1968-1973 | 1970-1973 | 1968-1973 | 1970-1973 |
| *Total exports* | 0,1,2,3,4,5,6,7,8,9 | 1 881 316 | 6 199 192 | 100.00 | 100.00 | 100.00 | 100.00 | 10.3 | 9.0 | 23.5 | 22.5 | 27.0 | 31.5 |
| I. *Manufactured exports* | (5-8)-68 | 152 680 | 1 216 918 | 8.1 | 19.6 | 36.1 | 56.6 | 45.6 | 25.9 | 35.2 | 30.2 | 52.2 | 49.8 |
| (1) Chemicals | 5 | 27 052 | 109 726 | 1.4 | 1.8 | 2.0 | 4.7 | 14.1 | 24.1 | 47.3 | 45.0 | 32.3 | 41.5 |
| (2) Basic manufactures, excluding non-ferrous metals | 6-68 | 79 912 | 557 664 | 4.3 | 9.0 | 18.2 | 18.5 | 44.1 | 18.5 | 23.9 | 15.9 | 47.8 | 39.8 |
| (3) Machinery and transport equipment | 7 | 41 096 | 303 842 | 2.2 | 4.9 | 15.0 | 26.8 | 70.4 | 49.2 | 38.9 | 33.2 | 49.2 | 46.1 |
| (a) Electrical and non-electrical machinery | 71+72 | 37 321 | 219 472 | 2.0 | 3.5 | 14.6 | 18.1 | 75.7 | 46.1 | 29.0 | 20.2 | 42.5 | 38.7 |
| (b) Road motor vehicles | 732 | 972 | 61 687 | 0.1 | 1.0 | 0.3 | 8.4 | 61.8 | 87.1 | 138.8 | 112.4 | 129.2 | 86.6 |
| (4) Miscellaneous manufactured goods | 8 | 4 622 | 245 685 | 0.3 | 4.0 | 0.9 | 6.5 | 37.0 | 14.8 | 85.0 | 94.0 | 111.2 | 120.8 |
| (a) Clothing | 84 | 462 | 88 682 | 0.02 | 1.4 | – | 3.2 | – | 20.2 | – | 197.3 | 186.2 | 208.8 |
| (b) Footwear | 851 | 450 | 93 478 | 0.02 | 1.5 | – | 0.1 | – | 0.5 | – | – | 190.7 | 124.4 |
| II. *Other exports* | (0-4)+9+68 | 1 728 636 | 4 982 274 | 91.9 | 80.4 | 63.9 | 43.4 | 7.1 | 4.9 | 14.4 | 14.9 | 23.7 | 28.0 |
| (1) Food and live animals | 0 | 1 212 595 | 3 053 096 | 64.5 | 49.2 | 31.6 | 16.6 | 5.0 | 3.0 | 8.8 | 8.2 | 20.2 | 24.4 |
| (2) Beverages and tobacco | 1 | 20 476 | 65 949 | 1.1 | 1.1 | 0.5 | 1.3 | 4.9 | 10.7 | 47.5 | 60.1 | 26.3 | 24.2 |
| (3) Crude materials excluding fuels | 2 | 431 010 | 1 453 806 | 22.9 | 23.5 | 29.8 | 17.4 | 13.4 | 6.7 | 11.0 | 12.6 | 27.5 | 31.8 |
| (4) Mineral fuels, etc. | 3 | 638 | 83 564 | 0.03 | 1.4 | 0.2 | 3.3 | 61.9 | 21.9 | 115.1 | 109.1 | 165.1 | 73.5 |
| (5) Animal and vegetable oils and fats | 4 | 51 881 | 194 278 | 2.8 | 3.1 | 0.3 | 1.8 | 1.0 | 5.0 | 79.2 | 90.5 | 30.2 | 42.1 |
| (6) Goods not classified by kind | 9 | 11 612 | 119 829 | 0.6 | 1.9 | 1.4 | 2.3 | 23.7 | 10.9 | 36.5 | 8.7 | 58.0 | 67.5 |
| (7) Non-ferrous metals | 68 | 421 | 11 804 | 0.02 | 0.2 | 0.1 | 0.8 | 50.6 | 34.4 | 80.0 | 9.6 | 95.0 | 27.4 |

