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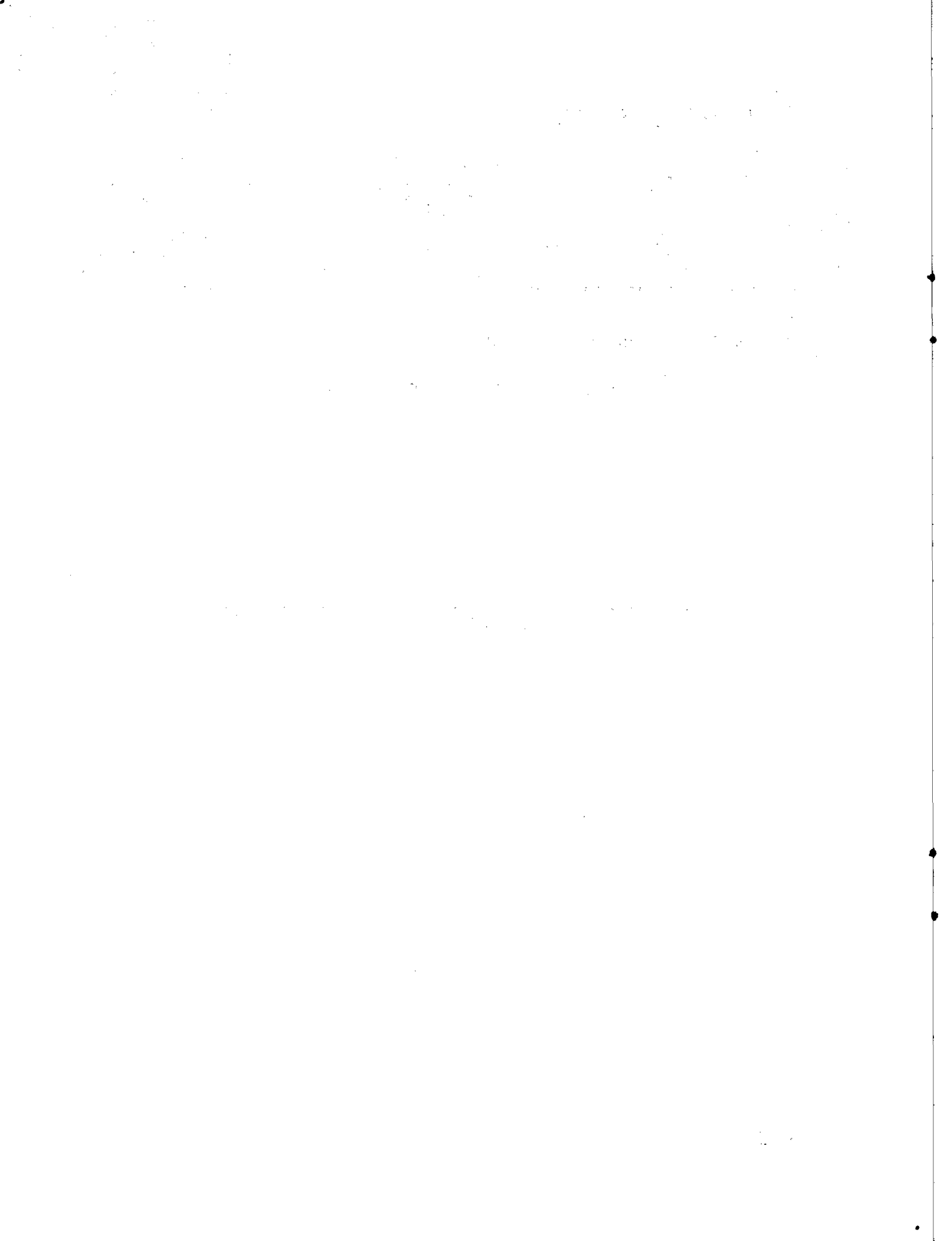
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THE ECONOMIC AND SOCIAL DEVELOPMENT AND EXTERNAL
RELATIONS OF LATIN AMERICA

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Part One

ECONOMIC AND SOCIAL DEVELOPMENT



Chapter I

SALIENT FEATURES OF ECONOMIC AND SOCIAL DEVELOPMENT
IN THE PAST 25 YEARS *

1. Summarized overall appraisal

(a) Dynamism and social change: image of development in the 1950s and the actual changes

An appraisal of Latin America's economic and social development in the post-war period shows that the global conception of the interrelationship between economic dynamism and social change prevailing two decades ago was invalidated by events in an unexpected way. Economic dynamism reached levels considered then to be highly ambitious and was closely associated with social changes which fell far short of the greater degree of consensus and more equitable goals assumed by the development ideologies of the beginning of the period to be inherent in the high rates of economic growth.

By the early 1950s, a concept of development compatible with the conditions then prevailing had been evolved. It conveyed an image of continuous progress based on industrial development which, combined with certain economic and social reforms, would lead to a higher degree of social consensus. The upholding of this image by the governments and predominating social groups was explained by the attempts to form national societies which would avoid a repetition of certain traumatic experiences that had affected their economic and social structures. At the same time, the successful results which the industrial development policies were having in many countries underscored the image of a replica of the industrial countries' models. Side by side with the boom and social stability of the central economies in the 1950s, the effects of the Marshall Plan and United States hegemony in the cold war period gave strength to the idea that growth was associated with well-being.

*/ This chapter, which also appears as chapter I in document E/CEPAL/1024 of 15 March 1977, presents a summary of the retrospective appraisal of the Latin American economic and social process carried out in line with Part I of the secretariat research project which is included in the annex. In addition, this document on long-term economic and social development trends and projections has been submitted to the United Nations Department of Economic and Social Affairs in connexion with the tasks allotted in General Assembly resolution 3508 (XXX).

The development process 1/ has shown a persistent situation where a relatively high economic growth rate has been accompanied by a distribution of income and property which failed to develop favourably for the less privileged groups representing at least half the population. This persistent feature over so long a period has shown itself to be a characteristic of the prevailing style of development. Any attempt to give priority to redistribution objectives or merely to equate them with other aims has led to crises that have seriously affected the system's operation.

On the other hand, the Latin American economies have shown great powers of adaptation to changing conditions created by the actual process of transformation of production and by external variables.

In its economic aspects, the system has been adapted to the needs of relatively advanced stages of industrial development and to an external context which has from time to time altered the trends of trade and financing. On the political side, it absorbed a large proportion of the middle strata that emerged as a result of urbanization, the educational system and the industrial development process. The absorption of these groups widened the political base of the system, which lost its pre-war character of a system with an extremely minority base.

(b) Extent and depth of the production changes

Vigorous economic growth radically changed the production structure. The region almost quadrupled its product between 1950 and 1975; it increased its manufacturing output five-fold, its production of cement six-fold, of energy eight-fold, of machinery and equipment nine-fold and its steel output fifteen-fold. These important changes in scale were linked with substantial modifications in the structure of supply.

The region became industrialized and was able, with an increasing degree of independence, to supply the transport, communications and construction sectors and a structure of consumption comprising non-durable manufactured goods and important lines of durables. Certain sectors of basic inputs such as steel and petrochemical products, symbols of the first stages of heavy industry, are already operating in many countries of the region.

1/ The review contained in this chapter refers to the economic style prevailing in Latin America, not in Cuba which of course adopted a different economic and social system from that of the rest of the countries in the region.

Consumer expectations, however, exacerbated by modern information media, are reaching extensive population groups. The capital formation required to satisfy this demand lies far beyond the region's capacity. Accordingly, if the industrial structure is considered in relation to the sophisticated levels of demand aspired to by the high- and middle-income groups and by those other social strata which are endeavouring to attain them, it will be realized that the terms of the imbalance between expectations and actual possibilities which have so influenced the political attitude of the middle-income groups and the growth of demand are still fully valid.

At the same time, the volume of production, which in absolute terms is appreciable, loses some of its value compared with the volume that would be necessary to solve the problems of critical poverty affecting large sectors of the population. Hence, while the progress achieved is magnified if considered in the context of the population in the modern sectors, it diminishes in relation to the whole population.

The production changes also altered the scale, composition and relative importance of foreign trade. Growth in the first 15 years was essentially based on import substitution at the national level, so that the region played no part in the world's dynamic trade in manufactures. It also lost ground in world trade in important agricultural and mining products. The combination of these two factors brought the region's share in world trade down from 9 per cent in 1950 to 5 per cent in 1970. It should be noted, however, that now in the 1970s the Latin American countries are striving to open their economies to foreign trade and diversify their exports, placing the industrial development process in a wider context than the domestic market.

The composition and volume of imports also changes as a result of the changes in domestic production. The region became an important buyer of industrial intermediate and capital goods from many countries. This represents a negotiating potential of which the region has not yet made full use, while it also creates a potential of the utmost importance for substitution and expansion in intra-regional trade.

/Whatever the

Whatever the context in which the situation is analysed, there is no doubt that the State and the transnational corporation were the most dynamic production agents and showed a capacity for mobilizing resources in large-scale activities and projects which should be noted as one of the most significant developments in the period. In particular, governments and public enterprises in key infrastructure and basic resources sectors achieved impressive results. State management capacity today is far superior to what it has been in the past. A technocracy capable of directing policies that mobilize high proportions of the economy's resources has gradually been formed. The biggest public enterprises in some countries attained a scale which makes them competitive at a world level.

(c) Inflexibility and change in the distribution of property and income

The growth and transformation of production have been permanently accompanied by the process of unequal income distribution. This situation has persisted both in boom periods when any solution has been deferred pending the benefits deriving from growth, and in periods of recession when a large part of the burden of the adjustments has fallen on the groups with least economic and political power.

The unequal distribution of benefits is found not only in the distribution of the ownership of the means of production but also in the concentration of technical progress in modernization characterizing the various production sectors.

The unequal distribution of the ownership of natural resources existing at the beginning of the 1950s was a matter of great political concern, but in practice it was not substantially altered in favour of the under-privileged sectors. It was the agricultural sector in the early 1950s where it seemed possible to achieve a fairer distribution of property and where the economies of scale did not seem to entail properties of too large a size. It also seemed suitable for experiments in co-operative forms of production

/or property.

or property. Available figures for the end of the 1960s show that in those respects neither agrarian reform nor any other type of measure attempted in this sense achieved any significant progress. Quite the contrary, it seems to have increased the number of rural wage-earners without access to the ownership or use of land, even of the limited size required for family subsistence.

Simultaneously with these changes, another very important process was taking place. This was the formation of a new class of rural entrepreneur who, taking full advantage of the technical and infrastructure services instituted by the government, responded with considerable dynamism to the stimulus of demand. The development of the modern agricultural enterprise undoubtedly has an important impact in terms of increasing production and incorporating technological progress, but it is also a factor of the expulsion of agricultural manpower, and if presented as a solution to the problems of agricultural supply it actually discourages agrarian reform decisions and the implementation of programmes in this field.

In the mining and energy resources sector the natural trend towards concentration owing to the technical nature of production activities has been confirmed by increasing ownership by public enterprises. When for political reasons these and other public enterprises have increased employment beyond strictly necessary limits or have reduced the prices of products consumed by the mass of the population, this has had a redistributive effect at least in the medium and short term both for the groups obtaining employment and for the consumers.

Manufacturing has grown more vigorously than any other sector, even though in most countries it started from relatively low levels, so that a large part of its structure has been created in the past 25 years. In many sectors the economies of scale require large-scale plants which, added to their monopolistic character, leads to a strong concentration of ownership. In many countries the transnational corporations and the public enterprise were the most important agents in the more dynamic sectors and industrial ownership was increasingly concentrated in their hands.

/The trend

The trend towards concentration seems to have extended even to sectors which were traditionally spread out, such as the retail trade. It is also significant that foreign capital is not only concentrated in dynamic and technologically complex sectors of industry but it also reaches sectors like commerce where its volume is necessarily of lesser or scant importance to the countries concerned.

The concentration of ownership in economic activities has favoured the expansion of middle- and high-income groups. The increasing size of the middle strata which generally originated in the lower-income groups and worked in sectors with lower levels of productivity is in itself a sign of the positive effect of the expansion of this form of ownership. The implications for urban wage-earners in these sectors were on the whole also positive. For the marginal groups, however, the relative situation meant that the highly inequitable distribution of income prevailing at the beginning of the period was maintained for more than half the population. Of course, even in this group some sub-groups may be identified which enjoyed some not insignificant absolute improvements; however, compared with the consumer expectations encouraged by the system itself, these appear totally inadequate.

To palliate the inadequate distribution of income, in the first two decades the State implemented a public expenditure policy aimed at covering minimum needs, particularly in the services sector. State action in the fields of education and health were the most successful forms of action. The marked decline in illiteracy and the increasing percentages of the population which had access to primary, secondary and university education undoubtedly represent inestimable forms of redistribution of services; however, they have not always benefited those most seriously affected by the distribution of income, and the relevance of their content in satisfying development needs left much to be desired. The increase in the population largely achieved by the decline in mortality rates speaks for itself of the successful results achieved in the health sector.

/If the

If the indicators of the social groups are considered in relative terms, however, once again the impressive improvements of some strata leave the marginal groups in an even worse situation. Thus the middle groups' successful efforts to gain access to secondary and higher education, health services and other benefits deriving from State action push the indexes of the most neglected groups, particularly the rural poor, even farther from the countries' average values than they were in the past.

The redistributive effects of these policies gradually lost some of their importance as the demands of economic growth led to a shift in emphasis in public expenditure to investment in material production sectors at the expense of those services.

Available figures for 1960 and 1970 show that the distribution of income did not change significantly during the decade. In both those years the poorer half of the population obtained about 14 per cent of total income, the next 20 per cent about the same proportion, and the top 30 per cent received the remaining 72 per cent.

The figures in table 1, besides reflecting the persistence of the unsatisfactory distribution of income, show the vigorous growth of demand of the middle- and high-income groups. These groups, in obtaining the lion's share of income, in fact mainly oriented the structure of supply and created a market of attractive dimensions for the large-scale enterprise, particularly the transnational corporation.

The figures available for a group of countries at the beginning of the 1970s show that, although unequal income distribution is a feature common to all of them, it has certain shades both between the countries themselves and between the urban and the rural area. It is clear from these figures than in some countries the situation of the poorest 20 per cent is extremely serious and appears to be concentrated in the rural sector (see table 2).

Table 1

LATIN AMERICA: PER CAPITA INCOME IN 1960 DOLLARS AND CHANGES IN THE SHARE OF THE VARIOUS SOCIO-ECONOMIC STRATA IN THE TOTAL INCOME OF THE REGION

Socio-economic strata	Share of each stratum in the total income		Per capita income in 1960 dollars a/		Increase in per capita income		Total increase per stratum (millions of 1960 dollars)	Percentage of the total increase represented by the increase in each stratum
	1960	1970	1960	1970	Percentage	1960 dollars		
20% poorest	3.1	2.5	53	55	3.8	2	107.6	0.4
30% following	10.3	11.4	118	167	41.5	49	3 919	15.4
50% poorest	13.4	13.9	92	122	32.6	30	4 025	15.8
20% following	14.1	13.9	243	306	25.9	63	3 359	13.2
20% before the highest 10%	24.6	28.0	424	616	45.3	192	10 237	40.3
10% highest	47.9	44.2	1 643	1 945	17.7	292	7 785	30.7
5% highest	33.4	29.9	2 305	2 630	14.1	325	4 332	17.1
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>345</u>	<u>440</u>	<u>27.5</u>	<u>95</u>	<u>25 406</u>	<u>100.0</u>

Source: CEPAL estimates, on the basis of national surveys.

Note: The average distribution in Latin America in 1970 has been estimated on the basis of information provided by Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Honduras and Venezuela.

a/ Corresponds to the concept of personal per capita income.

Table 2

LATIN AMERICA: INCOME DISTRIBUTION IN CERTAIN COUNTRIES

(Percentage of total income represented by each stratum of the population)

Socio-Economic Strata	Individual recipients									Households		
	Argen- tina	Brazil	Co- lombia	Costa Rica	Chile	Ecuador	Panama	Peru	Uruguay	Vene- zuela	Hon- duras	Mexico
	Metro- politan Area	Na- tional total	Na- tional total a/	Urban non- agricul- tural a/	Na- tional non- agricul- tural a/	Na- tional urban	Na- tional total	Na- tional urban	Metro- politan area	Na- tional non- agricul- tural a/	Na- tional total	Na- tional total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
20% poorest	5.3	1.9	2.8	4.3	3.7	2.5	1.6	2.6	2.9	3.6	2.3	3.4
30% following	17.7	9.0	12.3	15.1	14.8	11.3	10.1	11.5	13.3	15.8	8.5	12.3
50% poorest	23.0	10.9	15.1	19.4	18.5	13.8	11.7	14.1	16.2	19.4	10.8	15.7
20% following	18.0	12.2	15.0	15.6	15.8	13.5	16.5	16.3	18.3	17.1	10.9	14.8
20% before the 10% highest	27.8	24.2	25.2	24.4	26.4	25.7	28.7	25.6	29.8	27.1	28.3	27.5
10% highest	31.3 _{b/}	52.8 _{b/}	44.6 _{b/}	40.6	39.2 _{b/}	46.8	43.1	44.0	35.7 _{b/}	36.4	50.0	42.1 _{b/}
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Coefficient of Gini concentration	0.40 _{b/}	0.63 _{b/}	0.53 _{b/}	0.48	0.49 _{b/}	0.56	0.56	0.54	0.49	0.47	0.62	0.53 _{b/}

- Sources:** (1) National Institute of Statistics and Census, Survey on employment and unemployment, 1970.
(2) IBGE (Brazilian Institute of Geography and Statistics): Incomes Survey, PNAD (National households survey by sampling) - 2, 4th quarter 1972.
(3) DANE (National administrative department of statistics), Households Survey 1970.
(4) Central Office of Census, 7th Households Survey 1971, Urban Areas.
(5) Central Office of Census, Continual survey of labour, November 1967, -February 1968.
(6) National Institute of Planning and Co-ordination, Households survey in the urban area, 1968.
(7) Statistics and Census Office, Special survey on incomes through households, 1970.
(8) Central Office of Employment, Households Survey, 1970.
(9) University of the Republic, The distribution of income in Uruguay, 1967.
(10) Central Office of Statistics and National Census, Households Survey, 1971.
(11) Central Office of Statistics and Census, Survey on family income and expenditure, 1967-1968.
(12) Bank of Mexico, Survey on family income and expenditure, 1968.

a/ Active recipients.

b/ In the adjustments made by underestimation the Gini coefficients and the share of the last decile in income were, respectively, the following: Argentina (0.44 and 34.6%); Brazil (0.66 and 57.1%); Chile (0.53 and 44.1%); Colombia (0.56 and 47.5%); Uruguay (43.3%) and Mexico (0.56 and 45.3%).

(d) The structural problem of employment

The productive system has clearly shown that it cannot generate sufficient productive employment for the increasing labour force of the region, and particularly for the big contingents of urban manpower.

Progress in the internal mobilization of productive resources and the growth of investment have been insufficient in comparison with the supply of labour swollen by the high population growth-rate. The agricultural sector has been losing labour through migration from rural to urban areas. In addition, investment has mainly been devoted to the development of highly capital-intensive industrial and infrastructure activities, so that its effect on employment has been partially eliminated. These factors, among others, directly affect the problems of open unemployment faced by the countries of the region. Open unemployment in a group of 17 countries of the region was estimated at roughly 5.8 per cent of the economically active population towards 1970, i.e., approximately 4 million persons.^{2/}

Open unemployment, however, is neither the only employment problem in Latin America, nor even the main one in quantitative terms.

Studies on the subject indicate that "the predominant form in which labour force under-utilization occurs in the less developed countries is underemployment, and particularly invisible underemployment".^{3/} While the definition and measurement of the different forms of underemployment is a subject of much discussion, it is nonetheless an easily verified fact that much of the urban and rural population of Latin America is employed in activities of very low productivity, or their working potential is sporadically

^{2/} See PREALC (ILO): The employment problem in Latin America and the Caribbean: facts, outlooks and policies - Santiago, November 1975, table I-2.

^{3/} Ibid., Chapter I.

devoted to temporary work or, ultimately, remunerated at income levels which are openly below subsistence levels, if the latter are defined according to any social criterion. Estimates made by PREALC to establish the order of magnitude of the employment problem appear in table 3. They indicate that for a group of countries of the region which account for about 75 per cent of the population of Latin America and the Caribbean, the total under-employment of labour, including open unemployment, and agricultural and non-agricultural underemployment, represented in 1970 the equivalent of 28 per cent of the labour force; i.e., the productive potential of one in every 4 active persons was not used. Almost 20 per cent of the total underemployment of labour would be accounted for by open unemployment, the remaining 80 per cent being attributable equally to forms of rural and urban underemployment. It is also noted that generalizations about these orders of magnitude of the situation cannot be made for all the countries considered nor for all the forms of underemployment of labour.

This vast underemployment of labour is linked with a number of features of the productive structure of the Latin American economy and, in particular, with the marked differences in the technological level of the productive units within the different branches of production. As a counterpart to the high concentration of capital, a dominant feature of the majority of productive units of the economy is a chronic shortage of capital and backward technologies corresponding to incipient stages of development.

The productive processes are thus highly heterogeneous, which results in very uneven productivity and incomes. It is estimated that towards 1970, for the region as a whole, the "modern" sector mainly based in manufacturing industries and mining, and to a lesser extent agriculture, absorbed only 12 per cent of the labour force while accounting for 50 per cent of the production of goods; while the "primitive" sector, heavily agricultural, absorbed one-third of employment and contributed only 5 per cent of the product, the remainder of employment and the product being distributed among the intermediate sectors (see table 4).

Table 3

LATIN AMERICA: TOTAL UNDER-UTILIZATION OF LABOUR IN AROUND 1970

Country	Economically active population			Open unemployment		Equivalent unemployment in agriculture ^{b/}		Non agricultural under-employment ^{c/}		Equivalent non agricultural employment		Total under-utilization of labour	
	Total	Agricul- tural	Non agri- cultural	Thou- sands	Rate a/	Thou- sands	Rate a/	Thou- sands	Rate a/	Thou- sands	Rate a/	Thou- sands	Rate a/
Argentina	8 823	1 318	7 505	168	1.9	132	10	2 086	27.8	901	12.0	1 201	13.6
Brazil	28 044	11 965	16 079	1 935	6.9	4 188	35	6 994	43.5	3 505	21.8	9 628	34.3
Colombia	6 395	2 686	3 709	473	7.4	672	25	1 454	39.2	749	20.2	1 894	29.6
Chile	2 721	665	2 056	130	5.0	133	20	779	37.9	356	17.3	619	22.8
Mexico	12 473	5 293	7 180	474	3.8	2 322	40	2 003	27.9	847	11.8	3 643	29.2
Venezuela	3 015	714	2 301	187	6.2	136	19	987	42.9	472	20.5	795	24.2
All the countries listed	61 471	22 641	38 830	3 367	5.5	7 583	34	14 303	36.8	6 830	17.6	17 780	28.4
Percentage of under-utilization				18.9		42.7				38.4		100.0	

Source: PREALC (ILO) - The problem of employment in Latin America and the Caribbean: situation, prospects and policies. Santiago, November 1975.

For the sources and methodology of the calculation see tables I-1 to I-3 of the study mentioned.

a/ The rates refer to the relevant economically active population.

b/ The total under-utilization has been calculated on the basis of the percentage difference between supply and demand of labour, thus including open unemployment. The methodologies used are not always the same, partly because of local features, so that the figures should not be taken at their absolute value: they only serve to estimate orders of magnitude.

c/ Estimates based on official figures from research on family incomes.

Table 4

ESTIMATE OF THE COMPOSITION OF EMPLOYMENT AND THE PRODUCT IN LATIN AMERICA
BY TECHNOLOGICAL STRATA AT THE END OF THE 1960s

	Latin America				Central America				Argentina			
	Current	Inter mediate	Former	Total	Current	Inter mediate	Former	Total	Current	Inter mediate	Former	Total
<u>Total product</u>												
Employment	12.4	47.7	34.3	100	8.1	33.6	55.0	100	21.3	65.8	5.3	100
Product	53.3	41.6	5.1	100	42.6	48.0	9.4	100	58.6	40.5	0.9	100
<u>Agriculture</u>												
Employment	6.8	27.7	65.5	100	5.0	15.0	80.0	100	25.0	57.0	18.0	100
Product	47.5	33.2	19.3	100	43.9	30.6	25.5	100	65.1	32.3	2.6	100
<u>Manufactures</u>												
Employment	17.5	64.9	17.6	100	14.0	57.4	28.6	100	25.6	70.6	3.8	100
Product	62.5	36.0	1.5	100	63.6	30.4	3.3	100	62.1	37.5	0.4	100
<u>Mining</u>												
Employment	38.0	34.2	27.8	100	20.0	60.0	20.0	100	50.0	40.0	10.0	100
Product	91.5	7.5	1.0	100	57.2	40.0	2.8	100	77.8	21.6	0.6	100

Source: CEPAL, The labour force and economic development of Latin America in recent years, E/CN.12/L.1.

/The significance

The significance of the primitive sector from the standpoint of employment would certainly increase if the vast services sector were taken into account. The primitive sector of production thus holds a large proportion of the working population in conditions of low productivity and very low incomes which constitutes the main source of the underemployment of labour. As may be seen in table 4, the technological differences vary among branches and among countries. To illustrate these differences, the table shows the extreme cases in the region.

Unemployment and underemployment of labour, combined with distributive problems, are responsible for the fact that large sectors of the Latin American population currently live in conditions of extreme poverty. The extent of this poverty can be seen from recent estimates which are summarized in tables 5 and 6. Table 5 is taken from an ILO study,^{4/} and indicates that about 43 per cent of the Latin American population in 1972 live in conditions of "serious poverty", i.e., more than 110 million persons, of whom 70 million (i.e., 27 per cent of the population) may be said to be "destitute". Table 6 summarizes the information for various countries of the region on the basis of a minimum balanced diet according to national nutritional patterns. It establishes a proportion of the population of each country with incomes below the cost of that diet; it appears that the incomes of about 35 per cent of the total population of these countries are below the cost of that diet, although with great differences in the situation of each country. Overlooking the difficulties inherent in the delimitation and measurement of the "poverty line" and the definition of the problem itself, it is clear that widespread poverty is a serious problem facing the region, which is in clear contrast with the potential which could be derived from the expansion of production and the rates of economic growth.

^{4/} ILO: Employment, growth and basic needs, Geneva, 1976.

Table 5
EXTENT OF POVERTY IN DEVELOPING COUNTRIES, 1972

Region	Total population (millions)	In state of "extreme poverty" ^{a/}		"Indigent" ^{b/}	
		Millions	Per- cent age	Millions	Per- cent age
Asia	1 196	853	71	499	42
Africa	345	239	69	141	39
Latin America	274	118	43	73	27
<u>Total c/</u>	<u>1 815</u>	<u>1 210</u>	<u>67</u>	<u>706</u>	<u>39</u>

Source: ILO, Employment, growth and essential needs, Geneva 1976, p. 23.

- a/ The state of "extreme poverty" arises in the case of annual incomes of less than US\$500 for Western Europe; US\$180 for Latin America; US\$115 for Africa and US\$100 for Asia.
- b/ The state of "indigence" arises in the case of incomes of less than US\$250 in Western Europe; US\$90 in Latin America; US\$59 in Africa and US\$50 in Asia.
- c/ Excluding the developing countries of Europe and Oceania with populations of 25 million inhabitants and over.

Table 6
THE SIZE OF THE STRATUM OF EXTREME POVERTY IN SOME
LATIN AMERICAN COUNTRIES IN 1970 - ESTIMATES

	Annual per capita cost of the mini- mum balanced diet according to national food standards (1960 dollars) <u>a/</u>	Population with incomes below the cost of the minimum balanced diet (percentages)
Argentina	245	11
Brazil	125	42
Colombia	150	43
Chile	225	29
Ecuador	135	35
Honduras	95	49
Mexico	220	31
Peru	160	45
Venezuela	180	22
<u>Total of countries mentioned b/</u>		<u>35</u>

Source: CEPAL, on the basis of official data.

a/ Cost of food calculated on the basis of the most recent income and expenditure surveys of each country. As is shown by some national alimentary patterns which reveal an excess in the consumption of articles of low nutritional value and a deficit of others of high value, the annual cost of the average balanced diet could be lower if the food habits and taboos observable in the various countries of the area were changed.

b/ The countries mentioned account for just over 85% of the total population of Latin America.

/(e) Changes

(e) Changes in productive, commercial and financial relations with the exterior

The relations between the changes in the economic and social process and the evolution of the international context are further significant features of developments over the last 25 years.

In production, the links with the exterior changed significantly. Direct foreign investment was directed to different sectors than in the past. Investment in natural resources lost ground in comparison with investment in the more dynamic branches of the industrial sector. The nationalization of mines and petroleum heightened this trend over the last 5 years.

Foreign investment in agriculture and mining was, in general, of little significance, except in the case of oil in Venezuela in the 1950s. Likewise, investment in mining was occasionally important during relatively short periods in medium and small countries, but this investment is of little consequence for the region as a whole.

On the contrary, and particularly in the late 1960s, direct foreign investment rose considerably in the more dynamic branches of industry, and for large countries like Brazil and Mexico it became a dominant economic force in key products in such sectors as metal-working and chemicals. Furthermore, the foreign companies became transnational, and thus their operations became more complex. Thus, for example, their relations with their mother companies had important effects on the balance of payments, since the flows of imports and exports were determined by the interests of the corporations rather than by clear national policies. Again, these companies' ownership of technological innovations, access to private and public international credit, attraction of domestic credit and use of national and imported basic inputs, make it difficult for the countries to work out suitable control or orientation policies.

In international trade, the countries greatly changed the composition of exports and imports. Exports tended to become diversified, both through the growth of the commodities characteristic of each country, and through the increasing incorporation of

/semimanufactured and

semimanufactured and manufactured products. This caused many countries to cease to be dependent on the foreign market for a single product, which represents an appreciable step forward for the management of the balance of payments.

Imports changed in line with the process of internal transformation of production and, particularly, the progress of industrialization. The structure of imports today is more complex, and specialized intermediate inputs have increasingly taken the place of consumer goods, which has caused greater rigidity at the qualitative level. There are no striking differences between the import/product ratio at the beginning and the end of the period, but today the goods imported are certainly of greater technological complexity than in the past, as befits a new stage in Latin American development.

The adjustment of the structure and amount of external financing to the new conditions in international financial markets in the second half of the 1960s is another important change in the last ten years. During much of the 1950s and particularly in the middle of the 1960s the region received small amounts of external financing, and most loans came from official sources. Subsequently, this situation changed significantly. Funds became abundant and an increasing amount of the financing tended to stem from private international banks. The region's capacity to tap this financing, and its role in economic growth, became fundamental features of recent years. In particular, the large countries became closely linked with the international financial market, establishing a system of relations which is radically different from past practice. The flexibility and rapidity of operations, the criteria for loan analysis, the shorter loans and higher interest rates differ from the conditions of official loans. The governments have had to develop a new system of relations and negotiation which is in many respects intimately linked with the transnational corporations.

/The region's

The region's indebtedness as a result of this system of financing creates a different balance-of-payments position than at the beginning of the period, since the amount of debt service absorbs much of current export earnings. The region must therefore strongly promote exports, once again adjust the productive structure to reduce imports, and thus find new openings in world trade and in the world economy. Trade of manufactures with the developed countries and within the region is presently at the take-off stage and will represent a new stage in the foreign relations of the region.

2. Social change

(a) The persistence of distributive problems

As indicated at the outset, economic growth was accompanied by serious problems and contradictions. These are related to the basic social and political structure, and therefore an overall appraisal must include a study of the social transformation which accompanied economic growth.

Social change was in many respects greater than, but did not conform to, the forecasts stemming from the concept of development. It was thought that unless socio-economic reforms were carried out and capital formation efforts supported by external assistance, it would be difficult to maintain simultaneously stable governments and democratic values. The wretched plight of large groups of the population gave grounds for believing that social and political tensions would increase dangerously, particularly in the case of the great agricultural masses: hence the acceptance by some leadership groups of reform plans which could lead to a national society based on greater social consensus. During the last 25 years no substantial changes have occurred, in most countries, in access to property or to income on the part of the mass of the population; nor have fundamental changes occurred which would give the underprivileged groups a significantly more equalitarian share.

/(b) Population

(b) Population trends and urbanization

Social change was strong influenced by two unrelenting and quantitatively highly important phenomena: population growth and migration from the countryside to urban areas.

During the period the average rate of population growth was 2.8 per cent, and the region's population grew from 160 to 315 million persons between 1950 and 1975. The population of cities with less than 20,000 inhabitants represented three-quarters of the population in 1950, and about half in 1975. This striking change caused the population explosion in the large cities. In 1950 Latin America had 6 or 7 cities with over one million inhabitants; in 1980 it will have 25. At present it already has one city with over 10 million inhabitants (Mexico City) and three more which are close to that mark (Buenos Aires, Rio de Janeiro and São Paulo).

The countries continue to differ greatly in population patterns and trends. Four countries with approximately 15 per cent of the population of the region have already undergone the demographic transition to moderate growth rates. In three of these countries, 60 per cent or more of the population was urban in 1970, the rural population was constant and its contribution to urban growth will be moderate. Five large or medium-sized countries with about 68 per cent of the regional population have rates as high as or higher than the Latin American average. They all have reasonable expectations that these rates will begin to fall at the end of the 1970s. They also have high rates of urbanization and the rural population growth rate is relatively low (about 1.5 per cent annually). The remaining countries - which account for approximately 16 per cent of the population - are in general small and rural, with high population growth rates which will not fall in the short-run since they still have high mortality rates which can be brought down. Rural growth rates continue to be high, between 2 and 3 per cent annually.

/(c) Occupational

(c) Occupational structure. Growth of the middle strata

The great urban expansion brought with it heavy demands on society, as was foreseen in the post-war period. It was then supposed that industrialization and the expansion of services would provide the occupational answer to rural/urban migration. Urban planning would enable these explosive urban settlements to be controlled and organized.

Judged in absolute terms the occupational achievements of industrialization and the public services may be considered satisfactory. Against a 5 per cent growth of the urban population, however, they are inadequate. The job deficits were made good by the activities of the so-called informal sectors. These succeeded in becoming stable and adapted to the urban societies, and have come to form a system which generates its own forms of supply and demand.

In the context of the functioning of the modern and informal sectors new population strata were generated. The groups in the so-called "higher" or "middle" occupation 5/ have increased their share in the occupation strata, which shows the urban economy's capacity to promote the formation of high and middle-level social strata (see table 7). Contrary to what was supposed in the 1960s, low-skilled jobs in the tertiary sector, 6/ did not increase unduly, and the percentages tended to remain much the same. Naturally, the absolute number of jobs of this kind rose considerably, with a great impact on the distributive problem.

/On the

I. Medium and high strata occupations of the pr	
a)	Employees
b)	Self employed, own commercial establish
c)	Independent profes
d)	semi-professionals
e)	Professional person
f)	Management person
II. Strata below the sec	
a)	Self employed work
b)	Self employed work
III. Lower strata of the	
a)	Self employed work
b)	Self employed work
IV. Medium and high str	
sector	
a)	Employees in agric
	mining enterprises
V. Lower strata of the	
a)	Paid rural workers
b)	Self employed work
VI. Others (non-classifi	
which probably predom	
primary sector)	
<u>Total</u>	

Source: Argentina: 1960 ar
respect of the va
census sample; 19
censuses; Paragua
census; 1973, sam

Table 7
OCCUPATIONAL STRATA, 1960-1970

	Argentina		Brazil		Costa Rica		Chile		Ecuador		Panama		Paraguay		Uruguay		Venezuela	
	1960	1970	1960	1972	1963	1970	1960	1970	1962	1968	1960	1970	1962	1972	1963	1970	1960	1973
Primary sector (except the primary sector)	31.4	32.2	15.0	23.3	33.6	46.2	20.3	27.8	25.0	39.8	16.4	21.8	11.8	13.9	50.9	45.8	23.2	25.8
Employers of	8.2	4.3	1.9	4.1	3.0	6.0	1.5	2.4	1.7	4.1	1.3	1.0	1.2	1.4	8.4	5.6	1.8	3.6
Managers	2.4	4.4	0.2	1.6	4.4	3.1	3.7	4.9	9.1	12.1	0.9	1.3	2.7	3.1	3.0	3.8	5.4	7.0
Professionals and	0.7	1.2	0.7	0.5	0.5	0.3	0.6	0.6	0.7	1.3	0.3	0.3	0.6	0.6	2.5	1.5	0.4	0.6
Teachers	4.7	5.5	2.6	4.3	9.4	11.0	4.0	6.2	5.3	7.2	4.3	5.4	2.6	3.1	7.5	7.3	4.8	8.2
Police	1.1	4.2	2.6	12.8	1.9	3.4	1.4	1.2	0.4	1.1	1.7	2.4	0.3	0.4	1.9	0.8	1.0	1.3
Technicians and assistants	14.3	12.7	7.0	14.4	22.4	9.2	12.5	7.8	14.0	7.9	11.3	4.4	5.3	28.2	26.8	10.5	16.1	
Secondary sector	30.8	34.0	22.7	20.1	32.4	31.3	32.4	31.9	38.2	34.7	16.6	23.7	21.3	23.5	30.1	26.1	26.0	30.2
Employers and non-paid enterprises	26.5	27.5	15.2	14.6	25.1	26.1	26.1	25.2	19.2	22.5	12.5	18.4	11.2	13.0	25.0	29.5	19.3	22.5
Primary sector	4.3	6.6	7.5	5.5	7.3	5.2	6.3	6.1	19.0	12.2	4.1	5.3	10.1	10.5	5.1	6.6	6.7	7.7
Employers in the services	8.9	9.9	7.1	7.9	16.5	15.7	13.4	12.0	14.8	17.7	10.9	12.7	7.8	7.7	14.9	14.3	11.4	12.6
Employers and non-paid enterprises	8.3	9.1	6.7	6.5	15.2	15.0	12.3	10.9	12.4	13.9	9.5	10.7	7.2	6.8	13.9	12.7	10.0	10.7
Employers and non-paid enterprises to perform services	0.6	0.9	0.4	1.4	1.3	0.7	1.1	1.1	2.4	3.9	1.4	2.0	0.6	0.9	1.0	1.6	1.4	1.9
Employers of the primary	2.4	1.3	0.1	0.1	1.3	1.1	0.5	0.8	1.2	1.0	0.6	0.2	1.3	0.6	0.3	0.6	0.9	1.0
Culture and in	3.4	1.3	0.1	0.1	1.3	1.1	0.5	0.8	1.2	1.0	0.6	0.2	1.3	0.6	0.3	0.6	0.9	1.0
Primary sector	14.9	13.1	50.9	40.2	12.6	4.8	29.9	24.4	18.9	6.1	43.5	36.9	51.0	48.9	0.5	1.4	32.7	19.2
Employers and non-paid enterprises	9.5	7.8	14.2	11.8	8.3	3.9	21.7	16.5	10.6	3.9	6.3	6.8	11.0	9.3	0.4	0.5	11.6	7.1
Employers and non-paid enterprises to perform remainder	5.4	5.3	36.7	28.4	4.3	0.9	8.2	7.9	8.3	2.2	37.2	30.1	40.0	39.6	0.1	0.9	21.1	12.3
Employers to perform remainder in the	10.6	9.5	4.3	8.4	3.6	0.9	3.2	3.7	1.9	0.7	12.0	4.7	6.8	5.4	3.3	1.8	5.1	0.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

and 1970, samples from national censuses; Brazil: 1960, sample from national census; 1972, sampling surveys of six regions. There may be a sampling error in very low percentage assigned to the high and medium strata in the primary sector; Costa Rica: 1963 and 1970, sampling surveys covering urban areas; Chile: 1960, 1970, census (national censuses in both cases); Ecuador: 1962 and 1968, sampling surveys covering urban areas; Panama: 1960 and 1970, samples from national censuses; Paraguay: 1962 and 1972, samples from national censuses; Uruguay: 1963, census sample; 1970, sampling surveys. Montevideo only in both cases; Venezuela: 1960, sampling surveys (national censuses in both cases).

On the other hand, it established a clear difference between these strata which managed to incorporate themselves in the more dynamic and "modern" production and service sectors and those which remained outside them.

(d) Economic and political problems of urbanization

These problems were unquestionably too great for the capacity of urban planning to deal with them. The response of the State to the challenges of urban growth was concentrated in housing policy. It was the middle strata, however, which had the greatest access to the benefits of government action, thus incidentally showing their capacity for political mobilization.

Government urban policy was unable to avert a growing split within the large cities. On the one hand, there were the modern districts, far from the centres, based on the widespread use of automobiles, and on the other, there remained the unsatisfactory human settlements spontaneously created by rural-urban migration. Government policy on these settlements ended up as State assistance in view of the amount of resources necessary for a modern housing or urbanization programme.

The issue of political tension originating in these large urban groups has come to occupy a central position. The problem is to avoid a social and economic breakdown in an urban economy with unfair income distribution and access to employment and services and with obvious contrasts in consumption levels and life-styles. It seems that the combination of a small but effective percentage of real opportunities, moderate increases in consumption, hopes of progress, minimum welfare policies and authoritarian régimes has kept the situation under control.

/(e) Rigidity

(e) Rigidity and changes in the rural sector

The rural situation today continues to be worse than the urban situation. The absolute poverty of large strata and the bad distribution of property and power were and still are characteristic of rural areas. In the 1950s and at the beginning of the 1960s it was thought that agricultural reform was not only a solution to rural problems but also a measure which was in step with the process of industrialization. It was assumed that the State, the industrial entrepreneurs, the middle classes and urban wage-earners and the rural masses had common interests in a policy which would lead to a more efficient use of the land and rural labour, and higher production and incomes which would furnish new markets for manufactured goods and open the way for rural democracy and the organization of groups which would break the power of the landowning sectors opposed to development.

The high costs of agricultural reform, its slow maturation and above all the evident fact that the groups involved could reach most of their goals at the expense of the rural masses whose political pressure was weaker than had been supposed, took the wind out of the sails of reform, leaving a high percentage of the potential beneficiaries in an under-privileged situation.

The slow or tortuous progress of agrarian reform led to a large number of proposals usually suggested as complementary but which were in fact alternatives. The most important were colonization and the relocation of poor rural groups through the expansion of the agricultural frontier, agricultural extension in the form of supplying rural areas with public services, the creation of agricultural unions and basic organizations and "community development" policies designed to co-ordinate and unify the other initiatives.

As a result of the economic development of the system and the slight impact of most of these policies, the problems of the past have tended to persist to a large extent in rural areas. At the same time, however, there are a number of important changes. In the first place, a modern commercial agricultural economy has emerged primarily among the large and medium-scale landowners who have made better use than any other group of the State infrastructure projects and of agricultural extension in the form of technology. Secondly, agrarian reform did free some of the beneficiary groups from extreme poverty. Others managed to enter the commercial economy or acquire non-agricultural sources of income in transport, trade and artisanal or other activities. These successful groups widened the gap between themselves and those left behind, in the eyes of the latter. These became a scattered, landless wage-earning mass depending on seasonal labour and without political power. Finally, important progress was made in education and health; however, as in so many other areas the rural/urban gap tended to remain or even increase, so that such successes are once again relative. These transformations improved the situation of some groups and also created in the rural sector a more complex stratification than in the 1950s, in which the more underprivileged groups were unable to improve their relative position or solve their more serious problems.

3. Economic dynamism and change

(a) The development strategies and external conditions. Stages of the growth process

The rate of economic growth and the orientation of the changes in production were determined by the combination of internal development policies and potential and external factors at the national level.

The influence of the external factors was particularly marked in the fluctuations of the rate of growth. The size of the economies and, in general, the internal development conditions largely determined the trends and orientation of the changes in production.

The various forms which these factors took gave rise to marked differences between countries and different stages in the economic growth of the last 25 years. The evolution of the external variables, in relation to exports and financing for example, was similar for many countries. However the disparity in the supply of natural resources, the size of internal markets, salary levels, the socio-political organization and the capacity of defining and implementing development policies led to economic processes with varying dynamism and structure.

Two stages can be distinguished, in this long-term analysis of the economic development of the region, if the evolution of these internal and external factors is considered in the countries which have the highest percentages of population. The first covers the decade of the 1950s and the first five years of the 1960s. The second covers the rest of the decade of the 1960s and the 1970s. This division into two stages in the middle of the last decade naturally constitutes an analytic simplification. It does not necessarily have precise application for each of the countries because of the particular features already mentioned, and the selection of the year 1965 as a dividing line mainly serves the purposes of statistical simplification. Nevertheless, significant and characteristic features prevail in each period which justify this global approach.

/The first

The first stage (1950-1965) is characterized by an external situation which after the boom in Korea developed unfavourably for the region. After an initial period in which the prices in the international market rose rapidly and the volumes exported increased, there was a slackening in the external markets which lasted until the mid-1960s. Exports grew slowly and the terms of trade deteriorated. At the same time the borrowing capacity and availability of external financing were relatively low. Substitutive industrialization was accentuated and imports grew slowly in many large and medium-sized countries. The imports coefficient fell, and this phenomenon reached significant proportions in some countries and particularly in Brazil. It should be stressed, however, that the external situation was not unfavourable for all the countries, particularly for most of the Central American countries.

The slackening in the rate of the capacity of external buying already described stimulated in most countries, although to varying degrees, the trends towards the substitutive industrialization of imports which had emerged during the 1930s and after the Second World War. The countries in which the imports capacity suffered the greatest restrictions, such as the countries of the southern cone, Brazil and in some years Mexico, had to make major internal efforts to implement their industrialization strategy. These countries experienced a decline in the speed of the process at the end of the 1950s and the beginning of the 1960s, of varying intensity and fluctuations in the different cases. Through their greater efforts these countries, particularly Brazil and Mexico, advanced more rapidly in the stages of industrialization, but the restrictions of imports led them to force the substitutive process to levels which were not always compatible with the desirable requirements of efficiency and which passed on the excessive costs to the consumers and other production sectors.

Other countries of lesser economic and demographic size, such as the Central American countries, did not suffer similar restrictions in their external conditions and towards the end of the period a first

/and fruitful

and fruitful stage of subregional integration began to materialize. This enabled them to secure an advance in industrialization which would not have been easy to attain in restrictive external conditions because of the small size of the markets.

The second stage, which lasted from the middle of the 1960s up to the 1970s, is characterized by a gradual improvement in the external conditions which reached a peak in the biennium 1972-1973.

Exports increased in dynamism and diversification and the ratios of the terms of trade tended to improve, as well as the availability of external financing, particularly during the 1970s.

At this second stage there were marked disparities in the capacity of the countries to adapt to the new international context. The differing conditions of the Latin American countries for securing external financing, embarking on new targets of change in internal production and diversifying exports created marked diversity in dynamism and the national economic processes.

The countries which took greatest advantage of the external situation were those which combined an active policy of internal change with dynamic incorporation into the external commercial and financial market.

In general the Latin American economies carried out major changes in the institutional structure of their economies. The governments gradually progressed in planning their activities in both the long and the short term. Although they did not always succeed in including the action within the framework of a formal plan, public activity in practice gained in coherence and clarity of objectives. The increasing level of training of the public technocracies and bureaucracies contributed greatly to this improvement. In many countries they showed a capacity to carry out major investments, both in infrastructure and in industrial sectors, and to smoothly operate economic policies which made it possible to carry out long-term strategies and adapt to the changing external conditions.

Progress was also made, although more unevenly, in tax, administrative and agrarian reforms. These reforms naturally provoked

/greater reactions

greater reactions than the rest of the public action and, particularly in the agrarian sphere, the advances are far from satisfactory in most cases.

