

CEPAL Review

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Problems and orientations of development

CEPAL *Economic Projections Centre*

At its nineteenth session, held in Montevideo in May 1981, the CEPAL Secretariat submitted a report entitled "Latin American Development in the 1980s", for the main purpose of collaborating with the governments of the region in the preparation of a regional programme of action in relation to the new International Development Strategy.

This article is a slightly modified version of the first two chapters of this report, aimed at the study of two major areas of Latin American development. Firstly, it deals with economic and social trends, focusing its attention on the problems of economic growth, income distribution, poverty, unemployment, energy problems and problems of the external sector, and concluding that it is essential to give a new orientation to development strategies and policies. Secondly, the article considers the main elements of this new orientation, indicating certain objectives which Latin America should set itself in the next decade, especially in the economic field. These include in particular the stepping up of economic growth, the equitable distribution of income and the elimination of extreme poverty; the control of inflation, the transformation of the structure of external economic relations and the stimulation of the participation of the population in development.

The article recognizes the diversity of national situations and stresses the need to take them into consideration in concrete strategies, but it also points out that these general objectives are very useful for guiding the progress of the particular processes towards the common goal of development.

Introduction

The purpose of this article is to present a succinct appraisal of the central problems of development in Latin America and a global analysis of the strategies which should be promoted to foster the economic and social progress of the countries of the region. It is difficult to achieve these aims in a satisfactory manner because of the variety of situations and prospects to be found in the region. The effort is well worth making, however, as it is evident that almost all the countries share major aspects of the development problems of the region which are of great significance for practical action, especially those relating to the nature and structure of the socio-economic process which is underway and to the external relations of the countries of the region.

This variety and diversity of situations covers such aspects as the degree of economic development, in terms of differences in per capita income and in the extent and integration of industrial development; the growth potential, which depends on the countries' size and endowment with natural and human resources; the political and social conditions shaped by varying historical and cultural factors and the variety of circumstances in which the countries became sovereign States; and the varying degree of viability of strategies and policies even in countries with similar political and social conditions.

The effort is further complicated by the substantial changes taking place in objective socio-economic circumstances, national policies and the regional and international setting (particularly in fundamental aspects of trends in the developed countries which in one way or another affect the Latin American countries); by the instability and uncertainty stemming from these changes; and by the problems of availability and rising cost of essential goods such as oil, which are central to an entire stage of technological progress and of industrial civilization and which, favourably or unfavourably, and to a varying extent, affect all the countries of the region. This complexity becomes even greater on account of the simultaneous action of exogenous factors which, while not new, have become more significant in the present setting; this is true in recent years of the unevenness of

world agricultural production, affected by adverse weather conditions.

The situation is also imbued with a certain climate or feeling of frustration at both the national and the regional and international levels. The impression used to exist that the stability and rapid growth of the world economy and the favourable trends in the Western countries and in Eastern Europe following the war were largely due to sound decisions regarding the institutional and functional organization of the world economy and to the progress made by economic science and policy which had succeeded in programming or guiding the successful management of national economies and of the mutual economic, financial and technological relations among countries. This is no doubt quite true. It is nonetheless true, however, that the events which have taken place in the course of the 1970s appear to demonstrate that this expansion of the world economy and the economic growth of the Western industrial countries was attributable not only to experience and to the programming of economic policy but also to favourable conditions for the exploitation and supply at relatively low cost of basic resources such as oil, of which their technological development enabled them to make advantageous use. A similar line of reasoning could be applied, although perhaps more on an interrogative level, with regard to the economic growth of the socialist countries, although their circumstances and experience are different, as may be easily understood. Nevertheless, it is well known that certain limitations in the availability of basic and human resources explain at least some of the present slackening in the economic growth rate of these countries.

Clearly, then, the problems under consideration go beyond the methodological field. At the more general level, they are related to the conditions of viability of a style of development which has spread very rapidly in the industrialized countries and which is being absorbed by the developing world, raising a serious question as to whether the present economic and political crisis is of a conjunctural nature. At the more specific level with which this document is concerned, the above-mentioned heterogeneity also raises problems for the appraisal and formulation of strategies and

policies, and special mention may be made of the following:

(i) it is not easy to put forward specific judgements or proposals regarding development policies which will be really valid for all the developing countries. In this connexion, the studies based on statistical data or information referring to the region as a whole tend to reflect the situation and problems of a few large or medium-sized countries, at the expense of the others;

(ii) substantial differences in economic and social systems also lead to noteworthy differences in the scope and forms of institutions and in the measures which can be applied in practice;

(iii) the general political system and the degree of organization and participation of the different socio-economic sectors have a great effect on power relations and thus on the formulation and instrumentation of policies;

(iv) the participation of foreign investment and the context of external relations may thwart the fully justified aim of national autonomy in the management of economic affairs; and

(v) differences in economic scale, population and resource endowment have direct repercussions on the structure of economic growth and the scope of policies.

A problem of particular importance which involves many of these distinctive features is that of the formulation of strategies and policies applicable to both the large and small countries of Latin America. Obviously, the structure of economic growth and the degree of diversification and integration will vary significantly in the two cases, and standard prescriptions in this field will be meaningless. Furthermore, it is fully recognized by the economic integration agreements concluded in the region that the small countries, described as being relatively less developed in economic terms, need special or preferential treatment; the same consideration applies to the countries described as having insufficient markets. In this connexion, it is felt that economic integration is precisely the solution which will provide these countries with more favourable conditions for integral development than they could achieve in bilateral relations or in the world market. Again, at the international level these differences are

observed not only with respect to the relatively less developed countries but also with respect to those which suffer from particular balance-of-payments problems or are islands or land-locked countries.

In these circumstances, the analysis must be placed at a rather general level. Neverthe-

less, major problems shared by all the countries obviously do exist, and therefore it is perfectly possible to undertake a comprehensive review of the more salient aspects of these and other problems and of their future course, while making the necessary allowance for peculiar events or circumstances.

I

The central problems of development

A. THE DEVELOPMENT PROCESS AND THE FORMATION OF EXTREMELY INEQUITABLE SOCIETIES

1. *Economic growth and social inequality*

Latin America has obviously undergone a process of economic growth and social change of considerable importance since the war, yet it is equally true that the nature of that process has led and still leads to the formation of highly inequitable societies. The forces of production have developed, increasing production capacities and heightening the sectoral and technological transformation of the economy, and the productivity of labour and of enterprises has been raised, leading to higher national income, but at the same time the differences and segmentation in society have been accentuated: unemployment and underemployment persist, and a large section of the population still lives in conditions of poverty and even of abject destitution. These and other factors restrict the active economic and social participation of the population and generate powerful sources of instability.

The most striking features of the style of development prevailing in the region may be seen in the socio-economic structure, characterized by a very high concentration of wealth and income in small segments of the population; a large section of the population living in conditions of extreme poverty; and the often rapid growth of the middle social sectors, which is fraught with major economic, social and political consequences. Another particularly important feature of development since

the war is the process of change which has taken place in agriculture and in its economic and social interrelationships with other activities. The development of a modern entrepreneurial sector and the spread of technological progress in agricultural production are altering the structure and functioning of rural society and integrating it more fully with the rest of the system, while at the same time increasing the differentiation between modern agriculture and the traditional or peasant agricultural sector.

The determining or inherent factors of these structures are essentially linked with the concentrative forces of the prevailing economic system, the private appropriation of the surplus, and the degree to which it is used to increase ever more diversified non-essential consumption, as well as consumption investment, following the patterns of the industrial countries with a higher per capita income. In particular, this process is influenced by the concentration of the means of production and of land ownership, the rising share of production accounted for by the modern entrepreneurial sector, the growth of the liberal professions, and the new employment structure which accompanies economic growth. This process is further accentuated by the high growth rate of the population (and particularly of the labour force) and the lack of economic dynamism, although as the experience of many countries shows, the improvement of the latter is not a sufficient condition alone for changing the socio-economic structure to the desirable degree.

This latter structure is also related to the situation as regards inter-sectoral productivi-

ty while within each sector it is characterized by the significant differences in the product per person employed and in the varying growth rate of that variable. It is also clearly linked with the institutional structure and the structure of power relations, and with the degree of participation of the various social groups: the existing power relations help to strengthen rather than remedy this inequitable, concentrative and exclusive process.