*Source:* Based on U N *Commodity Trade Statistics.*

[a]LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex

Table 4

**EXPORTS FROM COLOMBIA TO LAFTA[a]**

| *SITC classification* | *SITC code* | *Composition of exports to all destinations (thousands of dollars)* | | *Composition of exports to all destinations (%)* | | *Composition of exports to LAFTA (%)* | | *Exports to LAFTA as percentage of total, by categories* | | *Average annual growth of exports to LAFTA* | | *Average annual growth of total exports* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968-1973* | *1970-1973* | *1968-1973* | *1970-1973* |
| *Total exports* | 0,1,2,3,4,5,6,7,8,9 | 558 278 | 1 175 512 | 100.00 | 100.00 | 100.00 | 100.00 | 6.1 | 9.5 | 27.0 | 6.7 | 16.1 | 17.6 |
| *Non-coffee exports* | (0-9)-07 | 206 804 | 577 584 | 37.0 | 49.1 | 88.6 | 92.2 | 14.6 | 17.8 | 27.8 | 15.9 | 22.8 | 29.8 |
| I. *Manufactured goods* | (5-8)-68 | 53 334 | 307 311 | 9.6 | 26.1 | 43.7 | 61.1 | 28.0 | 22.2 | 35.5 | 58.5 | 41.9 | 73.8 |
| (1) Chemicals | 5 | 8 621 | 35 647 | 1.5 | 3.0 | 12.9 | 19.4 | 51.3 | 60.7 | 38.0 | 51.5 | 42.5 | 60.0 |
| (2) Basic manufactures, excluding non-ferrous metals | 6-68 | 35 921 | 205 464 | 6.4 | 17.5 | 20.3 | 22.4 | 19.3 | 12.2 | 29.2 | 62.7 | 41.7 | 76.0 |
| (a) Leather, dressed fur . . . | 61 | 3 510 | 18 502 | 0.6 | 1.6 | 0.3 | – | 3.3 | – | – | – | 39.7 | 48.2 |
| (b) Textile yarn, fabrics | 65 | 9 304 | 54 250 | 1.7 | 4.6 | 3.4 | 3.6 | 12.4 | 7.5 | 28.8 | 70.0 | 42.3 | 62.0 |
| (3) Machinery and transport equipment | 7 | 4 166 | 17 719 | 0.8 | 1.5 | 6.6 | 9.9 | 53.7 | 62.7 | 37.8 | 55.5 | 34.5 | 47.0 |
| (a) Machinery, electrical and non-electrical | 71+72 | 3 907 | 14 903 | 0.7 | 1.3 | 6.6 | 7.9 | 57.2 | 59.2 | 31.7 | 50.0 | 30.7 | 45.0 |
| (4) Miscellaneous manufactured goods | 8 | 4 639 | 48 482 | 0.8 | 4.1 | 3.8 | 9.4 | 28.5 | 21.6 | 51.2 | 68.0 | 78.5 | 97.5 |
| (a) Clothing | 84 | 515 | 19 221 | 0.1 | 1.6 | 0.3 | 2.3 | 21.6 | 13.2 | 87.0 | – | 106.5 | 160.0 |
| II. *Other exports* | (0-4)+9+68-07 | 153 470 | 270 273 | 27.4 | 23.0 | 44.9 | 31.1 | 10.0 | 12.7 | 17.8 | (11.0) | 12.0 | 9.4 |
| (a) Meat and preparations | 01 | 1 471 | 40 945 | 0.3 | 3.5 | 3.4 | 5.7 | 79.5 | 15.4 | 40.0 | 103.6 | 94.0 | 105.5 |
| (b) Fish and preparations | 03 | 3 195 | 10 685 | 0.6 | 0.9 | – | – | – | – | – | – | 27.2 | 30.3 |
| (c) Cut flowers, foliage | 292.7 | 277 | 8 415 | 0.1 | 0.7 | – | – | – | – | – | – | 97.5 | 105.0 |