The financial markets were organized by promoting major processes of accumulation and a greater incorporation into the international framework. Inflationary adjustments were progressively introduced into these markets so that the distortions registered in the capital and investment markets were eliminated.

The improved institutional organization of the public sector made it possible to carry out an economic policy which, while in general maintaining the objectives of industrialization, adapted the instruments to the new conditions.

The economic policy incorporated the growing concern about inflation in an organic way. Inflation, which in the first stage was limited to a few countries, ended up by becoming a widespread phenomenon during the 1970s in the context of the world inflationary process and because of the varied action of external and internal factors in the countries of the region, as is explained in chapter IV. The efforts to harmonize growth, inflation and employment show that many countries are introducing more elaborate forms of economic policy.

The new international conditions and the rigidity created in many countries by imports substitution determined or facilitated changes in economic policy. In general, the countries tried to insert their industrialization process in broader markets so as to be able to realize new stages and remedy some of the distortions of the past. For this they combined a policy of export promotion with greater liberalization of imports through measures affecting tariffs, exchange rates and tax subsidies.

The requirements of the accumulation process, together with the concern to maintain a reasonable degree of autonomy in the operation of key sectors, also led to a reconsideration of the attitude towards foreign capital. In respect of natural resources there was a widespread attitude in favour of their nationalization which enabled the countries to maintain or recover control of their mining and

/energy activities.

energy activities. In the other sectors of the economy, however, an attitude more favourable to foreign capital prevailed which in many cases was reflected in a major influence of transnational enterprises in the more dynamic sectors of demand.

Accelerated economic dynamism and major changes in production developed under the new external conditions, encouraged by the national policies. In these circumstances the most favoured countries were those of large market size and other small countries which began to exploit resources with good international prices which proved to have an appreciable marginal effect on the economy. Among the first group, the countries which were particularly favoured were those which, relying on the industrial base already created by the mid-1960s, offered attractive political and salary conditions for foreign capital, secured appreciable proportions of the financing and technology and carried out a decisive industrialization strategy. Among the second, those which gained most were those which, taking advantage of the balance-of-payments situation created by the expansion of exports, secured external financing and on this basis embarked on the first stages of industrialization.

On the other hand, there were the medium-sized and small countries which had already carried out the first stage of the substitutive process or which did not have adequate natural resources to substantially increase the income of their exports. These countries were faced with a double problem: they neither possessed a market with capacity to advance in the industrial process and secure external financing, nor were capable of satisfying a more sophisticated demand by means of external trade. The subregional integration schemes then appeared as a suitable solution for a major group of countries.

In many countries the improvement in the purchasing power of exports and the abundant external financing reversed the trend of the previous period towards decline in the imports coefficient. The economies functioned during the period with a greater availability of imports. Although the flexibility of supply deriving from this

/circumstance should

circumstance should be noted as one of the factors which made possible a high level of dynamism, it is equally true that the system functioned with increasing foreign borrowing which became accentuated from 1974 onwards when the external conditions deteriorated because of the effects and repercussions of economic recession in the industrial countries and the deterioration of the terms of trade aggravated by the rise in petroleum prices for the importer countries. The external debt services and repayments of direct foreign investment steadily increased in magnitude and towards the end of the period constituted one of the major causes of the deficit in the balance of payments on the current account. Furthermore, a considerable proportion of the debt had been contracted with the private foreign bank which operated with more onerous and risky time limits, interest and conditions than those prevailing in multilateral official financing.

The serious external bottleneck which is revealed by the high deficits on the current account of the balance of payments in the non-petroleum exporting countries, which began in 1974, affected the drastic fall in the rate of economic growth in 1975 and this problem prevails in spite of a certain improvement recorded last year.

A new stage in the economic development of the Latin American countries, offering varying prospects according to the particular conditions which affect them, finally seems to be emerging. The petroleum-exporting countries, and especially Venezuela, have favourable prospects for accelerating their development and can appreciably influence the economic dynamism of other countries of the region if reciprocal trade is expanded and economic and financial co-operation strengthened. The other countries, however, will have to confront the solution of their acute problems of external payments in an international situation which will be less favourable than in the years before the recession, particularly if the recovery of the growth rate in the industrial countries continues to be delayed.

For this second group of countries the development of their internal markets, a new stage of industrialization in intermediate essential products and capital goods, which will undoubtedly vary in

/nature and

nature and dynamism from one country to another, and also the broadening and diversification of regional trade and trade with other non-traditional areas will be the decisive factors, in some more urgent aspects than in recent years, in promoting their subsequent economic development.

(b) Acceleration and differentiation of economic growth between countries

Throughout this period the rate of economic growth of the region as a whole tended to accelerate. The average annual growth rate rose from around 5 per cent during the 1950s to about 5.5 per cent in the 1960s and 6.3 per cent in the first half of the 1970s. Over the twenty-five years this is equivalent to an average of 5.5 per cent a year, which exceeds the rate of the developed countries with market economies by nearly one per cent. This did not occur in the case of the per capita product because while demographic growth reached rates of nearly 3 per cent, the region did not succeed in doubling its per capita product or in improving its relative position in relation to the developed countries (see tables 8 and 9).

The greater dynamism covered the great majority of countries despite the differences in rhythm which can be distinguished between them. During the 1950s only three countries exceeded 6 per cent, while in the first half of the 1970s seven attained that rate, including Brazil and Mexico which account for about 50 per cent of the population. Similarly in the 1950s seven countries did not attain 4 per cent, while in the first half of the 1970s only four failed to reach this rate.

As has already been pointed out, the differences between countries in respect of the size of national markets, conditions, and internal potential and policies, in the end led to differences in the rate and structure of their growth, especially in the last stage considered. The less favoured countries were those which encountered difficulties or limitations in pursuing their industrialization process

Table 10
LATIN AMERICA: SHARE OF THE AGRICULTURAL AND MANUFACTURING SECTOR IN THE PRODUCT
 (Percentages of the gross domestic product at 1970 prices)

Country	Agricultural sector a/					Manufacturing industry				
	1950	1960	1970	1975	1976	1950	1960	1970	1975	1976
Argentina	16.7	15.6	13.1	11.5	12.3	23.2	26.3	30.2	32.3	31.5
Bolivia	25.4	24.4	16.9	15.6	15.4	12.4	11.6	12.9	13.6	13.9
Brazil	20.6	16.5	14.3	12.2	11.1	17.9	22.3	24.8	25.6	26.0
Colombia	38.2	33.0	28.6	26.9	26.1	13.7	16.4	17.5	18.7	19.1
Costa Rica b/	38.4	29.3	25.0	23.2	23.9	11.5	12.4	15.1	17.2	17.2
Chile	11.2	9.8	7.9	8.8	8.5	23.1	24.9	27.2	22.3	22.8
Ecuador	40.8	38.1	29.8	24.4	23.7	17.1	17.0	17.5	18.7	19.5
El Salvador	41.0	35.7	30.6	29.6	29.3	12.9	13.8	17.6	17.9	17.8
Guatemala	35.3	32.6	30.1	30.5	29.4	10.7	11.7	14.6	14.0	14.2
Haiti	52.8	48.8	50.8	45.7	44.9	8.3	8.8	9.8	11.9	12.1
Honduras	45.2	32.7	34.6	29.6	30.6	9.2	15.2	14.0	16.6	16.9
Mexico	18.2	16.1	11.8	9.8	9.4	18.6	19.2	23.4	24.0	24.0
Nicaragua	33.1	26.4	27.0	28.1	28.3	10.0	11.9	19.2	19.2	19.4
Panama	31.5	25.7	20.7	19.0	18.9	7.9	11.6	15.9	14.3	14.1
Paraguay	45.8	39.5	34.3	33.5	32.6	17.8	15.2	17.3	16.5	17.6
Peru	25.3	24.6	18.8	15.0	15.2	10.9	13.3	20.6	22.4	22.7
Dominican Republic	34.7	33.8	25.8	18.7	19.4	12.5	14.6	16.7	17.1	17.3
Uruguay b/	15.4	11.0	12.6	11.5	11.5	23.0	24.3	24.2	25.6	26.2
Venezuela	7.7	7.3	7.5	7.0	6.4	6.9	9.2	15.0	14.9	15.5
Latin America (19 countries)	<u>20.1</u>	<u>18.2</u>	<u>14.9</u>	<u>13.2</u>	<u>13.0</u>	<u>17.9</u>	<u>20.3</u>	<u>23.4</u>	<u>24.0</u>	<u>24.1</u>

Source: *CEPAL*, on the basis of official data.

a/ Comprises: Agriculture, forestry, hunting and fishing.

b/ The manufacturing industry includes mining and quarrying.

/reflect, particularly

These quantitative differences reflect, particularly in more recent years, the varying capacity of countries to cover more advanced rubrics of the industrial process. The larger countries are advancing in the substitution of intermediate and capital goods while the others are already encountering difficulties in some consumer durable lines. Chile and Uruguay, which made an early start in industrialization, are good examples of these difficulties, since although they have a high degree of industrialization they were unable to advance at the same rate as the larger countries during the period.

In the agricultural sector the opposite occurred. While it is true that with a rising income level there is normally a displacement of demand, in many Latin American countries the decline in the share of agriculture has gone further than the structure of demand would suggest.

The adjustment mechanism between demand and production has been the external sector. Particularly in more recent years (1970-1974) imports have grown at a significantly higher rate than exports (10 per cent and one per cent respectively). The share of the agricultural product in the product of the region has declined from about 20 per cent in 1950 to 13 per cent in 1976. In 1950 this proportion was above 30 per cent in eleven countries, in 1976 only in three. In 1975 the three economically and demographically larger countries had ratios below this average. Chile and Venezuela continue, as in 1950, to be the countries with the smallest share of agriculture in the product (about 7 per cent). The rate of growth of production has been falling in the sector, from 3.7 per cent in the 1950s to 3 per cent in the 1960s and below 3 per cent in the 1970s.

The transformation of the productive structure has led to a substantial change in the level and quality of supply. The industrial sector has greatly increased the supply of consumer goods, covering almost all demand in many countries. Production of intermediate goods has also increased, particularly in some basic intermediate industries such as steel and petroleum refining. In recent years the chemical and petro-chemical industry has tended to grow, but these branches are /unevenly distributed

unevenly distributed among the countries. Capital goods have progressed least, but the serious balance of payments problems are strengthening the trend towards a substitution policy in these branches, particularly in countries like Brazil and Mexico. Hence, looking at the region as a whole, it may be said that the structure of industrial supply is tending to become more complete.

Looking at what happened in the different countries, it may be seen that the medium and small countries easily advance in the more traditional branches, but run into increasing difficulties as they attempt to advance into the intermediate and capital goods sectors, where bigger production scales are necessary. Thus the trends to continue the transformation of production are uneven. On the one hand, the large countries are in a position to progress and join in world trade. On the other, the medium and small countries must make a much greater effort to continue their transformation of production. Thus the growth of regional trade and the success of the integration schemes will certainly be important factors for transformation to continue, and their failure would represent a blow to the strengthening of the regional economy.

(d) The degree of exploitation of natural resources in relation to external conditions

Prior to industrialization, endowment with natural resources was an important factor in the development of the Latin American countries.

The development which has taken place in the last 25 years has called for the use of considerable and increasing quantities of natural resources. The region as a whole has abundant natural resources, but their exploitation often involves solving institutional problems or carrying out significant investments which are not easily divisible into small units. On the other hand, exports of natural resources continue to be a key element in the growth of the capacity to import, even if they are no longer the dynamic factor in demand as in the past.

Over the last 25 years the region has not increased the exploitation of its resources in the proportions called for by the

/growth of

growth of domestic and external demand. To fill the gap it resorted to foreign trade, particularly in the more favourable years in the period 1965-1973. By means of this expedient it was able to avoid more radical reforms in such sectors as agriculture or large-scale investment in the energy and mining sectors.

In the case of agriculture, many factors combined to cause production to grow at a lower rate than demand. On the internal side, the structure of land ownership, the unattractive level of domestic and external prices, and the high amounts of investment and technology needed for qualitative progress in the sector; on the external side, supply was often accompanied by extremely attractive financial conditions which made it easier for the developed countries to place their surpluses in the region. Thus the pressure on the sector for a better use of its resources was not strong in this period. Naturally, there were countries where this was not the case, particularly when the harvested area could not easily be extended without high cost and the balance-of-payments situation was not favourable.

The pressure of demand on mining resources was likewise not strong during this period. External demand continued to dominate in this sector, and during the 25-year period the importing industrial countries opted for a policy of diversification of their supplies. Although exports of some minerals such as iron ore, where the region's participation was very low, increased greatly, in others, where its participation was high, there was a big drop. Foreign capital directed to mining was displaced to other regions of the world. It was only in recent years that the strong industrial development of the larger countries of the region caused internal demand to emerge as a potential growth factor in the sector, and in some cases increased the pressure on resources.

The influence of the external sector in the pressure on resources can be seen most clearly in the case of energy resources. While the region continues to be a net exporter of energy resources, production grew in the period at lower rates than consumption because the price of petroleum was relatively low, particularly in the 1960s. The deficit

/countries substituted

countries substituted abundant imports from the Middle East for investment efforts in exploring and adding new energy resources to their reserves and production. The higher price of petroleum in 1973 was once again felt in the balance of payments and this will naturally continue to be a strategic field in the next few years.

Unquestionably, to maintain high rates of economic growth in the future will demand more intense exploitation of the region's natural resources; investment and technological needs will grow considerably and there will be a greater need for different forms of co-operation and growth of trade among countries of the area.

(e) The importance and progress of the public sector and the transnational enterprises as agents of growth

The growth of the economies, the inclusion in demand of more sophisticated products, the need to achieve bigger production scales and the attempts to include industrial products in the pattern of exports created organizational, technological and financial needs in the 1960s which were very different from those of the 1950s.

The growth of production was linked with the evolution of a consumption structure which followed the patterns of the developed countries. This trend was stimulated and made possible by foreign capital, which in many cases came to exploit the domestic market of the Latin American countries, particularly those of greater economic and demographic size. The technology available for the production of the goods included in the new consumption structure was created in the developed countries for large markets; to a large extent this restricted to the larger countries the inflow of capital to produce goods with these technological characteristics. In addition, in many cases this type of industrial development requires an infrastructure of transport, energy and basic inputs which can only be justified for large markets.

The national private sector, which played an important role in the first stage of the industrial process, lost ground to the public sector and foreign capital, the latter in the form of the transnational corporation. In general, the public sector undertook

/infrastructure projects,

infrastructure projects, the exploitation of mining and energy resources and projects in some industrial sectors such as steel and oil-refining. The transnational corporations participated in a great variety of sectors, but their greatest weight was in the more dynamic or influential branches of industry, such as the motor-vehicle industry.

This trend towards the concentration of ownership in the hands of a small number of public and private enterprises brought the social and political changes and led further and further away from the competitive model proclaimed in the development ideology of the post-war period.

(f) The region's capital formation and savings capacity

The acceleration of the region's economic growth was possible thanks to the high levels reached by capital formation. Investment, which had grown at an average annual rate of 5.7 per cent in the period 1950-1965 stage, has reached rates of around 8.5 per cent since the mid-1960s (see table 11). An analysis of the situation by countries reveals some cases where the rate of capital formation accelerated greatly. Brazil, whose rates were already high, achieved an average rate of 11.5 per cent. Those countries which initiated the exploitation of new natural resources such as Ecuador and the Dominican Republic reached very high rates, i.e., 15.4 and 22.7 per cent, respectively. In Brazil, the high rate attained coincided with an improvement in the capital-output ratio, which shows how efficient the process was. On the whole, there was a close relationship between the rates attained by the product and investment. Investment played the dual role of increasing the supply capacity and at the same time of constituting an important dynamic factor of demand. In contrast, there are the cases of Chile and Uruguay, where in the period 1950-1973 investment rates increased moderately in keeping with the slow growth of the product.

Table 11

LATIN AMERICA: EVOLUTION OF DOMESTIC INVESTMENT

Country	Gross domestic investment as a percentage of the gross domestic product <u>a/</u>				Growth rate of gross domestic investment (annual rates)		
	1950-	1964-	1971-	1974-	1950-	1965-	1973-
	1952	1966	1973	1976	1965	1973	1976
Argentina	15.2	17.6	21.2	18.8	6.1	6.1	-3.6
Bolivia	11.6	17.7	17.0	18.5	6.6	4.9	10.9
Brazil	23.3	19.5	23.6	25.8	6.0	11.5	7.9
Colombia	22.8	21.0	19.7	17.4	3.3	4.1	2.5
Costa Rica	14.8	17.4	22.3	21.2	10.5	7.8	-0.1
Chile	14.6	15.4	13.0	12.3	4.6	1.2	-14.0
Ecuador	11.0	12.2	23.4	29.3	6.0	15.4	16.2
El Salvador	11.3	17.6	14.3	17.1	8.9	3.0	11.6
Guatemala	10.8	12.1	12.2	14.6	4.1	6.7	14.2
Haiti	7.1	5.8	8.0	8.7	0.8	6.8	5.0
Honduras	15.9	15.6	16.7	20.1	5.1	6.9	2.0
Mexico	18.9	20.4	21.8	25.8	7.5	8.6	6.8
Nicaragua	12.8	20.2	17.7	19.6	12.0	5.6	-3.4
Panama	13.3	19.1	29.0	25.0	7.0	13.7	-3.2
Paraguay	6.3	14.0	16.9	23.3	9.5	9.3	14.1
Peru	19.5	17.4	15.3	19.4	6.1	4.1	8.4
Dominican Republic	16.7	13.9	22.3	26.6	2.3	22.7	10.0
Uruguay	19.0	9.6	11.6	10.9	-2.6	2.7	5.8
Venezuela	45.3	27.2	30.9	34.6	4.2	6.8	10.0
<u>Latin America</u>	<u>20.1</u>	<u>19.1</u>	<u>21.6</u>	<u>23.5</u>	<u>5.7</u>	<u>8.4</u>	<u>5.7</u>

Source: CEPAL, on the basis of official data.

a/ Averages based on values at 1970 prices.

/Figures for

Figures for the region as a whole show a high capacity for the mobilization of investment resources. The investment-product coefficients which had declined at the beginning of the 1960s compared with the beginning of the 1950s (19 and 20 per cent, respectively) more than regained their former levels in the period 1971-1973 (about 21.5 per cent) and reached an exceptionally high level in the years 1974-1976 (23.5 per cent).

An analysis of the countries shows that the situation is somewhat uneven. In the first place there is a group of countries which in the last 25 years have maintained levels close to or higher than 20 per cent of the product. These are generally large or medium-sized countries: Brazil, Colombia, Mexico and Venezuela. In the second group are the countries which have increased their levels from values of between 10 and 15 per cent at the beginning of the period (1950-1952) to levels close to or higher than 20 per cent for the majority of them in the 1970s: Argentina, Bolivia, Costa Rica, Honduras, Nicaragua, Ecuador, Panama, Paraguay and the Dominican Republic. Finally, the rest of the countries have not exceeded 15 per cent in the 1970s and in some cases the rate has slowed to very low levels.

The dynamic performance of investment was accompanied by a vigorous expansion of domestic saving. The region, which for long periods had recorded levels of domestic saving of about 18 per cent of the product (18.7 per cent in 1950-1952 and 18.2 per cent in 1964-1966) saw its coefficient increase to 19.8 per cent in 1971-1973 and to 21 per cent in 1974-1976. The countries with consistently high investment coefficients also had high and relatively stable savings coefficients. In the rest of the countries they fluctuated widely around lower levels. With the exception of the oil-exporting countries and Argentina, Paraguay and the Dominican Republic, the trends are not towards an increase. It is especially noteworthy that the coefficients

Table 13
 LATIN AMERICA: GROWTH RATE OF EXPORTS AND OF THE GROSS DOMESTIC PRODUCT
 (Annual rates, percentages)

Country	1950-1965			1965-1973		
	GDP	Exports		GDP	Exports	
		Volume	Purchasing power		Volume	Purchasing power
Argentina	3.4	2.7	1.0	4.4	2.3	5.7
Bolivia	1.8	-1.2	2.2	5.9	9.0	7.0
Brazil	6.0	2.9	-0.3	8.8	11.2	12.7
Colombia	4.7	4.0	1.8	6.2	5.5	6.5
Costa Rica	6.9	4.5	3.3	7.2	12.3	10.3
Chile	4.3	2.8	3.9	2.9	1.5	2.3
Ecuador	5.4	7.1	3.5	6.4	11.3	12.1
El Salvador	5.4	7.1	5.6	4.6	4.1	3.9
Guatemala	4.3	7.0	4.3	6.1	8.1	5.0
Haiti	1.1	0.6	-1.2	2.9	2.5	2.0
Honduras	4.0	4.5	3.5	4.3	5.6	3.3
Mexico	6.3	4.6	2.6	6.8	6.4	7.5
Nicaragua	6.8	9.2	8.4	4.0	6.3	5.2
Panama	6.0	6.4	5.4	7.5	7.7	6.8
Paraguay	3.5	3.9	2.9	5.1	4.1	6.0
Peru	5.7	7.9	6.6	4.8	-0.3	3.4
Dominican Republic	4.7	2.9	1.2	9.1	10.2	12.8
Uruguay	1.7	1.2	-2.0	1.0	-4.0	2.5
Venezuela	7.5	6.1	2.0	4.5	0.8	3.5
<u>Latin America</u>	<u>5.2</u>	<u>4.2</u>	<u>2.0</u>	<u>6.3</u>	<u>5.0</u>	<u>6.7</u>

Source: CEPAL, on the basis of official data.

Table 14

LATIN AMERICA: EVOLUTION OF THE EXTERNAL SECTOR
COEFFICIENTS IN RESPECT OF THE GROSS DOMESTIC PRODUCT

(Percentages)

Country	1950-1952					1964-1966					1971-1973					1974-1976				
	m	yx _a /	e	g	f	m	yx _a /	e	g	f	m	yx _a /	e	g	f	m	yx _a /	e	g	f
Argentina	12.0	0.3	8.4	1.9	2.0	8.4	0.7	8.8	1.1	-0.8	7.6	1.0	7.1	1.6	-	6.9	0.9	6.7	0.9	-
Bolivia	19.5	-1.0	26.9	-8.7	0.3	23.3	0.2	19.8	-1.3	4.9	21.1	1.4	22.8	-3.8	3.6	27.0	1.6	20.7	4.9	3.0
Brazil	15.7	1.6	9.1	5.2	3.0	4.8	0.8	6.0	-0.2	-0.3	8.3	1.0	6.9	-	2.4	9.6	1.5	6.7	-0.1	4.6
Colombia	19.4	1.7	16.3	5.1	-0.2	15.9	1.7	14.3	0.3	3.0	14.9	2.1	14.0	-0.1	3.1	14.1	1.5	13.7	0.4	1.6
Costa Rica	26.3	8.4	26.9	7.5	0.4	29.2	1.4	21.2	1.7	7.7	33.8	1.9	29.5	-2.6	8.7	31.7	2.3	27.5	-2.8	9.2
Chile	11.9	2.8	20.4	-6.3	0.5	12.1	2.3	16.9	-3.9	1.5	13.6	1.3	14.6	-3.3	3.5	13.4	2.3	19.0	-5.5	2.2
Ecuador	13.2	2.3	12.6	5.6	-2.6	15.4	1.9	15.8	-0.4	2.0	19.0	3.0	19.6	-1.8	4.3	25.1	4.2	18.4	8.4	2.5
El Salvador	25.3	0.8	20.2	9.4	-3.5	31.9	0.1	26.9	1.1	4.0	28.2	-0.1	26.7	0.1	1.3	31.6	0.2	27.1	1.1	3.5
Guatemala	17.2	-0.2	10.7	6.6	-0.4	21.0	0.7	17.1	1.9	2.7	16.8	0.5	18.9	-2.5	0.8	17.9	-1.3	20.3	-4.9	1.2
Haiti	16.0	2.2	12.6	5.2	0.4	15.6	-0.5	11.8	-0.1	3.4	15.7	-2.5	12.5	-0.5	1.5	13.5	-1.2	10.3	-0.4	2.4
Honduras	24.1	9.4	23.2	8.4	2.0	30.3	2.4	24.3	4.8	3.7	27.8	2.9	28.0	-0.1	2.9	31.4	1.7	28.0	-3.9	9.1
Mexico	14.4	1.6	11.5	3.5	1.0	9.2	1.8	9.5	-0.4	1.9	9.9	1.8	9.1	0.1	2.5	11.0	2.6	8.1	0.8	4.8
Nicaragua	24.4	3.8	19.3	10.3	-1.5	33.5	1.7	28.0	3.3	5.9	32.8	2.4	31.0	0.4	3.8	34.7	3.8	28.9	0.6	10.2
Panama	33.2	9.5	30.4	4.9	7.5	36.3	4.1	33.4	1.1	5.8	39.0	3.1	34.6	-0.1	7.5	35.0	2.6	36.7	-6.6	7.5
Paraguay	15.1	0.6	13.8	3.5	-1.6	17.8	0.6	13.1	1.7	3.6	16.6	1.1	13.5	1.6	2.5	19.0	0.7	12.7	2.2	4.8
Peru	15.7	1.0	15.4	-0.5	1.7	18.2	2.2	21.3	-3.6	2.7	15.2	1.7	16.2	-1.0	1.7	20.0	1.9	12.3	1.2	8.5
Dominican Republic	19.0	5.5	26.1	0.0	-1.7	20.5	0.8	17.2	-1.0	5.1	22.8	0.2	19.0	-	4.0	24.0	1.6	14.8	6.0	4.8
Uruguay	17.6	0.6	12.3	4.6	1.4	9.2	0.9	12.6	-0.7	-1.8	11.6	0.9	10.1	1.7	0.7	11.6	1.7	13.8	-3.5	3.0
Venezuela	44.5	21.9	34.7	33.4	-1.7	21.4	10.4	28.1	4.9	-1.1	20.6	5.6	21.6	5.4	-0.8	26.0	1.1	15.1	25.4	-13.3
Latin America (19 countries)	16.8	2.7	13.4	4.7	1.4	10.9	2.0	12.0	0.1	0.8	11.4	1.6	10.9	0.4	1.9	12.8	1.7	9.9	1.9	2.6

Source: CEPAL, on the basis of official data.

Note: The symbols mean:

m : imports of goods and services.

yx : net payments of profits and interest to the exterior.

e : exports of goods and services.

g : effect of the share of external trade.

f : net external financing.

a/ Includes net private transfer payments.

In the first stage covering the period 1950-1965, the region's exports grew at a lower rate than the product, and the terms of trade deteriorated. As a result, the purchasing power of exports increased substantially less than the product (2 per cent and 5.2 per cent, respectively). This situation mainly affected the large and medium-sized countries. In contrast, the small countries, such as those of Central America, increased the purchasing power of exports at rates similar to those of the product, and in some cases even higher. The biggest differences were recorded by Brazil whose export purchasing power fell 0.3 per cent, while the product grew by 6 per cent.

These drops in the purchasing power of exports were not compensated for by external financing and many countries found it impossible to maintain rates for the supply of imports similar to those of previous periods. Fairly radical changes took place between 1950 and 1965. Imports as a percentage of the product fell from 16.8 per cent in the period 1950-1952 to 10.9 per cent in 1964-1966. The effects of the deterioration in the terms of trade were significant in the case of many countries, added to which in some the relative importance of net external financing diminished. For the region as a whole, expressed in terms of percentages of the product, trade gains - at 1970 prices - were 4.7 per cent in 1950-1952 and only 0.1 per cent in 1964-1966, while net external financing was 1.4 per cent and 0.8 per cent in the same periods.

At the level of the individual countries, Brazil recorded the most spectacular changes in that it reduced its import coefficient from 15.7 to 4.8 per cent, and its external financing coefficient from 3 to -0.3 per cent, between 1950-1952 and 1964-1966. Similar but not such pronounced changes were recorded in Argentina, Colombia, Mexico, Uruguay and Venezuela (this last country radically reduced its import coefficient - from 44.5 per cent to 21.4 per cent - but it still remained at fairly high levels). The Central American countries, on the other hand, managed to increase both coefficients and thus in most cases were able to maintain their supply of imports at levels of around 30 per cent of the product.

/At this

At this stage, the countries most seriously affected by external restrictions made more progress in import substitution industrialization than the countries which were able to maintain their supply of external goods. By 1965, however, they had reached import levels which could hardly be further compressed. Such levels were not compatible with new stages of industrial development which required quantities and types of capital and intermediate goods that could not be produced locally or in which it was not feasible to invest under the prevailing conditions. The persistence of the foreign trade trend conflicted with long-term growth. In the mid-1960s the countries initiated a new stage, introducing gradual adjustments in their external policies.

The new stages which began in the mid-1960s was characterized by a reactivation of the external markets. Between 1965 and 1973 the purchasing power of exports for the whole region grew at a higher rate than the product (6.7 per cent and 6.3 per cent, respectively). This situation prevailed in most of the countries of Latin America. The countries also had increasing access to external credit which enhanced their import possibilities. A case worth noting is that of Brazil whose import-product coefficient increased from 4.8 per cent in 1964-1966 to 8.3 per cent in 1971-1973. On the whole, most of the countries maintained their coefficients, halting the decline recorded in the previous period. On the other hand, some Central American countries which, as noted earlier, had fairly high import coefficients, reduced them somewhat although they remained at high absolute levels. In broad terms, it may be noted that the import coefficients of the large countries are below 10 per cent, those of the medium-sized countries are around 15 per cent and those of the remaining countries are over 20 per cent.

The trend towards a more open economy was accentuated in the years 1973 and 1974. On the one hand, the major countries like Brazil and Mexico obtained large volumes of external financing which made their domestic supply even more flexible. On the other hand, the oil-exporting countries were able to increase their imports substantially thanks to their considerable export earnings.

/The expansion

Table 16

LATIN AMERICA: IMPORTS OF CAPITAL GOODS AND THEIR RELATION TO THE PRODUCT AND INVESTMENT

Country	Imported capital goods in relation to the gross domestic product (percentage)			Imported capital goods in relation to total investment (percentage)		
	1950	1965	1973	1950	1965	1973
Argentina	3.0	1.9	1.4	23.9	10.6	6.8
Bolivia	3.2	8.7	6.1 _{a/}	39.1	52.9	40.8 _{a/}
Brazil	5.0	0.9	2.8	23.8	4.4	11.4
Colombia	6.9	4.7	3.7	28.9	23.8	21.8
Costa Rica	4.1	7.4	7.8 _{a/}	31.2	34.1	32.7 _{a/}
Chile	4.2	3.8	5.5	28.1	24.0	43.6
Ecuador	3.3	4.1	7.0	34.8	37.4	29.7
El Salvador	4.1	6.5	3.9 _{a/}	39.4	39.3	25.1 _{a/}
Guatemala	3.9	4.8	3.4 _{a/}	32.6	36.4	24.3 _{a/}
Haiti	-	-	-	-	-	-
Honduras	4.4	6.2	6.2 _{a/}	33.6	41.3	37.5 _{a/}
Mexico	4.8	3.0	2.6 _{b/}	27.8	15.1	12.6 _{b/}
Nicaragua	5.4	8.3	4.9 _{b/}	56.6	43.5	39.9 _{b/}
Panama	3.6	5.6	7.1 _{b/}	23.3	32.0	25.5 _{a/}
Paraguay	-	-	-	-	-	-
Peru	4.9	5.3	3.7 _{b/}	32.7	33.7	26.8 _{b/}
Dominican Republic	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-
Venezuela	12.2	6.4	6.9 _{b/}	36.4	24.7	23.0 _{b/}
<u>Latin America</u>	5.0	3.0	3.1 _{a/}	28.2	15.3	14.7 _{a/}

Source: CEPAL, on the basis of official data.

a/ 1971.

b/ 1972.

/and the

and the same trend was observable in Mexico (from nearly 28 per cent to 15 per cent). It dropped to a lesser extent in Venezuela and Chile between those years. In the rest of the countries, imported capital goods represented over 30 per cent of total investment in the whole period, a proportion which was even increasing in several small countries. Since the mid-1960s when investment expanded rapidly, the coefficient has declined in most countries except Brazil and Chile, where it has risen significantly. In 1973 the three major countries of the region had coefficients of less than 13 per cent, while of the 12 remaining countries for which data are available, half of them had coefficients of 30 per cent and over.

Other factors also influenced this process. Those countries which faced a more severe and prolonged restriction of external resources were forced to give preference to investment involving lesser requirements in terms of imported capital goods, and also in the short term to sacrifice some of their imports of these goods in order to ensure the supply of those on which the maintenance of the level of domestic economic activity depended to a critical extent, such as raw materials and intermediate goods for industry. In the few countries like Brazil where the severe restrictions on their import capacity were followed by a substantial improvement in their external purchasing power and the rapid growth of external investment, it was possible to increase the absorption of capital goods at an even faster rate than the rapid growth of investment, as has actually occurred in recent years.

Generally speaking, raw materials and capital goods have accounted for the highest percentage of imports. The relation between the share of these two items reflects the balance of the different branches of industry. For example, Argentina, which is more advanced in the engineering industries than in those producing basic industrial inputs, records proportions of over 55 per cent of its imports for this last item. For the average countries, intermediate goods represent the most important group in their imports (see table 15).

The supply of energy resources is another of the domestic variables influencing the composition of the value of imports. In

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II. CONTRADICTION IN RECENT SOCIAL CHANGES AND THE PROBLEM OF UNIFIED DEVELOPMENT

The following pages examine certain contradictions and negative aspects of the processes of growth and social transformation that are summarized in the preceding chapter. The relevant longer-term trends include.

1. The long-term trends

The population has grown and experienced spatial redistribution and concentration with unprecedented rapidity. Half of a population that has more than doubled since 1950 is now urban and urban predominance is bound to increase steadily.

While the rural population and the rural economy have become modernized and internally differentiated in many respects, the welfare gap between city and countryside has not narrowed. The majority of the rural population continues to experience extreme poverty, powerlessness, and discrimination in public social allocations. The breakdown of traditional land tenure systems and the forms taken by agricultural modernization have increased the relative importance of the landless underemployed rural proletariat.

In the urban areas, heterogeneous "middle" strata, mainly engaged in non-manual salaried occupations, have grown much more rapidly than either the groups of manual workers in industry and basic services or the groups classified as "marginal", "sub-proletarian", etc. This differential growth of urban middle strata has sustained and been sustained by exceptionally rapid expansion of secondary and higher education, and by the expansion of public and private white-collar employment absorbing the products of this education. It has been accompanied by the entrenchment of "modern" consumption patterns in broad groups of the urban population. This market has shaped and been shaped by the lines taken by industrial development and by the penetration of mass communication media.

/The greater

The greater part of the urban population in most countries has shared to some extent in national per capita income gains, although these gains have been very unevenly distributed, the upper and upper-middle strata receiving the lion's share. The greater part of the rural population has gained little or nothing. The imitative modernization and diversification of consumption patterns, however, have meant an increasing strain on incomes, with apparent neglect of basic needs, the rising indebtedness, and perceptions of relative poverty and insecurity accompanying improvements in monetary incomes.

Increasing shares of public sector resources and of national incomes have been allocated to social services, particularly education; there have been more irregular and intermittent increases in allocations supporting the consumption levels of certain population groups, particularly through public housing and subsidized distribution of foods. These allocations have for the most part been biased in favour of the urban middle strata and have commonly reinforced rather than counteracted the prevailing inequalities in income distribution. They have generated strong interest groups - the functionaries of the services as well as the clientele - pressing for further expansion along the same lines.

Shifts in the distribution of power in the societies have not been accompanied in most countries by any significant enhancement of popular participation in decision-making. The relative importance of landowning classes has declined, and there has been a trend toward the sharing of power between technobureaucracies and major industrial and financial interests, with increasing participation by transnational enterprises. The former have been increasingly emboldened to seek control by their own rising technical capacity, and also by the recurrent difficulties of "normal" political processes of interest-group representation and bargaining in managing the social conflicts generated by rapid change and increasing inequality, and in applying coherent criteria for allocation of resources.

2. The period since 1970

Since the beginning of the 1970s the national societies have experienced a series of stimuli and shocks, mainly originating outside the region that have accentuated the contradictions in the prevailing style of development, heightened social tension and insecurity, and also strengthened the trend toward technobureaucratic tactics aimed at suppression of the contradictions and shoring up of the viability of the prevailing style. The stimuli and shocks have much in common with those experienced in the high-income industrialized countries during the same years, as might be expected from the stages of modernization, urbanization, and industrialization achieved by the Latin American societies. Naturally they have affected the individual countries in differing combinations and with somewhat different timing, depending on factors ranging from the character of the main export products to the level of political mobilization previously reached, and these combinations have generated widely differing reactions from the societies and the governments. Cuba, with its radically different style of development requires a separate discussion.

Cuba has experienced external stimuli and shocks similar to those of other Latin American countries since 1970, owing to its continuing dependence on sugar exports and the extreme instability of world sugar prices. Within the Cuban style of development, however, the resulting rise and fall in import capacity, while requiring renewed austerity in consumption, do not seem to have affected significantly the major social features and trends. The evolution and also the difficulties of this style of development have influenced many aspects of the ideological debate over Latin American development. The highly simplified vision of the social impact of recent stimuli and shocks that is attempted below, however, applies only to the countries with market economies, however much the role of the market may have been modified by planning and growth of the public sector.

The high rates of economic growth and exceptionally favourable export prices in the early 1970s, strengthened confidence in the viability of the prevailing style of development, further stimulated

/the consumer

the consumer society and the domestic industries supplying it, and permitted the state to relieve social tensions by expanding social services, by assistential programmes, and above all by absorbing in public employment an important part of the rising output of secondary and higher education. This brief euphoria has been followed, mainly since 1974, by new deteriorations in terms of trade, intensifying debt servicing problems etc., reducing resources available to the governments and forcing austerity policies negating the social aspirations stimulated in the immediate past. Inflation has become important in practically all countries and has reached unprecedented levels in the minority of countries in which the different social strata had learned to live with chronic inflation (those of the "Southern Cone"). Open unemployment has risen, the barriers to absorption of women and youth seeking to enter the labour force have become more formidable, and it is probable that the ability of the poorer urban and rural strata to maintain minimum levels of consumption is deteriorating, although this conclusion depends on very fragmentary information and observations. At the same time, a deterioration in the real incomes, levels of consumption, and employment prospects of major parts of the middle strata that have become wedded to the "consumerist" style of development is evident; and although some groups continue to gain, consumer purchasing power and consumer goods industries have suffered. A particularly striking change in several countries is the sudden halt to the phenomenally rapid expansion of enrolment in higher education, and the accompanying governmental campaigns to freeze or reduce the bureaucratic employment that previously absorbed an important proportion of the output of higher education. The political problems posed by the plight of the relatively organized and articulate middle strata are, at least in the short term, probably more disquieting to governments than the plight of the relatively unorganized and voiceless poor. The phenomena noted here may be only temporary and similar shocks have occurred in the past. It is striking, however, that the substantial economic growth and the rising levels of consumption and social services

/achieved by

achieved by a large part of the Latin American population have not mitigated their psychological impact; consumption aspirations have continually advanced ahead of the capacity of the economies to satisfy them and even temporary stagnation provokes strong social tensions that threaten the stability of the style of development.

The beginning of the 1970s saw a great deal of innovation in governmental social policies, with the coming to power of new combinations of social forces or, in a larger number of cases, the emergence of a technobureaucratic elite determined to achieve a style of development incorporating a larger measure of social justice and popular participation. These innovations co-existed contradictorily with the complacency induced by the favourable economic conjuncture, and were accorded wide acceptance in principle. The objectives have not been achieved owing partly to insufficient capacity to cope with the demands and resistances arising within the societies, partly to contradictions in objectives and inefficiency in execution of policies, partly to external factors and more recently to the impact of international economic crises and inflation on the resources needed to carry out major redistributive programmes in the absence of a high degree of social consensus and discipline. Some national authorities justify the reversion to policies of fiscal austerity and renunciation of controls over market forces as a temporary concession to harsh realities. Others are convinced that this is the only sound strategy for development over the long term. In either case, in societies in which different classes have achieved a significant degree of mobilization and expectations of continued improvement in their lot, the risks are obvious: serious social conflicts arise with their sequel of repressive measures, and the organized groups best able to resist austerity policies are favoured.

While the stimuli and shocks affect the urban population most visibly they are also exacerbating the tensions previously present in the rural population. Favourable markets for agricultural exports have helped to speed up the capitalist modernization of agriculture and the marginalization of small cultivators and workers dependent

/on the

on the traditional hacienda system. Slumps in export markets have then reduced the demand for agricultural wage labour, and also strained the capacity of the countries to import basic foods. The ability of the cities to absorb migrants into activities in the so-called "informal sector" is, at least temporarily, shrinking, and so are the opportunities for temporary labour migration to richer countries - a change of considerable importance in the case of Mexico vis-à-vis the United States. Agrarian reforms that have benefited sizable minorities of the rural population in a few countries seem to have reached a dead end; for the most part they now lack national political backing, since agricultural modernization seems to have taken an irreversibly different course, and they have found no answer to the plight of the poorest rural strata, inevitably excluded from any tenure reform aimed at economically viable small holdings or co-operatives. In their combination, these factors imply an intensification of rural poverty and a narrowing of the alternatives previously open to the rural masses - which were meagre at best. Rising levels of rural social conflict, particularly in the form of land seizures, are evident in parts of certain countries, but in general the declining relative weight of the rural population and the vigorous growth in some lines of agricultural production means that rural impoverishment rarely receives effective priority in the decisions of governments and in urban public opinion.

The past cycles of rapid economic growth and crises forcing internal economic innovations, accompanied by rather unbalanced and precarious expansion and diversification of the social groups able to make themselves heard in the political process, have been adverse to effective planning, in spite of the institutionalization of planning mechanisms in most countries since the 1950s, or to the achievement of egalitarian social policies. In prosperous years the argument that economic growth by itself would eventually eliminate poverty and unemployment seemed plausible. In years of crisis the argument prevailed that this was no time for costly and probably disruptive redistributive reforms. A piecemeal agglomeration of social measures

/responding to

responding to group pressures and the models offered by the high-income countries took place, and some of them had a major impact on the societies and the economies, but they did not respond to any overall conception of their place in a development strategy. Arguments that things should be done differently, that the social services should be planned so as to contribute simultaneously to productivity and social equality were not lacking, but were unable to change the overall trend.

3. The problems of unified development

The achievements and shortcomings of economic development during the 1960s, as they entered into the consciousness of political leaders, social scientists and planners, seemed to demonstrate the urgency and also the possibility of acting differently and more coherently. The national societies had achieved a much greater material capacity and also technical-administrative capacity to do so. While formal planning had not been particularly effective, the relative importance of the public sector in national life had grown considerably, and the technobureaucracies managing it had gained experience and confidence. It had also become more obvious that the existing processes of economic growth and social change would not lead spontaneously to a wider diffusion of the fruits of development or to greater national autonomy. Thus the theme of "unified development" or "unified approaches to development", which had in fact been present in many variants and under different names in the discussions of planning since the 1950s, came to the fore. To its proponents this meant a development strategy achieving a high rate of economic growth and at the same time changing the structure of growth, the allocation of public resources, the content and distribution of social services, the patterns of consumption, and the patterns of human relationships so as to correspond to the human welfare and human rights objectives set forth in numerous international declarations.

/The experiences

The experiences of the early 1970s in Latin America demonstrate, unfortunately, that the acceptance of general formulations on "unified development" did not amount to a real commitment to application in the face of the stimuli and shocks that have been described above. The formulations themselves have justifiably been criticized as "utopias by aggregation of objectives", masking the lack of agreement by their sponsors on any unified theory of social change. The capacity for real integration of objectives has also been strained by the series of international campaigns of recent years - on population, the human environment, habitat, employment, equality of the sexes, etc. - all legitimate in themselves, but pointing to different approaches and priorities that have been "unified" only by juxtaposition. The limited adaptability of the material and technical resources generated by the prevailing style of development in Latin America, and above all of the expectations of the greater part of the population, to the requirements of radically different "unified" styles has become clearer. So has the extent to which the decision-making capacity of the national authorities that have struggled toward "unified development" is restricted by the character of their political base, the compartmentalization of the administrative apparatus, the entrenchment of the transnational enterprises, the identification of the mass communication media with the consumer society, and other factors of internal as well as external origin. The present reactions to crisis demonstrate once again the ambivalence of attitudes toward the prevailing style of development. On the one hand, there is wide recognition of its precariousness and inability to conceive of its projection into the future on an ever larger scale without transformation. On the other, there is a continuing inability to formulate convincing strategies for transformation and plausible agents of transformation. The stage of dependent semi-development and societal differentiation reached by the larger countries of Latin America seems to rule out strategies that might be open to poorer, more homogeneous and more predominantly rural societies, as well as strategies that might be open to societies that are fully

/industrialized or

industrialized or even "post-industrial", with more ample per capita resources that can be redistributed with relative efficiency and public consensus through the State. "Unified development", if it is to achieve operational meaning in the Latin American context, must meet the realities of internally heterogenous and conflictive societies undergoing change processes that at present either escape the control of any coherent social force or are being subjected to centralized controls with relatively narrow objectives.

4. Some questions for the future

In other terms, the obstacles to application of unified development strategies that were emphasized in the Chaguaramas Appraisal (Sections I.A. and B) have become still more pronounced during the past two years. The governments face an accumulation of problems with deep roots in the national economic and social structures, problems that can be overcome only through coherent long-term policies with firm political backing, but they also face continually changing pressures and crises that absorb most of their attention. The year 1975 saw the main impact of the recession in the central economies, and in spite of an upturn for the region as a whole, 1976 has been a year of shocks and emergency remedies for a good many of the countries of Latin America.

What is done or not done in the next few years will have incalculable consequences for the long-term future, and the effort to design policies for this future cannot be set aside, however difficult. A comparison of the course of events over the past-quarter-century reveals the pitfalls in the way of rational attempts to plan the future in the face of the real dynamizing forces in the international and national political and economic orders; hopefully such an exercise should help toward avoidance of some pitfalls of the future. It would be presumptuous for a report such as the present to offer additional general prescriptions for unified development; the national authorities are already suffering from a surfeit of prescriptions unrelated to their differing real priorities and capacities for action.

/It may

It may be worthwhile, however, to point to certain common features in the policy challenges they now confront:

(a) Both long-term human welfare objectives and short-term crises of financing, distribution and unwanted byproducts call for a rethinking of the overall impact of social programmes that have already established a claim to considerable public resources, acquired elaborate administrative structures, and attracted influential clientele. Reforms are now being undertaken, particularly in the case of education, social security and housing, in most of these programmes, in different ways and with different priorities in individual countries, but invariably under the impact of financing crises and the impossibility of satisfying within the prevailing style of development the expectations that the programmes have aroused. Under these conditions the redistributive aims of the social programmes, rarely realized in practice although continually cited as justifications, are likely to be even more poorly served than before. That is, in the name of efficiency, the social programmes can become more openly subordinated to the presumed human resource requirements of the present style of development and the capacity to pay for services of the different strata in the society. If the national authorities adhere to the criteria for unified development set forth in the Quito and Chaguaramas Appraisals quite different approaches to reform are called for. How can they make use of the present crises, with their exposure of the insufficient realism of past expectations and their inexorable demands for more efficient use of scarce public resources, to enhance the political practicability and public understanding of social programmes aimed at redressing of the disadvantages of the masses, strengthening of national autonomy and creativity, and qualifying human resources for the desired future style of development?