In these circumstances, there are no sufficiently dynamic factors which will spontaneously change the nature of the socio-economic process, at least within the timespans demanded by the seriousness of the social tensions generated by these problems. Consequently the possible effects of partial policies and measures are severely limited. The problem must be tackled through integral strategies and policies which lead to the creation of institutional and structural conditions aimed at a reorientation of the development process to achieve specific social ends. The nature and magnitude of the issues to be tackled are appropriately illustrated by the statistical indicators of income distribution, the extent of extreme poverty and the degree of employment of the labour force.

2. Extremely unequal income distribution

The pronounced inequality in income distribution may be appreciated from the CEPAL studies based on the latest figures available at the beginning of the 1970s for a group of ten countries. Despite the time which has elapsed, these figures may be considered as still fundamentally representative of the present situation. These studies show that family income distribution varies appreciably from country to country. In general terms, the countries with a higher per capita product have less unequal structures of family income distribution, this being most evident in the case of the size of the share received by the social group comprising the top 10% of families.

Interpolating the theoretical distribution corresponding to the group of these 10 countries gives the following results for personal income distribution: (i) 10% of families account for 44% of total income; (ii) the bottom 40% of

families receive only 8%; and (iii) the middle 50% of families receive the remaining 48% of income.

Although there are no complete studies on this question, it is broadly considered that in most cases tax policies and access to and distribution of State services, as well as other specific measures, do not appreciably alter these distribution patterns. On the contrary, a good part of such services and other subsidies largely end up benefiting the middle or upper strata.

In any event, it may be seen that the dynamism and characteristics of the economic process are fundamentally influenced by a small fraction of the population which receives a large proportion of the total income. Thus, for example, the 20% of families with the highest incomes account for between 55% and 65% of total personal income.

These forms of inequality in themselves represent situations of extreme inequity and profound social instability, and this is further aggravated by the high proportion of the population whose income is not sufficient to meet even their basic needs.

3. The magnitude and extent of poverty

According to studies by CEPAL based on data for the early 1970s, 40% of the families in the region were living in poverty, in that their income was not enough to cover their essential needs. This figure would at that time have amounted to 110 million people, and in the best of cases this absolute figure will have remained the same. As the percentage varies from country to country, in some the relative size of poverty is smaller, while in others it is much higher than this average. Obviously, the countries with higher per capita income or a less unequal distribution have a smaller proportion of the population below the poverty line.

The proportion of poor families is much greater in rural areas, accounting for almost two-thirds of all the region's poor. The remaining third are to be found in the peripheral urban sectors; they consist of landless workers, those living from subsistence-level family economic activities, and underemployed, low-skill wage earners. In the urban areas, these families are

connected with personal services and commerce and comprise own-account workers and unemployed or underemployed persons with very low incomes.

The seriousness of these situations is all the more patent bearing in mind that the families living in destitution, that is, those whose incomes are not even enough to pay for an adequate diet, represent 20% of the total population and about half the poor population. Naturally, here again the percentage varies from country to country.

A central topic which should be studied is that of the relations between the economic growth process, the distribution of income, situations of poverty and the level of employment, although the information on these subjects in the region is only partial. However, bearing in mind the many studies made of the interrelations of these variables in Latin America and other regions, some conclusions may be advanced.

In the early stages of economic development the personal distribution of income in the economy as a whole tends to be concentrated, with the share of the lower-level social groups declining while the proportion of income received by the upper income groups and some of the upper-middle groups increases. At more advanced stages, the proportion of income received by the lower levels tends to rise; in other words their average income rises more than the average income of society as a whole.

This may be explained, *inter alia*, by the changes taking place in the employment structure and wages in the economic growth process. In that process a major role is played by the degree of inequality or concentration in each of the economic sectors, the differences in average income in each sector and the size of the corresponding active population. In Latin America, it might be expected that with the drop in the relative importance of the active population connected with agriculture the proportion of income received by the lower strata (40% of the total population, for example) should tend to rise. Apparently, however, this is not happening.

The explanation may be found in the following aspects: (i) in each sector the distribution tends to become concentrated because of

the changes resulting from the modernization process and the persistence of a large amount of redundant labour; (ii) the income gap between the different sectors, and particularly between the agricultural sector and other activities, has either not declined or at least has not done so to a sufficient extent to influence the global distribution; and (iii) while the proportion of the active population in the agricultural sector is declining, at the same time the high proportion of the active population in the traditional or peasant agricultural sector is increasing or remaining the same, while emigration from rural zones helps to increase or maintain the large proportion of the urban active population engaged in marginal activities, with low productivity and very low incomes.

Thus, a strong structural rigidity prevails which militates against any policy aimed at improving the distribution, because such improvement depends partly on a decline in the unemployed population or those underemployed at very low levels of productivity in traditional rural activities and in the marginal urban sector. In other words, what is needed is to increase the proportion of employment in the sectors of rising productivity and higher remuneration, and in order to do this, deliberate and appropriate political action and an accelerated economic growth rate, as well as greater training of the labour force, are required.

The proportion of the population living in poverty, that is, receiving an income which is too small to meet a set budget of essential goods, has very likely tended to decline with the historical process of economic growth, but the absolute size of that population has not necessarily declined, and indeed would appear to have increased, as may be inferred from some partial recent studies.

Two comments are called for here: firstly, this process is relatively slow, as has been verified in countries where economic growth has been comparatively strong; and secondly, any long-term analysis must include the concept of relative poverty, since from the standpoint of a social appraisal it is neither logical nor correct to assess the situation of a social sector in terms of an unchanging minimum income while the per capita income of the other social groups is rising to a significant extent. The study should

be rounded off by considering, for example, a poverty line which rises in a fixed proportion to global average income.

If this criterion were adopted, it would no longer be possible to reach the foregoing conclusion concerning the relative decline of poverty. Instead, it would be seen that according to historical data from some countries the average income of the upper strata is rising in both absolute and relative terms by much more than the average income of the social sectors in the lower strata. In other words, while the poor, low-income sectors have benefited only to a meagre extent from the economic development process, the upper-middle and top income sectors have received the bulk of the rise in income stemming from economic development.

It is therefore clear that the indicator reflecting the evolution of average per capita income for society as a whole is not a satisfactory index of the evolution of social welfare, as in the final analysis it tends rather to reflect the growth of the per capita income or the income per person employed in the upper social strata. Other more representative indexes of social welfare should be developed.

4. *The problem of unemployment*

As is all too well known, poverty situations are connected with unemployment and underemployment. It is estimated that in the region as a whole unemployment and underemployment affect the equivalent of 28% of the economically active population. It is highly probable that this situation has worsened since the mid-1970s, on account of the faltering economic growth rate in numerous countries. Open unemployment is very high in many countries, affecting a relatively constant proportion of the labour force, about 6% for the region as a whole. Much larger however is the size of the population which is underemployed or receives an income below a given minimum. This population is estimated at 22%, more than half of whom live in rural areas. Naturally, the structure of poverty situations is to some extent similar to that of unemployment.

Unquestionably, judging by the size of unemployment and underemployment as well as by the extent and seriousness of poverty, the

evolution of these problems has been far from satisfactory. This is the consequence of at least three major factors, namely: the relatively high growth rate of economically active population, modernization and the incorporation of technological progress, and the pace of economic growth.

The supply of labour has grown in most Latin American countries at an extremely high rate in comparison with the past experience of the industrialized countries. This is compounded by the large unemployed or underemployed population of active age. Despite these special circumstances, the modernization process has proceeded, at least up until now, by incorporating methods and techniques developed for situations characterized by the typical endowment of resources and other factors of the developed countries, which are significantly different from the conditions prevailing in the region. These techniques continue to replace labour and increase capital density. The effects on the supply of jobs in the developing countries are easily appreciated, since modern technology is adopted at the very time when an extremely high proportion of the economically active population is linked with traditional activities in the rural sector and marginal or low-productivity activities in the peripheral urban sectors.

Despite the constant harping on the need to create appropriate technology or adapt the techniques of the industrialized countries in the interests of a greater absorption of labour, powerful forces support the application of designs and processes available in the market or distributed by production enterprises. In these circumstances, the rate of economic growth must be much higher in order to bring about sufficient absorption of labour to avoid any worsening of employment problems, and higher still if the aim is also to improve the employment situation for society as a whole.