*Source:* Based on U N *Commodity Trade Statistics.*

[a]LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex

Table 5

**EXPORTS FROM COLOMBIA TO THE ANDEAN GROUP[a]**

| *SITC classification* | *SITC code* | *Composition of exports to all destinations (thousands of dollars)* | | *Composition of exports to all destinations (%)* | | *Composition of exports to the Andean Group (%)* | | *Exports to the Andean Group as percentage of total by categories* | | *Average annual growth of exports to the Andean Group* | | *Average annual growth of total exports* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968-1973* | *1970-1973* | *1968-1973* | *1970-1973* |
| *Total exports* | 0,1,2,3,4,5,6,7,8,9 | 558 278 | 1 175 512 | 100.00 | 100.00 | 100.00 | 100.00 | 4.3 | 7.5 | 29.6 | 12.1 | 16.1 | 17.6 |
| *Non-coffee exports* | (0-9)-07 | 206 804 | 577 584 | 37.0 | 49.1 | 99.5 | 99.8 | 11.6 | 15.2 | 29.6 | 12.4 | 22.8 | 29.8 |
| I. *Manufactured goods* | (5-8)-68 | 53 334 | 307 311 | 9.6 | 26.1 | 44.2 | 63.8 | 19.9 | 18.3 | 39.5 | 56.7 | 41.9 | 73.8 |
| (1) Chemicals | 5 | 8 621 | 35 647 | 1.5 | 3.0 | 13.4 | 17.6 | 37.2 | 43.4 | 36.9 | 38.2 | 42.5 | 60.0 |
| (2) Basic manufactures, excluding non-ferrous metals | 6-68 | 35 921 | 205 464 | 6.4 | 17.5 | 17.7 | 25.5 | 11.8 | 10.9 | 39.5 | 75.7 | 41.7 | 76.0 |
| (a) Leather, dressed fur . . . | 61 | 3 510 | 18 502 | 0.6 | 1.6 | – | – | – | – | – | – | 39.7 | 48.2 |
| (b) Textile yarn, fabrics | 65 | 9 304 | 54 250 | 1.7 | 4.6 | 3.3 | 3.6 | 8.6 | 5.8 | 31.3 | 114.2 | 42.3 | 62.0 |
| (3) Machinery and transport equipment | 7 | 4 166 | 17 719 | 0.8 | 1.5 | 8.7 | 11.5 | 50.1 | 57.0 | 37.1 | 52.5 | 34.5 | 47.0 |
| (a) Machinery electrical and non-electrical | 71+72 | 3 907 | 14 903 | 0.7 | 1.3 | 8.7 | 8.9 | 53.4 | 52.5 | 30.3 | 45.8 | 30.7 | 45.0 |
| (4) Miscellaneous manufactured goods | 8 | 4 639 | 48 482 | 0.8 | 4.1 | 4.4 | 9.2 | 22.7 | 16.8 | 50.7 | 67.5 | 78.5 | 97.5 |
| (a) Clothing | 84 | 515 | 19 221 | 0.1 | 1.6 | – | 2.0 | – | 9.4 | – | – | 106.5 | 160.0 |
| II. *Other exports* | (0+4)+9+68-07 | 153 470 | 270 273 | 27.4 | 23.0 | 55.3 | 36.0 | 8.7 | 11.7 | 19.0 | (11.6) | 12.0 | 9.4 |
| (a) Meat and preparations | 01 | 1 471 | 40 945 | 0.3 | 3.5 | 4.9 | 7.1 | 79.5 | 15.4 | 40.2 | 107.2 | 94.0 | 105.5 |
| (b) Fish and preparations | 03 | 3 195 | 10 685 | 0.6 | 0.9 | – | – | – | – | – | – | 27.2 | 30.3 |
| (c) Cut flowers, foliage | 292.7 | 277 | 8 415 | 0.1 | 0.7 | – | – | – | – | – | – | 97.5 | 105.0 |

*Source:* Based on U N *Commodity Trade Statistics* (1968-1973).