(b) The combination of population increase, urban concentration, deterioration of the environment, waste of natural resources, and high prices of certain imported inputs, particularly oil, call for far-reaching changes in consumption patterns and in the degree of public control over certain resources. Even relatively conservative

/sectors of

sectors of opinion, particularly in the international financing agencies, now insist, for example, on the necessity of curbing private automobile use in favour of public transport, of urban design reducing the need for transport, and of strict controls over urban land use and prices. Some countries are raising the price of gasoline and taking other control measures to restrict automobile use. Such changes clash not only with the expectations of the more articulate sectors of urban public opinion, but also with two of the most important sources of dynamism of the prevailing style of development: automobile manufacture and urban commercial and upper-income residential construction. The plight of the cities and balance of payments difficulties, along with other factors, will eventually make vigorous action unavoidable, but how can action be achieved with a reasonable degree of public consensus in the face of the lines of development of the transnational enterprises, the commitment of the mass communication media to the consumer society, and the contribution to employment of the enterprises that would be affected?

(c) The combined problems of critical poverty, maldistribution of income, underemployment, low productivity of much of the labour force, and inability of the masses of the population to participate meaningfully in national political processes, although even more important in terms of human welfare values than the challenges just described, but it is even harder to foresee what will be done and what should be done. Short-term responses to crises, taking the form of inflation, contraction of employment and declining real wages, have an inevitable impact on the lower-income groups and those with least political power. At the same time, governments will not be able to disregard the deteriorating situation of the rural masses, now manifesting itself in renewed conflict over land tenure, the rapid rise within the present economic conjuncture of open unemployment in the cities, and the limited opportunities for youth to enter the labour force. However, the probable combination of remedial measures can be gravely deficient and dangerous for the future: limited doles of food, public works employment at subsistence wages, and promotion of aided

/self-help in

self-help in the so-called "informal" sector of the urban economy. Such measures in their combination might arrive without deliberate intention at a conversion of the spontaneous segregation of the poor into systematic segregation, with different levels of services, different standards for housing, and an expectation that a judicious amount of aid and control would enable the poor to meet their own needs until such time as the "modern" economy can incorporate them on its own terms. How can such a future be guarded against in the unavoidable adoption under crisis conditions of stopgap measures to cope with critical poverty?

III. TECHNOLOGICAL ASPECTS IN LATIN AMERICA'S DEVELOPMENT

1. Introduction

Development theory has not succeeded in incorporating the subject of technological change in a satisfactory manner. For many years this was considered a variable which lay outside the economic system, a technical datum on which the economist had little or nothing to say. Only recently has one begun to admit the possibility that the rate, nature, and orientation of the technological change produced in a given society are closely interrelated with the social and political processes, and with the general operation of the economy in question. In other words, only recently has one begun to accept the need for an endogenous theory of technological innovation covering the studies involved in the overall analysis of the long-term process.

The systematic study of this subject, however, has at least enabled, the conclusion to be reached that:

"... technological change is a complex process which is influenced by a number of factors of various kinds, economic, educational, scientific, social, cultural, and political. In all these fields technological progress demands the satisfaction of all the various conditions, necessary, none of which is on its own sufficient to achieve significant advances.

"There is no doubt that the style and development strategy chosen exercises a decisive influence on the type of technological change to be promoted, since in each case the role and participation of the State, foreign investment, public or private enterprise will differ and so too will incentives and control policies, and the relative priority assigned to the various sectors of economic activity and to social development. As a result, the policy for technological change must be fully and expressly embodied in the national

development policy and the corresponding planning system, in other words, it must be part of the chosen development style."^{1/}

Notwithstanding the foregoing, there is no doubt that there are also "objectives and priorities which generally apply. The correction of educational shortcomings, the development of appropriate scientific capacity and the promotion of creativity with the ensuing establishment of a sector of "technological supply" with the capacity to evaluate, assimilate and innovate, are no doubt the prerequisites of any effort at sustained and integrated development".^{2/}

A development model or style which gives pride of place to the maximization of the rate of economic growth, the rapid progress of the manufacturing industry and the export of manufactured goods, with its accompanying emphasis on progress in the sector which has come to be known as the "modern" one in the economy, calls for a process of technological change which gives priority to the use of complex technology, and which - at least in the short and medium terms - will, for the most part, come from abroad. If, in addition, the economy develops within a capitalist system with a mixed economy in which private enterprise predominates, it is likely that priority will be given to foreign investment, licensing contracts and other similar mechanisms which constitute the most generalized forms taken by the technological advance necessary for the success of the chosen model.

If, on the other hand, the development style aims at focussing attention on the solution of the problems of abject poverty, of unemployment and underemployment, the distribution of wealth and income, greater emphasis will be placed on the creation of indigenous technology and the adaptation of foreign technology to conditions which call for the greater use of labour per unit of capital and physical production. In such a case, technological policy will also

^{1/} Scientific and technological progress for Latin America's development. (ST/CEPAL/Conf.53/L.3), 1974, p. 179.

^{2/} Ibid.

aim at achieving the effective absorption and diffusion at local level of the technological know-how necessary for raising the level of productivity in traditional small scale economic activity and in agriculture, in particular.

Finally, a development style which takes a path other than that followed in this field by the industrial countries, and which does not approve of attempts to follow in the very footsteps of those countries in their development process, will give greater importance to the objective of achieving greater autonomy in their decisions on development in general and technological change in particular.

In sum, the diversity of situations and stages of development is so great that it is impossible to work with a single analytical frame of reference. It is for this reason that the main headings of this chapter refer mainly to the three largest countries of Latin America, Argentina, Brazil and Mexico which show important similarities in this respect. Without prejudice to the foregoing, some remarks are also made which apply to the less industrialized countries of the region or those with a more modest resource endowment.

2. Technological change in the more industrialized Latin American countries

It is undeniable that as regards modernization and technological change the three countries mentioned above are clearly far ahead of the other countries of the region. It is true that several others (Venezuela, Colombia, etc.) are emulating the development experience of the former, but whatever quantitative indicator is used would show that the gap between them is substantial and that closing it is not just a matter of a few years. Moreover, it must be admitted that the size of the intrarregional technological gap is producing new situations in the Latin American economic and political scene, the analysis of which is becoming increasingly urgent.

One can see that Argentina, Brazil, and Mexico (and to a lesser extent Colombia as well), are exercising, although the process

is only beginning, increasing influence on the remainder of Latin America, through both their gradual establishment as intra-regional suppliers of manufactures, and the growing frequency with which they emerge as sources of a growing intra-zonal flow of direct investment and the transfer of technology originating in the region, or of imported technologies which have undergone a process of "acclimatization" to the local conditions in which they are used. As regards both these roles, what appears to be in the full process of gestation is a new pattern of intra- and extra-regional relations which require detailed examination. There is no doubt that the technological process is an important aspect of this new emerging scene.

Even at the risk of introducing a certain degree of arbitrariness in the analysis, it seems desirable, as a means of comparison to distinguish between at least two different stages of evolution as regards the process of industrialization and technological change in developing countries as a whole. On one hand there are a certain number of countries which in recent literature go under the name of "recently industrialized", "late starters", etc.^{3/} in which the whole of the post-war period has witnessed a process of technological change of far-reaching importance. In Latin America, although differences may be found between the countries,^{4/} Argentina, Brazil, and Mexico may be taken as cases in point.

^{3/} In his study established in 1968, A. Hirschman began to use the concept of countries at a stage of late late industrialization to differentiate between the situations of Argentina and Brazil and those of Germany, Japan and the USSR. See: *The Political Economy of Import Substitution Industrialization. Quaterly Journal of Economics.* February 1968.

^{4/} Although it seems to be a fact that other countries of the Latin American area - for example, Colombia or Venezuela - are close on the footsteps of Argentina, Brazil and Mexico, and will in the future have to face similar situations and problems, the differences as regards the level and degree of diffusion of technological progress achieved are evident. First, the opening and expansion of "spearhead" industrial branches has tended to be of more recent date, as a result they have (cont.d)

Furthermore, we find in the majority of underdeveloped countries - some in Latin America and the large majority among the countries of the Third World - that "modernization" and technological change are the exception rather than the rule. They are at a very early stage of development, several decades behind that of the industrialized world and even that of the developed areas of the countries of "late industrialization" (at least as regards the aspects of development in question).

The review of the experience of the three countries mentioned above 5/ is important for various reasons. First of all, because in those cases the process of modernization and technological change has been linked with long-term structural changes which have a great deal in common. Such changes stem from processes such as the increase in economic concentration, the participation of foreign capital in the various branches of production, the gradual assimilation of technological patterns and the demand inherent in societies at a relatively higher stage development. Secondly, because these countries are exercising a growing influence on the remainder of

4/ (Concl.) had less time to begin to generate the technological externalities which are of such importance in Argentina, Brazil, and Mexico. Secondly, the "critical mass" of these "spearhead" industries is not sufficiently important so far (see the scale and non-integrated forms of operation of the motor-vehicle sector or that of chemicals and petro-chemical products). Lastly, since the externalities of the "spearhead" industries depend largely on the extent to which there is a sound professional and technical infrastructure, the trickle of qualified human resources into the domestic market is a further constraint to similar technological development in the short-term in the medium-sized countries of the region.

5/ It is obvious that there are also fundamental differences between the three largest countries of the region. In particular Argentina, does not have a reserve population, whereas there is an abundant labour force in Mexico and Brazil. This is seen, for example, in the relative strength of the trade-union sector, an important factor that should be borne in mind in a more detailed examination of the differences between the three largest countries.

Latin America, both as intra-regional suppliers of manufactures, and direct capital investment, or licensors of technologies adapted in them.

As distinct from trends in mature societies - between which it is valid to speak of technological interdependence - most of the process of modernization and technological change in the countries of late industrialization has been one of imitation, in other words the adoption of advances made several years before in the more advanced communities. Often this has meant the transfer of product design and/or production processes from abroad, the entry into and/or expansion of multinational corporations in the economic and social context of the recipient country, and also the participation of engineering firms, finance brokers, etc. of the developed world. Since this has tended to occur practically throughout the entire spectrum of economic activity, and has stemmed from concerted operations in highly imperfect markets - the markets for technical services, licences, rights for the use of patents, etc. - such international transfers have shaped a pattern of technological and, therefore, economic dependence, which is significantly different from the situation of interdependence which can be observed among advanced countries.

However, it is becoming increasingly clear that this massive inflow of foreign technology has set in motion in several of the countries of "late industrialization" a series of structural processes which so far have only been studied partially. Among them, the transfer of foreign technology has been associated with: (1) the appearance of an emerging - but rapidly growing - domestic technological capacity which is taking shape through both the adaptation of foreign technology to local conditions of application, and through the generation of some domestic technological designs. (2) An increasing capacity for the export of manufactures requiring relatively sophisticated technology. (3) The emergence of a tendency towards the export of local capital and technology to other regions of the developing world.

/These structural

These structural features - at present embryonic, but in our opinion in the full process of growth - exist side by side with features such as a rapid increase in the participation of foreign capital in manufacturing production, and in the economy in general; the increasing concentration of the main productive sectors, a certain tendency towards the deterioration of the patterns of income distribution and, consequently, of the relative wellbeing of those sectors of the population which have not participated in technological progress, etc. In sum, the process of technological modernization in countries such as Argentina, Brazil or Mexico, has been associated with a complex economic and social evolution, and it is, undoubtedly, necessary to study their interrelation in depth.

The process of industrialization outlined in the previous paragraphs determined the predominant forms of the resulting technological change, at least insofar as the industrial sector is concerned.

In brief, the following could be considered the most salient features in the process of progress and technological change related to that evolution.

The industrial structure started from scratch on the basis of foreign technology, whether this was obtained as part of foreign capital investment, embodied in a turnkey project sold by specialist firms, or expressly in the form of manufacturing licences, technical assistance contracts or other means which imply transfers of technology from the industrial nations.

The acquisition of technology by any of the means mentioned above tended to be available on unfavourable terms owing to the imperfections of international market of technology (firm-specific knowledge in each case) and the limited bargaining power of the State and/or local firms buying it. Thus, the cost was excessively high and in addition they had to accept restrictive clauses such as the prohibition of exports, grant-back provisions covering "adapted" technological know-how generated by the recipient enterprise, trade

/and technological

and technological tied-purchase provisions covering the supply of parts, inputs, models, etc. The fixing of differential royalties between enterprises for what is essentially the same technological "package", etc.

In addition, there have been cases in which technological know-how was not really supplied to the purchaser, thereby placing him in a position of dependence subject to the will of the supplier and at times even second-hand technology, already considered obsolete in the country of origin, was supplied - and what is particularly serious - without in such cases the real transfer of know-how to the recipient country, thereby impeding the absorption and diffusion at national level of the new technology.

The situation described above resulted in a major increase in the royalties that these countries had to pay for the import of technology (which reflect only a fraction of the payments abroad which were generated in this manner, since others are not quantifiable) and these have increased at a cumulative rate of 20 per cent in recent years.^{6/}

The counterpart to the costs of the imitative and adaptative technological change described above is the growing capacity to export final and semi-processed industrial products produced in Argentina, Brazil and Mexico. During the initial phases these exports were limited almost exclusively to neighbouring markets

^{6/} Around the end of the 1960s Mexico was spending approximately 200 million dollars on imported technology, a figure which had practically doubled compared with that of 1968. See in this connexion CONACYT: Política nacional de ciencia y tecnología, estrategia, lineamientos y metas. Mexico, 1976, p. 9. Brazil, for its part, also doubled its external payments for technological royalties, which increased from 42.5 to 90.8 million dollars per year between 1965 and 1969. In this connexion see: N. Fedelino de Figueiredo: The Transfer of Technology in the Industrial Development of Brazil. CEPAL, February 1974, p. 78. A similar trend is also being observed in Argentina.

and, in general, to the LAFTA area, but later their relatively rapid rate of growth extended their market to the industrial countries.

In spite of the restrictions, costs, and disadvantages of the terms under which the transfer of technology took place in the countries in question, the industrial progress achieved by them has in fact been accompanied by an increase - slow but clearly noticeable - in the capacity of absorption, adaptation and, to a lesser extent, of technological creation. Thus, for example, the manufactures exported by Argentina are not mere copies of the original designs conceived in the countries of the developed world, an observation which is also valid for the manufacturing processes used in the manufacture of these products. The rapid growth in industrial productivity and its relation to the increase in the export of manufactures has been assisted, to some extent, by the domestic technological effort. The validity of this statement is naturally relative, as can be seen from the fact that 16 of the 20 largest exporting firms of Argentina in recent years are subsidiaries of transnational corporations. A similar situation can be observed in the cases of Colombia, Brazil,^{7/} and Mexico.^{8/}

^{7/} Carlos Díaz Alejandro: "Some Characteristics of Recent Export Expansion in Latin America". Economic Growth Center, Paper 183, Yale 1973.

^{8/} R. Jenkins: Internalization of Capital, Multinational Corporations and Industrial Exports in Latin America. Mimeo, Mexico, 1976. CEPAL: La exportación de manufacturas en México y la política de promoción, Mexico, mimeo, August 1976.

In brief, industrial "maturity" although basically imitative and dependent has led to some development in indigenous technological capacity, which is certainly much higher than that observed in the remaining countries of the region. Of course, there are other factors which may have been to some extent determinants in the achievement of such progress, such as the improvement in the scientific infrastructure, the supply of professionals and their contacts with experts of the developed countries, resource endowment, etc. All of which do not invalidate the previous statement.

In connexion with the increase in export capacity and technological maturity mentioned above, mention must be made of the "internationalization" of some Argentine, Brazilian and Mexican corporations both within and outside of Latin America.

The study of this process is only of very recent date. It is still at an incipient stage, and its subsequent development will have a very important impact in the field of technology and foreign trade.

From the point of view of its impact on the domestic economic structure, it has been observed that the process of industrial maturity in Argentina, Brazil and Mexico has been accompanied by increasing economic concentration, with the relatively high participation of foreign enterprises, particularly in the more dynamic sectors of economic activity.

3. Technological policies in Latin American countries

From the foregoing remarks it can be seen that there is need for an in-depth study and the formulation of a series of coherent policies, at least as regards the following most important areas: the transfer of technology from abroad, the development of indigenous capacity for the adaptation and creation of technology, and the problem of the traditional economic sectors and low productivity.

Of course, the analysis of these topics in the context of the development style adopted so far, by each one of the three countries under study is not the same as an attempt to study the alternatives which a complete break with the pattern and trends characteristic of it imply. This would make it imperative to study far-reaching changes in the operation of the economy and society in general, which for obvious reasons lies outside of the scope and purpose of the present document.

Therefore, an attempt will be made to outline a few proposals regarding the questions raised, on the understanding that they refer to complementary or corrective actions within the prevailing development style.

(a) The transfer of technology

It is a recognized fact that technological change is taking place in the third world at a relentless pace, through the incorporation of technology imported from the industrial nations. This trend is even more marked in the case of the relatively more industrialized countries such as Argentina, Brazil and Mexico.

There is no doubt that regardless of the scope of the efforts made to increase the creativity of the region itself, the transfer of technology from abroad will continue in the decades ahead to be the main channel of technological change not only in the three countries under study here, but also in Latin America as a whole. Furthermore, as pointed out in previous paragraphs the importation of technology can be a powerful lever of development, but its

indiscriminate use can, also, lead to serious economic and social imbalances and an increasing degree of dependence. For this reason it is therefore necessary to formulate, within the framework of national plans and priorities, a policy for the transfer of technology which is, apart from other considerations, fully compatible with the other objectives of an integrated process of scientific development and technological change.^{9/}

The important thing to stress here is the fact that the concept of technological transfer must be understood to refer not only to its importation and use by a national producer, but also to its due absorption by the recipient country, defined as a process of assimilation and internal diffusion. In other words, one should try as far as possible to generate a real transfer and avoid the formation of enclaves of advanced technology, where such technology is used by a specific enterprise without it having any impact on the remainder of the economy, because it is not sufficiently understood or known.^{10/}

Furthermore, it is imperative to bear in mind technological aspects when defining a policy relating to foreign investment. At times the fundamental justification of specific investment lies precisely in the transfer of technology, since this is the only way of having access to specific "captive" technological know-how. In any event, except in cases of purely financial operations, the technological aspect is almost always present where foreign capital is established.

The foregoing remarks clearly show that the search for the means of permitting the recipient country to acquire the technology it wishes to import in one way or another, on the best terms possible, must be given priority. In this connexion, there are three aspects of major importance in negotiating the transfer of

^{9/} CEPAL, Progreso científico-técnico para el desarrollo de América Latina, op.cit., p. 98.

^{10/} Ibid.

technology, namely, the reduction of its cost, the effective absorption of imported technology and the exclusion of licensing contracts and other similar restrictive conditions which are contrary to national interest.

In addition, the bargaining power of the local user depends on the degree of his knowledge of the world technological market, of the technological and administrative level of the enterprise, the soundness of its financial situation and of the market, the support he may receive, and the general state of the national or subregional economy, as the case may be, all of which are to be considered both in absolute terms and in relation to the size and the financial and political power of the supplier.

These remarks lead to the formulation, below, of some proposals designed to improve national bargaining power and to ensure a greater degree of success in achieving the three objectives outlined above.

(i) The establishment or improvement of information media, with the support or participation of the State if necessary, through which the potential Latin American buyer of technology would be informed of existing alternatives in the world market and, therefore, find it easier to shop for and select the most appropriate technology.

(ii) The promotion of the development of national or subregional groups of consultants with expert knowledge on technological problems by branches or sector activities to assist and advise both in shopping for and selecting foreign technology and in the negotiations involved, and in action by the State to ensure the proper regulation and evaluation of such technology.

(iii) The encouragement of more formal ties with small and medium-sized enterprises in the larger industrial countries and, in particular, with firms in the smaller industrial countries. It is reasonable to assume that this would open favourable opportunities in view of the small scales of production and the reduced inequality in relative bargaining power.

(iv) The

(iv) The strengthening of State action as a power factor for obtaining the transfer of technology on better terms through the following machinery:

- Protection of the purchaser under licensing contracts and other forms of agreement, in respect of which it may, for example, establish regulations which prohibit certain contractual clauses contrary to national interest.
- Technical and financial support for the user in the search for, and selection of technology and in the negotiations involved in its transfer.
- Direct participation in the negotiations in question when projects of major national interest are involved, and
 - obviously - when the operation involves a public or mixed enterprise.^{11/}

(b) Development of the capacity for adaptation and creation of technology

It is widely agreed that the national power of decision must be increased as regards technology, and that there must be a gradual reduction in the proportion or imported component of new technology incorporated in the productive process. These aspects cover a wide variety of questions and mention is made below of some actions in this connexion which clearly seem to call for priority.

(i) The promotion and strengthening of technological research institutions, consultant firms, engineering enterprises and other similar bodies through the provision of incentives and/or tax and credit franchises, the creation of national development funds applicable to efforts directed towards the adaptation and creation of technology, and the use of such specialized entities in programmes sponsored by the State (provided they cover specific problems and cases directly linked with production). Similarly the international agencies for development and credit should promote the establishment

^{11/} CEPAL, op.cit., p. 125.

of funds and regulations which encourage and make the use of local talent in the design and the evaluation of investment projects compulsory.

(ii) The development of communication media and financial machinery for mobilizing the contribution of the immense scientific and technological talent existing in the industrial nations towards research efforts designed to create technologies more suited to natural resources, the productive factor mix, and other conditions peculiar to developing countries.

(iii) The promotion of the unbundling of the so-called "technological package" so as to eliminate from transfer operations from abroad those elements which could be provided or produced locally (engineering services, the manufacture of parts or components, etc.), a process which will signify a gradual increase in national participation.

(iv) The promotion, in view of the high cost and frequently inappropriate nature of technology from the advanced countries, of an increase in the flow of intra-regional technology, thereby taking advantage of the progress already achieved by nations such as Argentina, Brazil and Mexico.

Furthermore, while admitting that the process of the incorporation of technology and the adaptation and domestic creation of know-how are of no mean importance in the economic and social evolution of our countries, and that there exists an appreciable reservoir of information on this matter, the proper understanding of its tendencies and modalities is still lacking. This is the position at a time when there are unmistakable signs of far-reaching changes occurring in Latin American economies. This, therefore, raises the basic question, Is the technological process in terms of its size and main tendencies a helpmate in the foreseeable development of our economy? Does it introduce discrepancies which could hold up this development or embark it on paths of frustration? The aim of these questions is to stress the need to continue and strengthen certain types of basic studies through which a profile

/of the

of the technological process can be traced with the necessary precision for it to be oriented and regulated on more empirical bases than those which stem from abstract and very often inoperable conceptions. The proposal as regards the studies must not be considered an alternative to effective action, but one which constitutes parallel action and a possible means of enriching the praxis.

(c) The problem of the traditional economic sectors and low productivity

The preceding paragraphs of this chapter refer mainly to the technological aspects of industrial development in the larger and relatively more industrialized countries of Latin America, and in particular to Argentina, Brazil and Mexico.

However, some of the remarks made, particularly those which refer to the development of scientific and technological capacity for the selection and adaptation of technology, are also applicable to a large extent to the majority of the remaining countries of the region. One should, of course, make the exception that in the case of the smallest nations, and/or relatively less developed ones, it is difficult to imagine substantive progress in this field if it is not founded on the basis of systems of co-operation which permit the joint use of the scarce human and material resources available.

Furthermore, in most of the Latin American nations the agricultural sector continues to absorb a high proportion of the labour force, and it is, therefore, indispensable to give priority attention to the creation and adaptation of technology for agricultural purposes with emphasis on the development of appropriate technologies for maintaining given levels of employment. Another task of major importance is that of the diffusion of technologies which are known and available, but which are not sufficiently used. This calls for a number of actions regarding training, pilot experiments, technical and financial assistance, etc.

/In particular,

with suitable adjustments, face the competition of the products in the expanding modern sector; which of them have to be re-oriented within the same strata in which they are established, making full use of technological capacity and installed plant, and, finally, which of them will have to go into other activities.

Further education, training in management and financial skills, the understanding and management of market mechanisms, special channels of access to credit on special terms are, in the traditional sector of the economy, fundamental problems which must be dealt with before tackling technological change. In this area, too, the problems of standards and quality control are of special importance. The fact that it is in this sector where there is the greatest dearth of management skills clearly indicates the public responsibility for laying the bases for greater progress in the future through programmes which tackle problems such as those described, channelling towards them resources in keeping with the size of the task and, no doubt, higher than those of any programme of this kind undertaken so far in Latin America.

However, one must not rely on the State for everything. The small industry sector which manufactures intermediate goods tends to establish links through sub-contracting with enterprises in the modern sector, for which it manufactures parts and components. In such a situation, the more advanced enterprise exercises pressure on the small firms and induces changes in organization and quality, and in technological processes, in addition to providing a guaranteed market and providing it with financial support. Incentives for this type of relationship are of the highest importance for it is in line with the current trend of the division of labour in industry, as the case of Japan shows. The introduction of taxes on value added, instead of purchases and sales taxes, which affect all transactions equally is, by way of example, an appropriate policy for this purpose.

A somewhat similar situation arises in respect of maintenance and repair services which, to a large extent, work for the manufacturing industry, and tend to absorb a relatively high proportion of skilled labour (31.8 per cent in Ecuador).^{13/}

In order to develop programmes of this type on the scale required and with the appropriate orientation, one must create specialized extension, training and technical assistance services and, bear in mind, the particular conditions of the sector in question in the formulation of economic and social policies and national development plans.^{14/}

^{13/} Victor Tokman, Distribución de ingreso, tecnología y empleo, Cuadernos del ILPES, Nº 23, Santiago de Chile, February 1975.

^{14/} CEPAL, Ibid., pp.143-146.

IV. ECONOMIC GROWTH IN THE PERIOD 1970-1976

1. The rate and structure of economic growth

(a) The rise and fall of the growth rate. Signs of recovery in 1976.

Within the context of the development process whose nature and scope were examined in the previous chapter, during the present decade there has been a tendency in Latin America towards greater economic growth and productive and technological change, and an appreciable growth of production capacity. At the same time the region has broadened and diversified its external financial and economic relations while becoming increasingly inserted in the international system, although in a very different position than in the past.

This growth was neither uniform nor continuous in the countries of the region. The rate of economic development varied considerably among the countries, and the differences increased in the relative position of the countries in respect of product and income levels, degree of industrialization and population size. In addition, the growth rate of production fluctuated sharply in a cyclical movement, with accelerated economic growth in the early years of the decade weakening in the last two years. This was the case in most of the countries, although with appreciable differences among them in terms of the extent and length of the fluctuations.

A comprehensive overview should distinguish three facts of particular significance and importance in this development of the Latin American economy. These are the changes introduced in economic policy and, particularly, in areas related to external affairs; international economic development; and the rise in oil prices. The differences in growth rates and their fluctuations may largely be attributed to the different policies followed in the countries, and more obviously to the varying situations resulting from the varied impact of external factors on national economies with different development potential and resource endowment, as is the case in the countries of Latin America.

/Since the

Since the middle of the past decade, the Latin American countries progressively adopted policies and measures to speed up economic growth in the context of greater external trade. To this end they promoted the expansion and diversification of exports and external investment and financing, as well as the reduction of tariffs and other measures designed to liberalize imports to some extent.

At the same time a succession of enormous changes were occurring in the international setting because of the cycle in the industrial countries and the rise in petroleum prices: a boom which culminated in 1973; the economic recession in the industrial countries; and the slow recovery which set in during 1976. Commodity prices followed a similar trend, although with significant differences for some types of product. The rises began in 1972 and lasted until some point in 1974; they were then followed by a steep slide until the beginning of 1976 when world prices began to improve to some extent. During the first stage (until 1973) this movement led to a favourable change in the terms of trade for Latin America, despite high inflation in the industrial countries. Subsequently, the persistence of this inflation, together with the effect of higher oil prices, led to a sharp decline for the non-oil exporting countries which only came to an end in 1976.

To summarize, the changes in national policies and the behaviour of these key external variables explain at least in part the progress made by Latin America in finding a new place in the world economy and the sharp fluctuations in its growth rate, swinging from intense growth to sharp decline in the non-oil exporting countries; as well as the high balance-of-payments deficits and the accumulated foreign debt. The situation and prospects of the Latin American oil-exporting countries are different. Their real income grew considerably and their development capacity was strengthened.

It is worth making a more careful study of these developments over the last six years and assessing the fluctuations of the growth rate and their links with the external variables.

(i) The economic boom of 1972-1973. In these two years economic growth increased and the gross domestic product of the region as a whole rose at an annual rate of a little over 7 per cent. In general, most countries improved their economic situation and rate of growth, but the size and extent of this improvement varied (see tables 1 and 2).

Brazil, Ecuador and the Dominican Republic had exceptionally high rates varying between 9 and 12 per cent annually. Brazil of particular importance in the figures for the region as a whole as the country of greatest economic and demographic weight, thus continued the intense economic growth it had enjoyed for a number of years.

The growth rate was also higher than the regional average in other countries such as Colombia, Costa Rica and Mexico, as well as Venezuela, taking into account the growth of its real income swollen, particularly in 1973, by the great rise in oil prices.

On the other hand, Argentina, Honduras, Nicaragua and Haiti continued to have low growth rates. The situation in Chile and Uruguay was even worse, with a drop in the levels of the domestic product.

These developments were heavily affected by external factors, whose effects varied from country to country according to resource endowment, economic structure and composition of external trade, as was pointed out above.

In many countries exports were one of the most dynamic parts of final demand, and their effects were accentuated by the substantial improvement in the terms of trade. The volume of exports of the region as a whole rose at an average annual rate of 8.4 per cent, higher than that of the domestic product, and the growth of exports in many non-oil exporting countries was even higher. Commodity exports tended to become diversified, and exports of non-traditional industrial products grew considerably, particularly in the large and some medium-sized countries. This was a clear demonstration of these countries' capacity to exploit the favourable external demand situation stimulated by the economic boom in the industrial countries and the rise in commodity prices under the effect of higher demand, financial

Table 1
LATIN AMERICA: ECONOMIC GROWTH, EXTERNAL SECTOR AND FINAL DEMAND, 1971
(Annual rates, percentages)

	Gross domestic product	Imports of goods and services	Total consumption	Gross domestic investment		Exports of goods and services	Ratio of terms of trade	Purchasing power of exports
				Fixed	Total			
<u>Non-petroleum-exporting countries</u>	<u>6.9</u>	<u>4.2</u>	<u>6.5</u>	<u>7.9</u>	<u>9.5</u>	<u>2.1</u>	<u>-5.7</u>	<u>-3.8</u>
Argentina	4.8	3.4	5.1	9.4	10.2	-12.3	7.6	-5.6
Brazil	11.3	15.5	9.7	14.8	19.6	9.6	-10.8	-2.2
Colombia	5.8	8.6	6.3	6.2	7.4	3.7	-8.8	-5.3
Costa Rica	6.6	9.2	3.1	16.4	25.4	6.9	-8.2	-1.9
Chile	7.7	0.1	8.4	1.1	-3.3	8.5	-21.6	-14.9
El Salvador	4.6	12.8	3.4	14.3	22.5	7.5	-3.9	3.3
Guatemala	5.6	5.3	5.2	8.5	12.4	2.4	-9.6	-7.5
Haiti	6.5	8.6	4.0	15.4	15.5	24.3	-5.9	16.7
Honduras	3.8	-12.9	2.8	-8.3	-21.9	6.8	-0.9	5.9
Mexico	3.4	-5.1	4.2	-2.8	-3.5	4.1	-0.4	3.7
Nicaragua	4.8	2.0	4.2	3.2	3.3	4.7	-3.1	1.5
Panama	8.7	7.1	7.4	14.8	14.0	6.0	-0.1	5.9
Paraguay	4.6	2.7	5.9	3.2	4.8	-5.4	0.4	-5.2
Peru	5.1	0.2	4.4	10.0	25.0	-8.7	-8.6	-16.5
Dominican Republic	10.6	6.1	7.1	23.0	16.0	16.2	-6.2	9.0
Uruguay	-1.0	-8.4	-1.6	4.6	11.5	-16.7	1.0	-15.9
<u>Petroleum-exporting countries</u>	<u>3.7</u>	<u>5.8</u>	<u>3.0</u>	<u>16.2</u>	<u>13.3</u>	<u>-3.1</u>	<u>10.7</u>	<u>7.2</u>
Bolivia	3.8	4.8	4.5	0.9	-6.6	10.9	-17.6	-8.6
Ecuador	5.8	7.3	-0.4	41.2	29.4	9.5	-10.1	-1.6
Venezuela	3.3	5.6	3.5	17.8	12.5	-5.3	15.4	9.2
<u>Total</u>	<u>6.6</u>	<u>4.4</u>	<u>6.2</u>	<u>9.0</u>	<u>10.0</u>	<u>1.1</u>	<u>-2.7</u>	<u>-1.7</u>

Source: CEPAL, on the basis of official data.

Table 2

LATIN AMERICA ECONOMIC GROWTH, EXTERNAL SECTOR AND FINAL DEMAND, 1972-1973

(Annual rates, percentages)

	Gross domestic product	Imports of goods and services	Total consumption	Gross domestic investment		Exports of goods and services	Ratio of terms of trade	Purchasing power of exports
				Fixed	Total			
<u>Non-petroleum-exporting countries</u>	<u>7.3</u>	<u>11.7</u>	<u>6.7</u>	<u>10.8</u>	<u>11.4</u>	<u>9.1</u>	<u>7.1</u>	<u>16.9</u>
Argentina	4.6	-0.9	4.6	2.7	1.9	6.2	15.0	22.1
Brazil	10.9	22.5	9.6	19.1	17.8	16.6	10.8	29.1
Colombia	7.4	-1.6	9.3	1.9	-6.6	7.6	9.5	17.8
Costa Rica	8.0	2.1	6.1	6.5	-1.4	9.3	0.6	10.0
Chile	-1.9	6.5	-0.5	-6.7	-2.3	-1.6	0.6	-1.0
El Salvador	4.9	13.6	7.8	6.4	2.4	6.3	5.3	11.9
Guatemala	7.1	4.8	6.2	5.3	1.4	13.1	-1.8	11.0
Haiti	4.0	4.8	4.8	9.7	9.6	-4.1	0.7	-3.4
Honduras	4.4	4.8	3.7	6.4	11.1	2.8	1.8	4.6
Mexico	7.4	16.9	5.8	15.8	15.8	12.7	1.5	14.5
Nicaragua	4.1	21.5	3.7	10.0	15.8	16.2	2.3	18.9
Panama	6.4	2.8	5.6	7.1	7.0	3.7	-1.4	2.3
Paraguay	6.5	12.1	4.4	21.0	25.3	4.6	14.4	19.6
Peru	6.0	10.7	8.4	6.1	4.1	-4.0	7.4	3.1
Dominican Republic	12.2	7.4	7.9	23.0	22.5	14.1	5.9	20.8
Uruguay	-1.3	1.9	0.2	-16.2	-10.2	0.5	17.5	18.1
<u>Petroleum-exporting countries</u>	<u>5.5</u>	<u>5.4</u>	<u>4.0</u>	<u>12.3</u>	<u>9.2</u>	<u>5.3</u>	<u>9.0</u>	<u>14.8</u>
Bolivia	6.0	6.2	4.5	7.7	10.2	8.7	2.7	11.5
Ecuador	9.2	3.8	3.7	-1.6	2.6	37.7	3.2	42.1
Venezuela	4.8	5.6	4.0	12.6	10.1	1.0	11.4	12.5
<u>Total</u>	<u>7.2</u>	<u>10.7</u>	<u>6.5</u>	<u>12.1</u>	<u>11.1</u>	<u>8.4</u>	<u>7.4</u>	<u>16.4</u>

Source: CEPAL, on the basis of official data.

speculation and the contraction of supply in agricultural products (because of unfavourable climatic conditions in different areas of the world).

The rise in world commodity prices occurred first in agriculture (fruit and raw materials) and spread very intensely in 1973 to metals and other minerals particularly, petroleum.

External demand and the rise in commodity prices affected the Latin American countries in different ways and to a varying extent. This depended partly on the countries' capacity to increase rapidly their exports, promote new types of exports according to the evolution of the international market and the traditional composition of exports; it also depended on the effect of the higher prices to be paid for industrial goods and the importance of commodities and fuels in their imports.

With regard to industrial products, it is significant that the index compiled by the World Bank on the basis of exports of manufactures by the industrial countries showed a 7 per cent rise in the prices of these goods in 1972, and a rise of over 15 per cent in 1973, which indicates the intensity of the inflation prevailing in the industrial countries.

The conventional indices of the terms of trade by countries show the twin effect of these factors in relation to the capacity to import. It is very interesting to study the variations of these indexes during the period under consideration, because they show the immediate and subsequent effects of external variables on the investment process and the growth of product and real income during this period (see table 2).

It may be seen that the improvement in the terms of trade was widespread, although its quantitative importance varied considerably from country to country. Those which benefited most were Argentina, Brazil, Colombia, Paraguay, Uruguay and Venezuela, with average annual rates of between 10 and 18 per cent. At the other extreme, Mexico and the Central American countries had much smaller increases.

/This improvement

This improvement accounted for almost half of the increase in the region's capacity to import, which had an average annual rate of over 16 per cent.

Of the nineteen countries considered in table 2, fourteen had an annual increment in capacity to import ranging from 10 to 30 per cent. In Ecuador the average increase was 40 per cent annually, due to new petroleum exports. What is notable is that in many cases the improvement in the terms of trade was quantitatively the most important factor.

This growth of external purchasing power, further strengthened to some extent by greater use of external financing, permitted a flow of imports of goods and services which also grew more rapidly than the product and domestic income. For the region as a whole, the product-elasticity of imports reached the very high level of 1.5, and was still higher in Brazil, El Salvador, Mexico, Nicaragua and Paraguay.

However, it is interesting to see that the purchasing power of exports rose more than the volume of imports, particularly in the faster-growing countries. This means that net external financing, despite the increase in current values, declined to somewhat in importance in comparison with exports and domestic investment.

In very general terms, it may be said that during 1972-1973 the Latin American economy operated without external bottlenecks. The real value of exports of goods and services was the most dynamic factor; it not only affected domestic demand but also allowed a considerable growth of imports. Domestic supply became highly flexible, and was able to satisfy the needs of intermediate products and capital goods stemming from the growth of the domestic product and investment. The real national saving coefficient tended to rise, although not very greatly since the system worked by raising the import coefficient of intermediate products and consumer goods, and in some countries the imported component of domestic investment.

(ii) 1974. The growth of the real income of the oil exporting countries and the balance-of-payments deficit of the non-oil-exporting countries. During 1974 the Latin American economy began to change radically: the oil-exporting countries benefited from a further substantial increase in oil prices, which considerably increased their real income and strengthened their capacity for development. On the other hand, the non-oil exporting countries for the most part faced a weakening of external demand, a slide in commodity prices and inflation in the prices of imports, accentuated by the higher oil prices, all of which represented a serious balance-of-payments problem which would ultimately harm their economic growth rates.

As may be seen in table 3, the rise in oil prices raised the terms of trade of the exporting countries, which thus improved the favourable situation they had reached in the previous year. The terms of trade rose by 104 per cent in Venezuela, 61 per cent in Bolivia and 72 per cent in Ecuador. This directly increased both the external purchasing power of those countries, since the volume of exports remained constant in Bolivia and dropped in the other two countries, and also the growth of real national income, by 30 per cent in Venezuela and 20 per cent in the other two countries. Thus the oil-exporting countries, particularly Venezuela, accentuated the growth rate and growth-oriented structure of their economies which their Governments had encouraged in the previous year.

As we have said, the change was very different for the non-oil exporting countries (see table 3). International commodity prices reached a peak in the first-half of 1974 and began to slide steadily thereafter and on into the following year. The rise in world prices only continued to the end of 1974, in the case of some foods. At the same time, inflation soared in the industrial countries and thus the prices of imported industrial goods rose. According to the index of the World Bank, the rise in the CIF prices (in dollars) of industrial goods exported by the developed countries was about 20 per cent. This situation was aggravated by the rise in fuel prices, to a varying extent according to the importance of these imports in each country.

Table 3
LATIN AMERICA: ECONOMIC GROWTH, EXTERNAL SECTOR AND FINAL DEMAND, 1974
(Annual rates, percentages)

	Gross domestic product	Imports of goods and services	Total consumption	Gross domestic investment		Exports of goods and services	Ratio of terms of trade	Purchasing power of exports
				Fixed	Total			
<u>Non-petroleum-exporting countries</u>	<u>7.3</u>	<u>20.2</u>	<u>7.9</u>	<u>11.0</u>	<u>14.6</u>	<u>1.0</u>	<u>-3.4</u>	<u>-2.5</u>
Argentina	6.5	12.9	8.4	3.9	3.9	-0.5	-10.2	-10.6
Brazil	9.6	29.7	10.9	14.2	15.7	0.3	-11.5	-11.2
Colombia	6.0	18.6	3.5	8.7	32.8	0.9	-2.1	-1.2
Costa Rica	5.4	11.1	8.0	8.3	7.0	3.4	-8.5	-5.4
Chile	4.1	7.7	2.7	12.1	11.0	9.3	11.2	21.6
El Salvador	6.0	13.8	4.9	20.3	19.5	11.3	-9.4	1.8
Guatemala	6.4	13.4	3.7	-1.9	32.6	7.5	-11.3	-4.5
Haiti	4.4	-9.9	2.3	6.9	7.0	0.3	-10.5	-10.2
Honduras	-0.4	21.1	1.4	3.3	24.9	-0.3	-9.8	-10.1
Mexico	5.9	17.2	5.4	9.8	15.8	-1.4	7.1	5.6
Nicaragua	13.7	20.2	19.0	25.5	34.9	-5.4	-1.6	-6.9
Panama	2.6	3.6	6.1	-19.0	-11.8	7.9	-9.7	-2.6
Paraguay	8.3	18.7	10.1	11.2	10.3	7.7	-1.6	6.0
Peru	6.9	32.7	9.0	30.8	30.4	-3.2	14.4	10.8
Dominican Republic	7.5	28.0	14.0	12.8	15.7	-4.6	18.5	13.0
Uruguay	1.5	-2.3	0.9	2.6	-6.5	10.8	-34.1	-26.9
<u>Petroleum-exporting countries</u>	<u>6.5</u>	<u>30.5</u>	<u>14.8</u>	<u>1.1</u>	<u>12.9</u>	<u>-6.5</u>	<u>98.1</u>	<u>85.2</u>
Bolivia	6.7	29.2	13.9	9.8	9.3	0.2	60.8	61.2
Ecuador	10.1	59.8	16.8	28.8	49.1	-8.8	71.8	56.6
Venezuela	5.9	26.0	14.5	-2.4	8.6	-6.7	104.1	90.5
<u>Total</u>	<u>7.2</u>	<u>21.7</u>	<u>8.4</u>	<u>10.0</u>	<u>14.4</u>	<u>-0.3</u>	<u>15.7</u>	<u>15.3</u>

Source: CEPAL, on the basis of official data.

/Thus in

Thus in most of the non-petroleum-exporting Latin American countries there was a significant decline in the terms of trade. Only the indexes of Chile, Mexico, Peru and the Dominican Republic improved.

The unfavourable evolution of relative prices was accompanied by a slackening in the growth rate of exports in many countries and, in some, a reduction in the absolute levels of exports. Thus most of the countries of this group experienced a significant reduction in their capacity of external purchasing, which increased to a limited extent only in Chile, Mexico, Paraguay, Peru and the Dominican Republic. For the non-petroleum-exporting countries as a whole, the purchasing power of exports dropped by 2.5 per cent with respect to 1973.

The contraction or standstill in real income derived from exports of goods and services was not accompanied by an adjustment in the rate of imports, as might have been expected. Instead these tended to rise at a much higher annual rate which was double that of the previous year. This occurred in most of the countries, and for the group as a whole the rise of imports of goods and services amounted to over 20 per cent, or three times the increase in the gross domestic product.

In the face of the balance-of-payments problem which arose with the slackening of external demand and the deterioration of the terms of trade, the countries did not at this stage adopt restrictive measures to contain imports or diminish domestic demand; thus the growth rate of investment and of the product was maintained and the countries covered the external deficit with an intensive use of external financing and utilization of monetary reserves.

The deficit on the current account of the balance of payments of the non-petroleum-exporting countries thus rose from 4,240 million dollars in 1973 to 13,360 million dollars in 1974. The external funds derived largely from private banking sources.

/It should

It should be noted that the balance of payments deficits and flows of external financing were concentrated mainly in Brazil and Mexico, but also increased in other countries of the group.

In brief, it may be said that the process continued to operate and was mainly stimulated by domestic investment and demand, that the dynamism which had been recorded since the previous year was maintained, and that foreign capital performed the function of covering the enormous deficit of external resources originating from the stagnation in the real value of exports. Thus foreign borrowing coincided that year with an increase in the product and an even greater expansion in domestic investment. External financing thus acquired greater relative importance compared with investment and the coefficient of real national savings, compared to the product, tended to be maintained at the levels of the previous year or to diminish slightly in some cases.

(iii) 1975. External bottlenecks and the drastic decline in the growth rate of the non-petroleum-exporting countries. In 1975 the unfavourable trends of the external sector for the non-petroleum-exporting countries became acute, as can be seen in table 4.

The general evolution of these countries can be illustrated with the added figures of the group. The volume of exports tended to diminish and the deterioration in the terms of trade intensified. This last factor was the main cause in the decline of nearly 9 per cent in the purchasing power of exports. In these circumstances the most severely affected countries adopted restrictive measures to control imports and contain domestic demand. The growth rate of fixed investment slackened considerably, to the extent that in some countries it reached absolute levels, and the growth rate of the domestic product fell drastically to only 2.3 per cent, which was less than the increase in population. The imports of goods and services diminished in absolute figures in almost all the countries and the decline amounted to more than 6 per cent for the group as a whole.

Table 4
LATIN AMERICA: ECONOMIC GROWTH, EXTERNAL SECTOR AND FINAL DEMAND, 1975
(Annual rates, percentages)

	Gross domestic product	Imports of goods and services	Total consumption	Gross domestic investment		Exports of goods and services	Ratio of terms of trade	Purchasing power of exports
				Fixed	Total			
<u>Non-petroleum-exporting countries</u>								
	<u>2.3</u>	<u>-6.1</u>	<u>1.7</u>	<u>3.4</u>	<u>0.7</u>	<u>-0.5</u>	<u>-8.4</u>	<u>-8.8</u>
Argentina	-1.4	-6.4	1.1	-7.2	-7.2	-19.9	-14.7	-31.7
Brazil	4.0	-9.2	2.3	4.7	2.5	9.2	-4.3	4.6
Colombia	4.6	-10.8	6.8	-6.0	-22.7	16.5	-14.0	0.2
Costa Rica	3.4	-7.9	2.2	3.5	-4.9	0.3	0.8	1.1
Chile	-12.9	-24.2	-15.6	-27.7	-25.8	2.3	-29.8	-28.2
El Salvador	4.3	-5.4	1.3	18.8	8.5	-0.2	-0.6	-0.8
Guatemala	2.1	-5.9	2.6	7.7	-14.7	6.0	-4.9	0.7
Haiti	2.2	-0.9	3.6	3.0	2.8	-13.8	4.7	-9.8
Honduras	1.7	-13.4	0.4	9.3	-17.1	2.4	-12.1	-9.9
Mexico	4.2	-0.5	3.8	8.5	8.5	-10.3	0.5	-9.9
Nicaragua	1.2	-23.0	2.4	-12.4	-41.3	2.0	-14.3	-12.6
Panama	0.6	-3.8	-8.8	22.3	11.1	9.3	-8.0	0.6
Paraguay	4.8	-4.3	-0.3	19.3	20.5	-0.4	-12.8	-13.1
Peru	3.3	14.3	5.4	20.2	10.0	-3.6	-11.5	-14.7
Dominican Republic	5.1	-2.4	4.6	14.4	10.6	-12.5	39.8	22.3
Uruguay	5.3	-	-4.2	31.4	18.5	26.4	-23.4	-3.1
<u>Petroleum-exporting countries</u>								
	<u>6.0</u>	<u>9.9</u>	<u>12.0</u>	<u>29.5</u>	<u>8.7</u>	<u>-17.1</u>	<u>-14.9</u>	<u>-29.5</u>
Bolivia	6.8	19.1	11.6	13.2	13.4	-2.9	-18.3	-20.6
Ecuador	8.4	-0.3	11.6	30.6	1.2	-4.4	-20.8	-24.3
Venezuela	5.5	11.0	12.2	30.3	9.7	-21.0	-12.0	-30.5
<u>Total</u>	<u>2.6</u>	<u>-3.5</u>	<u>2.6</u>	<u>6.0</u>	<u>1.6</u>	<u>-3.2</u>	<u>-12.8</u>	<u>-15.5</u>

Source: CEPAL, on the basis of official data.