It is interesting to review some concrete aspects of this problem on the basis of the latest statistical data prepared by the Regional Employment Programme for Latin America and the Caribbean (PREALC). Employment in the organized sectors of modern urban activities has grown appreciably, perhaps at an annual rate twice that of the total growth of the econo-

mically active population. There has also been some slight growth in employment in entrepreneurial agriculture. However, the effect on total employment of the rapid rise of employment in the urban sectors and perhaps in the modern agricultural sector has been relatively limited, since much of the economically active population is connected with traditional or peasant agricultural activities and with the marginal sectors of urban activities.

B. THE DROP IN THE ECONOMIC GROWTH RATE, ITS PARTIAL RECOVERY AND PRESENT INSTABILITY

1. *Economic growth and the evolution of the external sector*

In order to appreciate the conditions characterizing the economic development of the Latin American countries at the onset of the 1980s, and to appraise the nature of the problems to be faced, it is worth making a brief reference to the experience of the past decade. During that period, the economic growth of the Latin American countries varied considerably, with highly significant changes in its rate and structure. The process was strikingly dynamic in some countries but comparatively slower in others, and broadly speaking the region passed from a boom period to one of particular weakness, followed in the last few years by a moderate recovery in a climate of great instability and uncertainty, particularly for the non-oil-exporting countries.

The growth rate of the region as a whole during the 1970s (somewhat less than 6% a year) shows that in reality the region continued with its past moderate dynamism, without registering the increase which might have been expected in view of the more favourable experience of the early years of the decade. This was because the growth rate fell after 1975, and despite the recovery noted in one or two years, 1975-1980 was the period of slowest growth since the war. During the second half of the 1970s, the oil-importing countries had to tackle balance-of-payments problems caused primarily by the worsening of the terms of trade and the extraordinary rise in the cost of fuel imports; in most cases, they sought to adjust to the

new circumstances while at the same time maintaining a certain rate of growth.

The course of the world economy, and particularly trends in the industrial countries, with which Latin America maintains most of its external relations, exerted particular influence on this rise and fall of the growth rate, and the serious problems affecting the world economy have had clear effects and repercussions on the situations and prospects of future growth of the Latin American countries. Consequently, it is of particular interest to recall, although summarily, the cycle of these interrelations of internal and external factors in order to gain a better understanding of the nature of the problems currently facing Latin America, and thereby shed light on the essential aspects that must be taken into account in strategies or policies aimed at stepping up the economic growth rate of the 1980s.

The 1970s may be divided into three clearly identifiable periods, namely: (i) the boom in the early years of the decade, which was partly the continuation of a process that began in the late 1960s; (ii) the crisis of the economic growth rate in the mid-1970s; (iii) moderate and unstable recovery from 1975 onwards.

During the first four years of the 1970s the economic dynamism of the region as a whole increased, and the annual growth rate of the domestic product rose to over 7%. While this growth was basically determined by a very small number of countries, the improvement was nonetheless widespread and to a varying extent affected most of the countries of the region. Particularly important among the dynamic factors were the national policies directly aimed at boosting economic growth, as well as the buoyant external demand stemming from the favourable evolution of the economies of the developed countries until 1973. The improvement in the terms of trade and the more flexible availability of external financing also contributed to the process. This experience showed that when external conditions are favourable the region is capable of sparking off a very wide-ranging dynamic process of investment and real growth of the economy.

In 1974, however, the Latin American economic picture and the course of the world economy changed considerably. The oil-exporting

countries benefited from the significant rise in oil prices, which led to higher real income and greater import capacity for them. On the other hand, the non-oil-exporting countries were faced with weaker external demand due to the economic recession in the developed countries, while at the same time their terms of trade deteriorated. During that year investment and the domestic product continued to expand in these countries, and there was a considerable rise in their imports, but this led to a heavy deficit on the balance-of-payments current account, which they covered partly from their monetary reserves and partly with external financing.

In 1975, the worsening of external conditions led to a significant drop in the import capacity of the Latin American countries, and despite the contraction or adjustment of imports the balance-of-payments current account deficit rose again above the high figures recorded in the previous year, while the economic growth rate plummeted to 3%: i.e., virtually the same as their population growth.

As of 1976 the economic process was characterized by marked instability and difficulties in all-round recovery. The economic growth rate was very uneven, varying considerably from country to country: the average annual rate in the period 1975-1980 was 5%. This rate is heavily influenced by a very small number of countries, such as Brazil and Mexico, which raised the average while most countries continued to experience more difficult conditions of extreme external vulnerability and a low historical growth rate.

It is quite clear, then, that external sector developments directly affected the course followed by the Latin American countries, to a varying degree and in one direction or another. This is not to overlook the fact that domestic policies have been the other major factor in the acceleration or weakening of economic growth. In practice, circumstances in the mid-1970s led to a rise in external indebtedness with subsequent negative repercussions, particularly through the effect on the balance of payments of servicing that debt, which thus created a new kind of external vulnerability.

Broadly speaking, it may be said that out of a number of options the policy adopted by most

governments had the fundamental objective of promoting suitable conditions for avoiding a recession or a drastic drop in the economic growth rate. They continued with their export promotion policies and increased external indebtedness to cover import needs.

2. *The growth of exports and economic trends in recent years*

A noteworthy aspect of recent trends was the growth in the volume of exports of almost all the countries of the region. The average growth rate was much higher than the historical rate, and even higher than the rate during the early years of the previous decade. This was influenced by the policies followed by the Latin American countries deliberately to promote the growth of exports; the rise in world demand due to the upturn in the economic growth rate of the industrial countries following the recession of 1975, although without attaining pre-recession levels; the external demand for building up stocks as well as speculative factors in a climate of world inflation; declining costs because of the devaluation of the dollar; and the favourable conditions which developed with the greater competitive capacity of the developing countries, and above all of the Latin American countries, particularly in branches of light industry and primary commodities with some degree of processing, which gave rise to large flows of non-traditional exports.

Nevertheless, the greater volume of exports did not suffice to attenuate the serious balance-of-payments problems of the oil-importing countries, for a number of reasons:

(i) the rise in the value of imports, caused particularly by inflation in the industrial countries and the higher oil prices for importing countries. In these countries, fuel imports rose significantly as a proportion of total imports or of current foreign exchange earnings. Thus, for example, the value of net fuel imports in 1973 represented 8.4% of total imports of goods, rising to 23.8% in 1979;

(ii) The worsening terms of trade;

(iii) The widespread inflation in the industrial countries which raised the prices of

manufactured goods imported by the developing countries;

(iv) The higher cost of servicing the mounting debt and the rise in interest rates;

(v) The need to recover specific import levels, following the decline in the mid-1970s, in order to underpin the growth of the domestic product;

(vi) The need to keep monetary reserves up to certain levels, which were rising due to world inflation and the nature of the capital inflows destined for short-term investment or the financing of private enterprise.

In these circumstances, the non-oil-exporting countries managed shakily to maintain some rate of growth, or increase it in recent years, but their external vulnerability has increased. This may be seen in the large current account deficits in the balance of payments, which for the non-oil-exporting countries represented 3.4% of the product and 13.8% of domestic capital formation in 1979; in the high proportion of current export earnings which the servicing of the debt and profits of direct investment represent, amounting to 44.5% in 1979; in the size of the external debt; and finally in the worsening of the terms of trade, on account of the rise in the prices of imports of manufactures, and particularly of petroleum.

There are no signs in the short term of fundamental changes which may enable the Latin American oil-importing countries to overcome this situation, in the absence of major changes in the institutional organization and in the structure and functioning of the world economy as well as in national policies.

In the first place, there is some agreement at the technical and political levels that the growth rate of the industrial countries which currently account for two-thirds of Latin American exports will be slight in the coming year, and that its subsequent recovery will in any event attain an average rate significantly lower than that achieved by those countries until 1973. The socialist countries too are expected to have a much lower growth rate than in the past. The conclusion may therefore be drawn that the demand for imports from the developing countries, and particularly from Latin America, will grow slowly, and that the real prices of commodities or commodity products

with some degree of processing will not be buoyant, unless there are adverse weather conditions for agricultural products. Consequently, what is most likely is that the non-oil-exporting countries will continue to see a decline in their terms of trade in the coming years, inasmuch as inflation persists in the industrial countries and the real price of petroleum rises.

The resurgence of protectionist measures in the industrial countries will strengthen these tendencies, by limiting access to those markets for various branches of manufactures of particular interest to Latin America, in which it has a real or potential capacity for increasing output with a view to expanding exports.