[a]Andean Group: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

Annex

Table 6

**EXPORTS FROM MEXICO TO LAFTA[a]**

| *SITC classification* | *SITC code* | *Composition of exports to all destinations (thousands of dollars)* | | *Composition of exports to all destinations (%)* | | *Composition of exports to LAFTA (%)* | | *Exports to LAFTA as percentage of total, by categories* | | *Average annual growth of exports to LAFTA* | | *Average annual growth of total exports* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968* | *1973* | *1968-1973* | *1970-1973* | *1968-1973* | *1970-1973* |
| *Total exports* | 0,1,2,3,4,5.6,7,8,9 | 1 110 152 | 2 631 496 | 100.00 | 100.00 | 100.00 | 100.00 | 5.6 | 6.6 | 22.6 | 23.2 | 18.8 | 29.8 |
| I. *Manufactured goods* | (5-8)-68 | 225 597 | 1 102 871 | 20.3 | 41.9 | 66.0 | 72.4 | 18.3 | 11.4 | 24.9 | 21.5 | 37.3 | 41.2 |
| (1) Chemicals | 5 | 68 516 | 168 973 | 6.2 | 6.4 | 23.1 | 24.4 | 21.1 | 25.0 | 24.0 | 24.6 | 19.8 | 19.9 |
| (2) Basic manufactures, excluding non-ferrous metals | 6-68 | 83 362 | 274 190 | 7.5 | 10.4 | 12.6 | 7.5 | 9.5 | 4.7 | 10.5 | 5.4 | 26.8 | 37.1 |
| (a) Textile yarn and thread | 651 | 15 375 | 67 349 | 1.4 | 2.6 | 0.2 | 0.1 | 0.8 | 0.2 | – | (30.0) | 34.3 | 60.6 |
| (b) Cotton fabrics, woven | 652 | 2 027 | 43 628 | 0.2 | 1.7 | – | – | – | – | – | – | 84.2 | 116.6 |
| (c) Glassware | 665 | 5 646 | 17 526 | 0.5 | 0.7 | 0.8 | 0.3 | 9.0 | 3.4 | – | (21.5) | 25.3 | 30.2 |
| (3) Machinery and transport equipment | 7 | 36 427 | 463 658 | 3.3 | 17.6 | 14.1 | 26.0 | 24.3 | 9.7 | 38.5 | 25.8 | 66.3 | 53.3 |
| (a) Machinery non-electrical | 71 | 19 798 | 199 477 | 1.8 | 7.6 | 7.6 | 16.2 | 23.9 | 14.0 | 42.8 | 15.9 | 58.5 | 59.6 |
| (b) Electrical machinery | 72 | 8 573 | 136 013 | 0.8 | 5.2 | 4.9 | 5.4 | 36.0 | 6.8 | 24.6 | 45.2 | 73.3 | 35.7 |
| (c) Road motor vehicles | 732 | 3 223 | 97 068 | 0.3 | 3.7 | 0.3 | 2.9 | 6.2 | 5.2 | 92.0 | 69.2 | 97.6 | 80.0 |
| (4) Miscellaneous manufactured goods | 8 | 37 301 | 196 050 | 3.4 | 7.5 | 16.1 | 14.5 | 27.0 | 12.8 | 20.1 | 21.1 | 20.1 | 21.1 |
| (a) Clothing | 841 | 4 648 | 67 144 | 0.4 | 2.6 | – | 0.1 | – | – | – | – | 70.5 | 95.0 |
| II. *Other exports* | (0-4)+9+68 | 1 083 938 | 1 528 625 | 79.7 | 58.1 | 32.7 | 27.4 | 2.3 | 3.1 | 18.4 | 28.2 | 11.5 | 23.5 |
| (a) Live animals | 001 | 26 214 | 91 317 | 2.4 | 3.5 | 0.2 | – | 0.4 | – | – | – | 28.3 | 43.5 |
| (b) Vegetables, etc., fresh, preserved | 054 | 44 669 | 178 985 | 4.0 | 6.8 | 0.8 | 2.4 | 1.1 | 2.3 | 58.2 | 150.5 | 32.0 | 50.7 |
| (c) Coffee | 071 | 69 260 | 168 731 | 6.2 | 6.4 | – | 0.3 | – | 0.3 | – | – | 19.5 | 31.4 |
| (d) Cotton | 263 | 122 398 | 166 454 | 11.0 | 6.3 | 7.9 | 7.9 | 4.0 | 8.2 | 22.9 | 36.9 | 6.3 | 26.0 |
| (e) Silver, platinum | 681 | 73 125 | 186 336 | 6.6 | 7.1 | 0.3 | 0.5 | 0.3 | 0.4 | 30.0 | – | 20.5 | 86.5 |
| (f) Copper | 682 | 11 452 | 41 662 | 1.0 | 1.6 | 1.4 | 1.8 | 7.6 | 7.7 | 29.7 | 33.6 | 29.4 | 59.4 |