/Nevertheless, since

Nevertheless, since this reduction was less than the decline recorded in the real value of exports, the deficit on the trade balance and the balance-of-payments deficit remained at the high values of the previous year, and in current dollars rose to the figure of 16,260 million, which was largely financed with capital from private banks. This deficit was concentrated in three countries - Argentina, Brazil and Mexico - but also increased in other countries of this group.

With regard to the petroleum-exporting countries, it should be noted that during the year the volume of their exports diminished considerably, and at the same time they experienced a sharp decline in the terms of trade - in comparison, of course, with the high levels which had been attained in 1974. The purchasing power of exports diminished by around 30 per cent compared with the value of the previous year. Imports, however, continued to grow and this led to a reduction in the surplus on the trade balance and the high balance-of-payments surplus which had been recorded in 1974, as occurred in the case of Venezuela. This process was more marked in the other countries of this group, to the extent that in the year under consideration they recorded a deficit on their balance of payments. These changes, as is evident, are taking place in a very broad and flexible context of external accounts and do not in any way affect the economic dynamism of these countries.

(iv) 1976. Trends of recovery of exports and of the growth rate of the product. In 1976 the trends towards the contraction of the external sector changed and in most of the non-petroleum-exporting countries there was a significant rise in the purchasing power of exports. In many cases this was achieved by increasing the volume of sales abroad and at the same time improving the terms of trade; in others it was due to the fact that the rise in the external ratio of prices more than compensated for the contraction of exports, as can be seen in table 5.

This change in the trends corresponded to an increase in external demand as a result of the recovery of the growth rate in

Table 5
LATIN AMERICA: ECONOMIC GROWTH, EXTERNAL SECTOR AND FINAL DEMAND, 1976
(Annual rates, percentages)

	Gross domestic product	Imports of goods and services	Total consumption	Gross domestic investment		Exports of goods and services	Ratio of terms of trade	Purchasing power of exports
				Fixed	Total			
<u>Non-petroleum-exporting countries</u>								
	<u>4.2</u>	<u>-5.9</u>	<u>3.5</u>	<u>0.6</u>	<u>0.5</u>	<u>7.4</u>	<u>4.2</u>	<u>11.8</u>
Argentina	-2.9	-22.5	-6.1	-5.9	-7.0	34.0	-5.8	26.2
Brazil	8.7	-1.4	9.2	4.4	6.0	0.1	12.3	12.3
Colombia	5.2	7.4	7.6	3.5	5.0	-6.3	21.4	13.7
Costa Rica	5.0	6.4	9.6	-1.5	-2.0	-1.6	16.0	14.2
Chile	3.5	-6.6	1.6	-6.0	-22.9	22.5	6.5	30.4
El Salvador	6.3	7.8	5.6	17.3	7.2	9.7	24.3	36.3
Guatemala	7.1	22.3	7.5	29.7	31.8	2.4	5.5	8.0
Haiti	3.8	8.4	3.0	5.0	5.2	16.8	27.9	49.5
Honduras	7.1	5.0	5.9	7.3	2.8	11.6	4.3	16.2
Mexico	1.9	-9.5	1.6	-3.0	-3.0	5.6	-1.1	4.5
Nicaragua	6.1	2.9	3.3	-2.5	13.7	7.1	25.8	34.7
Panama	-	-11.2	1.6	4.4	-7.4	-8.2	-3.7	-11.6
Paraguay	7.1	6.1	5.0	10.0	11.9	9.9	-2.1	7.5
Peru	3.0	-18.7	0.5	-7.4	-11.2	6.3	-4.1	1.9
Dominican Republic	5.4	-1.3	3.6	4.0	4.0	7.1	-28.0	-22.9
Uruguay	1.2	0.2	-4.2	7.2	7.1	31.2	-4.5	25.3
<u>Petroleum-exporting countries</u>								
	<u>7.1</u>	<u>16.7</u>	<u>9.6</u>	<u>14.8</u>	<u>10.7</u>	<u>2.4</u>	<u>-4.6</u>	<u>-2.3</u>
Bolivia	6.9	2.2	3.8	12.4	10.1	11.0	0.6	11.6
Ecuador	6.8	2.3	5.9	4.8	3.8	9.2	7.3	17.1
Venezuela	7.2	20.8	11.0	16.3	11.8	-0.3	-5.1	-5.4
<u>Total</u>	<u>4.5</u>	<u>-1.8</u>	<u>4.1</u>	<u>2.4</u>	<u>1.7</u>	<u>6.7</u>	<u>1.2</u>	<u>8.0</u>

Source: CEPAL, on the basis of official data.

the industrial countries and the rise in the prices quoted for basic products in the international market, particularly in the case of the price of coffee because of the decline of production in Brazil as a result of adverse climatic factors. The reduction of the rate of inflation in the industrial countries also had an influence and was reflected in a lesser increase than in the previous year in the prices of imports.

For the group of countries as a whole considered in the basic statistical analysis, the purchasing power of exports rose to nearly 12 per cent (after having fallen by 9 per cent in the previous year). The increase resulted from a rise of 7.4 per cent in exports and of just over 4 per cent in the trade ratio. As can be seen in table 5, the trends of exports and of the trade ratio were markedly unfavourable for some countries. The reductions again recorded in the external ratio of prices of Argentina, Panama, Paraguay, Peru, Uruguay and the Dominican Republic and of some other sugar-exporting countries not included in this table are of particular significance.

The pattern of imports also varied significantly from one country to another. The trend towards decline prevailed, except in the coffee-exporting countries, and for the group as a whole there was a decline of approximately 5.9 per cent.

In these circumstances, as a consequence of the more favourable evolution in the purchasing power of exports and of the decline or lesser growth of imports, the trade balance and balance of payments showed deficits of lesser magnitude than in the previous year (see table 16). The deficit on the trade balance fell from 11,170 million dollars to 5,510 million dollars in the group of non-petroleum-exporting countries and the deficit on the balance of payments on current account fell from 16,260 million dollars to 11,330 million dollars. This improvement in the external accounts extended to most of the countries of the group.

The rate of economic growth improved in all the countries except Argentina and amounted to 4.2 per cent for this group of countries, which was considerably higher than that of the previous

/year (2.3

year (2.3 per cent). The improvement was widespread, but the growth rates of Brazil, Paraguay and some of the Central American countries are particularly noteworthy.

In brief, this group of countries, which in 1975 experienced a marked slackening in their economic rate, in 1976 showed trends towards recovery in an international situation which was much more favourable than that of the previous year, although affected by marked instability revealed in the fluctuations of the prices of raw materials and the slow growth rate envisaged in the industrial countries over the next few years.

The petroleum-exporting countries experienced a deterioration in the purchasing power of their exports during the years, mainly because the volume of sales failed to compensate for the decline which again occurred in their terms of trade. The rate of economic growth in these countries increased to 7.1 per cent, which was a significantly higher rate than that of the previous year, and their imports again increased with a high degree of flexibility.

(v) Growth rate during the period 1970-1976. If the figures for the domestic product attained in 1976 are compared with those of 1970, it can be seen that the slackening in the economic dynamism recorded during the last two years strongly affected the average rate of the period, reducing it to an average of 5.9 per cent a year, which was significantly lower than that of 7 per cent recorded in the first four years. This means that after the readjustment considered in previous pages occurred, the exponential trend of economic growth of the region as a whole is similar to that which prevailed in the second half of the last decade.

Among the 19 countries considered, for which complete statistical information is available, only seven countries, as can be seen in table 6, had a growth rate of 6 per cent or more. They were Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Paraguay and the Dominican Republic. The 12 other countries, which contain around half the Latin American population, recorded lower rates. Among these there are two countries which had a growth rate of less than 3 per cent and one country where in 1976 the gross product was lower than that of 1970.

Table 6

LATIN AMERICA: GROWTH RATE OF THE GROSS DOMESTIC PRODUCT AT IMPORT EXCHANGE RATES^{a/}

Country	1960s		1970- 1976	1971	1972	1973	1974	1975	1976
	Entire decade	2nd five years							
<u>Annual rates, percentage</u>									
Argentina	4.3	4.3	2.6	4.8	3.1	6.1	6.5	-1.4	-2.9
Bolivia	5.5	6.3	6.0	3.8	5.1	6.9	6.7	6.8	6.9
Brazil	6.0	7.5	9.2	11.3	10.4	11.4	9.6	4.0	8.7
Colombia	5.2	5.8	6.1	5.8	7.8	7.1	6.0	4.6	5.2
Costa Rica	6.8	7.0	6.1	6.6	8.8	7.3	5.4	3.4	5.0
Chile	4.5	3.9	-0.5	7.7	-0.1	-3.6	4.1	-12.9	3.5
Ecuador	5.3	5.5	8.2	5.8	5.7	12.9	10.1	8.4	6.8
El Salvador	5.6	4.4	5.2	4.6	5.8	4.1	6.0	4.3	6.3
Guatemala	5.5	5.8	5.9	5.6	7.3	6.8	6.4	2.1	7.1
Haiti	0.6	1.8	4.1	6.5	3.5	4.5	4.4	2.2	3.8
Honduras	4.7	4.3	3.5	3.8	3.9	5.0	-0.4	1.7	7.1
Mexico	7.0	6.9	5.0	3.4	7.3	7.6	5.9	4.2	1.9
Nicaragua	6.9	3.8	5.6	4.8	3.2	5.1	13.7	1.2	6.1
Panama	8.0	7.7	4.1	8.7	6.3	6.5	2.6	0.6	...
Paraguay	4.8	4.6	6.3	4.6	5.2	7.8	8.3	4.8	7.1
Peru	5.4	4.3	5.1	5.1	5.8	6.2	6.9	3.3	3.0
Dominican Republic	5.1	7.6	8.8	10.6	12.4	12.1	7.5	5.1	5.4
Uruguay	1.5	2.3	0.7	-1.0	-3.4	0.9	1.5	5.3	1.2
Venezuela	5.9	4.6	5.2	3.3	3.0	6.7	5.9	5.5	7.2
<u>Latin America</u>	<u>5.6</u>	<u>5.9</u>	<u>5.9</u>	<u>6.6</u>	<u>6.6</u>	<u>7.8</u>	<u>7.2</u>	<u>2.6</u>	<u>4.5</u>

Distribution of countries according to the value of indicator (number of countries)

Negative	-	-	1	1	2	1	1	2	1
0 to 2.9	2	2	2	-	-	1	2	5	3
3.0 to 5.9	12	11	9	12	10	4	5	10	6
6.0 and more	5	6	7	6	7	13	11	2	9

Source: CEPAL, on the basis of official data.

a/ At market prices.

/If this

If this study is carried out on the basis of the statistical estimates of real domestic income which results from adding to the product the positive or negative effect of the variation in the terms of trade, the pattern of the economic evolution of the region changes in a more favourable way. As can be seen in table 7, the growth rate of the region as a whole rose somewhat more than 6 per cent a year and seven countries recorded a rate above this average. These were Bolivia, Brazil, Colombia, Ecuador, Paraguay, the Dominican Republic and Venezuela.

The evolution of the gross per capita domestic product was also unfavourably affected, as is natural, by the reduction in the growth rates of the last two years.

The 1976 levels, compared with those of 1970, show an average increase of 3 per cent a year, while during the period 1971-1974 the average annual increase fluctuated between 3.7 per cent and 4.7 per cent. Table 8 shows the figures for each of the countries considered and the significant differences recorded among the countries as a result of the evolution of the domestic product and of the population in each of them.

(b) Changes in the sectoral composition of the product

In the first three years of the 1970s the trend towards industrialization that has characterized the production changes in the Latin American economy was intensified. In this as in other respects Latin America is repeating, although under different conditions, the overall trends recorded in the developed economies.

The share of manufacturing in the product grew from 23.4 per cent in 1970 to 24.2 per cent in 1973, and the volume of production increased at an average annual rate of 8.8 per cent during that period (see table 9). Especially noteworthy are the cases of Brazil, the Dominican Republic and Colombia, which reached growth rates of 13.7, 11.6 and 9.9 per cent, respectively. The growth of agricultural production, in contrast, was much slower and its share of the product declined from 14.9 to 13.5 per cent.

Table 7
LATIN AMERICA: GROWTH RATE OF REAL DOMESTIC INCOME^{a/}

Country	1960s		1970- 1976	1971	1972	1973	1974	1975	1976
	Entire decade	2nd five years							
<u>Annual rates, percentages</u>									
Argentina	4.3	4.1	2.7	5.3	3.7	8.2	5.2	-2.7	-3.2
Bolivia	6.3	6.3	6.6	-0.2	4.4	8.5	19.6	1.1	7.1
Brazil	6.0	7.5	9.3	10.5	11.1	12.2	8.6	3.7	9.5
Colombia	5.2	5.7	6.3	4.5	8.6	9.0	5.6	2.4	8.1
Costa Rica	6.7	6.7	6.0	4.1	7.7	8.6	3.0	3.7	9.2
Chile	5.0	4.8	-1.7	4.2	-0.5	-3.1	5.5	-17.6	3.0
Ecuador	5.1	5.8	9.5	4.1	4.2	15.2	25.5	1.2	8.6
El Salvador	5.2	4.0	6.1	3.6	6.4	6.4	3.5	4.2	13.1
Guatemala	5.2	5.4	5.1	3.8	5.8	7.3	4.2	1.1	8.2
Haiti	0.7	1.8	4.4	5.6	3.4	4.9	3.2	2.9	6.4
Honduras	4.5	3.2	2.7	3.6	3.2	6.7	-3.2	-1.5	8.0
Mexico	7.0	7.0	5.2	3.4	7.3	7.9	6.6	4.2	1.8
Nicaragua	6.6	3.2	6.0	3.9	5.6	4.0	13.1	-3.0	13.2
Panama	8.0	7.4	2.7	8.7	6.9	4.9	-0.9	-2.6	-0.4
Paraguay	4.7	4.2	6.5	4.6	5.9	11.4	8.0	2.5	6.8
Peru	6.0	5.2	5.1	3.6	4.9	9.6	8.8	1.5	2.5
Dominican Republic	5.7	8.1	9.4	9.3	13.7	13.1	10.8	11.3	-1.0
Uruguay	1.5	2.8	-0.2	-0.9	-2.5	3.9	-3.2	2.1	-0.6
Venezuela	3.9	3.7	8.2	6.9	3.1	12.4	31.7	-5.3	4.4
<u>Latin America</u>	<u>5.5</u>	<u>5.9</u>	<u>6.1</u>	<u>6.3</u>	<u>6.9</u>	<u>9.3</u>	<u>9.0</u>	<u>0.8</u>	<u>4.7</u>

Distribution of countries according to the value of indicator (number of countries)

Negative	0	0	2	2	2	1	3	6	4
0 to 2.4	2	1	0	0	0	0	0	6	1
2.5 to 3.4	0	3	3	1	3	0	2	2	2
3.5 to 5.9	10	9	4	12	7	4	5	4	1
6.0 and more	7	6	10	4	7	14	9	1	11

Source: CEPAL, on the basis of official data.

a/ Defined as the sum of the gross domestic product at market prices and the terms-of-trade effect.

Table 8

LATIN AMERICA: GROWTH RATE OF THE PER CAPITA GROSS DOMESTIC PRODUCT AT IMPORT EXCHANGE RATES^{a/}

Country	1960s		1970- 1976	1971	1972	1973	1974	1975	1976
	Entire decade	2nd five years							
<u>Annual rates, percentages</u>									
Argentina	2.9	2.9	1.3	3.3	1.7	4.8	5.1	-2.7	-4.1
Bolivia	3.0	3.9	3.4	1.4	2.3	4.1	4.3	4.2	4.0
Brazil	3.0	4.5	6.1	8.1	7.3	8.3	6.6	1.1	5.5
Colombia	1.8	2.3	2.8	2.5	4.2	3.8	2.8	1.4	1.9
Costa Rica	3.3	3.8	3.2	3.7	5.8	4.3	2.6	0.6	2.1
Chile	2.3	1.9	-2.2	5.7	-1.9	-5.3	2.2	-14.5	1.7
Ecuador	1.8	2.0	4.8	2.4	2.3	9.1	6.8	4.7	3.5
El Salvador	2.2	0.9	2.2	1.4	2.7	1.3	3.0	1.3	3.5
Guatemala	2.6	2.8	2.9	2.8	4.3	3.6	3.5	-0.7	3.9
Haiti	-1.7	-0.4	1.5	3.4	1.1	2.2	1.1	-	1.1
Honduras	1.5	1.3	-0.1	0.4	0.4	1.4	-3.8	-1.8	3.3
Mexico	3.6	3.6	1.7	0.2	3.7	4.2	2.5	0.9	-1.5
Nicaragua	3.8	0.8	2.2	1.5	-	1.7	10.0	-2.2	2.7
Panama	4.8	4.6	1.2	5.7	3.4	3.6	-0.1	-2.2	-2.6
Paraguay	2.1	1.9	3.3	1.9	1.9	5.2	5.3	1.7	4.0
Peru	2.4	1.3	2.0	2.2	2.8	3.1	3.6	0.4	-
Dominican Republic	1.8	4.2	5.3	7.0	8.7	8.5	3.9	1.8	2.0
Uruguay	0.3	1.2	-0.3	-2.0	-4.3	-0.1	0.5	4.1	0.2
Venezuela	2.5	1.6	2.2	0.3	0.1	3.7	2.8	2.4	4.1
<u>Latin America</u>	<u>2.7</u>	<u>3.0</u>	<u>3.0</u>	<u>3.7</u>	<u>3.7</u>	<u>4.7</u>	<u>4.2</u>	<u>-0.1</u>	<u>1.7</u>

Distribution of countries according to the value of indicator (number of countries)

Negative	1	1	3	1	2	2	2	6	3
0 to 2.4	9	10	8	9	8	4	3	10	7
2.5 to 3.4	6	2	5	4	3	1	5	-	2
3.5 to 5.9	3	6	2	3	4	9	6	3	7
6.0 and more	-	-	1	2	2	3	3	-	-

Source: CEPAL, on the basis of official data.

a/ At market prices.

Table 9

LATIN AMERICA: SHARE OF AGRICULTURE AND INDUSTRY IN THE FORMATION
OF THE GROSS DOMESTIC PRODUCT

(Percentage of the gross domestic product at 1970 prices)

Country	Agriculture				Industry			
	1960	1970	1973	1975	1960	1970	1973	1975
Argentina	15.6	13.1	11.9	11.5	26.3	30.2	32.7	32.3
Bolivia	24.4	16.9	16.1	15.6	11.6	12.9	13.0	13.6
Brazil	16.5	14.3	12.4	12.2	22.3	24.8	26.2	25.6
Colombia	33.0	28.6	26.5	26.9	16.4	17.5	18.9	18.7
Costa Rica	29.3	25.0	24.5	23.2	12.4 _{a/}	15.1 _{a/}	16.1 _{a/}	17.2 _{a/}
Chile	9.8	7.9	6.4	8.8	24.9	27.2	29.1	22.3
Ecuador	38.1	29.8	24.0	24.4	17.0	17.5	18.6	18.7
El Salvador	35.7	30.6	28.6	29.6	13.8	17.6	18.2	17.9
Guatemala	32.6	30.1	30.8	30.5	11.7	14.6	14.8	14.0
Haiti	48.8	50.8	47.4	45.7	8.8	9.8	10.8	11.9
Honduras	32.7	34.6	34.9	29.6	15.2	14.0	15.2	16.6
Mexico	16.1	11.8	10.4	9.8	19.2	23.4	23.9	24.0
Nicaragua	26.4	27.0	26.9	28.1	11.9	19.2	17.8	19.2
Panama	25.7	20.7	19.0	19.0	11.6	15.9	15.6	14.3
Paraguay	39.5	34.3	33.4	33.5	15.2	17.3	17.6	16.5
Peru	24.6	18.8	16.4	15.0	13.3	20.6	18.1	22.4
Dominican Republic	33.8	25.8	21.7	18.7	14.6	16.7	17.0	17.1
Uruguay	11.0	12.6	12.1	11.5	24.3 _{a/}	24.2 _{a/}	24.3 _{a/}	25.6 _{a/}
Venezuela	7.3	7.5	7.0	7.0	12.9	15.0	15.3	14.9
<u>Latin America</u> (19 countries)	18.2	14.9	13.5	13.2	20.3	23.4	24.2	24.0

Source: CEPAL, on the basis of official data.

a/ Includes mines and quarries.

The 1974-1975 trends show the influence of industrial expansion on the growth rates. The slowing down of overall growth was associated with the sharp contraction in the growth rates of manufacturing. For agriculture, however, 1974 was an exceptional year, and in 1975, although the rate was once again fairly low, it grew faster than manufacturing, showing less sensitivity to the overall recession.

On the other hand, the slow growth of agricultural production and its consequent loss of influence in generating the total product partly confirm the problems of agricultural supply, the weakness of demand from the lower-income groups and the limited direct effect of external agricultural demand, in general, on the composition of the total product, although it has had special importance for some commodities.

(c) Investment, domestic saving and external financing

Gross domestic investment increased by slightly over 10 per cent annually between 1971 and 1973 and by 14.4 per cent in 1974, compared with average rates of 5 per cent in the previous decade. The sharp rise in investment stimulated, and to a large extent permitted, the rapid growth of the product. This showed a great investment potential, which could be utilized thanks to a notable improvement in the capacity for the domestic mobilization of resources and the flexibility of supply of intermediate products and capital goods owing to the availability of imports. This general picture extended to most of the region and conspicuous examples are found in some countries, particularly Brazil.

The expansion of investment came to an abrupt halt in 1975 when external conditions made supply inflexible and aggravated the balance-of-payments problems.

The magnitude of the growth rates recorded between 1970 and 1974, must be duly appreciated. In 1974 investment was 55 per cent higher than four years previously. This means that in a very few years the region has been able to renew a large part of the capital of the goods-producing sectors and their infrastructure, and significantly increase its production capacity.

As a result of the rapid increase in investment, its coefficient in relation to the gross domestic product which had averaged 19.7 per cent in the 1960s rose to 24 per cent in 1974. In that year seven countries recorded levels equal to or higher than this average (see table 10).

The domestic savings effort was of relative importance within the prevailing growth style.

Between 1971 and 1974 the proportion of gross domestic saving to the gross domestic product was distinctly above the figure of 18 per cent recorded in the 1960s, and in 1974 it was slightly lower than 22 per cent. Excluding the oil-exporting countries which attained the highest levels in the region, those which most raised their savings coefficients were Argentina, Brazil and Mexico. In Chile, Guatemala, Haiti and Uruguay, on the other hand, the domestic savings coefficient was never as high as 14 per cent in any year of the period considered, and in some years it was under 10 per cent. If the largest countries in terms of economic size and population are analysed, it may be noted that except in 1975, the marginal savings coefficient exceeded the average coefficient. The ratio of domestic saving to investment dropped in the last two years and particularly in 1975. It should be noted, however, that the situation was not the same in the oil-exporting countries, at least some of which managed to increase domestic saving more than domestic investment. Venezuela was an extreme case since from 1973 onwards it became a net capital exporter (see table 11).

The proportion of external financing to investment rose sharply in 1975 and 1976, reaching 15 per cent in the former year which more than doubled the average for the 1960s.

This proportion of 15 per cent was due, as explained above, to the intensive use of external financing essentially in response to the need to maintain certain levels of production and consumption, and was not associated with an expansion of domestic investment that year.

Table 10
LATIN AMERICA: INVESTMENT COEFFICIENTS

Country	1960	1965	1970	1971	1972	1973	1974	1975	1976
<u>Percentages of the gross domestic product at 1970 prices</u>									
Argentina	19.9	18.0	20.4	21.5	21.8	20.4	19.9	18.7	17.9
Bolivia	14.0	18.6	17.7	15.9	17.8	17.2	17.6	18.7	19.2
Brazil	21.0	20.6	20.6	22.1	23.1	24.9	26.3	25.9	25.3
Colombia	22.7	19.7	22.0	22.3	20.3	16.9	21.1	15.6	15.6
Costa Rica	15.1	21.7	20.5	24.1	20.1	22.6	23.0	21.1	19.7
Chile	14.9	15.8	15.6	14.0	11.2	13.9	14.8	12.6	9.4
Ecuador	14.2	12.0	21.2	26.0	21.5	22.9	31.0	29.0	28.1
El Salvador	16.6	16.7	13.3	15.5	12.8	14.8	16.6	17.3	17.5
Guatemala	11.5	11.7	12.8	13.7	10.7	12.2	15.2	12.7	15.7
Haiti	5.3	6.2	7.0	7.5	8.0	8.4	8.6	8.6	8.8
Honduras	13.1	15.2	21.9	16.4	15.1	18.6	23.3	19.1	18.2
Mexico	20.5	20.2	21.5	20.1	21.6	23.3	25.5	26.6	25.3
Nicaragua	13.6	20.0	18.6	18.3	11.9	22.6	26.9	15.6	16.7
Panama	15.9	17.8	26.4	27.6	31.4	27.9	24.0	26.5	24.6
Paraguay	12.5	14.9	14.7	14.7	15.2	20.4	20.8	23.9	25.0
Peru	16.2	16.8	12.9	15.3	14.5	16.0	19.5	20.8	17.9
Dominican Republic	10.1	9.4	19.1	20.1	22.6	23.9	25.7	27.1	26.8
Uruguay	13.8	9.3	11.4	12.9	11.2	10.7	9.8	11.0	11.7
Venezuela	27.3	27.3	26.9	29.3	30.8	32.4	33.2	34.5	36.0
<u>Latin America</u>	<u>19.8</u>	<u>19.4</u>	<u>20.4</u>	<u>21.0</u>	<u>21.4</u>	<u>22.3</u>	<u>24.0</u>	<u>23.5</u>	<u>23.2</u>

Distribution of countries according to the value of the indicator

(number of countries)

Less than 10.0	1	3	1	1	1	1	2	1	2
10.0 - 14.9	9	3	5	4	6	4	1	3	1
15.0 - 19.9	5	8	4	5	3	4	5	6	9
20.0 and over	4	5	9	9	9	10	11	9	7

Source: CEPAL, on the basis of official data.

Table 11

LATIN AMERICA: SHARE OF GROSS NATIONAL SAVINGS IN THE FINANCING OF INVESTMENT

(Percentages of values at 1970 prices)

Country	1960s		1970	1971	1972	1973	1974	1975	1976
	Entire decade	2nd five years							
Argentina	98.2	99.7	96.9	93.5	96.6	109.8	101.1	88.1	105.7
Bolivia	61.6	73.1	86.7	74.5	75.4	87.6	119.3	61.6	73.2
Brazil	96.0	94.8	93.1	88.5	89.5	91.1	79.2	82.1	85.7
Colombia	84.3	82.5	78.9	72.2	88.0	95.5	86.4	91.4	96.5
Costa Rica	63.6	61.9	62.1	54.9	59.6	68.0	49.6	58.8	62.3
Chile	87.8	95.5	98.0	85.7	59.4	70.6	83.3	64.6	103.1
Ecuador	76.3	70.0	67.4	67.5	82.0	97.9	101.3	80.3	92.3
El Salvador	85.1	83.3	105.0	90.9	105.9	78.3	57.8	69.2	109.8
Guatemala	80.6	84.5	96.7	83.2	96.0	102.3	85.3	90.4	98.9
Haiti	58.0	77.5	83.6	86.6	104.7	55.2	61.1	62.6	92.3
Honduras	73.8	68.5	56.8	79.1	90.5	79.2	58.3	47.9	58.6
Mexico	89.6	88.5	85.1	88.4	89.3	87.5	82.3	79.0	83.3
Nicaragua	69.1	60.6	70.7	70.5	91.0	77.9	37.3	33.2	79.7
Panama	75.4	79.3	74.2	74.7	74.2	73.1	51.2	81.1	76.9
Paraguay	69.4	64.2	77.6	72.8	91.5	88.9	77.7	79.1	81.0
Peru	89.7	88.2	118.2	93.4	94.3	79.4	68.0	43.9	58.1
Dominican Republic	68.1	59.8	63.4	70.5	86.4	87.3	73.1	94.4	77.6
Uruguay	96.6	97.5	80.7	78.2	102.5	105.8	66.5	63.3	85.7
Venezuela	107.3	98.0	98.4	100.1	96.5	111.2	180.2	129.1	109.3
<u>Latin America</u>	<u>93.4</u>	<u>92.1</u>	<u>91.2</u>	<u>88.5</u>	<u>90.2</u>	<u>93.8</u>	<u>92.0</u>	<u>85.0</u>	<u>89.6</u>

Source: CEPAL, on the basis of official data.

2. The inflationary process

(a) Characteristics of recent inflation in Latin America

The inflationary process in the region in the period 1970-1975 had some features that clearly distinguish it from the two immediately preceding five-year periods.

Of course, in most of the countries (20 out of the 22 considered) inflation reached much higher levels than in the reference periods (see table 12).

Another notable feature is the spread of inflation throughout the region. Whereas in the period between 1959 and 1969 the number of countries with annual two-digit price increases was not more than five, in the period 1969-1975 it had risen to 14. In other words, in the previous decade inflation of a certain magnitude was confined to only a few countries - Brazil and those in the southern zone of South America - while in the period analysed the great majority of the Latin American countries suffered active inflationary pressures in differing degrees. For some this meant an intensive recrudescence of their chronic inflation. For others it meant a fairly sudden transit from virtual stability to declared inflationary processes. Be that as it may, in 1969-1975 there was not a single country that was not affected by the wave of inflation, although, as noted earlier, in differing degrees.

The regional average estimated for Latin America does not adequately reflect the course of the process. Inflation in Brazil, because of the importance of this country within the whole group, decidedly influenced the figures for the 1960s, both owing to the proportions reached by its inflationary process and because of its unsynchronized performance with respect to the rest of the countries in the region. Therefore, the average excluding Brazil more accurately reflects the course of the Latin American inflationary processes in the period concerned (see table 12).

Table 12
LATIN AMERICA: AVERAGE CONSUMER PRICES

(Annual rate, percentages)

	1959- 1964	1964- 1969	1969 1975	1976
Argentina	23.0	22.3	54.6	444.0
Chile	24.6	25.5	167.6	211.9
Uruguay	26.3	69.3	59.0	...
Costa Rica	2.4	1.5	12.1	3.5
El Salvador	0.1	0.7	7.6	7.1
Guatemala	--	0.9	7.4	10.7
Honduras	1.6	1.8	5.7	4.9
Panama	0.9	1.1	6.5	2.0
Barbados	-	-	16.6	...
Bolivia	6.8	5.7	17.6	4.5
Brazil	53.8	35.1	21.3	41.9
Colombia	12.4	9.4	16.9	17.4
Ecuador	3.5	4.4	12.0	10.7
Guyana	1.5	2.4	6.9	9.0
Haiti	2.2	2.0	11.2	8.7
Jamaica	3.0	3.9	14.0	10.5
Mexico	2.1	3.4	10.9	16.1
Paraguay	6.1	2.2	9.4	4.5
Peru	7.4	12.0	11.3	...
Dominican Republic	2.3	0.1	9.7	7.7
Trinidad and Tobago	2.2	3.7	11.3	10.4
Venezuela	0.7	1.4	5.2	7.6
Latin America	<u>24.5</u>	<u>18.5</u>	<u>24.7</u>	<u>71.8a/</u>
Latin America (excludes Brazil)	<u>8.3</u>	<u>9.4</u>	<u>26.5</u>	<u>90.0a/</u>
Latin America (excludes Argentina, Chile and Uruguay)	<u>25.1</u>	<u>17.2</u>	<u>15.4</u>	<u>23.7a/</u>

Source: CEPAL, on the basis of data obtained from International Monetary Fund, International Financial Statistics.

a/ Also excludes Uruguay, Barbados and Peru.

(b) The different phases of the recent inflationary trend

In the 1960s there were two clearly differentiated phases in Latin American inflation. In the three-year period 1970-1972, although the countries in the southern zone recorded the highest price increases, the situation may be said to have been kept under control. In fact, during those three years the performance of inflation in the region was very similar to that of the preceding decade (see table 13).

In 1973 the declining trend of the process in the region was interrupted. With the exception of Brazil, all the Latin American countries recorded bigger price increases than in the three years 1970-1972. The average rise in prices for the whole region more than doubled the average for the preceding three-year period.

In 1974 inflation took on unusual impetus; most of the countries recorded even bigger price increases than in the previous year. It may well be said that the expansive phase of the inflationary process which the region is still experiencing reached its peak in 1974. The regional averages for that year far exceeded those for the preceding years and none of the countries recorded increases of less than 10 per cent in their price indexes.

In 1975 inflation slowed down appreciably. In spite of the fact that the average for the region showed a sharp acceleration, there is no doubt that the wave of inflation diminished, since most of the countries recorded smaller increases than in the previous year. Inflation in Argentina, whose rate of increase in prices in 1975 was eight to nine times the 1974 rate, decisively influenced the regional average. Therefore, the average excluding the countries of the southern zone would seem to reflect more accurately the course of the process in a major part of the region.

Available data for 1976 indicate that the region as a whole apparently experienced a certain upsurge of inflation. The average increase for the region was over 63 per cent, which is slightly higher than in the previous year and considerably higher than in the period 1970-1974. The average excluding the countries of the southern zone

Table 13
LATIN AMERICA: CONSUMER PRICES (DECEMBER TO DECEMBER)

(Average annual rates, percentages)

	1970- 1972	1973	1974	1975	1976 ^{a/}
Argentina	40.8	43.9	39.9	334.8	347.5
Chile	60.6	507.7	373.9	340.7	174.3
Uruguay	47.0	77.1	107.2	66.8	48.0 November
Costa Rica	4.4	16.0	30.5	20.4	-2.7
El Salvador	1.9	7.9	21.0	15.0	5.3
Guatemala	0.8	17.5	27.4	0.8	17.4
Honduras	2.8	5.1	13.0	6.5	5.3
Panama	3.4	9.5	16.7	1.7	3.3
Barbados	9.9	26.0	36.6	12.5	3.9
Bolivia	9.8	34.7	39.1	6.0	5.5
Brazil	17.2	13.6	34.1	30.8	44.8
Colombia	11.1	25.0 ^{b/}	26.9 ^{b/}	17.9 ^{b/}	25.8 ^{b/} November
Ecuador	7.3	20.6	21.2	13.2	13.1
Guyana	3.6	15.2	11.6	5.5	9.2
Haiti	6.7	20.8	19.5	19.9	0.6
Jamaica	7.3	9.6	20.7	12.3	8.1
Mexico	5.7	20.2	20.9	13.3	24.0
Paraguay	6.0	14.1	21.9	8.8	3.3
Peru	5.9	13.7	19.1	24.0	40.2 September
Dominican Republic	5.5	17.2	10.5	16.5	7.0
Trinidad and Tobago	5.0	25.8	18.6	12.5	12.0
Venezuela	2.7	5.1	12.2	7.3	8.2 October
Latin America ^{c/}	<u>15.5</u>	<u>36.5</u>	<u>41.2</u>	<u>60.1</u>	<u>63.3</u>
Latin America (excludes Argentina, Chile and Uruguay)	<u>10.7</u>	<u>16.3</u>	<u>27.1</u>	<u>20.6</u>	<u>30.0</u>

Source: International Monetary Fund, International Financial Statistics.

a/ Variation in comparison with the same month of the previous year.

b/ Source DANE (Colombia).

c/ The regional averages have been estimated by using the 1970 population as a weighting factor.

/obviously reflects

obviously reflects smaller variations, but at the same time shows greater acceleration with respect to the same average for the previous year (see table 13).

A typical feature of the inflationary situation in 1976 is the dissimilar performance of two groups of countries. In most of the countries with advanced industrialization processes and a relatively high per capita income, such as Brazil, Mexico, Colombia, Peru and Argentina, the rate of inflation accelerated. In the rest of the region, composed of medium and small countries with a lower per capita income and a more recent industrialization process, a moderate controlled inflation was observable. Although this kind of stratification would also, mutatis mutandi, be valid for the previous decade, the level reached by the inflationary processes in 1976 reflects far more virulence.

Clearly, the period of inflation starting for most countries in mid-1973 has not yet ended, although there are signs that the situation is losing some of the coverage it had in the period of greatest inflationary pressures. The perspective of a complete period is therefore lacking. Thus, any forecast or estimates regarding the subsequent development of the situation are not, of course, free from all risk.

(c) The impact of imported inflation

The recent inflationary process has been accompanied by a situation which in a sense has never arisen before in the region, namely, imported inflation. Understood as a group of pressures created in the field of foreign trade which either directly and immediately or through intervening stages and channels set off or accelerate price increases within the economies, there is no doubt that it clearly typified Latin American inflation in the 1970s. Exogenous pressures pushed many countries, within a brief span, from stability to the eruption of inflation of differing intensity, while processes which were already active in others were stimulated by fresh impulses from abroad.

CEPAL, in its Economic Survey of Latin America, 1974, the year when world inflation reached its peak, identified three fairly homogeneous categories of countries from the point of view of inflation. The first category comprises countries where exogenous impulses predominated in the inflationary process;^{1/} a second category consists of countries in which fairly equal influences of internal and external factors account for the course of inflation;^{2/} and, lastly, the countries of the southern zone where internal factors prevailed in their inflationary trends. The fact that in only three countries was imported inflation not a determining factor of inflationary outbreaks, although it did influence them, shows how far the region was affected by this situation. Moreover, if price increases in the years 1973-1976 are compared with those in the reference periods it will be realized just how far the region was affected by world inflation.

The main and most obvious mechanism for the internalization of exogenous inflation has, of course, been import prices. While in the past the annual increases in import indexes never exceeded 5 per cent, in 1974 they were over 40 per cent. Price increases of this magnitude necessarily altered the countries' real and financial equilibrium, unleashing pressures on both costs and demand.

Export prices constituted another important channel for the internalization of world inflation. The high prices offered on the external market, obviously favouring the balances of payments, in many cases attracted a significant share of production at the expense of domestic supply, with the resulting pressures on domestic prices.

^{1/} Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, and Venezuela.

^{2/} Barbados, Bolivia, Brazil, Colombia and Costa Rica.

The volume of imports and exports also had certain inflationary repercussions, although less directly than prices. The broadening of the imported base further widened the channel for the entry of external prices, and the concentration of surpluses in the centres operating in foreign trade also stimulated demand and, therefore, inflationary pressures.

In the domestic economy area, some of the effects of imported inflation are worth noting. The accumulation of reserves in many countries led to currency issues which expanded the liquidity of their economies. At the same time, there were exceptional increases in public spending, as a result of income which in its turn expanded owing to the rise in export and import prices. The demonstration effects and sympathy established between price increases, in a highly sensitive atmosphere ripe for gaining advantages in the price race, represented another factor stimulating the inflationary processes which was very difficult to control.^{3/}

(d) Some consequences of recent inflation

An important point to be noted in connexion with recent inflation concerns the marked changes in the price system, which were much more pronounced than in earlier situations. In fact, with the single exception of Argentina, throughout the region food prices recorded bigger increases than the general price index in the period 1970-1975. As will be readily understood, the persistence of this situation has a decided influence on the structure of consumption of the broad masses in the various countries.

Furthermore, most of the countries adopted traditional-style stabilization policies, whereby much of the cost of the anti-inflationary measures was borne by wages and salaries. With very few exceptions, adjustments of wages and salaries do not include mechanisms to

^{3/} In CEPAL, Economic Survey of Latin America, 1974, and H. Assael and A. Núñez del Prado, "La inflación reciente en América Latina", Dos estudios sobre inflación, Cuadernos de la CEPAL, No. 9, Santiago, Chile, 1976, the various channels through which world inflation is transmitted are set out in detailed and systematic form.

protect their real level. Thus, most increases observed in the region during the period considered were in the nature of a concession by the governments, with evident effects in terms of the fall of real wages.

Obviously, the changes in the price system and the lag in wage and salary adjustments accentuated the unequal distribution of income in the region, still further emphasizing the existing social disparities.

From a different angle, it is worth noting the symmetry and difference in sign of some changes which took place in the recent period. The inflationary process in the years 1972-1974 coincided with an acceleration of the growth of the product and a significant expansion of the external sector. In 1975, there was a slowing down in the rate of price increases, which coincided with a fall in the growth of the product and a relatively restricted external sector. In 1976 again the three variables presented the same sign as in the period 1972-1974, with accelerated inflation, a recovery in the growth rate of the product and a relative improvement in the external sector.

3. Foreign trade, balance of payments and external borrowing

(a) The fluctuation and diversification of exports

The instability of the export markets of the region was again a feature in the 1970s. It is difficult to detect stable trends in most of the countries. Almost all of them were affected by severe oscillations, both in the volumes exported and in prices. If the period 1970-1976 is analysed, it can be seen that during this period only Brazil recorded growth in the volume of goods and services exported in all the years. In the rest of the countries there was usually an alternation of positive and negative growth rates of these volumes, with particularly marked oscillations in Argentina and Uruguay (see table 14).

Table 14

GROWTH RATE OF IMPORTS AND EXPORTS AND PURCHASING
EXPORTS OF GOODS AND SERVICES, AT 1970 PRICES

Exports of goods and services						
1971	1972	1973	1974	1975	1976	1970- 1976
<u>Annual rates, percentages</u>						
-12.3	-1.6	14.7	-0.5	-19.9	34.0	0.9
10.9	9.7	7.6	0.2	-2.9	11.0	6.0
9.6	12.5	20.8	0.3	9.2	0.1	8.5
3.7	12.4	3.0	0.9	16.5	-6.3	4.8
6.9	17.2	2.0	3.4	0.3	-1.6	4.5
8.5	-10.2	7.7	9.3	2.3	22.5	6.3
9.5	37.2	38.1	-8.8	-4.4	9.2	12.0
7.5	16.3	-2.8	11.3	-0.2	9.7	6.7
2.4	15.4	10.9	7.5	6.0	2.4	7.3
24.3	-5.6	-2.6	0.3	-13.8	16.8	2.4
6.8	3.6	2.1	-0.3	2.4	11.6	4.3
4.1	15.8	9.7	-1.4	-10.3	5.6	3.6
4.7	15.8	16.7	-5.5	2.0	7.1	6.5
6.0	1.8	5.7	7.9	9.3	-8.2	3.6
-5.4	7.0	2.2	7.7	-0.4	9.9	3.4
-8.7	8.0	-14.6	-3.2	-3.6	6.3	-3.0
16.2	25.5	3.8	-4.7	-12.5	7.1	5.2
-16.7	5.1	-4.0	10.8	26.4	31.2	7.5
-5.3	-4.2	6.4	-6.7	-21.0	-0.3	-5.6
<u>1.1</u>	<u>7.2</u>	<u>9.6</u>	<u>-0.3</u>	<u>-3.2</u>	<u>6.7</u>	<u>3.4</u>
<u>tribution of countries according to the value</u>						
<u>f the indicator (number of countries)</u>						
5	4	4	8	10	4	2
1	1	4	5	4	2	3
6	2	3	0	1	2	10
7	12	8	6	4	11	4

Purchasing power of exports of goods and services

1971	1972	1973	1974	1975	1976	1970- 1976
-5.6	6.6	39.9	-10.6	-31.7	26.2	1.4
-8.6	7.1	16.2	61.2	-20.6	11.6	8.4
-2.2	25.0	33.4	-11.2	4.6	12.3	9.2
-5.3	19.2	16.5	-1.2	0.2	13.7	6.7
-1.9	14.1	6.0	-5.4	1.1	14.2	4.4
-14.9	-16.2	16.8	21.6	-28.2	30.4	-0.9
-1.6	29.3	56.2	56.6	-24.3	17.1	18.4
3.3	18.9	5.3	0.8	-0.8	36.3	9.9
-7.5	7.1	15.1	-4.5	0.7	8.0	2.9
16.8	-7.1	0.5	-10.2	-9.8	49.5	4.7
5.9	1.1	8.3	-10.1	-9.9	16.2	1.4
3.7	16.4	12.5	5.6	-9.9	4.5	5.1
1.5	25.3	12.9	-6.9	-12.6	34.7	7.9
5.9	3.6	1.0	-2.6	0.6	-11.6	-0.7
-5.2	12.7	26.9	6.0	-13.1	7.5	5.0
-16.5	2.1	4.1	10.8	-14.7	1.9	-2.6
9.0	34.2	8.8	13.0	22.3	-22.9	9.2
-15.9	13.6	22.8	-26.9	-3.1	25.3	0.7
9.2	-3.0	30.4	90.5	-30.5	-5.4	9.6
<u>-1.7</u>	<u>10.1</u>	<u>23.1</u>	<u>15.3</u>	<u>-15.5</u>	<u>8.0</u>	<u>5.8</u>
11	3	0	10	13	3	3
2	2	2	1	4	1	4
3	2	3	2	1	1	5
3	12	14	6	1	14	7

interregional trade intensified, without however securing rates similar to those of trade with the developed countries.

The participation of the transnational enterprises, the international situation and the export promotion policies had a determining influence on the results of the diversification of industrial exports. As a result of these factors the annual growth rate of industrial exports, expressed in 1970 dollars, was nearly 20 per cent for the period 1970-1974.

(b) The improvement and deterioration of the terms of trade

The terms of trade in Latin America have varied significantly since 1970, following the course of the international situation and in particular the variations in the price of petroleum. The evolution offers marked contrasts depending on whether the petroleum-exporting countries or the other countries are considered.

If the year 1970 is taken as a basis for comparison (see table 15), it can be seen that the petroleum-exporting countries enjoyed a consistent rise in their external price ratio until 1974, when the index recorded a level of approximately 261 as a result of the rise in the prices of fuels. This increase greatly exceeded the rise which had been recorded in the unit value of imports of these countries. In 1975 the index diminished to 222, and in 1976 it again fell to 212 because of the continuous rise in the prices of imports of these countries.

Despite the methodological and conceptual problems which arise in connexion with the significance and extent of these indices when they are applied in order to study the evolution over long-term periods, at a distance from the base index, it is interesting to note that the petroleum-producing countries were afflicted by a continuous deterioration in their foreign trade ratio from the beginning of the 1950s onwards.

Because of the magnitude of its exports and imports, Venezuela has a predominant influence in this group of Latin American countries. The other two countries, Bolivia and Ecuador, are relatively small and have a different structure of foreign trade to that of Venezuela, so that the evolution of their respective indices does not resemble that

Table 15

LATIN AMERICA: INDEX OF THE RATIO OF THE TERMS OF TRADE

Year	Oil exporting countries <u>a/</u>	Non-oil exporting countries	Latin America <u>b/</u>
1950-1954	179.9	124.0	134.7
1955-1959	182.6	104.6	121.5
1960-1969	122.6	95.9	101.5
1970	100.0	100.0	100.0
1971	110.7	94.3	97.3
1972	110.1	97.8	100.0
1973	131.6	108.2	112.3
1974	260.7	104.5	129.9
1975	221.8	95.7	113.3
1976 <u>c/</u>	211.6	99.7	114.6

Source: CEPAL, on the basis of official data.

a/ Includes Bolivia, Ecuador and Venezuela.

b/ Indexes calculated with data from 19 countries.

c/ Provisional figures.

recorded by the latter country, although in recent years they also reflect the movement of rise and fall which has been discussed.