With regard to the use of external financing, which in recent years helped to sustain the economic growth rate, various situations may be foreseen which may entail serious difficulties for continuing to channel towards the developing countries the funds available in the financial markets and the large surpluses which will accumulate in the oil-exporting countries. Clearly this conjunction of various elements represents a highly unfavourable scenario and probably will not occur quite so intensely. However, this identification of the trends and problems affecting the major external variables of economic growth, to which we will return later, is very useful for pointing out the fundamental issues to be considered in connexion with the instrumentation of a new international economic order, which the new IDS seeks to promote.

C. ENERGY

Latin America has abundant resources of the three traditionally most important forms of commercial energy: hydrocarbons (petroleum and natural gas), hydroelectricity and coal; but they are distributed very unevenly in the region. The sources of hydroelectricity are considerable and more uniformly distributed. This is not true of hydrocarbons or coal, the known reserves of which are heavily concentrated in a few countries. In the case of oil, for example, almost 80% of reserves are to be found in Venezuela and Mexico, and the picture is much the same for coal, as Colombia and Mexico account for 60% of known reserves.

In contrast, the structure of demand for energy in all the countries is fundamentally based on petroleum. Although only five countries produce sufficient oil to meet their needs, Latin America's consumption of this fuel represents more than 60% of the total commercial energy used in the region. Adding the consumption of natural gas to that of petroleum, as it is generally obtained in association with the latter, the total consumption of hydrocarbons represents 75% of total energy consumption. Hydroelectricity, on the other hand, is only used to a limited extent in relation to its production potential, and the importance of coal as a source of energy is even smaller.

Thus, in most countries there is a striking difference between the structures of energy supply and demand, leading to heavy dependence on imported oil to satisfy domestic needs.

The dynamism and the productive and technological changes which have characterized economic development since the war may be clearly appreciated in the rise in energy consumption and in the changes in primary energy sources. Over the long term (1950-1975), total energy consumption in the region as a whole grew at a rate of approximately 5.5% annually, or in other words in line with the growth of the gross domestic product. On the other hand, the consumption of commercial or modern energy grew much more rapidly than the domestic product, at a rate of nearly 7% annually. This process originated in the major changes which took place in energy sources, as a consequence of technological progress and in particular the structural changes in production and domestic demand accompanying economic development. In 1950, the output of traditional non-commercial sources satisfied nearly 40% of total consumption in the region as a whole, as against only about 15% in 1976.

In contrast with what occurred on the consumption side, commercial energy production grew by only 4% annually in the period 1950-1975. As a result of the difference between the two trends, there was a relative decline in Latin America's exportable surplus. Thus, in 1950 the region consumed as products 27% of its petroleum output and 17% of its natural gas production; in 1975 these percentages had risen to 57 and 43%, respectively. Thus, though

the region continued to be a net exporter of fuels, the trend was towards a rapid dwindling of its exportable margins. Subsequently there has been a tendency towards a change in this situation, with the growth of output and new export flows, primarily from Mexico.

The situation and prospects differ considerably from country to country, and this is particularly affected by the large share of hydrocarbons and the weight of such imports in the supply of domestic needs. A classification of countries according to their degree of dependence on oil imports shows noteworthy differences. On the one hand, there are the net oil-exporting countries, and on the other, the importers, where the share of imported oil in total consumption varies considerably from one country to another.

D. ASYMMETRY AND VULNERABILITY IN EXTERNAL ECONOMIC RELATIONS

During the 1970s a profound change took place in the form of insertion of Latin America in the world economy, and its process of internationalization and of linking up with the industrial market economy countries grew stronger. Transnational corporations played a preponderant role in this process, as did private international banks on account of their importance as a source of external financing for Latin American countries. The governments have followed policies of greater openness to the exterior in various economic, financial and technological fields. Concrete signs of these new relations and problems are to be seen in the participation of transnational corporations; in the pace and composition of external trade; in the trends in the terms of trade; in the scale of external financing and the sources providing it; and in the degree of external indebtedness.

The transnational corporations have an important share in manufacturing output. They dominate the key sectors of greatest dynamism and technological progress, particularly in the chemicals, basic metals, engineering and automobile industries. They have a smaller participation in traditional industries, where national enterprises weigh more heavily. The bulk of their operations is directed towards the domestic market, and less to exports. They are

the channel for a significant proportion of imports, of external financing and of the incorporation of technology by the countries of the region. In these circumstances, the action of the transnational enterprises must evidently be in keeping with the development policy adopted by national governments. Consequently, fixed rules of conduct must be established for the transnational corporations in order to secure that compatibility. At the same time, it will be necessary to promote new forms or machinery leading the transnational corporations to co-operate more closely with the policies and plans or programmes decided on by national governments.

Exports have become diversified through the effects of two processes. Exports of manufactured goods have increased, amounting to 20% of total exports for the region as a whole, but this rise was not evenly spread, tending to be concentrated in the group of large and some medium-sized countries, where the percentage was higher. At the same time, national exports of primary commodities were diversified, and new flows of agricultural and mining products began to acquire considerable importance. Thus, the effects of industrialization and of production changes which have been taking place for some time in the Latin American economies have begun to extend to exports.

In recent years, and particularly since the recession of 1975, Latin American exports expanded rapidly until they attained a growth rate which may be considered relatively high, in the context of trends in the entire postwar period. This process was affected by the growth of the industrial or agricultural production capacity created in past years, and especially by the deliberate export-promotion policies which were even more active in recent years on account of the pressure of balance-of-payments problems. With the exclusion of Venezuela, whose exports declined or remained constant, the volume of exports of goods and services of the Latin American countries as a whole showed an annual average increase of 8.9% during the period 1977-1980.

In the late 1960s a trend towards greater liberalization of imports first became visible, which in a large number of countries represented a new stage of economic policy that

was clearly different from the situation in the 1950s and early 1960s. At the beginning of the 1970s, with the support of greater external financing, the ratio of imports to the domestic product tended to rise. In the second half of the decade, on account of the balance-of-payments problems plaguing many countries, the coefficient tended to decline but it has latterly begun to rise again in the context of a more liberal policy.

The composition of imports is particularly significant for prospective studies. In the first place, they consist largely of intermediate products, fuels and capital goods, so that the total demand for imports is closely linked with the course of domestic production and investment. Secondly, the value of imports of fuels, lubricants and other petroleum products has increased appreciably in most countries, as a result of the need for bigger foreign supplies and of the rise in prices, and represents a growing proportion of current foreign exchange earnings.

Despite the progress made in the diversification of exports, and particularly the inclusion of manufacturing branches, the foreign trade structure of Latin America continues to be typical of the developing countries. Firstly, although more diversified in all branches, exports contain a high proportion of primary commodities with a varying degree of processing, and a relatively small proportion of manufactures. On the other hand, imports consist mostly of fuels and manufactures, including essential intermediate goods and capital goods, on which economic activity in general and the formation of production capacity in particular depend. In addition, the small proportion of non-manufacturing imports often consist of foreign supplies of food products, of particular importance for many countries. Clearly, the composition of imports will be different in the case of countries which have adopted liberal policies with a high degree of openness to the exterior.

This leads to an uneven structure of external economic relations which the protectionist policies adopted by the industrialist countries tend to perpetuate. In other words, imports consist of fuels and the goods essential for maintaining and increasing economic activity

and the growth process, while exports contain only a small proportion of manufactures, which must be expanded in order to achieve a more balanced structure in trade relations and particularly in the faster-growing areas of world trade.

In the inflationary context dominating the world economy, the prices of commodities and manufactures have not developed at all uniformly either in general or within their component branches, with the result that the effect of variations in the terms of trade has varied in intensity and impact among the Latin American countries. As is well known, the terms of trade of the oil-exporting countries improved during the decade, in comparison with the markedly low level of the previous decade. In the non-oil-exporting countries, on the other hand, the terms of trade have worsened in recent years, although to a varying extent. Taking these countries as a whole, it may be seen that the improvement in the terms of trade favoured them for a relatively short period, particularly in the two years 1973-1974; but their position subsequently began to deteriorate and the index of the terms of trade for goods and services in the last two years is significantly lower than at the beginning of the 1970s.