*Source:* Based on U N *Commodity Trade Statistics.*

[a]LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex

Table 7

**DYNAMIC MANUFACTURED EXPORTS OF BRAZIL**

*(Thousands of dollars)*

| *SITC* | *PRODUCT* | *1968* | *1973* |
|---|---|---|---|
| 897 | Goldsmiths' and silversmiths' wares, including jewellery | 594 | 10 631 |
| 892 | Printed matter | – | 11 356 |
| 851 | Footwear | 450 | 93 478 |
| 842 | Fur, fur clothing, etc. | – | 5 610 |
| 841 | Clothing, not of fur | 462 | 83 072 |
| 831 | Travel goods, handbags | – | 8 280 |
| 821 | Furniture | 502 | 10 297 |
| 732 | Road motor-vehicles, | 972 | 61 687 |
| 724 | Telecommunications equipment | 734 | 46 191 |
| 722 | Electric power machinery, switchgear | 913 | 11 337 |
| 717 | Textile and leather machinery | 2 542 | 14 616 |
| 714.2 | Accounting machines and computers | 833 | 4 960 |
| 712 | Agricultural machinery | 566 | 9 229 |
| 711.5 | Internal combustion engines, other than for aircraft | 111 | 8 645 |
| 673 | Iron and steel shapes | 2 682 | 19 185 |
| 671 | Pig-iron | 5 656 | 47 235 |
| 665 | Glassware | – | 2 076 |
| 661 | Cement | 267 | 3 536 |
| 656 | Textile and other made-up articles, n.e.s. | 1 116 | 21 589 |
| 654 | Lace, ribbons, tulle, etc. | – | 1 813 |
| 653 | Woven textiles, non-cotton | 7 301 | 42 586 |
| 652 | Cotton fabrics, woven | 1 831 | 53 946 |
| 651 | Textile yarn and thread | 2 727 | 97 522 |
| 641 | Paper and paperboard | – | 23 883 |
| 629 | Rubber articles, n.e.s. | 553 | 6 362 |
| 581 | Plastic materials | 318 | 5 991 |
| 561 | Fertilizers, manufactured | – | 2 279 |

Annex

Table 8

**DYNAMIC MANUFACTURED EXPORTS OF ARGENTINA**

*(Thousands of dollars)*

| *SITC* | *PRODUCT* | *1968* | *1973* |
|---|---|---|---|
| 851 | Footwear | 176 | 20 284 |
| 842 | Fur, fur clothing, etc. | 1 264 | 14 911 |
| 841 | Clothing, not of fur | 2 514 | 13 061 |
| 732 | Road motor-vehicles | 4 294 | 86 719 |
| 719.9 | Machine parts, accessories, n.e.s. | 842 | 7 385 |
| 719.6 | Non-electrical machines, n.e.s. | 1 076 | 9 812 |
| 719.2 | Pumps, centrifuges | 593 | 11 540 |
| 718 | Machines for special industries | 662 | 16 342 |
| 714.2 | Accounting machines, computers | 5 302 | 19 483 |
| 712 | Agricultural machinery | 2 357 | 21 832 |
| 674 | Iron or steel universals, plates, sheets | 371 | 24 977 |
| 673 | Iron and steel shapes | 14 285 | 71 582 |
| 651 | Textiles, yarn and thread | 513 | 14 538 |
| 611 | Leather | 17 155 | 97 551 |

Table 9

**DYNAMIC MANUFACTURED EXPORTS OF COLOMBIA**

*(Thousands of dollars)*

| *SITC* | *PRODUCT* | *1968* | *1973* |
|---|---|---|---|
| 841 | Clothing, not of fur | 515 | 19 213 |
| 673 | Iron and steel shapes | – | 5 708 |
| 667 | Pearls, precious and semi-precious stones | 1 467 | 86 622 |
| 652 | Cotton fabrics, woven | 5 076 | 24 175 |
| 651 | Textile yarn and thread | 3 693 | 19 988 |
| 611 | Leather | 3 410 | 17 117 |
| 292 | Cut flowers | 277 | 8 415 |

Annex
Table 10

**DYNAMIC MANUFACTURED EXPORTS OF MEXICO**

| *SITC* | *PRODUCT* | *1968* | *1973* |
|---|---|---|---|
| 897.1 | Goldsmiths' and silversmiths' wares, including jewellery | 1 783 | 12 408 |
| 894 | Toys, sporting goods, etc. | 2 889 | 24 464 |
| 891 | Sound recorders and reproducers | 2 115 | 13 505 |
| 862 | Photographic and cinematographic supplies | – | 7 790 |
| 841 | Clothing, not of fur | 4 648 | 67 144 |
| 734 | Aircraft | 1 492 | 23 218 |
| 732 | Road motor-vehicles | 3 223 | 97 068 |
| 724 | Telecommunications equipment | 3 771 | 83 912 |
| 722.2 | Electrical apparatus for making and breaking or for protecting electrical circuits (switchgear, etc.) | 2 178 | 33 479 |
| 719.9 | Machine parts, accessories n.e.s. | 12 124 | 109 302 |
| 714.2 | Accounting machines, computers | 396 | 29 330 |
| 711.5 | Internal combustion engines, other than for aircraft | 1 996 | 31 291 |
| 673 | Iron and steel shapes | – | 9 189 |
| 652.1 | Grey woven cotton fabrics, unbleached, not mercerized | 1 617 | 28 822 |
| 652.2 | Woven cotton fabrics, bleached, dyed, mercerized, printed or otherwise finished | 410 | 14 806 |
| 651.3 | Grey cotton yarn (unbleached), not put up for retail sale | 5 536 | 26 315 |
| 642 | Articles of paper | 1 127 | 10 260 |
| 631 | Veneers, plywood, etc., n.e.s. | 2 053 | 10 356 |
| 513.3 | Inorganic acids | 609 | 24 935 |

# Comments by Raúl Prebisch*

I should like first of all to say how much I appreciate having been invited to participate in this meeting: both on account of the meeting itself, which has proved extraordinarily interesting, and because of the opportunity it affords me to comment on an excellent document, on the content of which I unhesitatingly congratulate Mr. de Vries. It is not often that we see economists from the centres discussing questions relating to Latin America and the periphery with Mr. de Vries' lucidity and skill.