The evolution of the trade ratio in the non-petroleum-exporting countries has of course been very different. The aggregate index of this group of countries, still with base 100 in 1970, declined in 1971 and tended to recover in 1972, reaching a maximum level in 1973 as a result of a higher rise in the prices of the basic export products. The figure for this last year amounted to only 108, however, and was thus significantly lower than that recorded on average during the first years of the 1950s (see table 15).

In 1974 the readjustment which began to operate in the prices quoted for basic products and the rise in the prices of petroleum, industrial products and other goods which these countries import influenced the process of deterioration which became acute in 1975 with the persistent rise in the prices quoted for imported industrial products. This deterioration was of such magnitude that in 1975 the trade ratio of the non-petroleum-exporting countries showed an index which was lower than that of 1970.

The declining trend extended to all the countries of this group, and was particularly intense for Chile and Uruguay which recorded an index of 60 in 1975. Moreover, Costa Rica, Chile, Guatemala and Haiti were below the 1970 level throughout the five-year period.

In 1976 a certain improvement was registered in the trade ratio of many countries of this group, which corresponded to the rise in the prices quoted for particular primary products at the beginning of that year - particularly in the prices of coffee - a greater rate of inflation in industrial imports and the maintenance of the prices of fuels. Changes in the composition of exports and imports naturally had an influence too. Other countries of this group, particularly the sugar-exporting countries, experienced a decline that year which in some cases reached considerable magnitudes.

The index of the group as a whole showed a rise of 4.2 per cent in 1976, but it continued to be below that of 1970, with an even more unfavourable position for Argentina, Brazil, Chile, Guatemala, Honduras, Nicaragua, Panama and Uruguay.

(c) The evolution of imports and their composition

In previous pages the evolution of imports in relation to the rate of economic growth, the purchasing power of exports and the use of external financing were studied. It is considered useful here to synthesise some general features of their evolution during this decade and to review aspects relating to the nature of their composition by sectors of goods.

During the first four years, the growth rate of imports of goods and services consistently increased to such an extent that, for the region as a whole, the increases passed from a rate of 4.6 per cent in 1971 to 20.7 per cent in 1974. (See table 14). This dynamism covered nearly all the countries, although there were major differences in magnitude and at least until 1973 it was related to the expansion of the purchasing power of exports and, in some cases, a greater use of external financing.

In 1974 the petroleum-exporting countries and the other countries began to develop in different ways. When in that year the purchasing power of exports from many of the non petroleum-exporting countries fell, the growth of the imports of these countries continued to accelerate and this led to an increase in the deficit of their balance of payments or a decline in their positive balances. Thus Argentina, Brazil, Honduras, Mexico, Nicaragua, Peru and the Dominican Republic recorded increases approaching or exceeding 20 per cent. In other countries, however, the growth rate of imports declined; this was particularly marked in Chile, where they amounted to only 1.5 per cent, and Haiti and Uruguay, where the absolute levels of flows of goods and services from abroad contracted.

In 1974 the petroleum-exporting countries had the highest rates of the period, amounting to 30 per cent in Bolivia and Ecuador and 26 per cent in Venezuela.

As a result of this evolution, the coefficient of imports of goods and services in comparison with the domestic product rose in most of the countries. For the region as a whole this coefficient rose from 11.6 per cent in 1970 to 13.6 per cent in 1974.

In 1975 the evolution changed radically for the non petroleum-exporting countries. The balance-of-payments problems which affected them and the slackening in the rate of investment and of the domestic product were largely related, in both respects, to the decline in their imports that year. On the other hand the petroleum-exporting countries again increased their purchases abroad.

In 1976 these trends were maintained, although with some variations of certain significance. The imports of the vast majority of non-petroleum-exporting countries remained stationary or again diminished in absolute figures, and those of the petroleum-exporting countries continued to rise. Among the countries of the first group, special note should be taken of the increases in imports recorded in Colombia and in some Central American countries which benefited from an improvement in the purchasing power of their exports as a consequence of the volume of their sales, the improvement of their terms of trade, or both at once.

In chapter I the past trends of the composition of imports of the Latin American countries were studied and the main factors which determined that composition were outlined. It needs only be added here that during this decade no basic modifications were recorded in the trends, particularly if the analysis is limited to the share of the major sectors of goods in total imports and not extended to a detailed study of more specific goods or groups of goods.

It is, however, important to note that if this study of the composition of imports is carried out in current values, it is possible to appreciate changes of some importance as a result of the effects of the price fluctuations recorded during this period and, especially, at the beginning of 1973 in respect of the cost of fuels. The countries which are not self-sufficient in these products experienced an increase in the value of their imports of fuels, and in the share of this external expenditure in the total value of imports. In 1974 ten countries devoted more than 15 per cent of the value of their imports to this sector. Among them, Panama, Uruguay, Paraguay and Brazil recorded a proportion varying between 35 per cent and 25 per cent of the value of their imports.

(d) Balance of payments, financing and external debt 4/

The behaviour of the various elements in the balance-of-payments situation was discussed when studying both the relationships between fluctuations in the growth-rate and external variables, and also external trade flows and terms of trade. The overall effects of these elements in terms of balance-of-payments deficits, financing and the external debt are presented below.

Most of the Latin American countries had deficits both on current account and on the trade account. With the exception of Venezuela, Argentina, and the other oil-exporting countries between 1973 to 1975, the countries had large trade deficits, whereas until 1973 these deficits had remained within relatively low limits. The trade gap widened enormously in 1974-1975, from an average of nearly 1,500 million dollars in 1972-1973 to 10,500 million dollars, in the case of the non-oil-exporting countries. On the other hand, Venezuela and the other oil-exporting countries had record surpluses in 1974: in the case of Venezuela, 6,300 million dollars. In 1976, by holding down imports and thanks to a rise in the real value of exports for most countries of the region, the non-oil-exporting countries reduced their trade deficit to 5,500 million dollars. The trade balances of Venezuela and the oil-exporting countries showed different trends. Venezuela's surplus dropped to 900 million dollars, while the remaining countries increased their's to 80 million (see table 16).

Net factor payments under the heading interest and profits in respect of external investment and debt did not reflect the fluctuations in the trade deficit, and instead continued to grow steadily, except in the case of the oil-exporting countries, particularly, Venezuela. For the non-oil-exporting countries these payments grew from 2,100 million dollars in 1970 to 6,300 million in 1976.

4/ We shall only consider overall trends here, to round off the study of economic developments, because financing and external debt problems are studied more extensively in Part Two, Chapter I.

Table 16
LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

	Oil-exporting countries			Non-oil-exporting countries (19 countries)					Latin America ^{a/}
	Total	Venezuela	Bolivia, Ecuador and Trinidad and Tobago	Total ^{a/}	Argentina	Brazil	Mexico	Others ^{a/}	
<u>Trade balance</u>									
1970	478.6	596.0	-117.4	-793.2	67.0	-229.0	-428.0	-203.2	-314.6
1971	531.9	768.0	-236.1	-2 053.4	-129.0	-905.0	-156.0	-863.4	-1 521.5
1972	285.0	436.6	-151.6	-1 754.9	-115.2	-973.9	-280.0	-385.8	-1 469.9
1973	1 722.0	1 548.5	173.5	-1 326.4	1 097.9	-1 078.2	-492.3	-853.8	395.6
1974	7 086.3	6 300.9	785.4	-9 834.2	441.2	-6 278.0	-1 542.8	-2 454.6	-2 747.9
1975	2 715.4	2 707.6	7.8	-11 168.7	-892.5	-5 071.5	-2 326.2	-2 878.5	-8 453.3
1976	1 002.6	923.2	79.4	-5 510.2	1 060.0	-3 840.8	-1 288.9	-1 440.5	-4 507.6
<u>Net payments of profits and interest</u>									
1970	-675.4	-560.0	-115.4	-2 145.1	-223.0	-428.0	-695.0	-799.1	-2 820.5
1971	-799.3	-685.0	-114.3	-2 291.1	-255.0	-518.0	-736.0	-782.1	-3 090.4
1972	-649.5	-493.0	-156.3	-2 494.5	-333.3	-618.7	-700.4	-842.1	-3 144.0
1973	-1 099.6	-851.2	-248.4	-3 223.5	-394.6	-811.8	-996.5	-1 020.6	-4 323.1
1974	-935.8	-507.4	-428.4	-3 856.7	-333.1	-1 011.3	-1 446.7	-1 065.6	-4 792.5
1975	-437.8	37.6	-475.4	-5 457.3	-432.2	-1 774.0	-1 856.4	-1 394.7	-5 895.1
1976	-275.9	313.1	-589.0	-6 331.0	-466.9	-2 180.1	-2 118.1	-1 565.9	-6 606.9
<u>Balance on current account</u>									
1970	-271.7	-50.0	-221.7	-2 741.4	-157.0	-644.0	-1 075.0	-865.4	-3 013.1
1971	-334.3	4.0	-338.3	-4 141.3	-385.0	-1 412.0	-842.0	-1 502.3	-4 475.6
1972	-438.7	-145.4	-293.3	-4 013.6	-219.2	-1 591.5	-926.1	-1 276.8	-4 452.3
1973	528.5	592.6	-64.1	-4 241.0	710.4	-1 861.9	-1 423.2	-1 666.3	-3 712.5
1974	6 024.9	5 663.6	361.3	-13 363.8	111.7	-7 285.7	-2 889.7	-3 300.1	-7 338.9
1975	2 180.5	2 647.0	-466.5	-16 259.1	-1 321.0	-6 837.0	-4 063.5	-4 032.6	-14 078.6
1976	523.2	1 024.0	-500.8	-11 328.8	597.1	-6 010.9	-3 302.1	-2 612.9	-10 805.6
<u>Movement of capital</u>									
1970	357.6	140.0	217.6	4 197.0	437.0	1 278.0	1 150.0	1 332.0	4 554.6
1971	763.9	439.0	324.9	4 205.2	-73.0	2 026.0	1 023.0	1 229.2	4 969.1
1972	745.1	357.2	387.9	6 447.1	170.4	4 104.9	1 146.5	1 025.3	7 192.2
1973	152.8	16.6	136.2	7 492.9	15.5	4 254.5	1 563.9	1 659.0	7 645.7
1974	-1 184.7	-1 394.8	210.1	12 516.6	-57.5	6 302.1	2 928.2	3 343.8	11 331.9
1975	655.9	-143.4	799.3	14 023.7	359.4	5 939.8	4 238.5	3 486.0	14 679.6
1976	-289.1	-1 307.0	1 017.9	14 033.8	-475.1	8 447.9	2 969.1	3 091.9	13 744.7
<u>Balance of payments before compensation</u>									
1970	85.9	90.0	-4.1	1 455.6	280.0	634.0	75.0	466.6	1 541.5
1971	429.6	443.0	-13.4	63.9	-458.0	614.0	181.0	-273.1	493.5
1972	306.4	211.8	94.6	2 433.5	-48.8	2 513.4	220.4	-251.5	2 739.9
1973	681.3	609.2	72.1	3 251.9	725.9	2 392.6	140.7	-7.3	3 933.2
1974	4 840.2	4 268.8	571.4	-847.2	54.2	-983.6	38.5	43.7	3 993.0
1975	2 836.4	3 503.6	332.8	-2 235.4	-961.6	-897.2	170.0	-546.6	601.0
1976	234.1	-283.0	517.1	2 705.0	122.0	2 437.0	-333.0	479.0	2 939.1

Source: CEPAL, on the basis of data supplied by the International Monetary Fund.

a/ Excluding Cuba.

/As a

As a result of the trade deficit and the payment of profits and interest, the deficit on current account of the non-oil-exporting countries rose from an average 4,100 million dollars in the three-year period 1971-1973 to 13,400 million in 1974 and 16,300 million in 1975. As mentioned above, it then dropped to 11,300 million in 1976. Venezuela was the only major exception, with a particularly large surplus after 1974. On the other hand, it is significant that the other oil-exporting countries again had high current account deficits in 1975-1976, mainly because of the rapid growth of imports.

These current account deficits were offset to a large extent by external financing flows. Given the differences among the countries, Brazil and Mexico received almost 75 per cent of the external financing of the non-oil-exporting countries, particularly after 1973. The other countries in this group also received abundant external financing, although with lower growth rates. Argentina, was an important exception, and even had a surplus on current account, except in 1975.

The rise in net external financing may be appreciated more easily if compared with the value of exports of goods and services. This ratio, in the order of 13.5 per cent in the second-half of the 1960s for the region as a whole, rose to 31.4 per cent in 1975. At the country level, the changes and levels are even greater; for example, in 1975 the ratio was 66 per cent for Mexico, 71 per cent for Brazil, and 92 per cent for Peru, as opposed to 24.14 and 9 per cent respectively for the same countries in the 1960s (see table 17).

Considerable changes took place in the movement of capital during this period. Private sources became more important than official national or international sources. Private foreign banks, to a large extent, and suppliers' loans and direct foreign investment, to a lesser extent, were responsible for most of the financing.

Table 17

LATIN AMERICA: RELATION BETWEEN NET EXTERNAL FINANCING AND EXPORTS

(Percentages of exports of goods and services, at current prices)

Country	1960s		1970	1971	1972	1973	1974	1975	1976
	Entire decade	2nd five years							
Argentina	3.5	0.9	7.4	18.2	9.5	-19.1	-2.4	36.9	-13.0
Barbados	25.8	31.6	43.5	43.7	33.2	34.0	28.5	15.8	32.2
Bolivia	29.7	23.3	11.4	22.2	23.6	10.6	-11.1	31.7	21.8
Brazil	13.5	16.7	21.0	43.1	36.4	27.7	84.2	71.0	53.7
Colombia	23.7	27.4	33.0	49.2	17.5	5.0	20.3	9.9	3.8
Costa Rica	27.0	26.9	27.3	41.6	29.6	26.7	47.5	36.6	28.7
Chile	13.2	4.5	2.0	16.8	45.7	33.8	17.5	38.4	-2.0
Ecuador	23.2	31.8	47.3	62.0	23.3	2.1	-1.3	25.0	8.7
El Salvador	8.2	9.2	-2.6	5.7	-2.7	11.4	26.3	21.0	-5.2
Guatemala	13.3	11.3	2.3	14.2	2.7	-1.6	14.5	8.0	1.1
Guyana	11.5	16.2	14.2	4.1	8.7	40.1	2.7	5.7	57.9
Haiti	19.6	11.2	9.8	7.9	-3.3	34.0	35.3	38.6	5.5
Honduras	16.6	20.4	34.4	12.2	5.3	13.7	38.2	44.0	30.9
Jamaica	14.1	20.7	28.5	30.6	30.8	38.0	8.0	22.6	27.6
Mexico	23.5	27.5	37.5	27.2	24.8	30.0	46.4	66.3	49.2
Nicaragua	19.6	25.9	19.7	20.2	3.3	14.4	58.9	42.2	10.8
Panama	14.8	13.2	18.6	19.6	23.3	22.8	37.5	16.0	20.6
Paraguay	30.4	38.1	22.1	29.5	8.8	13.2	27.6	36.0	34.1
Peru	9.1	9.6	-11.9	6.5	5.5	22.3	40.8	92.2	59.9
Dominican Republic	26.8	39.1	40.7	34.8	15.2	15.5	33.5	6.3	34.1
Trinidad and Tobago	8.4	5.0	12.7	19.5	20.6	2.0	-11.3	1.6	10.8
Uruguay	3.0	2.6	19.1	28.7	-2.4	-4.4	32.5	43.6	14.5
Venezuela	-4.9	2.0	1.8	-0.1	4.4	-12.0	-49.1	-28.1	-10.6
<u>Latin America</u>	<u>11.0</u>	<u>13.5</u>	<u>16.2</u>	<u>23.2</u>	<u>19.9</u>	<u>12.0</u>	<u>15.5</u>	<u>31.4</u>	<u>21.3</u>

Source: CEPAL, on the basis of data supplied by the International Monetary Fund.

In the case of the gross financing required for 1975, official sources accounted for 14 per cent, private sources 63 per cent, direct foreign investment 11 per cent, and the remaining 12 per cent were accounted for by running down reserves. Banks were by far the most important source of private loans, more than seven times greater than suppliers' credit, the next most important entry.

The inflow of autonomous capital into the non-oil-exporting countries in 1971-1973 was greater than the current account deficit, which enabled them to build up reserves. It should be stressed that in many cases this growth of reserve was the result of deliberate government policy designed to establish credit worthiness on the international financial market and also to hedge against unfavourable external situations, like those of the biennium 1974-1975. In 1976, as was pointed out above, autonomous capital flows enabled this policy to be resumed, and reserves again increased.

In external financing, the amounts and type of borrowing changed. The external debt of 17 Latin American countries (see table 18) rose from 24,600 million dollars in 1970 to 62,400 million in 1975. The share of Brazil and Mexico rose from 39 to 57 per cent in that period, showing the effect of the large percentages of external financing absorbed by those countries. Likewise, the Central American countries increased their share in the debt, particularly after 1974 as a result of the unfavourable changes in the terms of trade, among other factors.

The nature of the debt also changed with the increasing participation of private financing. It is estimated that at the end of 1975, the guaranteed and non-guaranteed bank debt with foreign banks of eleven developed countries stood at 43,500 million dollars, while the total debt of seventeen countries was estimated at about 62,400 million dollars.

The relation between real external debt (deflated by the import price index) and the product tended to remain at the same level until 1975: about 18 per cent for the group of seventeen countries considered. However, at the country level the situation varied greatly.

Table 18
 LATIN AMERICA: EXTERNAL DEBT AT 31 DECEMBER^{a/}
 (Millions of current dollars)

Country	1969	1970	1971	1972	1973	1974	1975
Argentina	5 343.3	5 677.3	5 605.3	5 907.1	6 366.4	6 476.4	6 977.8
Bolivia	410.1	524.4	592.2	680.8	797.8	786.2	929.4
Brazil	4 403.3	5 295.2	6 621.6	9 521.0	12 571.5	17 165.7	21 171.4
Colombia	1 822.7	2 102.7	2 424.7	2 652.6	2 838.5	3 319.4	3 528.3
Costa Rica	329.7	377.1	479.7	565.8	629.8	832.0	985.1
Chile	2 358.0	2 451.0	2 467.0	2 894.3	3 202.8	4 087.5	4 633.9
Ecuador	262.9	299.3	332.0	395.7	423.8	413.5	508.6
El Salvador	221.8	219.9	245.4	250.4	275.8	437.7	536.0
Guatemala	316.6	307.6	337.6	367.9	415.4	462.7	570.2
Haiti	69.0	66.5	65.7	73.8	79.4	102.8	156.1
Honduras	141.6	186.2	211.4	243.1	286.7	404.4	581.6
Mexico	3 852.0	4 291.0	4 783.0	5 686.3	7 405.3	10 400.6	14 607.7
Nicaragua	269.5	301.2	341.3	370.6	511.0	760.0	929.9
Paraguay	198.5	223.7	243.9	260.9	302.0	381.0	477.9
Peru	1 480.0	1 427.0	1 465.0	1 599.6	1 913.1	3 048.3	4 133.8
Dominican Republic	281.4	318.6	389.4	408.0	427.9	608.7	652.8
Uruguay	541.6	571.9	671.2	730.1	719.8	897.6	1 058.6
<u>Latin America</u> (17 countries)	<u>22 302.0</u>	<u>24 640.6</u>	<u>27 276.4</u>	<u>32 608.0</u>	<u>39 167.0</u>	<u>50 584.5</u>	<u>62 439.1</u>

Source: CEPAL, on the basis of official data, and data supplied by the World Bank and IMF.

a/ For each country the external debt was estimated in a particular year for which relatively full information was available. The total annual loans (autonomous and compensatory, short and long term, guaranteed or not) accumulate on the basis of this data and the amortization payments recorded on the capital account of the Balance of payments are deducted.

/While in

While in Bolivia, Costa Rica, Honduras and Nicaragua the ratio was about 40 per cent or more, the three countries of greatest economic and demographic weight had ratios below 20 per cent. In the course of the present decade, the ratio has changed significantly in many countries, increasing in approximately half of them, while falling in the other half (see table 19).

The burden of the debt in the balance of payments - unlike the situation with regard to the domestic product - has increased, and the situation may grow worse if export earnings do not rise rapidly.

The change in the composition of the external debt, has an unfavourable impact on the financial costs, length and rates of interest of external borrowing. Debt service, which represented 22 per cent of exports in the 1960s, rose to 28 per cent in 1975. If the oil-exporting countries are excluded, where for obvious reasons this coefficient dropped to nearly 6 per cent, the result would be even higher. Thus, for example, it was over 50 per cent in Panama and Peru, and well over 40 per cent in Brazil, Chile and Uruguay (see table 20). The percentages are even higher if remittances of profits on foreign investment are included. In that case, in 1975 in Brazil, Chile, Mexico, Panama and Peru the ratio was close to or over 50 per cent, and for the region as a whole it reached 33.5 per cent (see table 21).

Table 19

LATIN AMERICA: RELATION BETWEEN THE EXTERNAL DEBT AND THE GROSS DOMESTIC PRODUCT^{a/}

(Percentages of the gross domestic product at 1970 prices)

Country	1969	1970	1971	1972	1973	1974	1975
Argentina	24.6	22.7	20.3	20.2	17.8	12.3	11.8
Bolivia	44.3	51.6	54.4	56.2	54.3	40.4	39.8
Brazil	11.1	11.6	11.9	14.6	15.0	12.9	14.3
Colombia	28.4	29.6	31.1	30.3	27.5	24.9	22.7
Costa Rica	36.6	38.3	44.3	44.9	40.8	38.3	39.3
Chile	30.5	28.8	25.9	28.8	28.0	26.4	32.3
Ecuador	15.9	16.9	17.1	18.0	15.6	11.0	10.8
El Salvador	23.7	21.4	22.7	20.6	19.4	22.7	23.8
Guatemala	18.7	16.2	16.1	15.0	13.5	10.2	11.0
Haiti	16.2	14.6	13.0	13.5	12.1	10.5	13.9
Honduras	22.2	26.0	27.6	28.6	28.3	31.3	39.8
Mexico	12.6	12.8	13.2	14.2	15.2	16.2	20.0
Nicaragua	35.0	38.7	40.8	41.5	47.3	48.2	51.5
Paraguay	37.3	37.5	37.4	36.1	34.7	31.0	31.7
Peru	27.3	22.9	21.5	20.9	21.0	25.4	29.8
Dominican Republic	21.8	21.4	22.6	20.1	16.4	17.3	15.7
Uruguay	23.7	22.8	26.2	27.1	24.7	19.1	19.8
<u>Latin America</u> (17 countries)	<u>18.1</u>	<u>17.7</u>	<u>17.4</u>	<u>18.5</u>	<u>18.0</u>	<u>16.2</u>	<u>17.9</u>

Source: CEPAL, on the basis of official data, and data supplied by the World Bank and IMF.

a/ The external debt of each country has been deflated by the respective index of prices of imports of goods and services.

Table 20

**LATIN AMERICA: RELATION BETWEEN THE AMORTIZATIONS AND
INTEREST OF THE EXTERNAL DEBT AND EXPORTS**

(Percentages of exports of goods and services, at current prices)

Country	Decade 1960-1970		1970	1971	1972	1973	1974	1975
	Entire decade	2nd five years						
Argentina	31.3	31.8	29.0	48.4	33.8	29.6	31.3	32.5
Barbados	3.5	3.3	4.9	2.7	2.8	7.8	11.6	4.8
Bolivia	19.7	17.4	15.4	24.8	30.2	28.1	19.5	16.1
Brazil	41.5	38.6	40.2	40.8	43.1	44.4	39.5	46.9
Colombia	31.5	31.9	32.2	30.5	30.5	30.6	26.0	32.0
Costa Rica	23.6	25.5	13.2	16.7	18.1	23.4	22.6	25.0
Chile	31.3	26.9	26.1	32.1	45.9	40.6	24.5	47.1
Ecuador	13.4	14.2	17.8	19.6	21.7	11.6	8.1	6.4
El Salvador	9.2	9.7	11.2	13.4	16.2	12.7	16.6	19.8
Guatemala	18.7	22.5	22.3	15.9	14.9	11.3	9.7	6.6
Guyana	5.3	5.7	5.0	6.8	5.5	11.4	5.5	9.2
Haiti	10.0	10.1	8.9	6.0	7.7	5.4	6.2	3.8
Honduras	6.1	5.6	6.1	11.2	8.1	10.3	11.5	13.3
Jamaica	4.0	3.6	2.6	6.3	4.6	7.4	9.6	10.5
Mexico	27.9	31.4	30.2	28.1	26.7	30.4	24.1	34.5
Nicaragua	11.1	12.4	16.7	13.6	18.4	12.1	13.6	20.3
Panama	5.7	6.8	13.3	17.7	21.5	34.2	60.6	53.3
Paraguay	15.3	16.7	17.1	25.6	20.4	16.8	18.4	40.0
Peru	17.5	22.1	30.7	38.8	29.6	46.4	30.0	54.4
Dominican Republic	17.1	16.3	17.2	11.4	14.1	14.9	14.0	14.9
Trinidad and Tobago	1.8	2.1	3.6	4.1	2.0	5.4	8.3	8.2
Uruguay	29.8	37.0	29.1	43.5	31.0	37.5	25.7	43.6
Venezuela	5.2	2.8	2.9	3.9	5.1	4.1	4.9	4.9
<u>Latin America</u>	<u>21.9</u>	<u>22.3</u>	<u>23.4</u>	<u>26.1</u>	<u>25.7</u>	<u>27.2</u>	<u>21.4</u>	<u>27.8</u>

Source: CEPAL, on the basis of data supplied by the International Monetary Fund.

Table 21

LATIN AMERICA: RELATION BETWEEN AMORTIZATION AND INTEREST ON THE EXTERNAL DEBT AND REPAYMENT OF PROFITS ON DIRECT FOREIGN INVESTMENT, AND EXPORTS

(Percentages of exports of goods and services, at current prices)

Country	1960s		1970	1971	1972	1973	1974	1975
	Entire decade	2nd five years						
Argentina	35.5	36.4	32.4	50.7	36.4	31.7	32.3	33.1
Barbados	6.0	6.6	9.2	7.4	8.1	13.2	20.3	8.5
Bolivia	24.2	24.8	23.5	29.0	32.9	30.3	20.2	17.8
Brazil	47.2	45.0	46.3	46.6	47.9	47.8	42.7	50.4
Colombia	37.6	39.0	41.6	37.9	36.3	35.3	29.1	35.2
Costa Rica	27.7	29.3	14.6	17.9	24.2	28.5	26.2	28.3
Chile	42.9	39.9	37.6	38.4	46.2	40.6	24.9	48.7
Ecuador	22.6	22.9	25.2	29.2	36.8	31.6	23.6	20.6
El Salvador	11.8	12.4	13.8	15.8	18.2	15.0	18.6	22.1
Guatemala	25.3	30.4	30.8	24.7	23.1	18.2	16.4	15.8
Guyana	18.6	18.5	14.6	16.8	9.9	14.8	10.1	11.2
Haiti	17.0	16.2	14.9	11.6	14.2	11.1	12.1	11.0
Honduras	14.9	16.1	16.2	20.5	17.3	19.2	11.4	19.9
Jamaica	21.7	24.4	22.8	25.9	24.8	27.3	14.2	15.2
Mexico	41.6	46.5	47.0	44.0	38.3	42.6	36.9	50.0
Nicaragua	18.3	22.0	27.4	23.6	26.8	20.3	21.8	26.5
Panama	11.6	13.5	18.2	21.8	24.5	36.7	62.5	55.1
Paraguay	17.4	19.4	19.9	28.2	22.7	18.0	19.3	40.9
Peru	26.6	31.1	36.7	43.5	33.6	52.3	34.6	60.0
Dominican Republic	25.6	-24.6	24.8	18.3	22.7	25.3	20.4	19.8
Trinidad and Tobago	15.5	13.9	13.6	13.1	10.9	13.9	12.9	18.6
Uruguay	30.1	37.4	29.7	43.5	31.0	37.5	26.5	44.3
Venezuela	30.3	28.1	22.8	24.7	20.0	21.7	11.5	8.9
<u>Latin America</u>	<u>33.5</u>	<u>34.4</u>	<u>33.9</u>	<u>36.2</u>	<u>33.5</u>	<u>35.1</u>	<u>26.8</u>	<u>33.5</u>

Source: CEPAL, on the basis of data supplied by the International Monetary Fund.

V. TRENDS IN SECTORAL PRODUCTION DURING THE
PERIOD 1970-1976

1. Agricultural production

(a) Growth-rate fluctuations

The most striking feature of recent trends in agricultural production is the manner in which the results of successive harvests have varied. Annual differences in production have been highly marked. The average growth rate, on the basis of FAO figures, of 2.5 per cent per year ^{1/} during the period 1970-1975 conceals annual variations such as the poor harvests of 1972 - the worst agricultural year in many years, because of its adverse climatic conditions - and those of other years which showed rather large increases, such as the 6.2 per cent increase in production in 1974 (see table 1). In 1975 the growth rate fell to just about 1.4 per cent, the main causes being the frosts which affected coffee production in Brazil and the reduction in the use of fertilizers owing to the high prices of this input. On the basis of preliminary data, 1976 is expected to be an encouraging year for agriculture, in view of the sharp increases in the harvests of wheat, sugar, rice and soya beans which would appear to have attained higher than average levels for the five-year period 1970-1975, and which more than make up for the reduction in coffee production, which is expected to be the lowest for this decade, and other minor reductions in the production of maize and other products. This is probably reflected in the food production index for the region which increased by 6.5 per cent in 1976; at the same time total production increased by 5 per cent. Nevertheless, the average for the period 1970-1976 is likely to be less than 3 per cent.

^{1/} National accounts statistics which refer partly to value added at constant prices show a somewhat more favourable trend, since the growth rate for this period is approximately 3.5 per cent per year. This difference arises from the use of different statistical series and the fact that the periods of production taken by FAO are not the same as those recorded by the countries in the national accounts in question.

Table 1

LATIN AMERICA: CHANGES IN THE VOLUME OF GROSS AGRICULTURAL PRODUCTIONS^{a/}

(Annual rates)

Country	1950- 1960	1960- 1970	1970- 1975	1971	1972	1973	1974	1975	1976 ^{b/}
Argentina	2.1	2.3	2.4	-0.2	-0.5	9.2	6.4	3.3	8.1
Barbados ^{c/}	2.6	2.0	-1.1	-10.9	-10.9	5.3	-8.0	0.0	-1.1
Bolivia	5.5	3.1	3.9	5.0	5.2	8.1	-0.2	6.4	-1.2
Brazil	4.4	3.7	3.4	2.4	5.5	-0.8	7.5	-1.3	8.0
Colombia	2.7	2.9	3.7	3.2	1.7	4.7	6.4	4.1	5.3
Costa Rica	5.5	6.0	3.0	6.7	4.5	-2.0	0.4	13.8	5.0
Cuba	1.7	1.7	0.6	-19.5	-2.9	10.0	4.9	4.0	-4.7
Chile	1.6	2.2	-0.8	4.3	-1.6	-16.4	16.9	2.5	-5.2
Ecuador	5.8	3.9	2.5	3.0	-3.6	6.0	3.3	-0.6	1.3
El Salvador	3.5	3.8	3.0	21.0	-14.0	8.6	2.5	7.4	-1.9
Guatemala	4.5	4.8	3.7	6.8	3.4	2.8	1.5	-0.6	7.9
Guyana	6.0	1.3	0.2	2.7	-7.2	12.7	-4.4	5.0	8.8
Haiti	0.7	2.0	2.1	3.4	1.1	1.9	0.8	0.8	1.6
Honduras	2.8	3.9	2.2	12.8	-2.0	6.3	-5.9	4.6	6.2
Jamaica	5.3	0.5	0.3	4.6	-0.9	-8.0	5.1	0.8	2.5
Mexico	5.1	4.5	2.3	4.1	1.3	1.8	1.0	-0.6	1.3
Nicaragua	2.5	7.0	4.1	5.1	0.7	0.7	2.1	5.3	1.8
Panama	3.2	5.1	1.3	9.2	-4.8	4.3	5.3	5.6	0.6
Paraguay	1.9	3.7	1.4	1.4	-6.3	7.2	6.9	2.8	6.9
Peru	3.3	2.9	0.9	-0.4	-1.7	-1.9	-4.2	3.2	3.8
Dominican Republic	4.1	1.5	3.9	6.0	3.6	-0.2	7.9	-4.9	3.5
Trinidad and Tobago	3.4	1.9	-2.9	-1.3	5.0	-7.6	2.7	-2.5	9.4
Uruguay	0.6	2.0	-0.1	24.3	-24.0	10.0	9.9	-3.1	10.5
Venezuela	5.3	5.2	4.0	0.8	-0.9	7.1	6.1	9.7	-2.6
Latin America	3.7	3.0	2.5	0.8	0.8	2.3	6.2	1.4	5.0

Source: Joint CEPAL/FAO Agriculture Division, on the basis of FAO, Production Yearbook, 1974.

a/ Includes changes in head of livestock.

b/ 1976 rates are not strictly comparable with earlier years, and are based on FAO preliminary estimates of the total gross production indices.

c/ Changes in stocks not included because of lack of data.

The performance of agriculture in Latin America has not been exempt from the effects of the changes, at times drastic ones, taking place in prices for agricultural commodities in world markets. From the end of 1972 to 1974 there were marked increases in world prices for several products which together cover more than 60 per cent of regional agricultural production. The sharp increase in production in Latin American agriculture in 1974, particularly as regards those crops with a higher response rate, is a clear indication of the sensitivity of agriculture to real market incentives. The expansion of wheat production in Argentina and that of soya beans in Brazil are clear examples of this flexibility. However, as regards several other products, the price increases were followed by sharp falls. Perhaps the most marked examples, and those which had serious consequences for some countries were those relating to the prices of beef in 1974, sugar in 1975 and 1976, and wheat in the current year.

Another development which had serious consequences in the recent past for Latin American agriculture was the increase in the prices of energy and fertilizers and pesticides. Its immediate impact was not marked, since this coincided with the increase in prices for a number of agricultural products. However, in some countries and, in particular those in which agricultural production is frequently geared to the needs of the domestic market, the rise in costs of production had a serious effect on productivity. This meant in the short term a relative reduction in the growth rate in the use of agro-chemical inputs and mechanical equipment: a rate of consumption of phosphatic and potassic nitrogenous fertilizers as low as that which occurred in 1976 was not recorded for more than a decade. The consumption of fertilizers in 1976 was a little more than 1 million metric tons.

Some products or groups of products showed greater sensitivity to the changing conditions of markets and prices. Production directed mainly towards domestic markets showed greater growth rates in the medium and long term than traditional exports. The pressure of

/domestic markets

domestic markets and their gradual organization is becoming a determinant in the orientation of agricultural production.

During the period 1970-1976 (using the preliminary figures for last year) Brazil, Colombia, and Guatemala, which account for approximately 40 per cent of regional production, maintained an average annual growth rate in their agricultural production equal to the 4 per cent per year set as the target for the United Nations Second Development Decade, whereas in the period 1970-1975, only Nicaragua and Venezuela achieved this target. The remaining countries showed lower growth rates and some suffered a reduction in production volumes (see table 1).

In several countries - a noted exception being Brazil - the most important qualitative change which has taken place would seem to have been that the possibilities of increasing production through making more land available for crops and livestock are now limited.

Annual increases in production are becoming increasingly dependent on increases in yields, and, in spite of this, the adoption of technological innovation still proceeds at a slow pace, and the flow of investment still remains reduced, whereas there is need for both if productivity is to improve.

The increases in the area under cultivation during the period 1970-1975 did not proceed at the same rate as in previous decades. The harvested area increased by 1.9 per cent per year, compared with the 2.2 per cent per year in the previous decade. If Brazil is excluded, having accounted for the largest area brought under cultivation, the rate of increase is only 0.6 per cent per year.

(b) The nutritional situation

The nutritional situation in Latin America, although less critical than that of other developing regions, is still far from comparable with that of the developed countries. This does not apply to Argentina and Uruguay.

During the period under review, and in the context of widespread inflation from 1973 onwards, and in 1974 in particular, consumer

/prices for

prices for foodstuffs increased more rapidly than the total cost of living in almost all Latin American countries. Although not strictly in parallel, the rapid increase in world agricultural prices led to increases in domestic prices in several countries of the region. Domestic prices for various foodstuffs, the demand for which is satisfied largely by domestic production, supplemented by imports, began to be more closely linked with price levels in world markets.

There was a slight increase in the supply of calories, which increased from 2,450 per day per capita in 1961/1963 to 2,600 units in 1971-1974. The minimum regional requirements were calculated at 2,400 calories. These regional figures include the increases recorded in some countries as well as the persistent unsatisfactory levels in some, and the maintenance of the minimum levels in others. The national averages, which are higher for most countries than the minimum levels conceal marked inequalities in the distribution of foods within the population. It is estimated that almost half of the Latin American population has access in fact to only some 2,250 calories per day.

(c) Public and private sector action

Both the public and private sectors of the countries have played an important role in the recent development of regional agriculture. There has been evidence of more specific State intervention in the support of agricultural activities, particularly as regards credit expansion, using both internal and external sources of finance, and in easing the strong pressure on the food supply system and in particular the marketing infrastructure. For its part, the output of the modern enterprise subsector which makes a marked contribution to annual increases in production - displayed a high degree of sensitivity to changes in relative prices and the increase in costs of production.

As a result of more specific policies, and owing to the recent world food crisis, Latin American countries have placed greater emphasis on food production. The studies and experience accumulated

/in recent

in recent decades have contributed to a better understanding of the functional relationship between the agrarian structure, the appropriation of income, the performance of the agricultural sector and national development. However, the overall growth in production was slow, compared with the process of agricultural modernization which took place, the relative position of the large majority of the population of the sector which was not incorporated into this process deteriorated, and the gap between rural urban income has not been narrowed.

According to the Sixth Report on Progress in Land Reform prepared jointly in 1976 by the UN, FAO and ILO, progress made in land reform in the region occurred at the planning level, and was administrative and institutional in nature rather than economic. Expropriations amount to just about 15 per cent of the land available for expropriation, and the beneficiaries of land reform actions amount to approximately 22 per cent of the total of possible beneficiaries. Very little progress has been made in solving the problem of the hundreds of thousands of minifundia farmers, landless farm labourers who, in general, are not among the beneficiaries of change in land ownership.

(d) Consumption, exports and imports

In several countries, the sluggish growth in agricultural production has had an adverse impact on their export position. This can be seen by looking at trends in world agricultural trade and the rate of growth in regional agricultural exports. While the volume of world exports increased by approximately 3.7 per cent per year between 1971 and 1974, those of Latin America increased by hardly 1 per cent per year and in addition to this the region's share in world agricultural market continued to decline. This fell from 17 per cent in 1950 to 13 per cent in 1974-1975, with sharp drops in respect of important products such as coffee, cocoa, wheat, and to a lesser extent bananas and sugar (see tables 2 and 3). The marked increases in exports of soya beans are the main exception to this trend.

Table 2

LATIN AMERICA: VOLUME OF EXPORTS AS A PERCENTAGE OF TOTAL PRODUCTION^{a/}
AND VOLUME OF IMPORTS AS A PERCENTAGE OF SUPPLY FOR CONSUMPTION^{b/}

(Percentages)

	1951		1961		1971		1974	
	A	B	A	B	A	B	A	B
Argentina, Brazil, Mexico	17.7	6.3	16.1	5.2	14.1	4.2	12.4	7.4
Andean Group	11.0	9.6	12.5	12.4	9.7	13.3	15.3	9.8
Central American Common Market	<u>39.8</u>	6.7	40.8	9.7	39.5	9.7	<u>48.6</u>	10.7
Caribbean Islands ^{c/}	67.9	<u>45.6</u>	54.7	24.6	43.7	39.6	39.2	<u>37.6</u>
Other countries ^{d/}	<u>20.6</u>	<u>9.1</u>	<u>21.3</u>	<u>10.8</u>	<u>22.8</u>	<u>10.3</u>	<u>20.3</u>	<u>8.7</u>
Latin America	22.9	10.1	21.6	8.8	18.3	10.2	17.4	12.2

Source: Joint CEPAL/FAO Agriculture Division, on the basis of statistics of FAO and official bodies of countries of the region.

Note: A : Volume of exports as a percentage of total production.
B : Volume of imports as a percentage of supply for consumption.

^{a/} Domestic production and quantum of exports valued and aggregated at 1969 regional prices of products.

^{b/} Quantum of imports valued and aggregated at 1970 CIF prices.

^{c/} Includes: Bahamas, Barbados, Cuba, Granada, Guyana, Haiti, Jamaica, Dominican Republic and Trinidad and Tobago.

^{d/} Includes: Panama, Paraguay and Uruguay.

Table 3
LATIN AMERICA: PHYSICAL BALANCE OF EXTERNAL TRADE OF THE
MAIN AGRICULTURAL PRODUCTS

(Thousands of tons)

	Wheat a/	Maize	Rice	Sor- ghum b/	Sugar c/	Coffee d/	Bananas	Cocoa e/	Edible oils a/	Beef f/	Powdered milk
<u>1950-1952</u>											
Export	1 887	737	395	76	6 977	1 535	2 007	183	108	454	-
Import	3 177	83	595	3	353	39	173	16	45	36	59
Balance	-1 290	654	-200	73	6 624	1 496	1 834	167	63	418	-59
<u>1960-1962</u>											
Export	2 154	2 631	397	418	9 960	1 869	3 242	190	128	654	-
Import	4 383	230	300	24	329	43	258	15	98	76	113
Balance	-2 229	2 401	97	394	9 631	1 826	2 984	175	30	578	-113
<u>1970-1972</u>											
Export	1 813	6 063	534	1 815	11 111	2 018	5 129	225	226	1 085	8
Import	6 346	1 142	671	453	258	51	260	25	311	193	248
Balance	-4 533	4 921	-137	1 362	10 853	1 967	4 869	200	-85	892	-240
<u>1972-1974</u>											
Export	2 344	4 839	452	2 164	11 559	2 034	5 258	209	336	971	12
Import	8 191	2 166	763	891	388	55	224	21	445	200	285
Balance	-5 847	2 673	-311	1 273	11 171	1 979	5 034	188	-109	771	-273

Source: CEPAL/FAO Joint Agricultural Division, based on FAO statistics.

a/ In terms of grain.

b/ Including millet.

c/ In terms of sugar.

d/ Beans.

e/ Including oilseeds in terms of oil.

f/ Including fresh, chilled, frozen and preserved meat, in terms of carcasses.

/The region

The region has been affected with particular severity by the restrictions imposed by the main external markets, as a result of the protectionist measures of developing countries and in particular the barriers faced as regards access for its meat in the market of the European Economic Community, by subsidized exports, of products which compete with regional production, and by the preferential treatment given to other regions.

The decline in the growth of regional agricultural exports is partly due to the strong pressure of domestic demand on production, which has led to certain changes in the composition of production. In fact, cereals and oil-seeds are becoming more important, while coffee and tubers have a smaller share in regional production. Beef recorded an important relative reduction, which was offset by the increase in the share of poultry. There was competition for soil use as a function of the markets, prices, and costs of production. The proportion of the production exported fell from 22 per cent in 1961 to 17 per cent in 1974.

During the five-year period, and notwithstanding some major examples of diversification, the high degree of concentration of exports over a small range of products and high dependence on a few markets (United States and Western Europe) continued. In 1972/1974 the six main export products accounted for 82 per cent of total exports, 65 per cent of which corresponded to sugar, coffee and meat. At the beginning of the 1970s 60 per cent of Latin American agricultural exports were to the United States and countries of the European Economic Community, 17 per cent to other developed countries, 14 per cent to other developing areas and the socialist countries, and the remaining 9 per cent represented intra-regional agricultural trade. The figure for the latter is almost the same as that recorded in the 1950s.

Although food production increased from 70 to almost 80 per cent of regional agricultural production between 1950 and 1976, the failure of domestic supplies of some "critical" products to meet demand brought about a major increase in imports from outside the

/region. As

region. As a result of this, the growth of exports is sluggish compared with the rapid increase in agricultural imports. These increased from 6 per cent per year during the 1960s to more than 10 per cent per year on average for the first half of this decade.

The increasing dependence on extra-regional imports for domestic supplies is limited to wheat, edible oils, and dairy products, which together represent at present 60 per cent of total imports. They are supplied by a few countries, mainly the United States and other developed countries.

2. Industrial production

(a) Expansion and decline in the growth rate

During this decade the industrial development process was intensified, although there were notable differences of degree between countries, and the rate of production was strongly influenced, in one way or another, by the impact of developments in the international economic situation, variations in the terms of trade, and, in particular, the increase in oil prices, and the pattern of investment and national income. Therefore, as is to be expected, the variations in industrial activities are to some extent related to the growth rate of the domestic product.

The figures for the region as a whole show a marked growth rate for the two-year period 1972-1973, when the annual growth rate of production was 9.1 per cent, a figure well above that recorded in previous years (see table 4).

Balance-of-payments problems, the increase in oil prices, the decline of external demand and the adjustments inevitably dictated by the new external conditions were directly or indirectly responsible for the drop in the growth rate recorded in 1974, which was only 6.1 per cent; and the even more drastic drop in 1975 when the increase recorded for the region as a whole was only 1 per cent.

Table 4
 LATIN AMERICA: ANNUAL RATES OF GROWTH OF THE GROSS MANUFACTURING PRODUCT
 (Annual rates, percentages)

Country	1965- 1970	1971	1972	1973	1974	1975	1976	1970- 1976
Argentina	5.1	9.7	6.0	6.4	6.1	-2.8	-4.7	3.3
Bolivia	6.4	2.9	5.1	4.9	9.7	11.3	9.1	7.1
Brazil	10.4	11.3	14.1	15.8	7.1	3.8	10.5	10.4
Colombia	6.4	8.6	9.5	11.6	6.6	3.6	7.5	7.9
Costa Rica	9.5	9.9	8.7	7.4	10.0	4.0	6.0	7.6
Chile	3.6	13.7	2.8	-6.5	-1.3	-28.5	6.5	-3.2
Ecuador	6.3	8.0	6.9	7.8	12.1	14.0	12.0	10.1
El Salvador	5.7	7.0	3.8	6.7	5.0	4.2	5.7	5.4
Guatemala	8.2	7.2	5.5	8.1	4.7	-1.6	8.9	5.4
Haiti	4.4	6.0	8.6	10.9	9.8	4.7	5.7	7.6
Honduras	4.7	5.5	7.7	8.0	2.0	7.9	8.7	6.6
Mexico	8.8	3.2	8.5	9.0	6.0	4.1	1.8	5.4
Nicaragua	8.1	4.8	4.9	4.6	12.6	2.1	7.0	5.9
Panama	9.6	8.1	4.4	4.6	-4.3	-0.9	-1.6	1.6
Paraguay	5.6	5.7	6.9	7.5	8.9	-2.0	14.1	6.7
Peru	5.8	8.6	7.3	7.4	7.5	4.7	4.2	6.6
Dominican Republic	13.9	13.2	10.4	11.2	9.1	6.1	6.9	9.4
Uruguay	2.4	-1.8	-0.4	-0.3	3.7	6.7	5.1	2.1
Venezuela	4.8	3.8	4.3	7.4	6.2	4.1	11.9	6.3
Latin America ^{a/}	7.4	8.2	8.8	9.4	6.1	1.0	4.9	6.4

Source: CEPAL, on the basis of official data.