There has been an enormous change in both the amount and sources of external financing in Latin America. The deficit on the balance-of-payments current account of the group of non-oil-exporting countries has risen considerably, amounting to an average of 3.3% of the gross domestic product in the 1970s, well above the 1.9% average recorded in the 1960s. Inflows of foreign finance tended in many countries to be well above the current-account deficit and helped to increase foreign currency reserves, except in 1980 when the balance-of-payments current-account deficit increased

considerably and the countries financed part of it with their reserves.

Another striking aspect is the fundamental change in the sources of financing. During the 1950s and early 1960s, the bulk of capital flowing into Latin America was official long-term capital, and consisted partly of direct investment. In contrast, in the 1970s a large proportion consisted of private bank and commercial sources, for the short or medium term, bearing rising interest rates. Consequently, the burden of financing the external debt has risen with respect to the national income and the current value of exports. In addition, there is growing concern about the possibilities of continuing with this system of financing, due to factors linked with the functioning of private banks and the management of the debt by the borrower countries.

The result of this process has been an appreciable increase in the external debt, rising from 10 billion dollars in 1965 to about 150 billion dollars at the beginning of 1980. In brief, a situation of external vulnerability has arisen which is of particular significance for the future course of economic growth.

The economic integration agreements have run into difficulties and in most cases have failed to achieve the targets and objectives they had set themselves. Nevertheless, significant progress was made in multinational investment in infrastructure, particularly in the energy field, as well as in the expansion and diversification of intra-regional trade; the proportion of total exports going to countries of the region has increased, and includes a larger amount of manufactures —intermediate and capital goods— than exports to other areas; and in the case of some countries, these trade flows have represented a significant growth factor in specific branches.

II

Towards a new orientation of development

A. TOWARDS A COMPREHENSIVE AND INTEGRAL SET OF PROPOSALS ON ECONOMIC DEVELOPMENT AND SOCIAL CHANGE

Thus, three central aspects are to be distinguished in the development problems affecting the region. Firstly, and at the most general level, there is the existence of extremely inequitable societies with high concentration of wealth and income, high levels of unemployment, and the persistence of poverty which affects a substantial sector of the population. Secondly, there is the decline in the economic growth rate observed in most of the Latin American countries, the recovery from which is conditioned by factors of instability and uncertainty largely related with external variables. Thirdly, there is the imbalance still being recorded in the external trade structure on account of the differing flows of imports and exports and the unfavourable evolution of the terms of trade of the non-oil-exporting countries, together with the growing external indebtedness, with its material and financial effects on real national income, and the deterioration in the balance-of-payments situation. All this goes to make up a situation of extreme vulnerability and instability as regards the economic growth process.

These are consequently aspects which concern the structure and functioning of the economic and social process, which are inherent to that process, and whose solution calls for institutional and structural changes at the domestic level and in the world economy capable of bringing about a new form of functioning of the economy and society in order to attain specific objectives. In this respect, the experience of Latin America and other developing areas clearly indicates the aspects and problems which warrant special consideration in the enunciation of development strategies and policies aimed at promoting economic growth and social welfare in the framework of more equitable societies.

Among the objectives and conceptual aspects which should form part of a development strategy, particular reference may be made to the following:

(i) speeding up the economic growth and productive and technological evolution of the national economies;

(ii) promoting the equitable distribution of national income and eradicating situations of extreme poverty in the shortest possible space of time;

(iii) formulating a suitable economic policy designed to attain certain conditions permitting the control or avoidance of inflationary processes;

(iv) promoting change in the structure of external economic relations and achieving satisfactory conditions as regards the performance of the external accounts of the balance of payments;

(v) stimulating the active economic, social and political participation of the various social sectors in the economic and social development process and ensuring the welfare of children, the participation of young people, and the integration of women;

(vi) preserving the quality and increasing the potential use of the environment in order to improve living conditions and lay the foundations for a type of development which can be sustained in the long term;

(vii) preserving and stimulating cultural authenticity and identity and the development of independent life styles, and

(viii) maintaining sovereignty over national resources and autonomy in the management of the development process.

The formulation of a strategy incorporating these diverse elements, along with other related objectives and concepts, undoubtedly represents an extraordinary challenge to the existing knowledge and experience on economic and social policy, and the application of such a strategy will furthermore represent a delicate political task.

The acceleration of economic growth and

productive and technological change is essential in order to strengthen the national economies and lay suitable foundations for facilitating the execution of a social policy. In particular, the intensification of economic growth is necessary in order to increase the production capacity of the labour force, promote accumulation and facilitate the application of policies aimed at improving income distribution and resolving situations of extreme poverty through the active incorporation of the labour force into high-productivity activities. Economic development is thus a necessary but not of itself sufficient condition for achieving certain objectives connected with better distribution of the fruits of economic growth and the eradication of poverty.

In the conditions currently prevailing in Latin America, the technological structure of the economy, the distribution of assets and wealth and the power relations between the different social groups create situations of resistance and inflexibility in the determination of the primary distribution of income.

This distribution can be altered by the action of other factors, especially the collection of resources by the State through the tax system, the distribution of such resources in the form of personal remuneration and various types of transfers, and the access of the various social groups to the goods and services produced by the State.

There is no specific information available in Latin America which makes it possible to determine with reasonable accuracy the differences observable between the distribution before and after the payment of taxes. According to some partial investigations, it would appear that the distribution of family income after the payment of taxes and the allocation of goods and services to those sectors which benefit from them is not significantly different, especially in the case of the poorer groups. Indeed, it would appear that either directly or indirectly the goods and services provided by the State, and even infrastructural works, tend to heighten the inequality of distribution, since these services are enjoyed to a large extent by the middle and high sectors, and only to a lesser degree by the poorer sectors located at the lowest distribution levels. Thus, the middle and

high sectors receive compensation for the taxes they pay, even when these are levied in accordance with a progressive system.

The fact is that the determination of the nature and scope of the concrete measures which should be taken to improve income distribution depend largely on the particular economic, social and political conditions of each country. It is, however, possible to indicate some basic aspects or principles which hold true for the different situations to be observed within the economic and social system prevailing in the region.

One of these aspects concerns the so-called 'distribution struggle'. Any measure tending to improve the participation of a social sector or group will bring a reaction from the other sectors who consider themselves adversely affected by it, thus frustrating the aim of improving the distribution. This is what happens, for example, when a wage increase is simply passed on to prices by the entrepreneurs so as to maintain their share of the real income.

The second aspect concerns the relations between income distribution and economic growth. Clearly, the redistribution of income in favour of sectors which have a lower propensity to save than other sectors can finally result in a drop in accumulation and a subsequent decline in the economic growth rate.

It is therefore necessary to design a policy which, while tending to reduce the tremendous differences in disposable income between the various social groups, will promote increased accumulation and thus raise the production capacity and the efficiency of the economic units. What is involved is the reconciliation of better income distribution with faster economic growth, so as to avoid the frustrations to which much past experience bears witness. Naturally, various kinds of policies can be proposed in this context, provided that their end result is to contain or reduce the consumption of the upper groups, which concentrate in their hands a large proportion of the income. This would increase the resources available for investment in physical and human elements and promote more employment at higher levels of productivity and income. In addition, of course, institutional and structural reforms are

needed in respect of other basic aspects such as access to the land and agrarian reform.

The eradication of poverty situations within a reasonable length of time has more concrete significance than the proposals regarding the improvement of income distribution, which in reality are of broader scope and incorporate the objectives concerning poverty.

The magnitude of poverty situations may be associated with two basic elements: the size of the average income of the society as a whole, and the family distribution of that income. In countries with low per capita income, a high proportion of the population generally have incomes below those considered necessary for satisfying their essential needs. In contrast, the proportion of poor is usually smaller in societies with higher per capita income.

The investigations which have been made, albeit on the basis of incomplete data, seem to show that the proportion of poor in the total population tends to go down with economic growth, but because of the high rate of population increase this reduction does not necessarily mean that poverty is reduced in absolute terms. The faster economic and social growth which it is proposed to achieve would further the process of incorporation of the economically active population into activities of higher productivity and income, but because of the seriousness and magnitude of poverty situations the process of absorption would be relatively slow: hence the need, for reasons of equity and social justice, to complement the strategy with a specific programme designed to tackle the solution of this problem within a more reasonable length of time. It is worth bearing in mind that in the next two decades rural out-migration will help to transfer poverty from the country to the city, although poverty situations will undoubtedly continue to have an appreciable incidence on low-productivity, low-income family farms and among landless agricultural workers.