I am going to concentrate on the three subjects he chose in the talk we have just heard: projections of the foreign trade of Latin America, trade between the Latin American countries and the external vulnerability of the countries of the region.

1. With regard to the projections, it is very interesting to note that in view of the limitations which the industrial centres will impose on exports from Latin America in the next few years –because of their inflationary situation, their scant likelihood of recovering high growth rates and the resurgence of protectionist policy by which they are adding to the traditional obstacles– Mr. de Vries projects a conservative annual growth rate of 8 to 10 per cent for Latin American exports. This is a satisfactory figure –a few years ago we should even have considered it illusory– but it is not sufficient to ensure an annual growth rate for Latin America of more than 6 or 7 per cent. If it is compared historically with other rates it could be considered high, but it is not so from the standpoint of the need to absorb an increasing labour force at rising levels of productivity.

I should like to digress here and recall some of the remarks which were made yesterday on what we have come to call the consumer society. The consumer society is incompatible with a socially meaningful dynamic economy; if we are not capable of demolishing it, to a greater or lesser extent according to countries and situations, we shall not be able to attain an annual growth rate of more than 6 or 7 per cent. I do not wish to enter into a discussion of this intricate subject, however, and will merely draw attention to the significance of the figures presented in Mr. de Vries' paper.

Although he said that he had estimated the annual growth of exports at between 8 and 10 per cent, he stresses the need to reduce the import coefficient from 11 per cent of the product –in 1974 and 1975– to 9 per cent by the end of the decade. Mr. de Vries accepts with admirable composure the concept of import substitution, which until recently was eyed askance as hardly decent.

CEPAL has been the target of all kinds of criticism –which, albeit diminishing, still persists– with respect to what has inappropriately been called the 'import substitution model', although never has the existence of such a model been recognized by me. I will return to this subject later. For the moment I should merely like to stress that it is interesting and very significant that the need to lower the import coefficient

*Address delivered at the Seminar on Export Promotion Policies held at CEPAL headquarters on 7 November 1976.

should be admitted in spite of the satisfactory export growth rate envisaged; this means a return to the vigorous promotion of import substitution policy, accompanied by the provision of incentives to the growth of exports.

One feature of this meeting has been that hardly anyone has seen any incompatibility between import substitution and the expansion of exports, the need for both having been asserted. It is worth recalling Mr. de Vries' very interesting remark that Brazil would not have been able to launch a thriving export trade in manufactures without previously having established a solid industry based on import substitution.

I think that the projections put forward by Mr. de Vries afford an objective indication of the factors which come into play, given the high elasticity of demand for imports in our countries. There are two basic ways of satisfying this import demand: either by inducing the centres also to increase their import coefficient through liberalization of their trade with the periphery, or by simultaneously combining import substitution with the promotion of exports in various ways. In so far as the first alternative is not achieved, the only other possible solution is the second, if a satisfactory rate of development is to be attained.

There is one objective fact which cannot be bypassed: the difference in elasticity between our demand for imports from the centres and the demand of the centres for our traditional exports. The combination of export incentives with import substitution is something which CEPAL has advocated for many years, and if I now say so again it is because our views in that respect have been conveniently forgotten in order to cast the supposed import substitution 'model' in our teeth. Allow me to read one or two paragraphs from a report which CEPAL submitted to the governments in the year 1961, entitled *Economic Development, Planning and International Co-operation.* It contains a section on "The basic flaws in industrialization" which includes the following statement: "The excessive channelling of industry towards the domestic market is a result of the development policy pursued in the Latin American countries and of the lack of international incentives to exports of industrial goods from the region". And it adds that "the development policies have been discriminatory as regards exports. Assistance has been given –through tariffs or other restrictions– to industrial production for internal consumption, but not to industrial production for export. The production of many industrial goods has thus been developed at a cost far above the international level, when they could have been obtained with a much smaller cost differential in exchange for exports of other industrial products which might have been produced more profitably".