^{a/} Weighted average on the basis of values and dollars at 1970 prices at the import exchange rate.

/Although these

Although these figures are, to no small extent, the result of trends in industrial production in Brazil, it is nonetheless true that those fluctuations affected a large number of countries. Apart from the oil exporting countries, there are few other exceptions, as can be seen further on.

The preliminary figures available show that during 1976 there was some recovery in the rate of growth of industrial production. However, it seems clear that for the region as a whole, the figure for preceding years were not matched, although in general the increase in production in most of the countries is likely to be higher than that of 1975. This is again largely due to the improvement which occurred in external conditions and variables. This upswing is more marked in Brazil, where industrial growth is estimated at approximately 10 per cent, and also in Colombia, Guatemala, Honduras and Paraguay. However, in Argentina there was a further drop in production which together with the drop recorded in the previous year (1975) places the level of activity well below that of 1974.

As table 4 shows industrial growth in Latin American countries as a whole was highly disparate. On the one hand, there are Brazil, Colombia, Costa Rica, Ecuador, Haiti and the Dominican Republic, which increased their production at a rate of approximately 8 per cent and more during the period 1970-1976. On the other, Argentina, Chile, Panama and Uruguay showed definitely sluggish rates of growth and even contractions in levels of production. In other words, the decline of the relative share of the countries of the Southern Cone in total regional production in the post-war period continued and the same can be said as regards the domestic product.

In conclusion, for the region as a whole, the unfavourable effect of the years 1975 and 1976 was such that the average annual growth rate in the period 1970-1976 did not compare with the 1970 levels of 7 per cent; that is, a figure lower than the 8 per cent set in the International Development Strategy. Three countries succeeded in surpassing this target (Brazil, Ecuador and the Dominican Republic) and another three (Colombia, Costa Rica and Haiti) just fell short of it.

(b) The degree of industrialization and industrial transformation

The participation of the industrial sector in the formation of the domestic product continued to increase during the period 1970-1976. For the region as a whole, its share increased from 23.4 per cent in 1970 to approximately 24 per cent in 1976.

In table 5 it can be seen that, generally, the degree of industrialization of national economies tended to increase to a greater extent in the large countries, which is a further indication of the widening of the gap existing between those countries and the others as regards industrial development.

A further quantitative indication of the extent of their advance in industrialization is that provided by trends in the industrial product per capita, which increased at an average annual rate of 3.6 per cent in the period 1970-1976. Expressed in 1970 dollars at the import exchange rate, this figure increased from 120 to 148 dollars per capita during the period under review. Although these figures show an advance of some importance, they are far below the levels of the more developed industrialized countries.

The changes produced in the structure of manufacturing production in the region followed the known patterns. The share of the branches producing consumer goods continued to fall, whereas that of the branches producing intermediate goods and, mainly, capital and durable consumer goods continued to increase.

Table 6 shows the variations in the productive structure of Latin America and of some countries of the region, grouped according to size.

In the large countries, the share of the traditional industries in total production fell more than in the medium-sized and small countries, and the relative importance of the engineering and metal products industries also increased in the former to a greater extent than in the latter, as can be seen by comparing the corresponding structures for each group of countries in 1970 and 1974. It can

Table 5

LATIN AMERICA: CHANGE IN THE DEGREE OF INDUSTRIALIZATION

(Percentage share of the manufacturing product
in the total gross domestic product) a/

	1970	1975	1976
Argentina	30.2	32.3	31.5
Brazil	24.8	25.6	26.0
Mexico	23.4	24.0	24.0
<u>Weighted average</u>	<u>25.6</u>	<u>26.5</u>	<u>26.5</u>
Colombia	17.5	18.7	19.1
Chile	27.2	22.3	22.8
Peru	20.6	22.4	22.7
Venezuela	15.0	14.9	15.5
<u>Weighted average</u>	<u>19.3</u>	<u>18.8</u>	<u>19.3</u>
Costa Rica b/	15.1	17.2	17.2
El Salvador	17.6	17.9	17.8
Guatemala	14.6	14.0	14.2
Honduras	14.0	16.6	16.9
Nicaragua	19.2	19.2	19.4
Panama	15.9	14.3	14.1
Dominican Republic	16.7	17.1	17.3
Haiti	9.8	11.9	12.1
Bolivia	12.9	13.6	13.9
Ecuador	17.5	18.7	19.5
Paraguay	17.3	16.5	17.6
Uruguay b/	24.2	25.6	26.2
<u>Weighted average</u>	<u>17.2</u>	<u>17.4</u>	<u>17.7</u>
<u>Total</u>	<u>23.4</u>	<u>24.0</u>	<u>24.1</u>

Source: CEPAL, on the basis of official data.

a/ On the basis of values at 1970 prices.

b/ Includes mining and quarrying.

Table 6
LATIN AMERICA: STRUCTURE OF MANUFACTURING INDUSTRY

(Percentages)

	1970			1974		
	A	B	C	A	B	C
Latin America	44.9	33.3	21.8	40.3	34.1	25.6
Large countries	40.8	34.8	24.4	36.2	35.2	28.6
Medium countries	52.7	31.4	15.9	49.5	33.0	17.5
Small countries	69.8	22.5	7.7	68.1	23.8	8.1

Source: CEPAL, on the basis of official data.

Notes: A : Branches mainly producing consumer goods: food, beverages, tobacco, textiles, foot wear and clothing, wood and cork, furniture and accessories, printing and publishing, leather and leather products, miscellaneous industries.

B : Branches mainly producing intermediate goods: paper and paper products, rubber and rubber products, chemical products derived from petroleum and coal, non-metallic minerals, basic metal industries.

C : Branches mainly producing capital goods and consumer durables: metal products, non-electrical and electrical machinery, transport material.

/also be

also be seen that the medium-sized countries showed the more important changes, as regards their share in the total production of the branches producing intermediate goods.

(c) Exports of manufactures

The share of Latin American manufactures in total exports continued to increase. In 1970, it was 15 per cent of total exports; in 1973, it increased to almost 20 per cent, and in 1975 and 1976 it was approximately 18 per cent.

The growth in exports of industrial products shows the advance made in industrial development, particularly in the large countries, and is the main feature of the structural modifications which have taken place in Latin American economic growth.

The volume of these exports increased at a yearly average of 20 per cent over the first 4 years of this decade, thereby intensifying the already very high rate of expansion, estimated at approximately 17 per cent, which had begun in the mid-1960s. This trend was sharply interrupted in the last two years, when export levels fell, as a result of the economic recession in the industrial countries and the decline in the rate of growth of investment and income in the countries of the region.

The three largest countries (Argentina, Brazil and Mexico) account for approximately 70 per cent of Latin American industrial exports, which, in the main, are exported to countries outside the region (see table 7).

Brazil and Mexico export to countries of the region approximately 25 per cent and 13 per cent respectively of their exports of manufactures; whereas the figure for Argentina is 44 per cent. In the case of Mexico, the marked orientation of its exports of manufactures to the rest of the world is explained, to a large extent, by the marked development in subcontracting (maquila) activities with firms from the United States.

Table 7
 LATIN AMERICA: GROWTH OF EXPORTS OF MANUFACTURES
 AND RELATION TO TOTAL EXPORTS OF GOODS

(Millions of current dollars and percentages)

	1970	1973	1975	1976
<u>Exports of manufactures</u>				
Argentina	420	978	928	1 200 _{a/}
Brazil	580	1 672	2 700 _{a/}	3 000 _{a/}
Mexico	444	1 200	1 020 _{a/}	1 180 _{a/}
Other countries	731	1 275	1 952 _{a/}	2 220 _{a/}
Latin America	2 175	5 125	6 600 _{a/}	7 600 _{a/}
Total exports of goods of				
Latin America	14 853	25 996	37 202	42 352
Exports of manufactures as a				
percentage of total exports				
of goods	14.6	19.7	17.7	17.9

Source: CEPAL, on the basis of official data.

a/ Estimates figures.

/The countries

The countries which make up the Andean Group also export most of their exports of manufactures (more than 80 per cent) to countries outside the region. In contrast, for the countries which make up the Central American Common Market, the regional market is the most important, absorbing almost 90 per cent of their exports of industrial products.

There are marked differences in the composition of exports of manufactures to the regional markets and to the rest of the world. Among the exports of Latin American countries to other regions, in order of importance, are traditional industrial products (42 per cent), engineering and metal products (33 per cent) and intermediate goods (21 per cent). In contrast, as regards the intra-regional trade of manufactures, engineering and metal products take first place (43 per cent), followed by intermediate products (30 per cent) and by those of the traditional industries (22 per cent).

(d) The perspectives of the industrialization process

The expansion of domestic markets is no doubt the principal growth factor in the region's industrialization process.

Latin American countries contain, to a greater or lesser extent, broad sectors of the population which owing to their low income form weak markets for industrial products or represent no demand whatsoever for them. Approximately only that half of the Latin American population with a per capita income of more than 500 dollars a year may be considered an important market for non-food industrial goods. This, apart from being indicative of a serious and distressing social problem, gives an idea of the size of the potential market which still remains to be exploited by the industrial sector.

The implementation of policies designed to extend the domestic market of the countries, in addition to helping in the achievement of greater equity in the distribution of the benefits of development, would facilitate, particularly in the large and medium-sized countries the expansion, on a significant scale, of the manufacturing sector and in addition more efficient production. The narrowness of the

/national markets,

national markets, together - to a large extent - with the existing pattern of income distribution, not only impeded the exploitation of economies of scale, specialization, and the mass production of industrial goods, but also had a marked effect on the productive structure of the sector in almost all of the countries. In general, the pattern of the structure tends to be one of horizontal diversification and very limited vertical integration as regards the number and types of consumer goods produced. As regards intermediate and capital goods, they have developed on a relatively smaller scale in most of the countries for the same reason.

However, the re-emerging importance of the domestic market does not mean that the attempts being made to promote the exports of manufactures, the substitution process, and industrial complementarity through integration schemes, specific agreements, and other forms of associations among Latin American countries, have lost their importance or that they are not being intensified in every way possible. Quite the opposite, the impulse stemming from the domestic market will of necessity have to act in conjunction with those provided by external markets - regional and extra-regional - not only because of the importance of their role, but also and, mainly, because the intensification of exports both within and outside the region, and an increase in the selective and efficient substitution of imports will be indispensable if the external restrictions on the industrialization process itself are to be overcome, for they will, no doubt, be maintained during the years ahead even if their scope or intensity may vary.

The region has achieved a degree of technological maturity and development in the productive processes which enables it to aspire to higher export levels, not only of products with a high labour content, which can compete favourably with international costs, but also new products with a high technological content. Some recent experiences in Latin American countries as regards non-traditional exports are instructive as regards the type of highly sophisticated products at which regional exports may aim.

/Of course,

Of course, not all Latin American countries are in a position to get the same results from their industrialization policies. For the majority of medium-sized countries and for the small ones, domestic markets do not have the same importance as for the large countries with dynamic growth poles. The narrowness of the markets limits substitution possibilities and acts as a serious barrier to the establishment in these countries of an industrial base for the manufacture of exports on any significant economic scale. In such cases, the exploitation of the regional market emerges as the important basis for their future industrial development. And the expansion of regional trade in manufactures will help, at the same time, to give an impulse to industrial development in the other large and medium-sized countries.

3. The energy sector

(a) Recent position and supply structure

The drastic change in oil prices which occurred in 1973-1974 clearly demonstrated the different situations created in Latin America as regards the degree of national supplies of energy. It also created special interest in energy policy and led to its review, which culminated in an attempt to improve the degree of self-sufficiency and to reduce consumption expansion rates.

In all Latin American countries oil represents the main source of energy. In recent years almost 80 per cent of modern energy needs 2/ was satisfied by oil and natural gas, a figure which is the highest in the world. However, the share of the countries in oil production has tended to show increasing differences demonstrating a marked concentration of production in a limited number of countries.

If the study is made on the total supply of modern energy it can be seen that only seven countries 3/ produce four of the five

2/ Including coal, oil, natural gas, hydroelectricity and nuclear energy. Excluding vegetable fuels.

3/ Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

resources of which it is composed.^{4/} Nevertheless, 94 per cent of the total consumption of energy is made up of oil and natural gas only. Of the seven countries only Venezuela is completely self-sufficient as regards the consumption of oil products, whereas Argentina, Colombia, and Mexico are close to self-sufficiency. It is assumed that with the new discoveries ^{5/} Argentina will in a short while achieve self-sufficiency, at least, whereas Mexico will once more take up its position as exporter. Likewise, prospects for Peru, which in 1973 provided two-thirds of its needs in oil products, indicate that it will also achieve the status of exporter.

Apart from Bolivia, Ecuador and Trinidad and Tobago which have no problems of supply, the other oil-producing countries - Chile, Cuba and Brazil - depend to a large extent on imports of crude, particularly Cuba which only produces approximately 3 per cent of its consumption, whereas Brazil produces 25 per cent and Chile 30 per cent.

As regards the thirteen non-oil-producing countries, their situation is a serious one since they lack, at present, other important energy sources and rely on oil only for more than 80 per cent of their supply of modern energy.

In brief, although the region as a whole is a net exporter of oil, its supply situation shows sharp contrasts in the different countries. In fact, if the region as a whole is taken, it can be seen that in 1973, 2.3 tons of crude were produced for each ton of oil products consumed; in contrast, in the deficit countries this figure is only 0.25 tons.

Over the past 25 years the figure for the region as a whole fell from 3.9 tons in 1950 to 2.3 tons in 1973, as mentioned above. This decline can be explained largely by the exploration

^{4/} Up to 1974 only Argentina had a small nuclear energy plant at Atucha.

^{5/} In Argentina - Puerto Rojas, in Mexico - Chiapas-Tabasco and in Peru - La Concordia fields.

activities.^{6/} Estimates show that exploration expenditure in 1973 was more or less similar to that of 1960 in terms of dollars at current prices, which was probably the result of expectations that cheap imported oil would continue to be available. In this respect, it should be mentioned here that with the exception of Trinidad and Tobago and Venezuela, the remaining oil-producing countries increased their domestic production in 1960-1970 by only 82 per cent, whereas at the same time they increased their imports of crude by 100 per cent.

However, the new price structure of fuels, and the increases in crude in 1973, reversed these trends; it is for this reason that investments in exploration in the region increased from 100 million dollars in 1973 to 180 million in 1974 and investments in production from 775 to 1,215 million dollars.^{7/}

The problems raised for many non-oil-producing countries or those with low levels of production makes it necessary to study the role to be played by energy resources in regional development; all the more so if it is borne in mind that the concentration by countries indicated as regards production is also true as regards reserves. Thus, it is estimated that 90 per cent of oil and natural gas reserves are located in only five countries, Venezuela accounting for the largest share.

Proven oil reserves in Latin America represented at the beginning of 1976 a volume equal to 22 times that of production in 1975, whereas those of natural gas were approximately 64 times its volume of production in 1975. If in the case of oil a more flexible concept of reserves is accepted, such as that of "expanded proven reserves", this volume could increase fourfold.

Furthermore, the identified volume of carboniferous reserves, estimated at 20 billion tons, represents a volume equal to one thousand times the annual consumption recorded recently.

^{6/} The number of wells drilled per square mile (0.002) in Latin America represented 2 per cent of the corresponding figure for the United States and 13 per cent of that of the Soviet Union.

^{7/} Data supplied by the Chase Manhattan Bank, Energy Economics Division.

(b) Long-term consumption trends

The total consumption of energy in Latin America increased during the period 1950-1975 at an annual rate of approximately 7 per cent. This rate is higher than that recorded by the developed countries (4.5 per cent) and the world average (5 per cent), but lower than that of the developing countries outside of Latin America (8.9 per cent). Relatively, the region's position in terms of the annual growth rate of per capita energy consumption - 3.9 per cent - was similar. Nevertheless, during the period under review the developed countries-Latin America per capita energy consumption ratio fell from 7:1 to 6.2:1, and the corresponding ratio for the world as a whole vis-à-vis Latin America fell from 2.7:1 to 2.1:1.

As a result of the trends indicated, the share of Latin America's consumption of energy in world consumption increased from 2.5 per cent to 3.8 per cent; nevertheless, considering that at present the population of the region is approximately 8 per cent of the world population, the extent of the gap referred to previously can once again be appreciated.

Over the last five years the consumption of modern energy continued to show a decrease in the degree of product elasticity, recorded in previous periods, a trend similar to that experienced by the more developed countries or regions. The elasticity of energy consumption compared with that of production tends to fall. In the case of Latin America this process has intensified since it began in the 1970s and it is becoming more marked as a result of the increase in oil prices. The elasticity in question for the region as a whole fell from 1.2 in the period 1960-1970 to 1.04 in the period 1970-1974, which indicated some relief for the deficit countries of the region.

(c) Institutional changes in the energy industry

The ownership and control of oil industry has undergone significant changes, particularly in recent years. In general, a tendency has been observed in all the countries to strengthen State

/participation in

participation in all stages of the oil industry. Around 1974, Argentina, Brazil, Mexico, Ecuador and Venezuela produced 90 per cent of the region's oil production and accounted for 75 per cent of crude refining capacity. In addition, the first three countries controlled, through State enterprises, the entire production of oil and natural gas, whereas Ecuador and Venezuela showed no State intervention whatever. However, this situation changed radically from 1976 onwards, for Venezuela completely nationalized its oil industry, and Ecuador bought a large share of the equity of foreign companies. If it is also taken into consideration that another exporting country, Bolivia, controls its entire oil industry, it can be seen that the region has achieved a high degree of control over the production of hydrocarbons.

As regards the ownership of the oil refineries, important changes have also occurred. In 1957 the eight main foreign companies handled 64 per cent of the refining capacity, and in 1974 42 per cent; if Venezuela's refineries are excluded this percentage falls to 23 per cent, of which 18 per cent is accounted for by Aruba, Curaçao, and Trinidad and Tobago.

The changes in the ownership of the means of production of electric energy is reflected in the marked increase in State control of electricity production. Thus, while in 1950 its share of production amounted to only 10 per cent of the total (excluding that produced by self-suppliers), in 1974 it increased to 78 per cent. Integrated planning at national levels was mainly responsible for such trends. In this connexion, it is interesting to note that at the beginning of the 1950s 90 per cent of electricity supplied was provided by private enterprises most of which were foreign.

Since these firms were moved by the profit motive, they usually brought in plant which varied in accordance with their interests and the features of the areas under concession, but which were heterogeneous even in their essential features, such as type of current, frequency, voltage, etc.

/Lastly, the

Lastly, the initial policy adopted by most of the countries is that the expansion of the integrated electric system is a task for the country itself, and one from which the private sector, particularly the foreign private sector, should be excluded.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting.

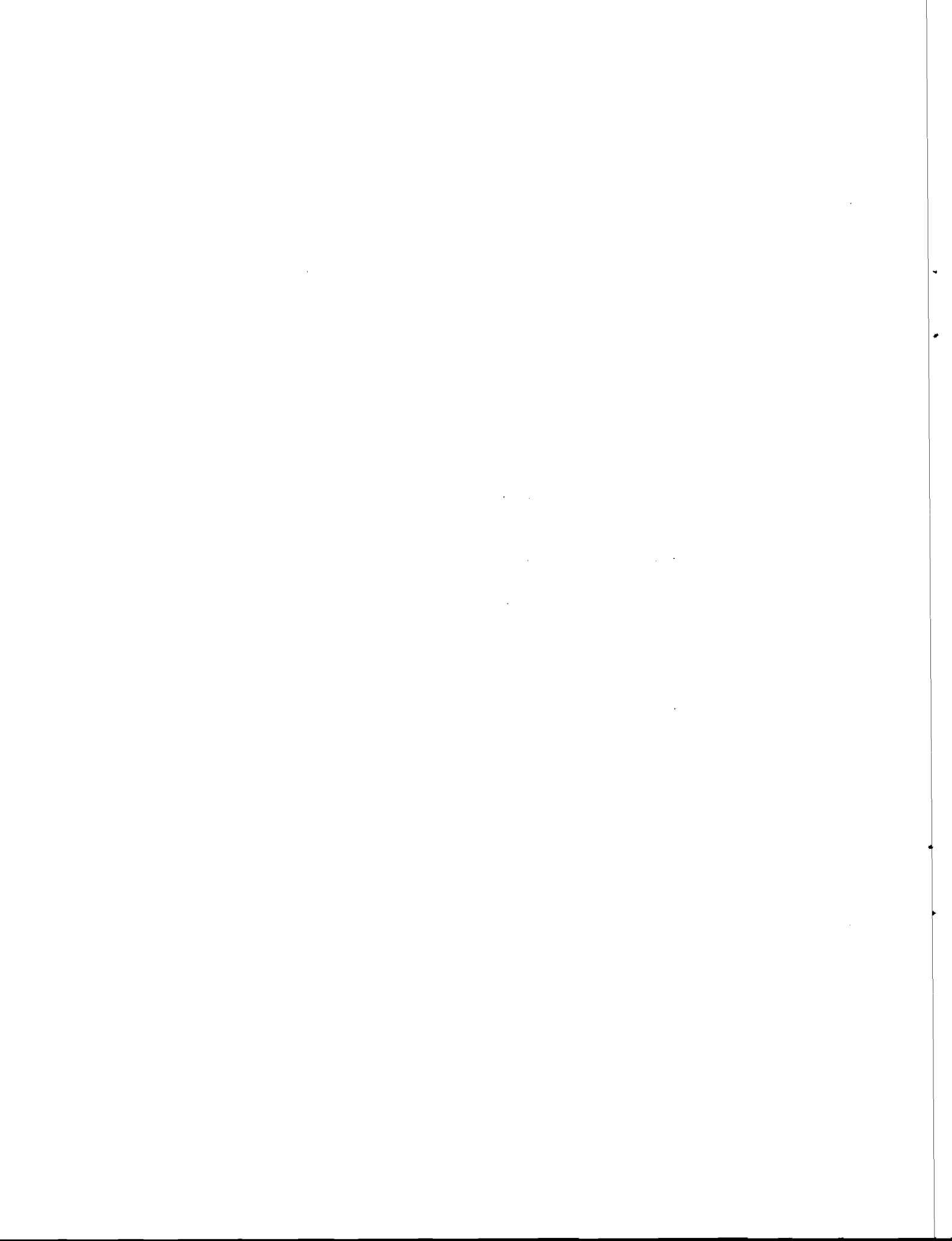
2. The second part of the document outlines the various methods and techniques used to collect and analyze data. It includes a detailed description of the experimental procedures and the statistical tools employed.

3. The third part of the document presents the results of the study, showing the trends and patterns observed in the data. It includes several tables and graphs to illustrate the findings.

4. The final part of the document discusses the implications of the results and offers suggestions for further research. It highlights the potential applications of the findings in various fields and industries.

Part Two

THE EXTERNAL ECONOMIC RELATIONS OF LATIN AMERICA



INTRODUCTION

Latin America's place in the world economy is undergoing a profound change. The countries of the region are ceasing to be specialized in the production of commodities alone; although commodities still account for most of external sales, manufactures are being exported and strongly influence the growth rate of total exports, as a result of a considerable level of industrial development and a domestic technological effort which, while still insufficient, has already become significant. The region's domestic market has grown as a consequence of this process of industrialization, and is very attractive to private investment; the transnational corporations have been drawn to produce for this market, bringing with them mainly technology and organization. The economic policies of many countries of the region have for over ten years been adapting to the needs of more open and competitive economies, reducing protection and making it more selective, and formulating a series of instruments to win external markets for non-traditional products.

These developments in industry, technology, trade and financing open new development opportunities for the countries of the region. They also raise new problems, however.

In the first place, the differences among the countries of the region are growing greater. One group of countries, which will be described below as semi-industrialized and possess the abovementioned features more clearly, is gradually entering a stage of intermediate development as a result of which they are becoming a case sui generis in the Third World. Many of the remaining countries of the region, however - numerically the majority - are still passing through stages which resemble those of many other developing countries.

/In addition

In addition, even these semi-industrialized countries still have features and problems specific to developing countries, as well as others which correspond to their new conditions. Their industrial development is uneven and their trade structure unbalanced, both of which factors have an unfavourable effect on their development. Their technological dependence on the exterior remains fundamental. Despite the advantages they have because their labour costs are lower - in absolute terms - than in the developed countries, a more rapid and widespread growth of their exports of manufactures runs into obstacles not only because of the remaining shortcomings in their industries and the fact that their protection has not yet been fully rationalized, but also because of the restrictive practices of the transnational enterprises and problems of access to the markets of developed countries.

The region's external financing has changed profoundly, and now stems to a very high extent from private sources, above all banking, instead of being predominantly from public sources.

The accumulated external debt is high both in absolute terms and in relation to exports. Its structure has also changed, partly as a result of greater borrowing from private sources; the loans have become shorter and costs higher. Service payments would not conflict with the increasing import needs inherent in a development process if the growth of exports were sufficiently dynamic.

The large deficits on current account recorded in recent years in many non-oil-exporting countries of Latin America underline the need for international co-operation for both the semi-industrialized and the other countries. They also point to the pressing need to design and implement a co-operation policy adapted to the new circumstances, with the active participation of the Latin American countries, the other countries of the Third World and above all the developed countries.

The main basis of this international co-operation would be its important contribution to the development both of the Latin American and of the developed countries. Latin America is an important ally

/of the

of the industrialized economies of the world, because of its significant imports, primarily of intermediate goods and equipment, and also because of its contribution to the growth of the transnational enterprises of those countries, much of whose world production is based in Latin American countries for the domestic markets of the region, and also in future for export to other markets, it is to be hoped.

The main purpose of Part Two of this document is to shed light on the more significant features of Latin America's present stage of development and its needs for the future, examine more thoroughly the progress and problems in its relations with the main developed areas, above all the United States and the EEC, analyse regional economic co-operation and suggest a selection of practical ideas whose discussion could provide useful background material for the design of suitable instruments.

I. LATIN AMERICA'S NEW PLACE IN THE WORLD ECONOMY

1. The world setting

(a) Trade trends in the centres

Since the end of the Second World War there has been intense growth in the developed countries with market economies. A broad group of these countries is in the process of reaching the stage of the post-industrial economy. They have high per capita incomes, increasingly predominant tertiary sectors, rapid technological progress which continuously creates a large variety of new products, and mass industrial production which places those products within the reach of very wide sectors of the population.

There has also been a diversification of the centres. In this 25 year period the relative importance of the European Economic Community and Japan increased in comparison with the United States, both in the gross domestic product and in trade and international investment; the relative importance in world trade of the European countries with centrally planned economies also increased. Between 1950 and 1975, the United States' share of the world imports dropped from 14.6 to 10.7 per cent, that of the EEC rose from 31.7 to 33.1 per cent, and that of Japan from 1.6 to 5.9 per cent (see table 1). The diversification of the centres, and the greater vigour of the new ones, suggest the advantages of a multilateral approach to international relations to enable the developing countries - particularly those of Latin America - to take advantage of the greater dynamism of some of them.

Trade, production, financial and investment relations among the centres have also grown very greatly. The internationalization of the economy and the creation of a vast economic area comprising the developed market economies has been consolidated. Besides the absolute and relative growth of the trade flows within groups of countries (EEC, EFTA, Canada and Japan with the United States) trade among the different groups has greatly increased at the same time as the barriers to trade of industrialized products have been reduced

/(by the

(by the GATT negotiation rounds). Thus the developed countries increased their share of world exports from 60.2 to 66.3 per cent between 1950 and 1975 (see table 1).

Each of the industrialized countries became specialized in order to attain a competitive scale of production, while the average scale throughout the world increased in size. Specialization occurred basically within each productive sector, with the countries exchanging goods of a similar kind with each other. In this way the bigger production scales were reconciled with each country's achieving a diversified productive structure and a symmetrical composition of trade, with similar imports and exports. Thus, for example, all the developed countries export and import products of the mechanical and electronics industries, each with a certain amount of specialization within those sectors. For example, the United States has a particularly important place in the world market for aircraft construction, computers and calculating machines, office machines, building and mining machinery and non-electric generating machinery; the Federal Republic of Germany has greater weight in the world market for electrical generating machinery and machine-tools; while the United Kingdom devotes itself relatively more to non-electrical generating machinery and agricultural machinery.^{1/}

(b) The changing structure of world trade

The composition of world trade by types of goods changed profoundly between 1950 and 1975. The relative importance of manufactures increased from 43.7 per cent in 1950 to 60.4 in 1975.

^{1/} Source: Ministère de l'Industrie et de la Recherche de France, Etudes de politique industrielle, La division internationale du travail, volume I, la Documentation Française, Paris, 1976, pp. 52 and 53. Table prepared on the basis of OECD, Foreign Trade Statistics, series C and Groupe de Réflexion sur les Stratégies Industrielles du Ministère de l'Industrie et de la Recherche de France.

Table 2
STRUCTURE OF WORLD TRADE

	Constant values (billions of 1974 dollars)					Current values					Percentage distribution ^{a/}					Growth during the period 1950-1975		
	1950	1960	1973	1974	1975	1950	1960	1973	1974	1975	1950	1960	1973	1974	1975	Number of times ^{b/}	Annual rate (per cent) ^{b/}	Annual rate (per cent) ^{c/}
Food and raw materials	55.0	82.2	158.4	154.0	155.3	25.7	38.8	123.2	154.0	151.0	46.4	34.8	23.8	20.1	19.1	5.9	7.3	4.2
Fuels	27.2	50.2	160.9	160.0	140.8	5.5	11.0	59.4	160.0	147.0	9.9	9.9	11.5	20.9	18.6	26.7	14.0	6.8
Manufactures	8.0	118.0	401.6	442.0	421.1	24.2	61.7	329.4	442.0	447.0	43.7	55.3	63.5	57.8	60.4	19.7	12.7	8.3
<u>Total (including non-classified products)</u>	<u>140.2</u>	<u>252.4</u>	<u>723.1</u>	<u>764.4</u>	<u>737.0</u>	<u>55.4</u>	<u>113.1</u>	<u>518.5</u>	<u>764.4</u>	<u>790.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>14.3</u>	<u>11.2</u>	<u>6.9</u>

Source: United Nations, Yearbook of International Trade Statistics, 1959, 1967 and 1974, Vol. I; Monthly Bulletin of Statistics, June 1976.

- ^{a/} At current values.
^{b/} At current values.
^{c/} At constant values.

The developed countries replaced imports of basic products and semi-manufactures from renewable natural resources in the course of these 25 years. Their own production of food and agricultural raw materials increased, as did trade among them in those products, at the expense of imports from developing countries. They adopted domestic support price policies, which contrast with their opposition to the attempts to apply support prices at the world level in favour of the exports of primary products of the developing countries. In this way they stimulated their own supply and gave their producers the necessary means to increase capitalization and technological innovation. At the same time they imposed tariff and non-tariff barriers on imports. In contrast, such barriers were reduced among important groups of developed countries with the progress of integration (as in the EEC). In food, the United States diversified its sources of supply and from an importer became a net exporter; Canada, Australia and New Zealand increased their share of world exports; the EEC and EFTA relatively reduced their imports and tended to direct them towards other developed countries. Likewise, in agricultural raw materials the developed countries proportionally increased their sales (United States, Canada, Australia and New Zealand) and reduced their purchases from the developing countries (in the case of the EEC and EFTA). Japan alone greatly increased its purchases of food and of agricultural raw materials.

In the case of primary products or semi-manufactures based on non-renewable natural resources the import substitution of the developed countries was relatively smaller than in the case of agriculture. In the special case of fuels, their purchases from developing countries increased relatively. Sure supplies of minerals and fuels have become an important consideration for the developed countries.

Relations of the developing countries with each other and with the socialist countries remain limited, with a few exceptions.

As a result, the developing countries' share in the world trade of food and agricultural raw materials declined, as did their importance in mining products (although it increased in some, such as iron), and their share increased in fuels.

The developing countries, excluding OPEC members, had a considerable deficit throughout the last 25 years in their trade relations as a whole with the developed countries. For the developing countries this meant incorporating external resources and achieving a somewhat higher economic growth rate than their own exports would have permitted. For the developed countries, it represented more active promotion of their exports and production, and a better balance-of-payments position. In the case of the Latin American countries, in recent years the big trade balance and payments deficits were the result of their efforts to maintain as far as possible their economic growth rates and their policies of openness towards the outside world. If they had chosen to reduce their imports more severely - mostly purchased from developed countries - they would have harmed the recovery of the developed countries. A report of the United States Government Development Co-ordination Committee states that over 90 per cent of the cumulative trade surplus of the United States occurred in its trade with developing countries, most of it in agricultural products. The same report adds that while the United States' trade balance with developed countries deteriorated at the end of the 1960s, the trade surplus with the developing countries cushioned the fall.^{4/}

(d) The transnational corporations

The activities of the transnational enterprises at the national and international levels is of long standing. However, their role has currently acquired new features, since they now operate in a unified international economic space. This globalization of the

^{4/} Development Issues, Development Co-ordination Committee, U.S. Government, May 1976, p. 107. Based on the study of the Department of Commerce: "U.S. trade with the developing economies: the growing importance of manufactured goods", June 1975.

market economy area is viable for technical and political reasons. Technically, every stage of the productive process - or the entire process - can be set up in whatever geographical location economic calculations suggest; and at the political level, since the Second World War the Western countries have become somewhat unified, particularly under the pressure of common security policies. In this context, the transnational corporations have become a fundamental component of the economic activity and relations of the developed countries with each other and with the developing countries. At the international level they fulfil the main entrepreneurial functions in financing programmes, investment, technological innovations and, in general, in organization and economic decisions.

Between 1962 and 1973 the investments of United States transnational corporations in continental Europe and vice versa increased almost four-fold, reaching some 30,000 million dollars; the investments of United States transnationals in Europe accounted for about four-fifths of this amount, the remainder flowing in the opposite direction.^{5/} The number of subsidiaries also increased rapidly, particularly those of the chemical and electrical engineering industries. The much greater weight of the United States transnationals is connected with the special role of the dollar in the world monetary system - which facilitated their investments abroad - and the United States Government's science and technology policy, which provided a big advantage in the introduction of innovations.^{6/}

These corporations have a very big share of world trade. According to United States Department of Commerce figures, in 1970 the United States transnationals and their foreign affiliates were responsible for 24 per cent of world exports of goods, and the

^{5/} See U.S. Department of Commerce, Survey of Current Business.

^{6/} See Lawrence G. Franko, The European multinationals, Harper and Row, London, 1976, pp. 135, 136, 162 and 163.

percentages for the United States, Canada and Latin America were high.^{7/} In this respect, it is not only the amount of this trade which is important, but also some of its conditions. In particular, a large proportion of the exports of transnational corporations is comprised of transactions among affiliates of the same companies. In the case of the United States, intra-company transactions accounted for 49 per cent of exports of manufactures.^{8/} These percentages are higher in the case of Brazil (73 per cent) and Mexico (82 per cent) in 1972. It is important to study the way in which prices are fixed in such transactions, the extent to which they resemble the prices which would obtain in competitive conditions in an open market, and the implication of this for the country exporting or importing goods in such conditions.^{9/}

^{7/} See United States Senate, Committee on Finance, Implications of multinational firms for world trade and investment and for United States trade and labor, op. cit., p. 278 and table A-1 on page 354, based on data of the United States Department of Commerce, Bureau of Economic Analysis, International Investment Division.

^{8/} Ibid., p. 319.

^{9/} On intra-company trade, see United States Senate, Committee on Finance, Implications of multinational firms for world trade and investments and for United States trade and labor, op. cit., p. 314 ff. Transfer pricing (and particularly the possible undervaluation of imports and exports) see United States Senate, Committee on Foreign Relations, Multinational corporations in Brazil and Mexico: structural sources of economic and non-economic power, op. cit., p. 19 ff.: Constantine Vaitsos, Intercountry income distribution and transnational enterprises, Oxford University Press, 1974; Daniel Chudnovsky, Empresas multinacionales y ganancias monopólicas en una economía latinoamericana, Siglo XXI Editores, Buenos Aires, 1974; Ronald Muller and Richard Morgenstern, "Multinational corporations and balance-of-payments impacts in less-developed countries: an econometric analysis of export pricing behaviour", in Kyklos, International Review for Social Sciences, Vol. XXVII, 1974. This last study calculates that the undervaluation of some exports of transnational enterprises in Argentina, Brazil, Mexico and Venezuela averages between 40 and 45 per cent of the prices paid on the open market.

In 1970, about 80 per cent of the production of the foreign affiliates of the United States transnational corporations was sold on the domestic market of the countries in which they were established (including both developing and developed countries other than the United States). These sales may be considered "indirect exports", since they replace the sales previously made from the headquarters country. It has been calculated that in 1971 the "indirect exports" of the affiliates of United States corporations were almost four times the direct exports made from the United States; in the case of the United Kingdom this ratio was two to one; in France, the Federal Republic of Germany and Japan it varied between 37 and 95 per cent.^{10/} In addition, through these affiliates the developed countries induce a significant current of direct exports from the country of origin of the corporation, particularly in equipment, spare parts and intermediate goods.

It has been estimated that in 1972 the profit rate on capital invested, after payment of taxes, was apparently 15.3 per cent for investment abroad, compared with an estimated 6.4 per cent for total corporation investment.^{11/} For their part, twenty big international banks of the United States receive 30 per cent of their total deposits from foreign countries in 1972.^{12/} Clearly, then, it is essential for the economies of the developed countries that the possibility should exist of operating in the markets of other developed and developing countries (bearing in mind that in 1970

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- ^{10/} See United States, Department of Economic and Social Affairs, Multinational corporations in world development, New York, 1973. International production or indirect export is estimated on the basis of the accounting value of the direct investment multiplied by a coefficient of 2, which is given by the United States data.
- ^{11/} See United States Senate, Committee on Foreign Relations, Multinational corporations in Brazil and Mexico: structural sources of economic and non-economic power, report prepared by Richard S. Newfarmer and Williard F. Mueller, p. 164, Table 7.
- ^{12/} See United States Senate, Committee on Finance, Multinational corporations, Washington, February and March 1973. Table prepared on the basis of the Washington Post, 29 December 1972.

one-third of the total sales of 50 big United States transnational corporations were made by their foreign affiliates).^{13/} This circumstance could give the developing countries a strong bargaining position to negotiate on the behaviour of those enterprises (in particular, as will be seen below, in connexion with ownership of the corporation and access to the markets of the developed countries).

It also seems clear that the transnational corporations have a dominant position in technology and foreign trade in the more modern dynamic sectors. One of the consequences is the growth of intra-company trade, in which the prices of imports and exports are "accounting prices" fixed by internal company decisions.

2. Latin America: a semi-industrialized region

There is an increasingly clear division between two kinds of countries in Latin America. On the one hand, there are the larger countries which have a higher degree of industrial development, namely Argentina, Brazil and Mexico, as well as Venezuela and perhaps some other countries of intermediate size and development (such as Colombia). These countries retain the features of developing, immature economies but are also acquiring some distinctive characteristics by having completed some important stages of industrialization. This process of differentiation is clear in the three countries mentioned first; Venezuela, with its vast financial resources, may catch up with them by carrying out some stages of development more rapidly and successfully. These countries could be labeled semi-industrialized.

The other case is that of the remaining Latin American countries; because of their stage of development, their characteristics, problems and needs more closely resemble those of the typical developing country. This is not to overlook the significant differences which exist between the countries, which range from those which could

^{13/} See Report on the Sixth Meeting of members of Congress and of the European Parliament, The multinationals: their function and future, Washington, 1974.

come to resemble the above-mentioned semi-industrialized countries in the medium term to those which are in a situation of underdevelopment close to that of many African and Asian countries. Nevertheless, their level of industrialization, structure of foreign trade, technological capacity, access to the international private financial market and their economic size distinguish them, for the time being from the semi-industrialized countries.

The countries of the first group are being shut off from bilateral and concessionary multilateral financial co-operation. A trend also seems to be setting in of giving them less favourable treatment than others in official non-concessionary and even in commercial financial co-operation. Meanwhile, no international co-operation policy is being worked out to deal with these countries and help them overcome their present stage of development.

As the countries of the second group pass certain per capita income thresholds (300 dollars for some international bodies, even lower for others) they too are excluded or given lower priority by the concessionary financing machinery. On the one hand, it is reasonable to give preference to the countries with very low per capita income in the world distribution of concessionary aid. On the other hand, per capita income is an important but not a sufficient indicator of the degree of development and does not reflect the severe problems facing many of the small- or medium-sized countries of Latin America. Questions of trade structure, industrial capacity, capital markets and balance of payments should be taken into account, among other things; if that were done, those countries could not be too rapidly grouped with the semi-industrialized countries.

In this section we shall single out some of the features which increasingly distinguish the semi-industrialized countries as a special case in the third world. The division into the two cases described above, however, is not cut and dried. Whatever classification is made, useful as a first approximation, does not obviate the need to consider each country separately.

of the 1960s.^{21/} In Mexico recently research and development expenditure in industry was estimated at 12 million dollars annually, and the Government programme supposes a fast rate of growth.^{22/} These figures are clearly not very high, but they show the beginnings of national efforts; Japan at the end of the 1960s spent 1.5 per cent of its gross product on research and development for civilian purposes.

Innovations have been made in many products and processes both in the traditional and the metalworking industries. They enable better use to be made of local conditions, although on the other hand they hinder exports in cases where international services of spare parts are based on the original models.^{23/}

There is a growing flow of technology from the semi-industrialized countries to the other countries of the region, both in the form of technology built into capital goods and as pure technology. "Key in hand" factory sales are an important export head for the relatively more developed countries. In addition, Argentinian, Brazilian and Mexican companies are taken advantage of their technological lead to establish subsidiaries in other Latin American countries.^{24/}

This growing domestic technological effort is nevertheless still incipient and scattered; it is not sufficiently tied to specific objectives. As a result it does not suitably prepare the industry to compete both in the domestic market with the reduction of protection and in external markets for exports. Thus industrial development itself simultaneously generates a rapid rise in the demand for foreign

^{21/} J. Katz, Importación de Tecnología, aprendizaje e industrialización dependiente, Fondo de Cultura Económica, 1976.

^{22/} CONACYT, Política Nacional de Ciencia y Tecnología, Mexico, 1976.

^{23/} J. Katz and E. Ablin, Tecnología y Exportaciones Industriales, IDB-CEPAL Programme, August 1976, mimeo.

^{24/} Some studies of this process of internationalization of Latin American firms are currently underway in the IDB/CEPAL project and in INTAL, as well as in Carlos Diaz-Alejandro, Direct Foreign Investment by Latin Americans, Nuffield College, Oxford, 1976, mimeo.

technological services, which increases the direct investment accompanying the new technology. Payments by Argentina, Brazil and Mexico in royalties for imports of technology grew at annual rate of 20 per cent over the last decade.

Technology is one of the fields in which the external dependence of Latin America, including even the more advanced countries, is most apparent. International co-operation is essential to continue the development process.

(c) The transformation of economic policy

Since the middle of the 1960s, both the semi-industrialized and the other countries of Latin America have greatly improved the design and use of their economic policy instruments, concomitantly with the process of increasing the opening up of their economies to the outside world. Export promotion systems made up of a variety of instruments have been established and continuously improved with experience. Foreign exchange policies now provide more stable and remunerative conditions for exports, reducing the fluctuations in exchange-rate purchasing power generated by inflation. Fiscal and financial incentives are provided and an institutional structure exists to support exports.

With regard to imports, protection has been reduced and rationalized so as to make industry more competitive. Argentina and Brazil have reduced the protection provided by tariffs and non-tariffs barriers and Argentina is studying a new general reduction. The countries of the Andean group have worked out a common external tariff, which, if adopted, would greatly reduce their external tariffs. Chile is periodically carrying out overall reductions which will leave tariffs at quite a low level at the end of 1978. These reductions in tariff and non-tariff protection have led to a buoyant, steady upward trend in imports. Between 1965 and 1975 Latin American imports as a whole 25/ grew at a rate of 1.4 per cent for every 1 per cent of growth of the product. The elasticity coefficient was 2.1 for Brazil, 1.3 for Mexico and 2.0 for Ecuador.

25/ Excluding the CARICOM countries and Cuba.

/These imports

These imports served, inter alia, to modernize the equipment of the industrial sectors which began to export, and to purchase abroad the inputs needed to produce exportable goods.

It should be noted that these large reductions in protection which have been and are being made are a very important reciprocal gesture Latin America is making - without saying so at the GATT negotiating table - to the developed countries, since this greater external openness mainly leads to greater purchases of equipment and intermediate goods from the developed countries. This should be taken into account in those negotiations, as an answer to the frequent criticism that the developing countries do not grant reciprocity in the tariff reductions of the GATT rounds and to the advantages they receive under the generalized system of preferences. It should be recalled that the Latin American countries are trying to establish rational tariff systems. This is not easy to do in multilateral negotiations. The systematic approach they are attempting to apply in their tariff reductions, suited to the needs of their present stage of development, leads to possibly similar results for the developed countries.

(d) Private direct foreign investment

Its semi-industrialized state and the size of its domestic market, together with relatively cheap labour, have led to considerable private direct foreign investment in Latin America. This has been one of the main determinants of its economic structure and activity, and of its relations with the exterior.

Latin America's importance as an investment area can be seen from the fact that it received 44 per cent of the 58,200 million dollars of total accumulated private investment by the developed countries in the developing ones at the end of 1973.26/

26/ See Organization for Economic Co-operation and Development, Investissements par le secteur privé des pays membres du Comité d'Aide au Développement (C.A.D.) dans les pays en voie de développement, état des actifs a la fin de 1973, Paris, 1975. The member countries of the DAC are Australia, Austria, Belgium, Canada, Denmark, United States, France, Italy, Japan, Norway, Netherlands, Portugal, United Kingdom, Federal Republic of Germany, Sweden and Switzerland.

Looking at this investment from the angle of the country of origin, the highest percentage is that of the United States, which in 1967 accounted for two-thirds of the total. However, since then its relative importance seems to have declined, due to the arrival of Japanese investments 27/ and the nationalization of oil and mines in Latin America. 28/

From the standpoint of recipient countries, Argentina, Brazil, Mexico and Venezuela accounted for almost two-thirds of this amount (see table 3).

A substantial change has taken place in the sectors of activity to which foreign investment flows, and there is now an absolute predominance of manufactures for the supply of the domestic market, side by side with the remaining foreign investment which was important in the past in the public service, mining and oil sectors. In 1967, the three main types of investment of the DAC countries were in manufacturing (36 per cent), oil (24 per cent) and mining (11 per cent). Subsequently the nationalization of oil and mines caused a great drop in the share of the last two headings. In manufactures, the outstanding branches are the motor-vehicle and chemical industries. 29/

27/ In the transfer to Latin America of long-term assets in 1974 by OECD countries, the United States accounted for 50 per cent, the EEC 25 per cent and Japan 22 per cent (as against a cumulative amount of direct investment in 1967 of 2 per cent).

28/ In Trinidad and Tobago the Government bought the Shell Trinidad Company in 1974; in Venezuela the petroleum investments were nationalized as of the 1 of January 1977; in Ecuador the Government bought the shares of the main foreign oil companies at the beginning of 1977. In mining, there were the nationalizations of copper in Chile (1971), bauxite in Guyana (1975) and various mines in Peru (including the Marcona iron ore mine in 1975).

29/ In Brazil at the end of 1973, of total accumulated foreign investment in manufacturing industry 21 per cent was in the chemical industry and 19 per cent in transport equipment; in Mexico in 1970 these percentages were 30 per cent and 10 per cent respectively; and in Argentina in 1969, 28 per cent of the industrial production of foreign companies was in transport equipment and 17 per cent in the chemical industry.