The objectives of accelerating economic growth, improving income distribution, eradicating poverty situations and promoting the economic and social participation of all sectors of society will exert strong inflationary pressures and cause imbalances of undesirable size and nature in the external accounts because of

the expansion and changes which will take place in domestic demand and imports, in addition to which there will be the persistent increase in service payments on the accumulated debt.

Consequently, it will be necessary to plan action in the economic and financial field in such a way that, while promoting the sought-for changes, it will avoid or control inflationary pressures, which, as everyone knows, would imperil the achievement of the economic and social programme and would particularly harm the groups with the lowest income.

The effort made in this respect will have to be particularly intensive in those countries which traditionally suffer from chronic inflation, but in any case, all the countries will be affected by world inflation, which seems to be getting worse and spreading more than expected.

In order to strengthen the foundations of the national economies and establish more equitable trade relations with the exterior it will be necessary to make profound changes in the structure of trade aimed at reducing trade imbalances and projecting into external relations the changes in production and technology which take place in the structure of the economy as a whole. In addition, a suitable amount of external financing is needed on terms which back up the national development effort.

This development effort depends fundamentally on the mobilization of domestic resources, but in order to secure more efficient use of those resources international economic co-operation is needed, especially in order to facilitate the access to markets of manufactures with growing technological content. These external components of the strategy are all the more necessary now that there is a recrudescence of protectionist measures on the part of the industrialized countries and most of the external financing comes from private international banks on less favourable terms than those offered by multilateral financial institutions.

Measures must be taken to ensure the real and active participation of the entire population in all aspects of the development process. Steps must be taken to establish or improve national machinery to ensure that women enjoy

full equality with men with a view to their integration into the development process, which is an important objective for the countries of the region. Within this framework, measures must be promoted to guarantee women more participation in the economic, political, social and cultural life of the region and to put a new value on the role of Latin American women in society, seeking to improve their social image. All the countries should also assign high priority to the objective of mobilizing and integrating young people in the development process.

Within the framework of an integral development strategy, it is also necessary to consider the environmental dimension. To this end, some basic aspects of the relation between the environment and development should be emphasized: (i) the natural and artificial biophysical environment—in short, the environment—is the material system supporting life in society, which provides mankind with the ground and infrastructure for the conduct of human activity, the materials and energy needed for his reproduction and development, and the means of absorbing the waste he generates; (ii) society and nature are mutually adapted to each other through socio-economic processes, human settlement, and scientific and technical knowledge; (iii) the natural ecosystems can be altered and specialized by Man in order to increase their productivity, but at the risk of reducing or destroying their capacity for regeneration; and (iv) development is really an advanced state of transformation of nature into a contrived and artificial environment.

To the extent that this is properly understood and taken into account in planning and practical action, it will be possible to take full advantage of the potential of the environment as one of the fundamental bases for achieving the objectives of development. Many features of past development patterns, however—and also of the current style of development—are limiting the capacity for action and increasingly affecting those key functions of the environment, so that they represent severe limitations for a proper self-sustaining development process both from the point of view of produc-

tion potential and from that of living conditions, especially for the poorest sectors.

Policies designed to harmonize the economic and social objectives of development with the ecologically sound management of resources and the environment must take careful account of the wide variety of ecological, cultural and socio-political situations and conditions in the countries of the region. As the diversity of environmental problems and potentials has only come to be fully recognized in recent years, an extensive and urgent task of diagnosis and conceptual, methodological and operational development lies ahead in order to incorporate the environmental dimension into an integral development strategy.

B. THE ACCELERATION OF ECONOMIC GROWTH AND ITS REQUIREMENTS

1. *Economic growth prospects and the definition of a normative target*

The need to step up the economic growth of the Latin American countries in the context of an integral strategy aiming towards an equitable distribution of income and greater social wellbeing for the entire population arises from, among other things, the scale and seriousness of the social problems which will be aggravated by the rapid growth of the economically active population.

The productive incorporation of the available labour force will obviously call for much more dynamic economic development than the region has enjoyed in the past, and certainly much higher than the average for the second half of the 1970s. It should be borne in mind that the acceleration of economic growth is accompanied by an acceleration of the growth in the product per person employed, as a result of the progress which must take place in the transformation and development of new forms of production. As is well known, during this process the amount of capital required per person employed increases, and there is a considerable rise in the volume of output needed to absorb the same amount of labour.

This raises serious technical and political problems with regard to the definition of a quantitative economic growth target, as for this

purpose it is necessary correctly to assess the internal and external conditions currently affecting the course of economic activity and subsequent trends in given areas with a special impact on the rate of economic development.

The usefulness of establishing a quantitative target for the countries of the region as a whole may be called into question, particularly in the climate of instability and uncertainty prevailing with regard to major growth variables or factors. However, the establishment of quantitative targets and the study of their various implications is highly useful because they shed light on the size of the growth rate required, the nature and scale of the efforts to be undertaken, and the depth of the institutional and structural reforms to be carried out at the national and international levels. In addition, a quantitative target represents a basic element for judging or appraising the progress made towards established goals. It is therefore necessary to distinguish clearly between an appraisal of economic growth prospects and the determination of a normative or indicative growth target. Consequently, we shall first examine some aspects which make it possible to weigh up growth prospects, and then the more important factors of a normative target.

In studying the immediate economic growth prospects of the Latin American countries as a group, it is first necessary to distinguish between the oil-exporting and the non-oil-exporting countries. It is estimated that the real prices of fuels will continue to improve and that consequently the oil-exporting countries will enjoy steadily favourable terms of trade, so that the external sector will not represent a constraint for their development process. On the contrary, they will strengthen their import capacity, their economic growth and their ability to imbue their economies with a social orientation.

The non-oil-exporting countries will enter the 1980s in patently unfavourable conditions, with extreme vulnerability to external variables which will essentially continue to restrict their possibilities of maintaining or raising their economic growth rates.

The following are among the aspects which must be taken into account:

(i) the degree of external indebtedness, and above all the burden of the financial services, which are very high in relation to the domestic product and current export earnings. This situation varies considerably from country to country;

(ii) this external debt has largely been contracted with private international banks on "hard" terms, and the machinery through which the capital flows are channelled is facing difficulties which may hinder its continued use in the near future;

(iii) the economic growth prospects of the industrial countries with which the region has the bulk of its economic and financial relations are clearly unfavourable; their growth rate will be extremely low in the early 1980s, perhaps rising subsequently but nevertheless remaining below pre-1973 levels;

(iv) this will weaken the demand for goods from the developing countries, and the situation will be still worse if protectionist measures are adopted or increased in the industrial countries; and

(v) this is all compounded by the relentless effect of rising real oil prices on the balance of payments of the importing countries.

In these circumstances, the prospects of higher economic growth for the group of non-oil-exporting countries as a whole are unfavourable, at least in terms of the achievement of a desirable target. This is due not so much to internal restrictions, which could be overcome by suitable policies (although it must be recognized that they are of major significance for some countries), as to the bottlenecks and vulnerability stemming from external variables. The question therefore arises of the extent to which the economic growth rate of the Latin American countries depends on the economic growth of the industrial countries and of the world economy. In this connexion, it may be said that in the framework of existing relations there is a high degree of structural dependence, whose effects were examined in the preceding chapter.

During the 1970s, the economic growth trends of the Latin American countries were more or less parallel to those of the industrial countries as a whole, although considerably higher than the latter. This means that the

countries of the region were able to keep up their economic growth rate and avert a major contraction or economic recession which might otherwise have occurred.

This was the consequence of the production capacity acquired by those countries, the higher level of integration and diversification of their economies, the growth of their exports and, particularly, the availability of external financing which enabled them to cover their rising balance-of-payments current-account deficits and even build up international reserves. It is well known, however, that this growth model based on external financing runs into serious restrictions after a time on account of the accumulated debt and the burden of servicing it.

In establishing a quantitative growth target for the 1980s, account must be taken of the salient features at the outset as well as of future prospects. However, the point is not to extrapolate those trends but rather to review the changes which should take place in domestic and external conditions and policies in order to boost the dynamism of economic development. The aim is therefore to establish a target or objective, normative or indicative, which will be reasonably viable if structural and institutional changes take place and policy measures forming an integrated action programme are applied.