I believe that this is a sound theory, but the possibility of applying it depends not only on the wisdom with which economic policy is pursued in our countries but also on the attitude of the centres, and it is apt to be forgotten that their policy has been and still is restrictive. As Aníbal Pinto said to me a few days ago, the centres invite the peripheral countries to sit at their sumptuous table and to enjoy the pleasures of their prosperity, but when the peripheral countries arrive, those issuing the invitation look at their guests' shoes or the material of their shirts and begin to establish restrictions, relegating them to another table where the food is less abundant and less tasty, and, what is more, imposing quotas on those who had

naively believed that they could share in the advantages of the first more sumptuous table.

It is very understandable that the centres, in the situation they are facing, cannot enjoy the freedom of action that we should wish. I am the first to understand such problems, particularly where agriculture is concerned, and it is significant that I who come from an agricultural country should recognize that the centres justify their policy with some cogent arguments, although not all of them carry the same weight. What I cannot understand, however, is how there can still be people in our countries who think that the table is open to all, and that breaking down tariff barriers and advocating the free play of economic forces will suffice to resolve our fundamental growth problems. It is this theoretical anachronism that troubles me, this reversion to formulae that the world depression led us to reject so many years ago. These formulae are cropping up again and making for the commission of tremendous errors in our countries' economic policy. I therefore believe that it is very salutary to have at hand documents like Mr. de Vries' study which drive home the fact that the solution of our foreign trade problems does not depend on our policy alone, but also on the policy of the centres. This does not exempt us from efforts to implement a sound policy, but obliges us to take into account the obstacles imposed by the situation in which the centres are placed.

Mr. de Vries mentioned the transnational corporations, and accordingly the stumbling-blocks that have been encountered in this field should also be recalled. The transnational corporations were attracted by import substitution policy. It must be remembered that, in general, they used to be reluctant to export, and still are in some sectors. Incentives, subsidies and other measures are changing this state of affairs, but I am not altogether encouraged by what has happened in recent years.

As can be seen in the country studies which have been presented at this seminar, and in an unpublished study by Cristóbal Lara which is in course of preparation, the proportion of traditional manufactures in exports to the centres is quite high. The transnationals have tended to export from one Latin American country to another, which is all very well, but to what extent can we rely on them to export to the centres? —not, at this stage, footwear and textiles, since the periphery is perfectly capable of exporting these, but the products which the transnational corporations can efficiently produce and export. How far can we expect vigorous export activity on the part of the transnationals in the articles that Mr. de Vries mentions, such as capital goods, non-electrical machinery, etc.? These are products of a higher level of technology: not of the most advanced, for which we are possibly not prepared, but of those intermediate technologies which Latin America is learning fairly fast. That is the unknown quantity I wonder about: what will the transnationals do towards enabling the projected export growth rates of 8 to 10 per cent to be attained and, if possible, surpassed?

2. With regard to Latin American trade, it is very encouraging to note that, despite the defects of LAFTA and other groups, and perhaps irrespective of their policies, intra-regional exports of manufactures have considerably increased. I have seen the figures for Mexico, Brazil and Argentina, and what they have done

in respect of exports to other Latin American countries is impressive, particularly in the case of Brazil.

Not everything is satisfactory, however, as although from the point of view of these three countries the success they have enjoyed is substantial, it must also be noted that they have not pursued a policy permitting the importing countries to pay for their purchases with goods. On the side of the latter there is an increasing deficit, so that in the relations between Latin American countries much the same pattern is being reproduced as has always existed with respect to the centres, especially the United States: a strong propensity to import, and a persistent deficit because exports have been insufficient to pay for these imports. This should arouse our concern, because it does not seem to me that consistently unbalanced development can provide us with solid bases for growth. In my opinion the countries exporting such manufactured goods are responsible for progressively resolving the importer countries' deficit problems.

I am increasingly convinced that in view of the prospects of the centres it is of essential importance that we should develop trade between Latin American countries. Its expansion would not take the place of extra-regional trade, but would represent additional trade flows and would make it possible to deal with certain problems on rational lines. For example, as Mr. de Vries has already said, an agreement could be reached on the development of certain basic industries in which various countries could share responsibility by products, so that the less developed countries and those which are at a disadvantage in any way would thus be given an opportunity to participate in these high-demand industries and in this abundant flow of trade. There is no doubt that the Andean Group would have avoided major obstacles if it had carried out this kind of industrial division of labour. It is to be hoped that the idea of such a policy can be taken up again, perhaps by seeking formulae for the integration of the Andean Group and the Central American Common Market under a general agreement on the LAFTA bases or others. For if the LAFTA agreement is found to be inadequate it can be amended by additional protocols or changed altogether. In short, while admittedly the pace of the integration process has been slow, especially in the case of LAFTA, there can be no denying that it has been a very positive instrument. It has not been as effective as we might have wished, but could be much more so.