Table 3

PROVISIONAL ESTIMATE OF THE ASSETS CORRESPONDING TO THE DIRECT
INVESTMENT OF THE MEMBERS OF THE DAC IN 23 LATIN AMERICAN
COUNTRIES, 1967 AND 1973

(Millions of dollars)

Country	1967	1973
Argentina	1 821.4	2 450
Brazil	3 727.9	7 450
Mexico	1 786.5	3 085
<u>Sub-total large countries</u>	<u>7 335.8</u>	<u>12 985</u>
Bolivia	143.5	85
Chile	963.1	500
Colombia	727.7	950
Ecuador	82.0	400
Peru	782.4	990
Venezuela	3 495.0	3 600
<u>Sub-total Andean countries</u>	<u>6 193.7</u>	<u>6 525</u>
<u>Five countries of the Central American Common Market</u>	<u>601.1</u>	<u>865</u>
Paraguay	34.7	55
Uruguay	60.1	90
Haiti	36.2	57
Panama	830.3	1 875
Dominican Republic	157.9	360
<u>Total 19 countries</u>	<u>15 249.8</u>	<u>22 812</u>
Guyana	189.0	140
Jamaica	670.9	1 200
Surinam	99.6	130
Trinidad and Tobago	686.8	1 140
<u>4 Caribbean countries</u>	<u>1 646.3</u>	<u>2 610</u>
<u>Total 23 Latin American countries</u>	<u>16 896.1</u>	<u>25 422</u>

Sources: Organization for Economic Development and Co-operation, Les actifs correspondant aux investissements directs du secteur privé des pays du C.A.D. dans les pays en voie de développement - état à la fin de 1967, Paris 1972, and Investissements par le secteur privé des pays membres du comité d'aide au développement dans les pays en voie de développement - état des actifs à la fin de 1973, Paris 1975.

/In the

In the specific case of United States investment public services, the main heading until 1930, steadily declined while manufactures rose from 7 per cent in 1929 to become the main investment sector in the 1970s. The latest trend, which dates from the last three years, is the drop in foreign investment in petroleum and mining which remained at about 40 per cent between 1929 and 1972 (with a large rise in petroleum and a fall in mining).

Special attention should be given to two aspects of direct investment: its real contribution to the development of Latin America, and the countries' new terms of negotiation.

(i) The contribution for foreign investment. What the transnational corporations contribute to the developing countries is mainly technology, organizational methods and financing programmes. At present the main element seems to be technology, mostly linked with private foreign investment. (See the section on transnational corporations.) In addition, transnational corporations contribute their experience and organizational capacity to organize efficiently the subsidiaries set up in the developing countries. This is in a sense an "organizational technology" introduced by the transnational company, which is important for the modernization of industries so that they are technically in a position to export manufactures.

Traditionally, financing was the main element of foreign investment which above all consisted of a flow of resources from one country to another. It now seems that the nature of this flow has changed to become a financing programmes rather than genuine resources proceeding from the country of origin of the investment. Thus the figures for the sources of funds of a sample of affiliates of United States' companies in Latin America for the period 1966-1972,^{30/}

^{30/} See United States Department of Commerce, Survey of Current Business, July 1975, pp. 29 to 52, "Sources and uses of funds for a sample of majority-owned foreign affiliates of United States companies, 1966-1972", a study prepared by Ida May Mantel. The sample concerns 763 affiliates of United States companies installed in Latin America out of a total of 5,337 for the region as a whole (i.e., 13 per cent); it covers 17 per cent of the value of direct investment and 39 per cent of property, plant and equipment expenditure.

indicate that only 12 per cent of those funds stemmed from the country of origin: another 22 per cent were financed from the undistributed profits of the Latin American subsidiaries,^{31/} and the rest, roughly two-thirds, came from sources which were neither the company itself nor in the United States. Thus the main financial contribution of the transnational corporation does not lie on its own funds or funds from the country of origin, but in the obtaining of foreign funds, either from the country in which the investment is made or from international sources. To this end the transnational corporations and the governments of the countries of origin and destination of the investment often combine their efforts.

Another weakness of the contribution of foreign investment has been in access to international distribution channels. In general, the international corporations have supplied the domestic market of the Latin American countries but they have not likewise facilitated access to the external markets in which they operate. In view of the high propensity to import of these companies, it is important that in future the countries of Latin America should be able to increase their exports by making greater use of some of the marketing channels at the disposal of the transnational corporations.

(ii) Investing and the new terms of negotiation. The operations of the main investment agents - the transnational companies - is conditioned by the bargaining power of the governments of the host countries. In this connexion, two features of their operations should be noted: firstly, their capacity to influence critical decisions in the country of origin and the host country; and secondly, their flexibility in formulating economic replies to the restrictions they are unable to prevent at a political level.

It has been pointed out that their power and growth enable them to influence, directly or indirectly, the policies and action of the government of the country of origin and the host government,

^{31/} Eighty per cent of the net internal income of subsidiaries corresponded to distributed profits, 20 per cent to undistributed profits.

and sometimes to help to place the countries in a position of interdependence or dependence.^{32/} Frequently, then, the transnational corporation ensures that government decisions are favourable. However, when dealing with a firm political decision or an irreversible economic process the transnational companies have shown great flexibility in preparing and executing suitable replies, from their point of view, to the restrictions which may exist. Thus they replied to the Latin American substitution policy with a parallel process of "export substitution" which consisted in setting up subsidiaries in the countries of the region to supply the domestic market; in the face of State ownership policies on natural resources and public services, they became specialized in external marketing, technical assistance and the supply of equipment and spares; and in dealing with centrally-planned economies, they carry on a wide range of activities, even medium- and long-term ones, without affecting the ownership of the companies.^{33/}

^{32/} See United Nations, Department of Economic and Social Affairs, Multinational Corporations in World Development, New York, 1973.

^{33/} Between 1960 and 1973, countries with centrally-planned economies acquired about 1,700 patents in the market economy countries and, reciprocally, the latter purchased about 500 patents from them. Again, more than 1,500 short- and long-term co-operation agreements have been signed, including the purchase of "key in hand" factories; what is more, agreements have been reached to carry out joint ventures in other countries. These joint ventures in western countries, roughly 300 in number, primarily concern the distribution and sale of Eastern European products, and generally these are companies in which the eastern countries have a majority holding. (See J. Wilczynski, "Multinational Corporations and East-West Economic Corporation", in Journal of World Trade Law, Vol. 9, No 3, May-June 1975, pp. 266-286.)

All this seems to confirm the existence of a new negotiating situation for the Latin American countries, primarily in respect of the legal forms of ownership of the company carrying out the productive activity, the conditions of transfer of technology and the concession of external markets by the transnational enterprises.

In the past, when the transnational enterprise appeared to be making a genuine input of capital in the country of origin, the question of ownership did not arise; when the contribution is primarily in the form of technology and a financing programme, there is a tendency for the government of the countries receiving the investment to attempt to share in the ownership of the company to be set up.^{34/}

In obtaining technology, besides direct investment there are other forms which the developing countries can negotiate. In particular there is the "product in hand" contract, which envisages the transfer of patents and initial management of new companies, continuous advisory services and staff training, without actually implying transfer of ownership.^{35/}

^{34/} This is the case of the increasingly numerous joint ventures entered into by the governments of Latin American countries with multinational companies. The most recent include those of the Brazilian Government, through public or State companies such as Siderbras, and Kawasaki, Japanese, for steel-making; Companhia Vale do Rio Doce and Alcan, United States, for bauxite; Nucleobras and Urangesellschaft, Federal Republic of Germany, for atomic energy; Petrobras and Goodyear Tire and Rubber in chemicals; Digibras and Ferranti, United Kingdom, in electronics; and Estado do Minas Gerais and Fiat, in the motor-vehicle industry. In Venezuela: the Corporación Venezolana de Guayana, Reynolds International, United States, Mitsubishi and Sumitomo, Japan, for aluminium. In Ecuador: the State-owned CEPE and Texaco-Gulf, United States, for the exploitation of petroleum; and the Corporación Financiera-Comisión de Valores and a Swiss group for the watch-making industry. In Trinidad and Tobago, the Government, Kawasaki and Mitsui, Japanese, and Este N.V. Hoogorem, Dutch, for steel-making.

^{35/} See Abdellatif Benachenhou, Les firmes étrangères et le transfert des techniques vers l'économie algérienne, ILO, World Programme on Research on Employment, WP 10, Geneva, July 1976.

The other basic question which arose in recent negotiations was the exchange of markets: i.e., the government of the developing countries accepts the installation of the foreign company - and so doing grants it some of the domestic market - on the condition that the company in turn undertakes to grant it part of the external market to which it has access or which it controls either in the country of origin or in other countries. This involves the obligation to export a certain amount of production, either as final products or as parts. In this way the developing country exports value added and tends to counterbalance the usual negative effect of foreign investment on its balance of payments.^{36/}

Finally, it should be pointed out that these lines of action, which consist in the formulation of new bases for negotiations between the governments of the developing countries and the transnational corporations, would in fact be complementary to the code of conduct of multinational corporations which is being prepared. While the standards of conduct of the companies will be spelled out, in addition governments will be given information so that they may enter into new negotiations. In other words, while the code will lay down what the companies shall not do, the suggested new bases for negotiations will provide guidelines on what governments could do.

^{36/} An example of these new forms of investments is the agreement between the Brazilian State of Minas Gerais and the Italian company Fiat, in which a joint venture was established and the company undertook to take 515 million dollars worth (FOB) of motor-vehicle material by 1985.

3. Can Latin America do without international co-operation?

The status of semi-industrialized countries attained by some Latin American States and in the process of being attained by others, which places them in a special position within the third world, does not enable them to do without vigorous international co-operation. These countries, even the most developed of the region, continue to have important features in common with the rest of the developing countries and they also have problems characteristic of the period of transition through which they are passing. They are thus faced with requirements which they are unable to meet adequately on their own, which makes it indispensable to have regional and international co-operation adapted to this stage of their development to supplement their own domestic efforts. The following are some of the most important aspects.

(a) Uneven industrial development

Substitutive industrialization may have gone somewhat too far in many traditional industries. Each country has tended to produce everything, with no kind of specialization and with small production scales and insufficient competition. Such production is adapted almost exclusively to small domestic markets, with a large part of the population excluded from them for lack of purchasing power. The small size of plants compared with international plants necessitates a high level of protection.

Concurrently, the industries producing capital and intermediate goods have lagged behind, with a considerable margin of import substitution still to cover. The high external supply coefficients and the rapid growth of demand for these essential goods for the development process constitute the main cause of these countries' balance-of-payments difficulties.

Thus, for example, in 1975 it is estimated that for all the LAFTA countries the imported supply coefficient of demand in the traditional industries was 3 per cent, while in the metal manufactures and machinery industry it was 27 per cent. In the latter group of sectors, the

/imported component

imported component of machinery other than electrical machinery represented 51 per cent of demand. Countries with lower coefficients were Argentina (31 per cent), Brazil (37 per cent) and Mexico (74 per cent).

In addition, the Latin American countries represent a large market for imports of equipment and intermediate goods basically purchased from developed countries; their purchases of these goods from each of the developed areas are equal to or greater than those of some of the most important developed areas of the world and, of course, are much larger than those of any other developing region.

(b) Asymmetrical trade structures

Primary goods still predominate in the composition of exports (accounting for about 85 per cent). This composition is completely different from that of imports, which consist essentially of equipment, parts and components, and intermediate manufactured goods including chemicals. This asymmetry contrasts with the case of a mature economy, which has similar export and import structures compatible with their inter-sectoral specialization.^{37/}

Exports of manufactures are still at an incipient and undiversified stage. They represent a small proportion of production, except in the case of a few isolated sectors. Experience in penetrating the markets is fairly limited. Moreover, as these exports increase in volume they begin to encounter considerable and increasing barriers impeding access to the developed countries' markets.

^{37/} United States exports include a larger proportion of primary products than those of the EEC countries. However, all these countries export, together with basic commodities, highly diversified manufactured goods, in contrast with the greatly concentrated composition of Latin American exports. Japan is a special case since it scarcely exports any basic commodities, but they constitute a high proportion of its imports. See Gérard Fichet and Norberto González, "Production structure and the dynamics of development", CEPAL Review, Santiago, second half of 1976.

The as yet somewhat limited diversification of exports and the pressing need for imports of more complex goods reflect the fact that the Latin American countries still lack the technical, economic and financial conditions necessary to produce many goods on a competitive footing.

Even as regards primary goods, the Latin American countries have lost ground in world trade. Latin America's share of world exports of food dropped from 20.5 per cent in 1950 to 13.4 per cent in 1973 (see table 4). Its share of raw material exports declined over the same period from 8.9 to 4.1 per cent, while the proportions for ferrous and non-ferrous minerals fell from 14.5 to 13.9 per cent.

(c) Economic policy in a transition period

The considerable progress in economic policy referred to above is accompanied by problems peculiar to a period of transition, with a high content of trial and error. The reduction and rationalization of protection is still, generally speaking, inadequate, although in some cases it may have been too rapid. The intensive protection prevailing in many sectors necessitate an equally intensive promotion of exports to offset it.

In other cases, the region's interest in achieving greater efficiency and competitiveness causes it to reduce the protection too rapidly and drastically, which jeopardizes the industrial development attained.

Promotion (incentives) could be broken down conceptually into two parts. First, the removal of obstacles to exports of manufactures deriving from the country's own economic policy; for example, exemption from internal taxes on exported goods and their inputs, and elimination of import duties normally payable on the latter. This forms part of international trade practices accepted even by developed countries.

Secondly, compensation for the higher costs of export activity during an initial period, both because of lower production efficiency and because of the additional costs incurred during the transition period in which external markets are being won and marketing machinery

Table 4

LATIN AMERICAN SHARE OF WORLD EXPORTS BY GROUPS OF PRODUCTS

	World (millions of current dollars)		Latin America		Latin American percentage share	
	1955	1974	1955	1974	1955	1974
Food	20 430	108 030	4 190	15 390	20.5	14.2
Agricultural raw materials	12 030	40 030	1 070	1 570	8.9	3.9
Minerals	3 420	21 400	495	3 140	14.5	14.7
Fuels	10 270	170 120	2 820	18 830	27.5	11.1
Non-ferrous metals	3 600	25 180	520	2 900	14.4	11.5
Iron and steel	4 390	46 440	31	480	0.7	1.0
Chemical products	4 720	63 740	96	1 430	2.0	2.2
Machinery and vehicles	16 920	205 860	15	1 840	0.1	0.9
Other manufactures	16 210	141 630	150	2 860	0.9	2.0
<u>Total</u>	<u>93 540</u>	<u>835 490</u>	<u>9 400</u>	<u>48 680</u>	<u>10.0</u>	<u>5.8</u>

Source: United Nations Handbook of International Trade and Development Statistics, 1976.

is being established. Within reasonable margins of quantity and time, this may be considered an acceptable practice for semi-industrialized economies, in the same way as the acceptance - also temporary and not excessive - of protection for incipient industry, particularly taking into account the need to overcome the inertia of an industry originally established for a potentially dynamic and certain domestic market.

In the past 10 years' experience of Latin American countries which have made most progress in exports of manufactures, the export incentives provided consisted mainly of the removal of obstacles deriving from their own economic policy. In Brazil, the internal taxes and customs duties referred to in the first place above represent approximately two-thirds of the export incentives. The rest (one-third in the case of Brazil) consist of compensation for an incipient export activity. It should be noted that in Latin America the latter compensation is generally lower than the tariffs in force for imported inputs for the goods exported; again in the case of Brazil the compensation represents about 40 per cent of the tariffs. Of course, these are average situations since there is some variation from country to country and between one sector and another.

It must be added that in several Latin American countries the exchange rates have frequently discouraged exports of manufactures - in some cases they still do - and that this fact, which is not considered in the preceding paragraphs, should be taken into account in evaluating the promotion.

As noted earlier, protection in general is still high. If the Latin American countries had a level of protection and competitiveness in their manufacturing sector similar to that of the OECD countries, the present size of their domestic markets would compel them to carry on more intensive trade with countries outside the region, i.e., they would have higher import coefficients in relation to demand than they have at present. For example, in 1972 the size of Brazil's market for transport equipment was close to that of Italy in 1969; but the

/coefficient of

coefficient of its imported supply in relation to demand was 11 per cent compared with 25 per cent for that European country.^{38/} In 1972 the size of the market for chemical products in Argentina and Spain was very similar, but the former's import coefficient was 9 per cent and the latter's 17 per cent. In Mexico, domestic demand for machinery other than electrical machinery was similar to that of the Netherlands in 1969, but while Mexico's import coefficient was 52 per cent, that of the Netherlands was 68 per cent. Much the same situation is found in most sectors and countries. Import coefficients are systematically lower for the Latin American countries than for the OECD economies as a result of the higher level of protection adopted because production costs are generally even higher.

Within a medium-term perspective, it is possible to envisage the parallel reduction of protection and promotion so that within a reasonable period a point will be reached where industry will be competitive and the promotion measures adopted will be sufficient without being excessive.

The situation is now shaping along those lines, although it is still somewhat short of that goal. In order to enable progress to continue in both exports and industrial development, these reductions should be gradual and should vary for the individual sectors and countries according to the stage of development reached.

In fact, the situation described above represents an average; the actual cases vary significantly according to the stage of development of countries and sectors. The medium and small countries are still at an incipient stage and need to adopt more vigorous industrial development policies. In the semi-industrialized countries, too, in contrast with the traditional manufactures, the sectors producing equipment and intermediate goods which are still at a backward stage of development should have the special backing of economic policy and government action.

^{38/} See Gérard Fichet and Norberto González, "Production structure and the dynamics of development", CEPAL Review, Santiago, second half of 1976.

(d) Insufficient absorption of labour

Despite the increase in the product over the past 25 years and the vigorous development of industry, which have had the effect of incorporating considerable manpower into productive activities, in most countries of the region there is still a serious problem of unemployment and unproductive utilization of manpower. The consumer pattern imitated from other countries favours a demand for goods produced with a high content of imports, capital and highly skilled labour. In addition to a modification of this structure of consumption, a faster growth of the economy, particularly of manufacturing and agriculture, is required if the employment problem is to be solved within a reasonable period. This in turn involves requirements in terms of domestic policy and adequate international co-operation.

(e) External instability and bottleneck. The debt problem

The external instability and bottleneck which traditionally accompanied Latin America's development were overshadowed for some countries of the region by the improvement in the purchasing power of exports and external financing as from the mid-1960s, and later by the transitory rise in the prices of raw materials in 1973 and 1974. In recent years, however, the restraint on development imposed by the external sector has once again become all too evident. The first part of this report and the subsequent section on external financing and the debt ^{39/} analyse the balance-of-payments deficit and its financing. Summarized here are some main points underlying the need for adequate international co-operation to accompany domestic policy in order to solve the external bottleneck.

(i) The balance-of-payments deficit on current account of the non-oil-exporting countries increased considerably in absolute terms and in proportion to exports. This affects many countries of the region, as may be seen in section 5 of this chapter. The increase in the import prices of capital and intermediate goods, the rise in

^{39/} Section 5 of this chapter.

oil prices, the world recession and the increase in service payments on foreign capital are not unrelated to this problem.

(ii) The external financing of these countries, which in the mid-1960s was mainly from official sources, now comes predominantly from private sources. Private banks provide a major part of this financing. The sale of bonds, on the other hand, is still a relatively minor source.

(iii) Parallel with the shift from public to private sources of financing there has been an unfavourable change in maturity periods and costs: the former are becoming shorter and the latter are increasing. Many of the Latin American countries tend to remain excluded from concessionary resources. Private sources are not prepared to provide financing on the terms with regard to maturity periods required by developing countries. Many Latin American countries are finding difficulty in obtaining access to private financing markets.

(iv) The cumulative external debt is high and is growing in both absolute and relative terms. For the non-oil-exporting countries the State-guaranteed debt (excluding the debt to the International Monetary Fund and credit for under one year) amounted to 40,000 million dollars (125 per cent of exports) in 1975.^{40/} Credit from private banks not guaranteed by the State stood at 25,000 million dollars in the same year. The two amounts continued to grow rapidly in 1976.

4. Basic commodities

About 85 per cent of Latin America's total exports is still made up of basic commodities. Their prices have fluctuated greatly in the past 25 years, and problems of access to markets have also been a source of concern. This point has been the subject of recent

^{40/} In 1965 the figures were 8,700 and 2,500 million dollars, respectively.

analyses by CEPAL, so that the present study will deal briefly with the most important recent trends and some salient aspects of the integrated UNCTAD programme.^{41/}

(a) Recent developments and trends

As usually happens in international commodity markets, 1976 prices followed very divergent trends. If the index for all the most important Latin American exports is taken as a reference, it will be seen that in the first two quarters of 1976 it reached higher levels than in the last two quarters of 1975 and that the persistence of this trend in 1976 would bring the average for the year to over that for 1975, though probably without regaining the 1974 levels. This, of course, is a simplification, since the overall index reflects sharp price increases for two or three commodities of varying importance for a certain number of countries, and at the same time drops or erratic fluctuations for other commodities also of varying importance for countries of the region. The best course, therefore, is to show the price trends for some individual commodities, since their importance in each country's exports will largely determine the total volume of export earnings.

Perhaps the most noteworthy situation in 1976 as regards price levels is that of coffee. It should be recalled that this was one of the least favoured commodities during the brief 1973-1974 commodity boom: there were surpluses of production over consumption and various problems had led to the suspension of the economic clauses of the international agreement on this commodity. In mid-1975, however, there were severe frosts in Brazil's coffee-growing areas and the considerable shortfall in that country's exportable production set off the rises which by the end of 1976 had brought coffee prices to higher levels than in any previous year.

^{41/} See CEPAL, "La coyuntura internacional y el sector externo", Cuadernos de la CEPAL, Nº 7, 1975; CEPAL, "Temas del nuevo orden económico internacional", Cuadernos de la CEPAL, Nº 12, 1976; CEPAL, Los mercados internacionales de productos básicos en 1975 (E/CEPAL/L.134/Rev.1), 1976, mimeographed.

A fairly critical supply situation is also the main reason for the increases during the course of 1976 in cocoa prices, which by the end of the year had reached levels comparable with the peak prices recorded in 1974. In the case of cocoa, as in that of coffee, the favourable state of the market has rendered unnecessary the operation of some mechanisms provided for in the agreements in force on these commodities, purchases for the buffer stock (cocoa), or the use of export quotas (coffee). In these circumstances, the most important functions of the agreements are to serve as entities for consultation between exporting and importing countries, and for market analysis, and as mechanisms prepared to take measures to mitigate the effects of sudden changes in price trends.

The rest of the commodities in the food and beverages group showed, on the whole, widely varying trends. Wheat and maize suffered price drops in view of the huge stocks available for export and the prospects of an excellent world harvest. This also improves the position with regard to the world's cereal reserves, which in recent years had declined to what were regarded as critical levels. Sugar prices, which reached exceptionally high levels at the end of 1974, declined steadily in 1975 and 1976, so that by the end of the latter year they had fallen below the average for 1973.^{42/} Forecasts of a significant increase in world production in 1976/1977 have been the main factor depressing the market, which thus makes it more urgently necessary that the conference to negotiate a new international sugar agreement convened for early 1977 should be successful. Banana export prices in the first half of 1976 remained at levels comparable with the average for 1975 (the peak level reached in the last few years), although it should be noted that this is another of the commodities which failed to achieve significant increases during the commodity boom period. Lastly, attention is drawn to the fact that

^{42/} Added to this situation is the fact that at the end of September 1976 the United States Government decreed an increase in the customs tax on sugar imports from 0.625 to 1.875 US cents per pound, to come into force immediately.

although in 1976 the severity of the restrictions imposed on imports of Latin American beef in the main developed countries' markets was partially attenuated, the restrictions are still having adverse effects on the level of prices and the volume of exports of this commodity. The consultations carried out on this question in GATT had not yet, by the end of 1976, led to satisfactory solutions for all the interested parties.

In the agricultural raw materials group, the product of most interest to Latin America is cotton, the prices of which showed a rising trend in 1976 that enabled them to regain the levels reached in 1974. As in the case of other commodities, this rise was the result of an appreciable fall in production and in the quantities available for export, due in its turn to the drop recorded in cotton prices during the phase of contraction affecting the textile industry. The outcome of this experience, though not new, was that at the latest session of the International Advisory Council on Cotton the possibility of an international agreement on this commodity was discussed in more favourable terms. The renewed activity of the textile industry (as measured by an increase of over 30 per cent in the developed countries' consumption of virgin wool in the first half of 1976 compared with the same period in 1975), combined with the effects of a drought in Australia (the main world producer), contributed to the recovery recorded in wool prices since the early months of 1976. Towards the end of that year the market seemed very firm owing to the prospects of a smaller world output and the reduction in stocks in the major exporting countries.

In the non-ferrous metals sector, the copper market has continued to face difficulties on account of excess supply. The slight recovery in prices at the beginning of 1976 was of short duration: the declining price trend partly reflected the slowness of the industrial countries' economic recovery and partly the lack of agreement among the member countries of the Intergovernmental Council of Copper Exporting Countries (CIPEC) to continue the cutbacks in production after June 1976. On the other hand, two meetings of consultation

/between copper

between copper producing and copper consuming countries convened by UNCTAD were held in 1976 with the purpose of exploring the possibilities of an international agreement on this commodity. These consultations concluded with a decision to request the Secretary-General of UNCTAD to convene an intergovernmental group of experts to formulate the appropriate recommendations before arch 1977. Tin prices, although they also dropped in 1975, managed to remain at less depressed levels than copper prices, thanks to the part played by the buffer stock and the export restrictions imposed on the member countries of the International Tin Agreement.^{43/} July 1976 marked the entry into force of a new International Tin Agreement, in which the United States have for the first time decided to participate.

Table 5 shows the evolution of price indexes (1970 = 100) for a certain number of important commodities among Latin America's exports. In terms of dollars at current prices, some of these commodities have reached price levels close to those of the aforementioned boom period, but they must be considered in real terms, i.e., in terms of purchasing power. For this purpose, the index of unit value of exports of manufactures from developed countries is normally used as being representative of the FOB cost of imports of manufactures by the Latin American countries (that is, excluding freight, insurance and other costs). If this index is used to deflate each of the basic commodity price indexes, the price index in real terms is obtained. For the group of commodities included in table 5 the price index in real terms for the first nine months of 1976 would be equal to or slightly above the average for 1975 or that for 1973, but below that for 1974. As noted earlier, however, the overall index has no meaning for any country in particular, so that each commodity should be considered individually.

^{43/} According to figures published in the Monthly Statistical Bulletin of the International Tin Council, stocks of tin in the buffer stock amounted to 2,893 tons at the end of the first quarter of 1975; they stood at 20,071 tons at the end of that year and fell again to 2,820 tons on 30 June 1976.

Table 5
PRICE INDICES OF COMMODITY EXPORTS a/
(1970 = 100)

	1973	1974	1975	1975		1976		
				III	IV	I	II	III
Sugar <u>b/</u>	256.1	797.1	544.7	453.4	362.0	376.1	368.4	278.4
Sugar <u>c/</u>	127.5	365.6	278.3	240.3	187.4	192.8	189.4	147.8
Bananas	110.9	142.3	172.4	130.1	141.0	163.4	175.6	179.4
Cocoa	189.8	274.5	201.9	189.1	198.8	222.4	291.0	339.8
Coffee (Manizales)	128.9	137.9	144.8	162.4	161.5	187.8	277.1	312.6
Coffee (Santos No 4)	122.5	124.7	142.7	167.2	-	-	-	274.7
Beef	173.1	190.0	-	-	-	-	-	-
Maize	168.4	223.4	185.4	194.8	191.6	191.6	189.9	192.6
Wheat	252.4	330.2	275.8	286.6	281.2	275.3	266.2	241.0
Linseed oil	247.8	497.8	328.3	313.0	267.4	242.6	243.4	286.5
Cotton <u>d/</u>	195.1	247.6	191.7	188.3	205.3	267.7	-	-
Cotton <u>e/</u>	210.4	215.6	182.1	193.4	195.1	223.4	245.0	285.3
Fishmeal	230.9	200.0	127.0	128.7	139.9	161.2	178.2	-
Wool	302.1	260.4	220.8	210.4	228.0	266.7	285.4	306.3
Soya	190.3	231.8	183.8	195.0	165.8	158.1	180.6	218.0
Aluminium	97.6	124.6	141.4	137.4	133.9	137.0	133.0	145.2
Copper	125.8	145.5	87.2	87.3	82.6	88.0	107.8	109.3
Tin	123.3	226.8	190.1	185.1	173.3	181.3	206.2	226.6
Iron ore	116.6	205.3	251.0	244.9	254.3	243.4	252.1	255.0*
Lead	143.4	198.2	139.2	123.0	113.2	119.1	157.6	164.2
Zinc	290.6	424.9	256.2	248.4	240.6	241.8	265.1	255.4
A. Total index	161.6	255.7	210.4	200.7	190.8	203.4	222.4	227.1
B. Index of unit value of exports of manufactures of developed countries (base 1970 = 100)	133.0	162.0	182.0	178.0	176.0	178.0	179.0	181.0*
C. Total index deflated by B	121.5	157.8	115.5	112.8	108.4	114.3	124.3	125.4

Source: CEPAL, on the basis of data from the United Nations Monthly Bulletin of Statistics, the UNCTAD Monthly Commodity Price Bulletin and the FAO. Monthly Bulletin of Economics and Statistics. The United Nations Monthly Bulletin of Statistics was used for the index of the unit value of exports of manufactures of developed countries.

- a/ Based on world market prices.
b/ Free market.
c/ United States.
d/ Brazilian, São Paulo type 5.
e/ Mexican S.M.

/(b) Integrated

(b) Integrated Programme for Commodities

Resolution 93 (IV) adopted at the fourth session of UNCTAD set in motion the most serious international co-operation effort thus far attempted in connexion with world commodity trade. The resolution lists a group of commodities on which negotiating conferences would be convened with a view to implementing the measures laid down in the resolution, which include the setting up of buffer stocks, and another conference to be held not later than March 1977 to negotiate the establishment of a common fund to finance these stocks.

The first step towards implementing the Integrated Programme for Commodities was taken by the Trade and Development Board at its sixteenth session when it adopted decision 140 (XVI) establishing the Ad hoc Intergovernmental Committee of the Integrated Programme for Commodities, with the functions assigned to it in UNCTAD resolution 93 (IV). In the second half of 1976, preparatory meetings were held on copper and jute and products thereof, and another on the common fund. The developing countries as a whole approved the establishment of the common fund in the Manila Declaration of the Group of 77 and in the aforementioned resolution 93 (IV), but undoubtedly there still remain substantive questions or points which can be settled only in the final phase of the negotiations. Although this suggests that the negotiations may be long and difficult, it seems important that they should be successfully concluded on the date envisaged - March 1977 - since the establishment of the common fund will be a truly catalysing element which will facilitate the negotiations on individual commodities.

As already stated, the Latin American countries, as members of the Group of 77, have supported the elements of the Integrated Programme. The preparatory meetings on commodities were initiated with products of interest to Latin American countries - copper and hard fibres (sisal and henequen) - and will continue in the course of 1977 with other products of interest to these countries such as vegetable oils and fats, tropical timber, bananas, cotton, iron ore, manganese ore, bauxite and meat. With regard to sugar, as indicated

/earlier, a

earlier, a conference has been convened early in 1977 to negotiate a new agreement. Coffee, cocoa and tin are governed by new agreements which entered into force in 1976. Thus, the appropriate machinery already exists for consultation and the adoption of decisions in connexion with the market trends of each of these commodities, so that any problems that may arise can be discussed and solved by the respective organizations.

5. Latin America: financing and external debt

The past decade has witnessed very substantial changes in the external financing of the non-oil-exporting countries of Latin America. The changes have taken place both in the sources of financing and in the volume, terms and conditions involved.

These countries' average balance-of-payments deficit on current account was just over 1,500 million dollars annually in the period 1965-1970, or less than 15 per cent of total exports of goods and services; it rose to a little over 4,000 million dollars annually in the period 1971-1973, or 22 per cent of their exports, and then jumped to nearly 14,000 million in 1974-1976, or 45 per cent of their exports. In the middle of the 1960s, borrowing was mainly from bilateral and multilateral official sources. In the mid-1970s the bulk of the borrowing was from private sources.

(a) The magnitude of the problem

The figures for the current account deficit indicated above only partly reflect the magnitude of the external financing requirements. Actually, if the countries' growth rates are not to be sacrificed, their external financing needs should be determined by adding to the current account deficit the amounts required to increase reserves and the service payments on the previously contracted debt. It is also necessary to subtract direct investment and medium- and long-term capital inflows.

The figures available do not permit the preparation of complete and reliable series. While on the one hand the direct investment figures are not always accurate, on the other hand the errors and

/omissions in

omissions in the balance-of-payments estimates also tend to blur the picture. However, the changes in the size of the current account deficit and the volume of debt servicing are already a sound indicator of the increase in the external financing requirements of the non-oil-exporting Latin American countries.

The figures in table 6 show the deficits to be heavily concentrated in Argentina, Brazil and Mexico. Such concentration, however, is less than that of the countries' gross domestic product, which shows that external financing requirements are also a serious problem for other countries of the region in proportion of their economic size. In 1974-1975 the sum of the current account deficits and debt service payments of Argentina, Brazil and Mexico represented just under 75 per cent of the total for all the countries of the region, while their gross domestic product was 76 per cent of the total.

Table 6

LATIN AMERICA: BALANCE-OF-PAYMENTS DEFICITS ^{a/} ON CURRENT ACCOUNT AND AMORTIZATION OF THE DEBTS OF NON-OIL-EXPORTING COUNTRIES

	1965-1970	1971-1973	1974-1975 ^{b/}
Argentina, Brazil and Mexico	2 119	5 044	14 213
Chile, Colombia, Peru and Uruguay	706	1 595	2 838
Other countries	567	901	2 043
<u>Total</u>	<u>3 392</u>	<u>7 540</u>	<u>19 094</u>

Source: Prepared on the basis of official balance-of-payments data of the countries concerned. The figures represent annual averages for the periods indicated.

a/ Including official transfer payments.

b/ The 1974 debt amortization figures were used for 1974 and 1975.

/The figures

A financial safety net would provide a second line of financial defence to assist countries in short-term difficulties. A refinancing service, to which recourse could be had in special cases in order to refinance payments on the external debt, particularly from private sources, could provide greater security to lending countries and institutions and thus facilitate the transfer of resources.

(d) Differentiated categories within Latin America

In the financial field, as in others, the characteristics of the Latin American countries are not identical. The degree of diversification of exports in the direction of the manufacturing sector differs considerably between one country and another. There is also a marked difference in the degree to which other countries have continued to be essentially exporters of raw materials. They have strengthened their financial links with external markets, but the categories are not clearly demarcated.

From a viewpoint that will take the financial aspects particularly into account - and also, of course, the external sector as a whole - a classification in three groups would perhaps best reflect the Latin American position. The first group would, of course, include Argentina, Brazil and Mexico, notable for their industrial expansion. A second group would include those medium-sized countries which have initiated a vigorous process of expansion and diversification of their exports. The rest of the non-oil-exporting countries of Latin America, although with some differences between them, make up the third group. Venezuela could also be included in the first group because of its considerable resources obtained from oil and its access to capital markets. Market access is a feature common to the countries of the first group, which have not only obtained substantial loans from private international banks, but have also sold medium- or long-term bonds on the world markets. The countries in the second group have had a degree of access to bank credit but have not sold bonds on external markets in the recent past. The countries in the third group have very undiversified economies, their export earnings

/depend on.

depend on one or two commodities and, except in a few cases, have only very recently had access to external bank financing. As a rule, their indebtedness coefficients are the lowest of all the non-oil-exporting countries of Latin America.

The last group of countries requires systematic access to concessionary resources. The second group requires some degree of occasional access when external circumstances are adverse to them. Only the countries of the first group can accept for a long period the treatment in connexion with access to official financing that is currently given to the major part of Latin America.

For the two groups of countries which have had no access to private medium- and long-term capital markets it is particularly important to have the means to facilitate such access. These means must be developed and put into practice before their access to official sources of long-term financing is restricted. This would make the transition to private sources somewhat easier.

(e) Consultation and negotiation machinery

The shift in sources of financing has been so rapid that it has left the existing international negotiation and consultation machinery behind in some important respects. With the swift rise in bank financing, the relative importance of the International Monetary Fund has diminished. At the same time, with the increase in bank loans, the main foreign banks have begun to take increasingly into account not only the solvency of the individual debtor but also that of his country of residence, thus taking more and more interest in the general economic situation of the countries and their economic policies. So long as a group of countries continues to show large payments surpluses, the international banking system will play an increasingly role, fulfilling the important function of recirculating the resources involved. These new circumstances have not been fully reflected in the international financial organization, and it is therefore necessary to start devising the scheme of a new global financial policy.

II. TRADE RELATIONS WITH THE UNITED STATES

1. General considerations

Attention is drawn to some of the main trends in Latin America's trade relations with the United States in the last few decades. This chapter deals with questions related to the Latin American countries as a whole, with no attempt to cover details that may be distinguished in relation to each individual country.

The emphasis on the free play of market forces which predominated on the United States' side in the 1950s gave place in the 1960s to its recognition that the market should in specific cases be supplemented by some regulation by the State. Some significant facts are evidence of this attitude: the establishment of the Alliance for Progress which constituted a systematic overall programme of government action for the development of the Latin American countries, and the backing it brought for national development planning and the adoption of overall and sectoral objectives; the emphasis on public capital flows in relation to private flows and the establishment and vigorous promotion of official development aid; the support given by the United States to the First United Nations Development Decade; and the setting up of UNCTAD. The early 1970s witnessed a return to the laissez-faire philosophy of the 1950s, with the accent on the removal of obstacles to the flow of goods, investment and technology. Any change in the United States' attitude in the near future will be of great importance for international co-operation in the fields of trade and financing, because of that country's influence at international meetings and because its position may affect that of other developed countries, particularly as some have undergone significant changes in recent years.

There may also be an important change of emphasis in financial and trade co-operation. In the early post-war years, one of the main objectives of the developed market-economy countries was the reconstruction of the devastated economies of Europe and Japan. Considerable financial flows were channelled to those countries,

/among other

among other ways through the Marshall Plan. During the 1950s, while the developed countries were continuing to absorb large capital flows, the bases for a wider financial co-operation with the developing world were established, with the International Bank for Reconstruction and Development playing an increasingly important role. It was not until the 1960s, however, that international financial co-operation with the developing countries reached significant proportions. The Inter-American Development Bank initiated its activities during that period. Thus, Latin America began to receive considerable flows of public financing. The emphasis in international co-operation was mainly on financing and not so much on trade.

In the last few years, official development aid has, relatively speaking, shown some signs of weakening. World concessionary aid is being concentrated on countries with per capita incomes below certain limits. Most of the Latin American countries have per capita incomes above those levels and therefore tend to be excluded. At the same time, trade problems such as those connected with access to markets for basic commodities and the exports of manufactures stage are taking on more importance for the region.

In the next few years the possibilities of trade co-operation should increase. A particularly important point is better access to markets for manufactures and basic commodities. This does not mean that financial co-operation would no longer be important, even though its share might diminish; access to private financing markets will continue to be a basic element and promotion of access to bond markets is particularly worthy of attention. Official financial assistance, in certain cases including concessionary aid, will continue to be indispensable for the medium and small countries.

The degree of multilateralism is another important aspect of the relations between the United States and Latin America. The bilateral approach, which was most in force during part of the 1950s and which found expression, inter alia, in the many bilateral treaties concluded by Latin American countries between themselves and with countries outside the region, gradually gave way to an

/increasing strengthening

increasing strengthening of multilateralism. The establishment or strengthening of international financial machinery and, as regards trade, of institutions such as UNCTAD and GATT are an expression of this trend.

The clear predominance of the multilateralist approach seems to have persisted in the United States, which is usually explained by the fact that because of its importance in the world context this country would find it difficult to give particular attention to one developing area at the expense of others. It is significant that the United States' trade with developing countries followed a tendency towards regional diversification, with a deterioration of Latin America's relative position. In 1955, one-third of total United States imports came from Latin America and one-seventh from the rest of the developing countries (Asia, Africa and the Middle East); in 1975, less than one-fifth came from Latin America (19 per cent) and nearly one-quarter (22 per cent) from other developing regions. For Latin America, multilateralism continues in force; but in some cases the delays in multilateral solutions at the regional level have led to a pragmatic attitude in favour of supplementing the more overall solutions such as integration agreements with other specific solutions between pairs or among groups of countries. At the international level, the existence outside the region of arrangements between groups of countries which exclude most of Latin America, such as those concluded by the EEC with the Lomé and Mediterranean countries, shows the lack of symmetry and the disadvantageous position in which most of the Latin American countries have remained. The answer does not seem to lie in deliberately seeking piecemeal arrangements between Latin America and the United States which would consolidate vertical relations and zones of influence, notwithstanding the fact that their geographical proximity may naturally induce close trade and financial relations. On the other hand, it is clearly a matter of urgency to define modes of co-operation between the industrialized and developing countries which would respond to functional needs rather than to a /geographical factor.

geographical factor. It has already been explained that Latin America is gradually acquiring the characteristics of a semi-industrialized region, which involve specific requirements and emphasis as regards co-operation in both the trade and the financial field. From this standpoint, suitable policies for a case such as that of the Latin American countries should be defined by the developed countries as a whole. The United States' attitude in this definition will be decisive and will benefit both the countries of Latin America and those of other regions attaining similar stages of development with similar needs. The structure and general principles of international relations should be of a multilateral type, without prejudice to the conduct of bilateral negotiations covering specific aspects, where appropriate.

Another point worth noting is the change that has taken place in recent years in favour of dialogue rather than confrontation. The first important sign of this change was at the Seventh Special Session of the United Nations. It was subsequently reflected at other meetings, such as the UNCTAD sessions. The United States' attitude to negotiating has been positive and has shown initiative. That of the developing countries has been in favour of dialogue, realistic and responsible. The strengthening on both sides of the currents in favour of understanding and the lessening of the possibility of a return to the confrontation that characterized some other periods basically depend on obtaining concrete results that will justify this effort. What happens in the immediate future in UNCTAD and at the International Conference on Economic Co-operation will be decisive in this respect.

2. Difficulties of access for Latin American exports under the Trade Act of 1974

Some of the major barriers to the access of Latin American exports are contained in this Act. These are: (a) the clause on competitive need (b) the rules of origin; and (c) country coverage in respect of the Generalized System of Preferences and the safeguards contained in other sections of the Law. Problems also arise in connexion with the concept of subsidies, and compensatory rights which are similar to those arising from other developed areas and were therefore dealt with in chapter I.

/Competitive need

only includes direct costs; transport, distribution, benefits, insurance and other indirect costs are excluded; this makes the clause even more restrictive.

The rules of origin should be formulated along more liberal lines, not only applying equal percentages for a single country and an integration area, but also recognizing as value added some of the components of the indirect costs.^{3/}

Country coverage

Three Latin American countries (Cuba, Ecuador and Venezuela) are excluded from the scheme of preferences of the United States. The Latin American countries have directed their efforts to the elimination of these exceptions, so far without result.

3. Systematic approach to specific cases of access

The problems and solutions in connexion with access to markets may be considered at two complementary levels. A general level, which could consist, for example, in modifying some of the clauses of the United States Trade Act such as those referred to in the preceding section; and a specific level, by cases. The latter will be dealt with here.

In the past, there have been isolated but highly significant experiences where problems of access for some Latin American products to the United States market were considered. In certain cases, the Government of that country adopted a passive attitude, carefully examining the problems of United States producers and electing to support them in order to avoid or ease import controls that would be detrimental to Latin America.

^{3/} UNCTAD has tried to quantify the meaning of the reference in the Trade Act to indirect costs. See Review of the schemes of generalized preferences of developed market-economy countries: Scheme of generalized preferences of the United States of America. Study by the UNCTAD secretariat (TD/B/C.5/38), 6 November 1975, pp. 34-40.

Generalization of these cases would be most useful and positive. Cases where it is feared that Latin American exports may have seriously adverse effects on United States production would be considered systematically and highly objectively. The analysis would cover a review of the characteristics and problems of the United States domestic market, the possibility of that country adopting measures to prevent the potential distorting effects of a larger volume of imports, and the importance of new exports of manufactures for the balance of payments, employment and development in the Latin American countries. Latin America's export volumes may have widely varying significance for the United States market, depending on the product.

Four groups of cases may be distinguished here as examples of those which may merit individual attention:

(a) Goods excluded from the GSP scheme as import-sensitive articles. Under the Trade Act of 1974 their exclusion is binding for the President. Approximately 740 United States tariff items fall into this category, including shoes, some textile and made-up goods, some electronic goods and glass products. These items are of considerable present and potential importance for Latin America; of shoes alone Brazil exported 134.4 million dollars' worth to the United States in 1975.^{4/}

(b) Goods excluded from the system of preferences by a decision of the President, in the light of the results of public interviews and the recommendations of the International Trade Commission, because of the possibility of such imports having adverse effects on industry or employment in the United States. They include leather articles (such as handbags and gloves), textiles (underclothing, handmade carpets, bedspreads, table-cloths, etc.) and food (such as chickens and other poultry, fish, some dairy products, vegetables and fruit). Many of these items are of considerable present or potential interest to Latin America.

^{4/} CIF values. Source: US Imports for Consumption and General Imports. Annual 1975.

products made from these raw materials encounter serious problems of access to the EEC markets (leather articles, footwear, textiles, clothing, processed wood products).

As regards the multilateral trade negotiations a distinction must be made between the position of products which face limited competition in the developed countries and those which force intense competition.

The first applies to tropical products, for which Latin American countries should seek concessions within the GATT framework provided that they are contractual ones. So far, the offers made have not been acceptable to the countries of Latin America.

In fact no proposals were made in respect of bananas; as regards coffee an offer was made to reduce the tariff from 7 to 5 per cent (for non-processed nor decaffeinated coffee), a matter which is subject to the satisfactory operation of the International Coffee Agreement; it must be remembered that in this case a very serious obstacle is that of excise duties. Furthermore, no concessions were made on non-tariff barriers; and it would seem that most of the offers made by the developed countries in respect of tropical products would not contain an undertaking on their consolidation in GATT, and, therefore, cannot be considered firm.

As regards those products in which competition by the developed countries is intense, the concessions under the Generalized System of Preferences are preferred for they are not binding on the country's making them and are for the exclusive benefit of the developing countries; provided that the application of the Generalized System of Preferences is not unduly restricted. In particular, some commodities of interest to Latin America are included in the Generalized System of Preferences, but are subject to restrictions. For example, in the case of cocoa butter there is a tariff reduction, but it is subject to a quota; and in the case of tobacco the preference margin is very small.

(b) Exports of manufactures

Latin America's exports of manufactures to the EEC increased during the period 1955-1973 at an annual rate of 17 per cent, about half the rate of increase in exports of these goods to the United States and to Latin America itself. However, in absolute terms, the size of the EEC market for these goods is still less than half that of the United States market. Thus, EEC imports of manufactures from Latin America amount to just about 0.5 per cent of the total value of imports of these products; this means that there is ample scope for increasing and diversifying Latin American exports of manufactures to the Community. In particular, the composition of exports of manufactures to the EEC is noted for the relatively small share of the engineering and metal products industry, as distinct from sales to the United States and Latin America itself where the share of goods from these sectors, which involve a higher degree of processing, is greater. In contrast, in the case of foodstuffs their share in exports to the EEC is much higher than in exports from Latin America to the United States.