In this connexion, the new IDS establishes an annual growth target of 7% for the gross domestic product of the developing countries as a whole, which would signify a per capita growth of 4.5%.

In the prospective studies undertaken by the Secretariat, various economic development scenarios for the 1980s have been examined. From these, a normative growth scenario was chosen which includes the following elements:

(i) faster economic growth than indicated by the projections of past trends, so that, with the use of suitable policies, a positive contribution will be made to solving the problems of unemployment and the eradication of extreme poverty;

(ii) a minimum target of doubling the per capita product within 15 years, as a general norm for all countries; and

(iii) the materialization of the high economic growth potential to be found in some

countries, so that in some cases the growth target may be higher than the above-mentioned minimum.

The annual growth target for the region as a whole would be somewhat over 7%. This means, for Latin America, an annual economic growth rate roughly equal to that of the first four years of the 1970s. There is a major difference, however: during that period growth was primarily concentrated in a very small number of countries, whereas what is now postulated is faster growth in all the countries of the region.

In short, the target of doubling the gross domestic product of the region as a whole by the end of the 1980s, which would signify an annual growth of a little over 7%, may be considered reasonably justified. However, in view of existing circumstances the growth rate may be lower than that average in the early years of the decade and somewhat higher in the second half.

2. *Saving and investment*

To achieve this growth target will call for a substantial rise in investment: the investment/product coefficient will have to rise to over 25% for the region as a whole. In principle, this should not present an unsurmountable obstacle, because the region has shown, particularly in boom periods, a striking capacity for promoting large-scale investment. Domestic saving will have to rise appreciably if external financing is to retain reasonable proportions with respect to investment and exports, as would be desirable.

It should be noted, however, that the conditions and trends which this scenario comprises vary from country to country in the region, and in many of them the acceleration of the growth rate will call for much greater relative increases in investment and domestic saving, and thus a much greater effort, than in others. Furthermore, the relative importance of external financing, in comparison with the product and investment, will obviously also differ significantly from country to country.

3. *Growth and sectoral structure*

The output of the agricultural sector will have to grow more rapidly than in the past, to

reach an annual rate of over 4%, and perhaps even 4.5%, for the region as a whole. This target for agricultural output is in keeping with the global growth rate of the product, and is essential to satisfy the growth of domestic demand (stemming from higher incomes and the aim of eliminating extreme poverty or destitution) while increasing the region's exportable surplus.

Various studies suggest that the growth of agricultural production may feasibly be boosted by increasing the productivity of cultivated land more than previously; but at the same time it is very important also to expand the cultivated area.

The dynamism of industrial development will have to be relatively intense, with an annual growth rate of a little over 8.5%, representing an industrialization process that would be much more rapid and profound than in the past. It will have to extend to new activities with a higher technological content, calling for major capital investment in the branches of essential intermediate goods and producer goods. In this new stage, industrialization will have to take place in more economically efficient conditions, as the materialization of this growth scenario calls for a considerable rise in the trade in manufactures among the countries of the region and in exports to the developed countries and to other developing regions.

This growth scenario also assumes significant sectoral and technological changes in the Latin American economies. The share of the agricultural sector will decline appreciably, while that of the manufacturing sector increases. The pace of this process and the indexes of the sectoral composition of the product will vary among the countries, which will continue to show major differences in their level of development during the next twenty years.

There will also be a sharp rise in the product per person employed, reflecting the intense process of technological change spreading in the national economies, which will be more or less generalized among the various groups of countries; it will be stronger in manufacturing than in the agricultural sector and in the economy as a whole. This difference in the growth of productivity between the economic sectors and within them raises serious prob-

lems which must be borne in mind when formulating policies designed to improve national income distribution.

Despite the rise in productivity indexes, greater absorption of labour will be fostered, which should equal the growth of the economically active population for the region as a whole. This will not solve the problem of unemployment within a relatively short period, however, on account of the magnitude of underemployment and open unemployment. Nevertheless, it will lead to higher productivity and income levels for that segment of the population. The employment structure should change significantly, not merely in terms of sectoral distribution but also from the standpoint of the nature of jobs and their skill levels. This therefore points to the need for training the economically active population: a matter to which some countries will have to pay particular attention.

4. *The energy problem*

The analysis of energy needs is a matter of particular concern on account of their great impact on technological and economic policy strategies in the development process. In the present circumstances, this is of course a key aspect which must be taken into account in weighing up the feasibility of development options, since the basic and complementary nature of energy as a factor of the production of goods and services makes it one of the determinants of the development style of the industrial era.

It is estimated that total energy consumption measured in terms of use of primary sources has grown over the long term (since the war) at an average annual rate of 5.5%. Thus, in the region as a whole the rise in energy needs went hand in hand with the growth of the gross domestic product. Consumption of commercial energy grew much more rapidly (by almost 7% per year) on account of the replacement of traditional sources.

As a consequence of the rising real prices of oil and natural gas products, which account for over 75% of the region's total supply of modern energy, it may be expected that the elasticity of demand with respect to the product will

decline and that policies will be applied deliberately to hold down energy consumption of specific sectors or for specific purposes. At the same time, however, it is obvious that the economic growth rate and the dynamism of productive and technological change inherent in the economic development scenario under consideration necessarily imply an appreciable rise in the product per person employed and a higher energy input in accordance with known patterns of technology. Thus, in the absence of alternative styles of development, it may be assumed that despite whatever energy-saving measures are taken, energy needs will rise more rapidly than in the past, and are likely to double in a period of ten to twelve years in accordance with the normative economic growth target.

The region as a whole is a net energy exporter to the rest of the world. As was stated earlier, however, the exportable surpluses have been dwindling appreciably. This situation may change to some extent with the new export flows, primarily from Mexico. Naturally, these trends are due not only to the lack of dynamism in the production of primary energy sources, but also and perhaps primarily to the resource-conservation policy followed by some countries, such as Venezuela. At present, only five countries are really net exporters of hydrocarbons, while all the others are net importers, although the degree to which they depend on imports varies.

At the national level the situations differ considerably. On the one hand, the oil-exporting countries have strengthened their financing capacity and their possibilities of increasing their economic development will be even greater as their terms of trade continue to improve. On the other hand, the group of non-oil-exporting countries face different prospects. In some, the importance of external fuel supplies in projections of total demand, and the impact of their cost on current foreign exchange earnings, are relatively low. Their demand for imports of hydrocarbons should rise to a varying degree according to the growth of the national product and the results of the energy measures and policies adopted. Their balance-of-payments problems may worsen but most probably will not become an unsurmountable

obstacle hindering more severely than any other factor the objective of raising the economic growth rate.

On the other hand, in another large group of countries of varying size, the degree of dependence and the relative importance of the costs of imports are much greater and are rising from day to day. In many of these countries the energy problem is extremely important and the proposal of economic growth scenarios cannot be divorced from energy prospects and programmes. In these countries, energy saving, the replacement of hydrocarbons by other traditional and non-traditional energy sources, the reduction in dependence on oil imports and the growth of exports to increase the availability of external purchasing power must be considered necessary objectives of development strategies and policies. In some cases they are being pursued with great vigour, with an attempt to replace oil imports by local biomass energy to some degree.

C. THE CHANGES AND TRANSFORMATIONS WHICH MUST TAKE PLACE IN EXTERNAL ECONOMIC RELATIONS

1. *Import needs and the capacity to buy abroad*

From the mid-1960s until 1974 the volume of imports grew rapidly and to a greater extent than the domestic product in most of the countries of the region. This occurred in the context of structural changes tending towards greater openness to the exterior, a diversification of exports, greater use of external financing and active participation of transnational enterprises in the economy of the countries of the region. Subsequently, on account of the serious balance-of-payments problems of the non-oil-exporting countries, the pace of imports declined to such an extent that in some cases the level dropped in absolute terms. Recently, however, they have tended to recover.

CEPAL has also studied the possible projections of imports in a dynamic growth process, taking into account various aspects affecting the process and particularly the correlation between imports and the product and investment. This analysis suggests that import needs

will grow in almost all countries, and for the region as a whole, at a somewhat higher rate than the growth of the gross domestic product. In the normative scenario under consideration, imports should grow at an annual rate of 8%. Thus, by 1990 the value of imports of goods and services at constant 1975 prices will be 2.6 times higher than the average for the three-year period 1976-1979. Their structure will continue to be dominated by intermediate and capital goods, with relatively greater growth in the latter.