3. The last point on which I wish to comment is the question of vulnerability. This has already been touched upon; José Piñera has made a very interesting reference, which if I remember rightly occurs in the report prepared by him and R. ffrench-Davis, to the idea that the criterion of economic viability in export promotion policy should also take into account the cost represented for a country by fluctuations in exports.

I have been a government official in a country which has experienced such fluctuations, and at one time I too had to recommend emergency measures to confront them. But I believe that Latin America has never been more externally vulnerable than it is today —and external vulnerability, from the economic and financial angles, also means considerable political vulnerability. It even implies vulnerability *vis-à-vis* the bankers, especially since the revolution which Carlos Massad describes in an article appearing in the second issue of the CEPAL

Review. The countries no longer depend on the International Monetary Fund for their short-term financial operations, but on a group of private bankers.

We have never been over-enthusiastic about IMF in CEPAL, even though it has improved greatly in comparison with what it was 20 years ago, but I fear that with the way things are going in the world Enrique Iglesias will find himself compelled to praise the Fund. Nor shall I find fault with him –I might even join my voice to his–, in view of the contrast between the lines followed by IMF and what these bankers are doing today. They are the product of circumstances, and of the current international monetary and financial chaos.

I mentioned my previous experience because I think our countries are now defenceless on both flanks –the economic side and the financial side. Unfortunately the safety net devised by Enrique Iglesias has not so far materialized. Moreover, the chief architect of the international programme for the stabilization of commodity prices, Dr. Abramovic, is participating in this Seminar, and I do not think he looks particularly optimistic, unless I am misinterpreting his expression.

No progress has been made. The most disastrous aspect of all this is that every measure which the developing countries propose encounters a negative attitude on the part of the centres. I should like to see other options put forward, if the solution proposed for primary commodities and the suggested safety net are not considered appropriate. They are rational solutions, however, formulated by people who know the problems and are inspired by a sense of responsibility.

The worst of all is that our countries have lost a formidable instrument for lessening vulnerability; they used to have a reducible margin of imports, as imports of non-urgent or non-essential articles existed which in the event of external difficulties could be restricted. I acknowledge that I was myself the agent of ruthless control of many items, beginning in an evil hour with French wines and Scotch whisky. However, it was necessary to find a way out of serious situations, and a way was found.

All in all, utter heterodoxy; but it is better to have committed this type of deviation from the orthodoxy of those days than to perpetrate a violation of orthodoxy much more serious than the restriction of imports. I refer to the heterodoxy of resorting to short- and medium-term credit in order to finance imports destined for consumption and not for capital formation. A large part of the debt which Latin America has accumulated in recent years has served to pay for imports of consumer goods; this has gone against all the prudent norms which guided us of old when we resorted to foreign capital.

We no longer have the reducible margin I spoke of, and attention was drawn to this in the 1961 study quoted. We pointed out to the governments that we were taking a misguided course, inasmuch as we were extending substitution to all durable and non-durable consumer goods, creating industries and employment for the labour force in the production of these goods, and at the same time neglecting the intermediate goods which would serve to produce them. Thus when such a situation supervenes as many countries are now faced with, there are no imports that can be reduced, because if any are restricted it will be at the expense of employment. Forgive me for saying 'at the expense of employment'; such concern is perhaps

unjustified, since the other day I read a leading article in a newspaper whose name I do not wish to recall, saying that unemployment is a problem of wages: if wages are allowed to fall to their natural level all the available labour will be absorbed. Yet another example of the invasion of theory to which we are being subjected in the Latin American countries, and which so grossly oversimplifies our situation.

I consider this concern for external vulnerability to be of fundamental importance. We are not going to be able to solve the problem immediately, but I believe that the lesson to be drawn from events today should prevent us from forgetting the economic cycle. CEPAL has forgotten it, and I blame myself here as a CEPAL man. Preoccupied by such questions as the rate of growth, and structural changes, we have lost sight of the cycle, and the countries have lost sight of it too. In the boom period prior to 1973, we believed that economic growth would continue without major interruptions, and it has not been so. The cycle is, in the final analysis, the growth pattern of the capitalist economy. In default of international measures, we should reflect seriously on the internal measures which we could take to cope with this phenomenon.