It is clear, then, that external purchasing power must expand much more than in the past in order to be able to cover this demand for imports of goods and services. This growth will depend on three major sources: (i) the volume and diversification of exports; (ii) the trends in the terms of trade; and (iii) the magnitude of external investment and finance. Thus, for example, assuming that the terms of trade remain at 1979 levels and that net external financing—equivalent to the deficit on current account of the balance of payments—in the 1980s maintains a similar relationship with respect to the domestic product as was true of the countries of the region during the 1970s, then for the region as a whole the income from exports of goods and services will have to rise in step with imports (8% annually during the decade) and by 1990 net external financing will represent an average of 2.8% of the gross domestic product and about a fifth of exports.

Export needs will naturally be smaller if net external financing is larger, and this will also be true if the terms of trade improve. It has been calculated that exports of goods and services would rise by 7% annually if net external financing increased even more during the 1980s to represent 4.4% of the gross domestic product by 1990. In these circumstances, the servicing of the external debt and the profits on foreign investment would reach very high proportions of current export earnings, and the ensuing situations would be very difficult to handle in practice. Furthermore, in the resulting economic growth structure the domestic saving coefficient would tend to decline with the rise in economic growth. Naturally, this scenario could improve appreciably if there were a favourable change in the terms and con-

ditions of an effective transfer of real resources to the developing countries.

2. *The pace and structure of exports and balance-of-payments problems*

It is therefore necessary to examine the projections of external demand in relation to these export needs of Latin America, as well as the nature and scope of the structural changes to be promoted in the international order in order to foster the growth of trade of the developing countries. Various studies have been carried out by CEPAL and other institutions on the basis of a variety of hypotheses concerning world economic growth and particularly the economic growth rate of the industrial countries.

One of these studies, essentially based on historical relationships, gives the following results: if world trade expands at an annual rate of about 7%, and the region follows a trend similar to that of the past, Latin America's exports will grow by roughly 5% annually. Consequently, the region's share of world trade in primary commodities and fuels will continue to decline, while its share of the trade in manufactures will grow at a similar rate to that of world trade in such products (8% to 9% annually).

However, as has been stressed above, in the 1970s the Latin American countries made great efforts to alter the historical trend by following export promotion and diversification policies. In the last years of that decade, the trend began to change in major respects. Thus, it is interesting to note that in 1977-1980 Latin American exports grew at an annual rate of nearly 8.9%, despite the drop in the volume of Venezuelan exports.

This suggests the possibility that Latin American exports may be more dynamic than was the case until the mid-1970s. Clearly, the proposed acceleration of economic growth, as well as the changes in the production and technological structure, also call for changes in the rate and structure of the exports needed to bring them into being, and substantial alterations in the world economy tending towards the shaping of a new international economic

order. It cannot be assumed that external financing will be the main source for covering the balance-of-payments deficit which would result if exports in the 1980s grew at the historical rate prior to 1974. This would not be viable on account of the size of the deficit and the frustration of domestic saving which accompanies a policy of that kind. What is required is international co-operation and profound changes in the policies of the developed countries in order to facilitate the growth and diversification of exports above the levels of those past trends.

Other related aspects to be taken into account are the improvement and stability of the external terms of trade and the possibilities of holding down imports without affecting the postulated economic growth rate, and fundamental changes in the sources and conditions of external financing so that its share may increase above expected levels.

The growth of exports should be examined in relation to their composition and the markets to which they have access. Dealing first with their growth rate and structure, it may be recalled that during the 1970s the process of export diversification underway since the end of the previous decade grew stronger, and that this took place in the primary commodity branches together with a growing share of manufactured products. Nevertheless, for the region as a whole, exports of manufactures represent only 20% of the total, and are concentrated in the large and some medium-sized countries. Naturally, this export structure must change in favour of a greater share of manufactured goods, including product lines with more advanced technological content, in a way that is consistent with the transformation of production and technology accompanying the economic development process and with a development strategy which seeks to retain some degree of external openness in order to favour the most efficient allocation of resources and the growth of productivity. A similar line of reasoning, particularly in connexion with resource endowment, applies to the greater dynamism to be achieved by commodity exports with a rising degree of processing; in this case there is also the important fact of the great significance of such exports in the regional to-

tal, particularly for the medium-sized and small countries.

The considerable increase required in Latin American exports in the 1980s must therefore include the various branches of primary commodities with a higher degree of processing, new export flows, and increased and more diversified manufactured products which represent the most dynamic flows of international trade. It is well known that Latin America's share of the primary commodity trade has been declining; it would suffice for the region to retain a specific proportion of that trade, and be allowed access to the markets of the industrial countries, for total commodity exports to increase at a significantly higher rate than in the past. Nevertheless, it is manufactures that should become the most dynamic lines of Latin American exports.

The breakdown of the value of total Latin American exports in recent years is as follows: about two thirds was accounted for by sales to the developed countries, somewhat less than 20% by sales to Latin American countries, a little less than 10% by sales to the socialist countries and 4% by sales to other developing areas. In these circumstances, to achieve the export targets required to underpin the region's economic growth will obviously depend heavily, particularly at first, on greater access to the industrial countries, which currently absorb such a high proportion of them. This in turn will depend on the trends in those countries' external demand, and particularly on the policies to eliminate the well-known restrictions of all kinds limiting access to their markets, as well as policies to restructure their domestic economic activity, promoting the basic conditions for a new expanding position for the developing countries in the world economy. In this connexion, the immediate prospects are clearly unfavourable, on account of the slow rate of economic growth in the industrial countries and the resurgence of protectionist measures.

The above-mentioned studies have also shown quite clearly that despite the positive results which may be achieved in terms of increasing and diversifying exports to the developed countries, the growth of intra-regional trade appears to be a necessary condition for

stepping up the development of the Latin American countries. This trade has been growing more rapidly than trade with the rest of the world. In the early 1960s, exports to the region represented only 8% of the total, as against 17% today;¹ furthermore, the composition of these trade flows differs from that of trade with the rest of the world, as they consist predominantly of new branches of intermediate manufactures and capital goods.

In addition, the growth of trade with the socialist countries and with other developing regions should also be a complementary objective in order to make use of the enormous potential offered by those areas. This objective is included in national policies, and some interesting progress is being made.

The fluctuations and worsening of the terms of trade have important—favourable and unfavourable—effects on the results of the balance of payments and the course of investment and real income in the Latin American countries. In CEPAL's prospective studies, it has been assumed that the terms of trade remain constant at the 1979 level. The relative position of those indexes during the 1970s was described above. It should be added that, with respect to 1979, the terms of trade tended to improve in 1980 but very much worsened for the non-oil-exporting countries. The prospects for the evolution of the terms of trade are far from encouraging, particularly in the short and medium term, on account of the rising cost of imports from the industrial countries, the higher price of fuels, and instability and uncertainty with regard to commodity prices. In proportion as the terms of trade decline, the balance-of-payments problems will grow worse. Hence the capital importance attached by the Latin American countries and the developing countries in general to achieving sta-

ble real prices for commodities at remunerative levels in the international market.

The model used in this economic development scenario assumes that imports will grow relatively faster than the gross domestic product. The elasticity of projected imports with regard to the product is less than in the early 1970s; however, the model has a relatively open growth structure compared with the situation in the past, when the so-called import substitution model prevailed. This trend towards greater openness has been strengthened by foreign trade developments in the last four years.

The question arises of whether it would be possible to achieve the proposed economic growth with a lower import elasticity than appears in these studies. This question is of enormous importance at present, given the rise in protectionism and the developed countries' resistance towards the adoption of effective measures for expanding trade with the developing regions within a process of restructuring the world economy. While it is impossible to give a precise technical answer on the basis of the global analysis under consideration, some general comments may be made on the issue. There are grounds for believing that in the framework of the prevailing style of development, the import elasticity shown by these quantitative studies may be considered reasonable from the standpoint of a given growth structure with a specific degree of openness; thus, it might be considered that at least the large countries and some medium-sized countries, given their industrial capacity and their larger domestic markets, are in a position to make some progress in import substitution of essential intermediate goods and capital goods. There can be no doubt that a policy of this kind should be set in the context of the growth of intra-regional trade, which would provide a more efficient solution than the "squeezing" of the import coefficient at the national level.

¹These figures include only Haiti and the Dominican Republic from among the countries and territories of the Caribbean.