Latin American sales have been limited so far by unfavourable conditions of access to the EEC market, because of both the trade practices of transnational corporations, and difficulties of taking full advantage of the benefits of the Generalized System of Preferences. The problems of access affect three groups of products:

- (i) processed agricultural products;
- (ii) textiles, leather and leather products;
- (iii) the products of the growth industries, particularly the engineering and metal-products industry.

(i) Processed agricultural products. This group is the most important of non-traditional Latin American exports to the EEC and it faces formidable barriers. First, there is a high effective rate of protection with a scaled tariff structure depending on the degree of processing and second, non-tariff barriers have been erected, such as quantitative restrictions and sanitary regulations. Furthermore, the products included in the generalized system of preferences only enjoy small margins.

/There are

There are also important differences between the conditions of access of the countries of the Lomé Convention and those of the other developing countries, including Latin America. Similarly, the ACP countries have a more favourable régime for products covered by the common agricultural policy. In this respect there are some outstanding examples.

As regards meat products, there are very severe restrictions on fresh and chilled or frozen beef which are subject to the regulations of the common agricultural policy. For prepared and canned beef products, the applicable tariff is 26 per cent, whereas the ACP countries enjoy tariff-free access. Products prepared from other meats, such as chicken, mutton, pork, etc., are subject to tariffs which vary between 17 and 26 per cent; the GSP is applied to some products but the margin is very small.

For fish, seafood and fish preparations tariffs are very high. The types of fish of interest to Latin American countries bear the following tariffs: tuna (22 per cent), sardines (23 per cent), cod (15 per cent) etc. Seafood of interest to the region bear tariffs which vary from 13 to 18 per cent. Fish products which are subject to a greater degree of processing bear even higher tariffs. The generalized system of preferences is rarely applied and its margins are small.

In the case of fruit, preserves or any other preparations, the tariffs are high and, in this case too, the conditions applied to Latin America and to the ACP countries are substantially different. Autumn and winter oranges pay 20 per cent, compared with a duty of 0.8 to 4 per cent on those from ACP countries; there are also great differences in respect of lemons, mandarines and other citrus fruits, melons, apples, and pears. It should be noted that fruits are not included in the generalized system of preferences; and that fruit manufactures bear even higher duties: jams, purés, and pastes bear duties of between 17 to 30 per cent in addition to a moving surcharge.

/Processed coffee

Processed coffee and cocoa products are included in the GSP although subject to quotas, and in addition receive considerably different treatment from those of the ACP countries which are subject to no barriers whatever.

(ii) Textiles, leather and leather products. As regards these products which are of great importance to Latin America, most-favoured-nation tariffs are rather high. In addition, some Latin American countries are subject to quotas under bilateral agreements entered into under the GATT International Agreement on Textiles. Furthermore, although they are included in the GSP they are subject to severe restrictions since they fall into the category of sensitive and semi-sensitive products. For example, the Generalized System of Preferences does not apply to Brazil, Peru, Uruguay, Chile, Ecuador and Venezuela, among others, for certain types of cotton textiles and other fibres. Tariffs on textile products, particularly those with greater value added, are high; for example in respect of clothing for men and women it is 17 per cent, and as regards household linen it varies between 17 and 19 per cent.

The case of leather is somewhat similar. Whereas tanned hides bear relatively low tariffs, articles which involve a higher degree of processing bear higher duties.

(iii) Products of the growth industries, particularly engineering and metal products. They have enjoyed increasing reciprocal trade among developed countries. Tariff and non-tariff restrictions are rather lower than in other cases, and the elimination of duty has been accelerated. Many of these goods also benefit from exemptions under the Generalized System of Preferences. However, in contrast to the trends in sales to the United States, Latin American exports to the EEC has not yet reached any significant level. In addition, these exports cover a limited range of items, and are produced by few Latin American countries.

3. Relations between the EEC and selected areas

The EEC established and widened its relations with more than 80 countries of the world. A brief summary helps to show the possible consequences for relations with Latin America and to identify useful aspects for more effective co-operation. The countries can be divided into three main groups, on the basis of the form their relationship takes.

Importance is given to such policies in order to underline the desirability of defining a comprehensive policy for relations between Latin America and the EEC in keeping with the potential of both regions.

- (i) EFTA countries (European Free Trade Association)
- (ii) Mediterranean countries
- (iii) Member countries of the Lomé Convention (ACP)

The relations of the Community with each one of these three groups are different, both in terms of established machinery and the diversity of the economic and the trade structures in each case.

(i) EFTA countries. This is a free trade area created through a series of agreements. The most important implication for Latin America involves the exports of manufactures. In spite of the GSP, Latin American manufactures face tariff disadvantages, since the manufactures of all of the industrial countries of Western Europe are exempt from duties. A further disadvantage suffered by Latin America is that its industrial development is not so advanced as that of those countries.

(ii) Mediterranean countries. The framework of the special relations which exist between those countries and the EEC is defined by the global Mediterranean policy; treatment in specific aspects varies from country to country.

In general, the main features of these relations is the preferential trade system which operates through a variety of mechanisms, the setting up of a customs union (Greece, Turkey, Malta and Cyprus under article 238 of the Treaty of Rome); free trade (provisional agreements under article 113 of the Treaty of Rome with

a view to establishing a free trade area: Spain, Portugal and Israel); a broad scheme of trade co-operation (Maghreb countries: Morocco, Tunisia and Algeria, also under article 238 of the Treaty) or Preferential Agreements (Egypt and Lebanon). In principle, the aim of all these schemes is to liberalize the trade of industrial products and establish a preferential system for agricultural products. The difference between the different schemes lies mainly in the degree of reciprocity and of liberalization.

These mechanisms which reflect special relations are continually being strengthened and the possibility of the admission of some of these countries to the Community as new members has even been considered. Negotiations for the admission of Greece began formally in July 1976.

The Mediterranean countries are at a level of intermediate development, somewhat similar to that of the countries of Latin America, and, therefore, are strong competitors in the field of manufactures in which the Latin American countries are competing in the market of the developed countries. In addition, the Mediterranean countries export processed agricultural products which are also of great importance to Latin America. Thus, the strengthening of these relations entails considerable consequences for this region.

(iii) ACP countries. Through the Lomé Convention, the Community established a special system of relations with 46 developing countries. Although this Convention was preceded by those of Yaoundé and Arusha it is not a mere extension of them, for it established a system of global co-operation, which broadened the previously existing special relations and set up more efficient machinery for trade, financial, industrial and technical co-operation.^{4/}

^{4/} The description and analysis of this Convention and of its consequences for the countries of Latin America were presented in a previous study by the CEPAL secretariat. See "Relaciones comerciales, crisis monetaria e integración económica en América Latina", CEPAL Cuadernos, 1975, from page 7 onwards.

which may have inflationary consequences.^{8/} Furthermore, long-term projections for the European economy show a relative increase in the service sector, where the import content is considerably lower than that of industry.^{9/} For these reasons if the full weight of Latin America's bargaining power - which can affect European exports - is not brought to bear, the trend could lead to a slower rate in the relative growth of Latin American exports.

(b) Investment and specialization in production

The possibility exists in the medium and long term, as a result of an industrial specialization policy, of transferring to lesser developed areas some activities which are at present being located in Europe. In the theoretical discussions opposed positions were taken. On one hand, some analyses link the drop in the earning rates in Europe to the need for taking advantage of the inequality in the costs of production between regions (which mainly reflects lower labour costs); and conclude that many multinational corporations, installed in a unified international area would carry out certain phases of their production in developing countries, whereas they would concentrate the management of the process and the generation of technology in developed countries.^{10/} However, on the other hand, it was argued that it was a time-consuming process and that basically it could be an industrialization gadget, necessarily short-live.^{11/}

^{8/} See Organization for Economic Co-operation and Development, "Un scénario de croissance à l'horizon 1980", in Perspectives Economiques de l'OCDE, No 19, July 1976, p. 129 to 170.

^{9/} United Nations, Secretariat of the Economic Commission for Europe. Overall economic perspective for the ECE region up to 1990. Perspective outline (drafts, June and November 1976).

^{10/} See Charles-Albert Michalet, Le capitalisme mondial, Presses Universitaires de France, Paris, 1976 and the bibliography mentioned in this work.

^{11/} See Ministry of Industry and Research, Etudes de politique industrielle, Perspectives de la localisation internationale des activités industrielles, statement by the Minister of Industry and Research Mr. Mechet d'Ornano, pp. 64 and 65.

From the Latin American point of view, it is of some importance to be able to formulate hypotheses concerning the nature of the European industries which could be transferred to these countries; and in particular, to determine which branches or products would be involved, and what would be the dimension of that process.

Above all, it would be necessary to distinguish - as is done in chapter I - between foreign investments made in Latin America with the prime aim of taking advantage of lower labour costs through sub-contracting and those which aim at supplying the domestic market.

As regards the first, the most outstanding case is that of the Mexican "maquila" subcontracting-industry, which involves United States investment; furthermore, there is no substantial European investment in the region for that purpose. This type of investment involves activities in which the capital and research ratio is low and the absorption of relatively low-cost labour high.

The second concerns investment in the manufacturing industry which supplies the protected domestic market of the Latin American countries. As regards such investments, it would be of interest to determine first of all which industrial sectors would be given preference, with a view to establishing a few guidelines for future action. In this case, the main European investments in Latin America were made in transport equipment, chemical products and base metals. In contrast, investment is low in sectors such as textiles, clothing, leather, wood, paper and printing.^{12/} In other words, investments were directed preferably to branches of industry which have in their countries of origin a relatively high ratio of research and capital and, at the same time, high labour costs. However, the flow to activities with a low ratio of research and capital was small.

^{12/} More than 60 per cent of France's investment in Argentina, Brazil and Mexico is directed towards transport equipment and chemical products. In the case of Germany the corresponding investment in the same countries is 85 per cent. In contrast, investment in textiles by both remains at almost zero level in all three countries.

As regards these industries, since Latin American countries applied policies in the past which induced these enterprises to set themselves up in Latin America to supply the local market instead of exporting from the country of origin, it would be useful if they would henceforth use their bargaining power to induce them to export as well.

5. Consultations and negotiations between Latin America and the Community

Since contact was established between the Community and Latin America in 1958, attempts have been made on various occasions to set up suitable machinery for dialogue and multilateral negotiations. Latin America proposed through CECLA in 1970, the establishment of a system of co-operation and consultation machinery, and the organization of a meeting at ministerial level. It was agreed, in fact, to hold meetings at ambassador level. Seven such meetings have been held.

It cannot be denied that the results of these meetings failed by far to satisfy the aspirations of the Latin American countries; above all the Ministerial Conference designed to set up a better organized system of co-operation was not held. Similarly, the EEC project for a generalized system of preferences for 1976, introduced only minor improvements, in spite of the repeated manifestations of the Latin American countries and the submission of a list of products for inclusion; neither has any progress been made in respect of the major issues of financial, industrial and technological co-operation. There has only been slight progress in respect of trade fairs and expositions, trade missions and trade promotion seminars.

A very eloquent example of the limited interest in fact shown by the EEC, and of the consequences of the lack of dialogue at a suitable political level, are the measures adopted by the EEC on meat, which were adopted unilaterally and without consultation with Latin America.

/However, they

However, they have entered into agreements with Argentina, Brazil, Uruguay and Mexico. The agreements with the first three countries are limited practically to trade aspects; the agreement with Mexico also includes other subjects of co-operation. But they have all produced limited results.

Such scanty progress contrasts with the wide range of operational provisions being implemented by the Community with the three groups of countries mentioned previously. This point is even more noteworthy, since, as was mentioned earlier, Latin America is the developing area which absorbs the greatest share of direct investment from countries of the Community, and the one that accounts for the highest share of purchases of the more dynamic export of the European countries.

The possibilities for future progress hinge to very large extent on Latin America's capacity to make effective use of its bargaining power based on its purchases from the EEC. For this, it is necessary that the region negotiate and act in unity - since if each country is to act separately the significance of these purchases diminishes considerably - and show that it is prepared to take specific action through which the volume of its purchases from the countries of the EEC would vary in function with those which in turn the Community buys from Latin America. Of course, the same policy would be applied to other developed areas.

6. Co-operation between Latin America and the EEC

Although it is not the purpose here to outline the elements of such co-operation, mention may be made of some aspects which ought to be borne in mind.

The field of such co-operation should be wide, in response to the fact that the common interests involved cover both trade and direct investment, the transfer of other private financial resources and technology. Since European investment in Latin America is channelled into joint ventures with the countries to supply the Latin American domestic market, the natural counterpart called for is the opening up of European markets to the production

/of these

of these very enterprises. There are also those difficulties of access in respect of products, which by limiting Latin American exports to the EEC (with the ensuing trade deficit), act as a brake on the expansion of the purchases which Latin America could make in Europe in terms of equipment and intermediate goods which are essential to its development. Furthermore, industrial and technological co-operation, apart from the participation of the enterprises of the countries of the Community in the industrial development of Latin America, may also take the form of incentives to medium-sized and small enterprises by both parties; the transfer and adaptation of technology on conditions acceptable to both Latin America and the countries of the Community. In the case of the Lomé Convention, provision is made for the establishment of an Industrial Co-operation Committee which could also be considered in the case of Latin America.

As regards a suitable juridical framework for co-operation, it is worth bearing in mind the precedent set in the case of Canada, recourse having been had to article 235 of the Treaty of Rome which offers a greater margin of flexibility than article 113. A broad treaty containing provisions for co-operation, in accordance with needs, drawn up along the lines suggested by the different types of treaties entered into by the Community with the three groups of countries mentioned previously, is worth looking into as a possible framework for the case of Latin America.

Machinery for dialogue and negotiations should be established at suitable political levels; so far such machinery has been limited and inadequate compared with those established between Latin America and the United States, and also between the EEC and other developing or semi-industrialized countries of the world.

Finally, it should be mentioned that in such co-operation Latin America's unfavourable trends in its relations with the Community which were pointed out above should be borne in mind: the increasing trade deficit, the small share of Latin American exports to the Community, lack of diversification of those exports, and the low level of official financial assistance to Latin America from the EEC.

IV. RELATIONS WITH JAPAN AND THE SOCIALIST COUNTRIES

Relations with Japan

For the second consecutive year, Latin American exports to Japan declined in 1976, according to the estimates based on the figures for the first-half of the year. The 7 per cent drop was smaller than in 1975 (when there was a drop of almost 12 per cent in comparison with 1974) and in both cases these drops were due partly to the recession affecting the Japanese economy and partly to the fall in Latin American export prices in those two years. It should also be recalled that while the growth of Latin American exports to Japan in the three-year period 1972-1974 reached relatively high rates, this growth was not limited to the region alone since Japanese purchases in other areas of the developed and developing world grew at much higher rates. Between 1971 and 1975 Japanese purchases from South East Asian countries increased by 212 per cent; from the group of socialist countries by 233 per cent; and from the Middle East by 450 per cent (unquestionably as a result of higher oil prices). Purchases from Latin America, on the other hand, only rose by 92 per cent, less than the growth of Japanese purchases from North America (United States and Canada) and Western Europe.^{1/}

Latin American imports from Japan followed a similar trend falling by 6 and 10 per cent in 1975 and 1976 respectively, after having increased significantly in the three previous years. However, while Japanese purchases from Latin America in 1971-1975 grew by only 92 per cent, as indicated above, Japanese sales to the region in that period increased by 200 per cent, their highest growth rate after sales to the countries of the Middle East and the socialist area (primarily the People's Republic of China and the Soviet Union).

^{1/} Office of the Prime Minister, Monthly Statistics of Japan, No 183.

On the whole, the growth of Japanese external sales in recent years has been based primarily on the markets of the developing countries; the following figures illustrate the change which occurred between 1971 and 1975 in total Japanese exports (in millions of dollars).^{2/}

	<u>Total Exports</u>	<u>Developed Countries</u>	<u>%</u>	<u>Developing Countries</u>	<u>%</u>	<u>Socialist Countries</u>	<u>%</u>
1971	24 019	13 027	54.2	9 834	40.9	1 148	4.8
1975	55 753	23 434	42.0	27 632	49.6	4 683	8.4

The problems facing Japanese exports in the United States and the European markets, particularly the European Economic Community, may heighten the trend towards more rapid growth of trade with the developing world, especially if the process of liberalization of imports carried out at the beginning of the 1970s is renewed, having been interrupted partly by the recession and partly by the onset of the GATT multilateral trade negotiations. The restrictions applied by Japan mainly affect imports of meat and processed food, some fisheries products, various fruits and products of hides and skins, i.e., products which come very largely from developing countries. For the Latin American countries a substantial improvement in the Generalized System of Preferences applied by Japan would be very important; its effects hitherto have been very limited because of the low level of quotas for each product included in the system. Most of the developed countries have already made known the concessions they are prepared to make in favour of tropical products, and some are beginning to apply them in the present year. Although the majority of these concessions are really of very little significance, neither Japan nor Austria nor Canada have confirmed them.^{3/}

The importance of the Latin American countries in the Japanese policy of foreign investment, loans and trade will undoubtedly increase in the near future. The agreements entered into with Brazil,

^{2/} Monthly Statistics of Japan, op. cit.

^{3/} GATT, Press Release No 1190, 30 December 1976.

under which Japan will grant it loans for joint projects in the steel industry and some agricultural products, such as soya, and the agreements for the export of pulp and paper, iron ore and pellets, are good examples of the possibilities which exist of increasing mutual trade. It must also be recognized that Japan is making an effort to gain a better knowledge of the Latin American countries and broaden its relations with them by setting up offices of the Japan External Trade Organization, which is responsible for promoting export and import activities. It already has offices in a good number of Latin American countries. In November 1976, it co-sponsored with CEPAL a seminar on aspects of Japanese experience in the promotion of foreign trade, with the participation of representatives of eight Latin American countries.

2. Relations with the socialist countries

In overall terms these relations, in the past sporadic and limited to a few countries, show a tendency to become stronger and more diversified and permanent. The two basic issues are trade and co-operation agreements.

(a) Trade

Trade is relatively limited, but it has grown rapidly in recent years. Three groups of countries should be distinguished: Argentina, Brazil and Peru, which account for most of the trade; the remaining countries of Latin America, excluding Cuba; and, finally, Cuba.

In the first group, exports have grown rapidly, from an annual average of 238 million dollars in the period 1966-1970 to 974 million in 1974 and 1,209 million in 1975. Imports were rather lower, standing at 102 million, 270 million and 306 million dollars for the same years.

The volume of trade in the second group is less important. It exported an annual average of 50 million dollars, worth of goods between 1966 and 1970, 239 million in 1974 and 203 million in 1975. Imports in those years stood at 43 million, 173 million and 139 million dollars.

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Despite the low percentage of exports of Latin American countries (excluding Cuba) in total imports of the group of socialist countries, they are the main suppliers of wool, coffee, vegetable oils, cocoa and tin. Latin American imports from the socialist countries mainly consist of a great variety of manufactures, including electrical generators, mining, petroleum, railway and textile equipment, and agricultural machinery.

The 1973 trade figures show that foods and cereals accounted for half of LAFTA exports to the European members of CMEA, out of a total of 880 million dollars; agricultural raw materials and textile fibres represented 20 per cent, and manufactured products 18 per cent. 85 per cent of the 282 million dollars' worth of exports of the socialist countries consisted of manufactures.

Cuba has been a member of CMEA since 1972 and has close relations with the other member countries, particularly the Soviet Union. Average trade figures for 1971-1973 show Cuban exports to the other CMEA countries at 650 million dollars and imports at 900 million.

There are about 35 agreements which establish and regulate the trade between the Latin American countries - except Cuba - and these European countries. In almost all of them, the parties grant each other most favoured nation status in the trade of goods, although this does not extend to some special advantages granted to neighbouring countries or stemming from integration processes. In addition, recently re-exporting has been prohibited except when the parties agree to it. Joint commissions are usually set up for the application of the conventions.

An important change has occurred in payments. In the latest agreements signed by Argentina, Brazil, Colombia and Mexico with various socialist countries, it is established that payments shall be in freely convertible currencies, without prejudice to the forms of running down the previously existing trade balances, which the Latin American countries appear to have been unable to use to the full. Since 1972 the Council of the International Bank for Economic Co-operation - a member of the Council for Mutual Economic Assistance -

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approved the terms for adjustments in transferable roubles among CMEA member countries and non-member countries, through their own banks, including the possibility of using convertible currencies to repay loans. In turn, the International Investment Bank, also a member of CMEA, set up a special fund in January 1974 to grant loans in transferable roubles for economic and technical assistance to the developing countries (95 per cent in transferable roubles and 5 per cent in convertible currency).

(b) Economic co-operation agreements

In recent years there has been a shift from strictly commercial agreements to broader economic co-operation agreements, which do not concern trade alone but attempt to affect the factors which generate trade flows. The Latin American countries which have entered into this type of agreement are Argentina, Brazil, Colombia, El Salvador, Mexico and Peru, while the socialist countries are the German Democratic Republic, Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, the Soviet Union and Yugoslavia (not a member of CMEA). The agreements which are in force do not follow a single model. Some are essentially commercial and payments agreements; others also specify other areas for co-operation as well as the forms such co-operation will take, in some cases. Most of them are connected with the industrial sector, but some are also linked with scientific, technical and cultural co-operation. As a general rule joint commissions are established, which are responsible for seeing to the implementation of the agreement and opening up new possibilities for co-operation.

In the case of Cuba, economic co-operation takes on greater importance, since it is a member of CMEA. The main agreement entered into is for CMEA assistance in the construction of nickel and cobalt concentrate plants. In addition, at the request of the Government of Cuba, CMEA is studying the technical and economic problems of production and pulp and paper from sugar-cane husks. With regard to transport, the inclusion of Cuba in the CMEA container system is envisaged.

Economic co-operation among developing countries - including Latin American countries - and socialist countries has been the subject of statements by both of these groups since the creation of UNCTAD. Section VIII of the Manila Declaration adopted by the Group of 77 sets forth the views of the developing countries as a whole on trade and economic co-operation with the socialist countries, including financial assistance. At the Fourth Session of UNCTAD the group of socialist countries adopted a long declaration in which it reaffirmed its aims of strengthening multilateralism in economic and trade relations; resorting to a greater extent to multilateral payments in transferable roubles and other currencies; joining efforts with interested developing countries for the solution of their main economic problems; and, finally, improving the machinery of mutual co-operation so that it should reflect to the greatest possible extent the specific nature of relations among countries with different levels of developed and social and economic systems.^{4/}

At its fourth session, UNCTAD also adopted resolution 95 (IV), which repeats similar recommendations which are more or less to those adopted at its earlier sessions. It further recommends that the Secretary General of UNCTAD should hold consultations with the member countries of the Council for Mutual Economic Assistance in order to determine the trade opportunities for the developing countries stemming from the implementation of the various multilateral schemes of the CMEA member countries, and in the light of these consultations convene an intergovernmental group of experts to evaluate the results and put forward recommendations on the measures to be adopted and their implementation. It also requests the Secretary General of UNCTAD to convene another intergovernmental group of experts to study, in particular, the feasibility of a multilateral system of payments between the socialist countries members of CMEA and the developing countries. Decisions 138 and 139 adopted by the Trade and Development Board at its 16th session, in October 1976, defined the terms of reference of these two groups of experts.

^{4/} See United Nations Conference on Trade and Development, Fourth Session, Joint Declaration by the Socialist Countries, Doc.TD/211.
/V. LATIN

V. LATIN AMERICAN ECONOMIC INTEGRATION

1. General remarks

Any study of integration in recent years reveals a number of positive aspects which have directly or indirectly given rise to this process in Latin America. The way in which this has contributed to industrialization and in particular to the export of manufactures in Latin America will be discussed further on.

Even if these achievements are assessed in their true light, it can be said that today, after fifteen years of experience in integration, much less progress has been made in taking advantage of the potential it offers than was expected or seemed possible. In some cases, and especially in periods of shortage of international means of payment, the results have consisted mainly of compensatory effects in the sphere of trade, through the utilization of the installed capacity, with possibly lesser repercussions in terms of new investment.

In other situations, when the relative shortage of external payments has been a secondary factor, the forces of integration have tended to manifest themselves in other ways, the exploitation and industrialization of natural resources, the construction of major infrastructure projects and in general in the formation of industrial capital, mainly in the more dynamic and advanced sectors. These unlike the previously mentioned manifestations, have a more direct multiplying effect of integration in the sense that they represent an element of continuous impulse to growth.

In the two decades which have gone by since the first integration agreements were concluded the most obvious effects have been of the first type mentioned and the main influence has been in broadening and making better use of existing activities. The multiplying or development effects, through investment and the development of industries of greater regional scope, have been in existence and have led to major achievements in some cases, but in general they have been of relatively lesser significance.

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From this point of view alone one can appreciate the need to introduce substantive changes in the orientation of this process, aimed at giving greater priority than in the past to building up basic capital and production capacity, which have been lagging behind in the integration processes.

In this respect the progress made in linking the economies was not accompanied by an exploitation of the external and internal conditions which were especially favourable to the integration process during the last two decades. Thus a long period went by during which high rates of expansion predominated but were not reflected in an equivalent broadening of the integrated economy. During the last 25 years Latin America recorded one of the most intensive and continuous movements of expansion.

At the same time as these movements of expansion occurred, the Latin American economies tended to become more closely interlinked and to depend increasingly on imports of capital goods, raw materials and intermediate products from third countries for their development. It is difficult to determine whether the rapid expansion of dependence on the exterior or the creation of greater Latin American economic interdependence had greater relative significance in this well-known process.

In respect of this point, it is clear from any angle that the 25 years which have gone by did not produce any decisive change in the relations existing previously, and instead established conditions in which for many countries, their economic links with the rest of Latin America became a factor of their development. Thus for more than half the countries exports towards the regional economy already represented between 20 and 30 per cent of the total exported, either under the stimulus of the general integration policies or under that of other policies and special arrangements which in general may be assumed to have been induced by those policies.

At the same time, in recent years a very positive trend has been emerging in the expansion of the geographical sphere in which integration is making itself felt, either directly or through the

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forms of co-operation it has encouraged. It is thus a fact that the economies of the countries have been becoming more closely linked not only within each regional integration group but also, in many cases, with other countries and integration groups, despite the fact that they are frequently separated by considerable economic distances in respect of their individual capacities.

This process of the rapprochement of schemes and countries in general tends to afford greater flexibility and possibilities to integration and can in this way contribute to overcoming the problems faced by a number of the existing schemes which, together with other factors, determined a contraction in the quantum of trade in 1975 for the first time since the integration agreements were signed.

In other words, a greater and more flexible degree of rapprochement of schemes and countries seems a prerequisite for strengthening the various groups. If that is so, it can be envisaged that in the future the new phases which integration will reach will increasingly tend to be based on a double link: within the system which is integrated, and between that system and other groups and countries of Latin America.

Lastly, the integration process is now at the same time experiencing the accumulated consequences of the situations of crisis and stagnation which for many years have been affecting the Central American Common Market and LAFTA and of the crisis which has recently risen within the Andean Group.

The significance of these crises is very different in each case. However the fact that this common trend towards crisis has been recorded may indicate that the various efforts at integration have lacked one or other indispensable element to contribute towards solving the problems of development which the countries face or to respond to the transformations and very rapid changes in economic situations which have occurred over the years. There may also have been slow progress in the creation of sufficiently broad economic possibilities to resolve problems which the advance of integration itself is producing. Mention should also be made of a problem which has been difficult to overcome, namely the trend towards the concentration of the benefits

/of integration

of integration in the more industrialized countries; in general all the schemes may also have been influenced by the lack of a perspective which would clarify the consequences of integration and its possible economic effects on the various countries and which would thus stimulate various sectors of activity towards new achievements based on the regional markets.

In either case the current situation, characterized by the combination of problems and the relative loss of impetus to continue advancing or even to apply previously agreed policies, has been developing under the influence of various elements. For a while the influence of this critical situation appears to have been concealed by the prolongation of impulses which continued to derive from previous dynamic trends. Thus for some years the institutional crisis of integration and the expansion of trade coincided, although the former undoubtedly affected the size of the latter and restricted the possibilities of making broad investment in regional programmes and projects. Whatever the case, it is clear that these dynamic effects deriving from the past seem to have been exhausted and a clear indication of this is the contraction in the volume of regional trade in 1975, which must also have been affected by the reduction in exports to the rest of the world.

As to the future, the most advanced proposals which can be envisaged to enable the Latin American market to operate as a source of support for efficient and complex economic structures would basically presuppose that the various crises would be overcome, since they affect not only each scheme in isolation but also the policies and possibilities of integration in general.

If this general qualification of the crisis is accepted, it must also be supposed that solutions of this same scope are required which, together with broad programmes and co-operation projects, operate on the basic problems and correct the trends towards imbalance in the development of the countries and the other factors which may be producing the trend towards repeated crises which has already been mentioned.

2. Economic growth and its relationship to the demand for intra-Latin American imports

This relationship is an indicator of great interest in assessing the degree of true integration and the links which have been established between the economies of Latin America over the years.

Viewed from a broad perspective it can be seen that as the integration processes have advanced, for many countries of Latin America an increasing proportion of the product has been converted into imports from the rest of Latin America. This phenomenon has existed in the region since 1960 and shows the extent to which the operation of the economy of a country generates a demand for goods from other countries of the region. In this way part of their dynamism is transferred not only to the world industrial centres but also to the other centres of supply in Latin America.

The true significance of this evolution will depend on how widespread it becomes in Latin America and whether it involves most of the countries or only arises in a few of them.

The evolution of the three largest countries shows appreciable differences, but in general the ratio between their economic activity and their imports from each other and from the rest of Latin America, is still low. They have a strong tendency to export towards Latin America and a lesser tendency to import from it. From this point of view no clear integrating trends arise. The main links among the major countries in recent decades have arisen through exports, joint investment and the development and trade of natural resources, and also in the construction of infrastructure projects of major regional importance.

The medium-sized and small countries show a clear trend towards establishing links with the rest of the economies of Latin America and between each other which did not exist in previous periods and which became accentuated over the last five years, importing from the region a growing proportion of the product in line with its increase. Thus the ratio of imports to the product rose from 1.7 per cent in 1960 to 4.0 per cent in 1974.

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It should also be added that unlike the larger countries, whose main link with the others is through exports, this group of medium-sized and small countries establish links with others mainly through imports and their capacity or general trend to export, particularly towards the large countries, is much lower.

This can be summed up by saying that in respect of the exports made in Latin America two trends have arisen. The group of large countries export less between each other and relatively more to the rest; while the other countries export a lower proportion to the larger countries and consequently depend relatively more on the exports they carry out between each other.

	1960	1965	1970	1973	1974	1975 <u>a/</u>
Exports among Argentina, Brazil and Mexico, (percentage of the total to Latin America)	51	32	48	39	37	38
Exports from Argentina, Brazil and Mexico to the rest of the countries of Latin America (percentage)	49	48	52	61	63	62
Exports from the rest of Latin America to Argentina, Brazil and Mexico (percentage of the total)	46	39	37	34	36	...
Exports of the rest of the countries of Latin America among themselves (percentage of the total)	34	61	63	66	64	...

a/ Estimated.

As a result of these trends the trade of the other countries (excluding Venezuela) produces an increasing negative balance in their relations with the group of the three largest economies of Latin America. These trends towards imbalance in the trade between the countries show the need to advance towards greater complementation in that the economies of the more industrialized countries need to import products from medium-sized and small countries and require them for their development process.

The significance of all these facts is not easy to discern. In general the continuous rise in the intra-Latin American import coefficient in almost all the countries seems to reflect the emergence in the last decade of interlinked forces which partly replace the forces which tended to isolate them or maintain their relative isolation as seems to have occurred in 1950-1960.^{1/}

At all events it seems clear that there is an interrelation of the Latin American economies between each other which for some of the countries is taking the form of an additional dimension of development and which in general was not present in Latin America at the beginning of the 1960s.

Along with these factors there are various conditioning factors and evident limitations in operation which should be mentioned. The period of the greatest expansion of the economies went by without achieving a sufficient degree of complementation. The reconsideration of the forms of economic co-operation which is involved in the various crises now takes place in possibly more difficult conditions and with an uncertain perspective in respect of the world economy. Furthermore, while the sphere of co-operation and integration has made progress in Latin America, it has achieved a level of greater complexity at which the problems now arise.

It should also be noted that while this trend to the growth of the economy of the countries generating a proportionally higher regional demand for goods existed, the gross domestic product rose four times

^{1/} Between 1950 and 1960 the estimated intra-Latin American imports coefficient fell from 1.6 to 1.3 per cent.

and manufacturing production five times, and industrial exports came to constitute around 20 per cent of the totals. In comparison with these rapid changes in the economies there is no doubt that the integration process advanced slowly.

It did, however, succeed in establishing very strong links and complementarity in particular schemes, as in the case of Central America where the integrated structures have come to be a permanent part of the national economies. It also made its influence felt during the period when Latin America initiated exports of manufactures, which would probably have been smaller and less dynamic without the experience of the regional market. Although this point will be discussed further on it is stressed at this stage of the appraisal as one of the aspects in which the integration efforts and the regional economies most clearly accompanied the development process of the countries by providing them with a market for the products of industries which constitute the most recent strata of their production structure, or those of most rapid development.

3. Integration and the industrialization process

The impact of integration, in the case of industry, varies in form and extent according to the economic size and the stage of development of the countries. It tends to be greater in the small countries which undertook more advanced integration efforts, as will be seen below when studying the Central American Common Market. In these countries, market expansion has often been the condition for setting up many of the production goods and other industries established from the 1960s onwards. In the medium-sized countries the impact, while less noticeable, still appears to have been felt and may be assumed to have helped to increase the operating scale of the more complex and advanced industries.

In the case of the larger Latin American countries, the effects of integration on the industrialization process are seen most clearly in the export phase of their industry. Today this group of countries exports about 1,100 million dollars' worth of products of the

/metal-working

metal-working industries to Latin America alone, which represents about 40 per cent of the total value of these exports. This figure is 70 per cent for Argentina, 45 per cent for Brazil, and considerably lower for Mexico which places a higher proportion of its production of such goods outside Latin America.

In any event, in different forms and to a varying extent industrialization and the process of linking up the national economies of Latin America have gone hand in hand, and apparently will tend to support each other to an increasing extent in the future. This seems to have been confirmed in 1975, when the drop in total exports to third countries was cushioned by trade within Latin America, which increased in value over the previous year or fell less than the former. Of 18 countries, only four were exceptions to this general trend, although the quantum of total exports declined in 1975.

These findings are also confirmed by a study of the different integration groupings.

(a) Central American Common Market

The case of the Central American Common Market is interesting because of its peculiar structural and working conditions. Its development is not normally accompanied by a fall but rather by the maintenance or expansion of the ratio of imports from outside the group, as a requirement of its own growth (table 1).

In this group imports both from Central America and from other industrial countries rose, and the total imports-product ratio increased from 17 per cent in 1950 to 29 per cent in 1974, while that of imports from Latin America rose from 1 to 9 per cent. It should be observed that imports substitution by Central American production represented somewhat more than three-quarters of this striking growth. What is unusual in the case of the Central American countries, however, is that the stimulus their integration gave to regional production and trade perhaps led to a much higher level of imports from outside Central America than could have been purchased in the industrial centres without such regional production and substitution.

Table 1

CENTRAL AMERICA: RELATIVE IMPORTANCE OF REGIONAL TRADE IN THE TOTAL FOREIGN TRADE OF EACH COUNTRY

(Percentages)

	1960	1965	1970	1971	1972	1973	1974	1975 ^{a/}
<u>Central America</u>								
Exports	6.5	15.1	23.1	20.8	19.1	19.9	21.0	19.5
Imports	5.7	13.5	21.1	18.3	18.9	17.9	15.9	15.4
<u>Guatemala</u>								
Exports	5.5	17.0	29.9	27.8	26.6	25.7	24.0	23.2
Imports	5.0	12.1	19.2	17.9	17.8	17.3	15.0	12.4
<u>El Salvador</u>								
Exports	10.9	21.6	29.0	29.9	25.5	26.6	27.8	21.0
Imports	9.5	18.4	23.8	21.7	22.9	21.0	18.2	19.5
<u>Honduras</u>								
Exports	10.2	15.9	9.7	2.5	2.9	4.6	8.2	10.2
Imports	6.7	18.9	22.6	7.4	10.2	11.0	9.4	11.5
<u>Nicaragua</u>								
Exports	4.3	5.7	23.9	22.3	19.9	19.9	20.0	20.4
Imports	3.3	11.7	22.1	22.7	22.7	21.7	20.4	20.3
<u>Costa Rica</u>								
Exports	1.8	13.5	17.4	16.3	14.5	16.5	19.0	17.3
Imports	3.1	7.4	19.3	19.6	19.0	16.8	14.7	13.9

Sources: CEPAL, on the basis of official figures, at current prices.

^{a/} Preliminary.

/In turn,

In turn, the process of integration itself was strengthened since the ratio of imports from third countries did not have to fall; thus a twin process of generation of trade developed, both in the area becoming integrated and outside it. Clearly, imports from third countries could be maintained because of the conditions of the traditional markets, but it is assumed here that in addition they were increased by the stimulus given to these economies by integration, which boosted demand both within the region and for imports from the industrial centres. This is a feature which may arise in the future in other regions and countries of Latin America as a form of transfer and stimulation of demand not only towards the outside world but also between different integration schemes and countries.

In the MCCA's boom period (1961-1968) the industrial value added grew 1.6 times more than the gross domestic product, which meant that the expansion of trade within the group was based almost entirely on manufactured goods. In other words, industrialization was clearly founded on the common market, which was the basis for the expansion of installed capacity and the creation of new industries which needed the common market for their operation. There was also some change in the productive structure: the share of the intermediate and engineering industries doubled between 1960 and 1970; and structural changes also occurred both in total and intra-zonal exports.^{2/}

The period following 1970 has been awkward and clearly reveals the imbalances in regional and external transactions and the economic and social problems affecting each country. On the other hand, the efforts made to reorganize the formal workings of the integration process in 1975 and 1976 have led, so far, to the submission by the High-Level Committee for Restructuring the Central American Common Market of a draft Treaty of the Central American Economic and Social Community, which is under discussion.

^{2/} For further details see CEPAL/MEX/74/18 (Table 11).

These figures are of considerable importance for the future potential of the Latin American regional market. It will be recalled that the majority of the products included in the industrial complementarity agreements fall precisely within the chemical and engineering sectors (excluding the transport equipment sector, where there are no complementarity agreements). In addition, for some kinds of metal-working products the Latin American market has begun to show signs of a certain amount of specialization and co-operation among countries, whose horizons may grow wider.

(c) The Andean Subregion

Trade within the subregion has grown considerably, as a result of tariff reductions and special treatment to the relatively less developed countries, sometimes accompanied by national export promotion policies (see table 3).

If petroleum and petroleum products are excluded from trade among the six countries of the group, the increasing share of industrial products is apparent in the export structure within the subregion: from 48.2 per cent in 1969 to 66.8 per cent in 1974. The relative share of new, non-traditional products within this total rose from 7.9 per cent to 43.4 per cent in that period, or from 7 million dollars in 1969 to 156 million in 1974.^{4/} Similarly, in only two years of existence the metal-working programme has given rise to a trade flow of 6 million dollars, previously such trade was practically non-existent.

^{4/} JUNAC: "Evaluación de la marcha del proceso de integración", Document JUN/di 195, Lima, March 1976.

Table 3

ANDEAN GROUP: EXPORTS WITHIN THE SUBREGION

(Millions of dollars FOB)

	1969		1974		1975a/		1976a/	
	Total	Hydro-carbons	Total	Hydro-carbons	Total	Hydro-carbons	Total	Hydro-carbons
Bolivia	4.8	-	62.0	52.2	25.7	16.3	32.6	19.0
Colombia	44.3	14.1	140.6	-	248.7	-	262.2	-
Chile	13.3	-	67.8	-	106.4	-	123.1	-
Ecuador	11.4	-	172.1	127.2	153.6	108.2	219.3	166.0
Peru	26.8	-	69.0	-	129.9	-	54.9	-
Venezuela	69.8	62.0	254.4	230.2	172.9	147.7	208.2	177.5
Exports within the subregion	170.6	76.1	765.9	409.6	837.2	272.2	900.3	362.5
Total exports (all destinations)	5 540.0	2 270.0	21 853.0	15 445.0	16 104.0	11 161.0	16 649.0	...

Source: JUNAC, Documents JUN/di 195. op.cit., Carta informativa N° 57, agosto de 1976 and CEPAL estimates for petroleum in 1975.

a/ Estimate.

This process of diversification of trade within the Andean Group did not affect equally the exports of all the countries. In Bolivia and Venezuela, more than 97 per cent of the trade was concentrated in a very small number of products, especially hydrocarbons. While oil is predominant in Ecuador, exports are becoming noticeably diversified. In Colombia, exports are mostly made up of industrial goods whose sales were incipient or non-existent in 1969, and the country has attained the most diversified structure of exports of all the member countries of the subregion. In Chile, sales of manufactures are predominant; chemical wood pulp, newsprint and copper bars and wire were the main export products between 1969 and 1974. Peruvian exports are characterized by their relative diversity and the predominance of manufactures, although the sale of certain agricultural and mining products continue to be important. In sum, exports are presently diversified, whereas in 1969 subregional trade was limited to a few products, primarily traditional goods (91.8 per cent), whose relative share fell to 44.8 per cent in 1974.^{5/} The products subject to automatic tariff reduction have had a growing share in this process.

It is difficult to assess the possible influence of the integration process on the industrial productive sector because of the slowness with which industrial programming projects reach maturity and the lag of the entire programming process.^{6/} Perhaps the most specific cases occur in Bolivia and Ecuador with the installation of new industrial plants intended to produce the goods assigned to those countries in the first metal-working programme adopted in 1972. According to official Junta data, 80 productive enterprises are being built or expanded throughout the Andean area in this sectoral industrial development programme.

After two years of negotiations, at the end of 1976 Chile decided to withdraw from the Cartagena Agreement. One of the consequences of this decision is that the sectoral industrial development programmes will have to be renegotiated among the remaining members.

^{5/} JUNAC, Document JUN/di 195, op.cit., chapter IV, Los resultados obtenidos. Table 14. These percentages correspond to the export structure excluding petroleum products.

^{6/} Luis Barandiarán - El Pacto Andino: situación actual y perspectivas. Document presented at the Second Latin American Export Promotion Seminar, Caracas, 25-30 July 1976.

(d) Caribbean Community and Common Market

After an initial phase (1968-1973), the Caribbean Free Trade Association (CARIFTA) became the Caribbean Community and Common Market in 1973. The integration process is highly dynamic and is constantly undergoing changes to adjust its working machinery. CARICOM has shown itself to be the most pragmatic of all integration schemes in Latin America in carrying out its policies.

The growth of trade within the subregion has been considerable in recent years. As may be seen from table 4, between 1970 and 1974 imports from within the Caribbean grew more rapidly than those from the rest of the world.

At the country level there is a difference between the less developed and the larger countries. Jamaica and Trinidad and Tobago continue to predominate in trade. While the former purchases 40 per cent of all imports, the latter accounts for 66 per cent of total exports. Furthermore, trade within CARICOM tends to be concentrated in the four larger countries (80 per cent of imports and 94 per cent of exports).

The effect of this trade on the manufacturing sector has so far been limited. Industrialization largely depends on imports of raw materials and intermediate inputs, as is natural given the resources of the Caribbean countries. Most of the factories are for the assembly and export of light manufactures and durable consumer goods (mainly electrical) by Jamaica and Trinidad and Tobago, and other manufacturing sector efforts have had little effect on the regional industrial product.

Table 4
 CARICOM: FOREIGN TRADE
 (Millions of Eastern Caribbean dollars)

Country	1970		1972		1974a/		1975b/	
	Total	Intra-zonal	Total	Intra-zonal	Total	Intra-zonal	Total	Intra-zonal
<u>Imports (CIF)</u>								
Barbados	235.0	27.0	270.4	36.5	418.3	72.3	432.6	76.6
Guyana	268.0	37.8	274.4	47.3	519.0	138.0	718.5	147.6
Jamaica	1 050.0	19.1	1 183.6	63.9	1 850.1	141.3	2 438.0	204.8
Trinidad and Tobago	1 087.0	26.9	1 471.1	41.2	3 777.6	61.8	3 243.8	91.4
<u>Subtotal</u>	<u>2 640.0</u>	<u>110.8</u>	<u>3 199.5</u>	<u>188.9</u>	<u>6 565.0</u>	<u>413.4</u>	<u>6 832.9</u>	<u>520.4</u>
Other countries c/	320.2	57.7	396.7	65.4	551.3b/	91.8b/
<u>Total</u>	<u>2 960.2</u>	<u>168.5</u>	<u>3 596.2</u>	<u>254.3</u>	<u>7 116.3b/</u>	<u>505.2b/</u>	<u>...</u>	<u>...</u>
<u>Exports (FOB)</u>								
Barbados	78.0	16.7	84.5	23.2	172.3	37.8	218.6	42.6
Guyana	258.0	25.2	276.2	34.7	543.1	74.9	762.7	84.8
Jamaica	679.4	26.9	721.8	42.0	1 444.9	63.9	1 701.2	71.6
Trinidad and Tobago	963.0	91.6	1 071.5	121.0	4 165.9	289.1	3 878.4	346.4
<u>Subtotal</u>	<u>1 978.4</u>	<u>160.4</u>	<u>2 154.5</u>	<u>220.9</u>	<u>6 326.2</u>	<u>465.7</u>	<u>6 560.9</u>	<u>545.4</u>
Other countries c/	57.8	12.6	142.4	17.8	275.2b/	29.9b/
<u>Total</u>	<u>2 036.2</u>	<u>173.0</u>	<u>2 296.4</u>	<u>238.7</u>	<u>6 601.4b/</u>	<u>495.6b/</u>	<u>...</u>	<u>...</u>

Source: CEPAL: Economic activity in 1973 in Caribbean Community countries (ECLA/PCS 74/10) and in 1975 (ECLA/PCS 76/6).

a/ Preliminary.

b/ Estimate.

c/ Including Belize and the ECCM (including Grenada, which became independent in February 1974).

In 1975 and 1976 a number of measures were taken to step up and strengthen the integration process. These include the creation of the Caribbean Food Corporation in 1976, whose aim is greatly to reduce imports of foods which have been growing at an alarming rate: they represented 14 per cent of total imports in 1974, only one-tenth of which was accounted for by intra-zonal trade. In addition, the Corporation supervises the joint maize and soya project in Guyana which belongs to the Governments of Guyana, Trinidad and Tobago and St. Kitts-Nevis-Anguilla. A similar project is being negotiated between Belize and Jamaica. Both seek to provide food inputs for livestock and meat for the CARICOM countries.

In the industrial sector, three multinational projects are under study: an aluminium refinery to be set up in Trinidad and Tobago, which that country will share with Guyana and Jamaica; a cement plant to be set up by Barbados and Guyana; and a textile project shared by Guayana (cotton production) and Trinidad and Tobago (processing into final products). In addition, special measures have been adopted in favour of the less developed countries. Thus the Council of Ministers of the Eastern Caribbean Common Market encouraged the establishment of 35 new industrial firms among the seven countries on the basis of five to each country. In addition, seven other large-scale industries were chosen to cover the entire CARICOM market, including the four larger countries.

While many positive developments have taken place in Caribbean integration, as reflected in the achievements of the subregional integration process, a number of weak points remain to be tackled.

The balance-of-payments difficulties of the larger countries (excluding Trinidad and Tobago because of its petroleum) and the fiscal difficulties of the smaller countries will probably continue until the end of 1977 or even into 1978. Another point is the absence of a clearly established obligation to carry out prior consultation among CARICOM member countries before they individually enter into bilateral treaties and industrial complementarity agreements with

/third countries.

third countries.^{7/} Furthermore, the exchange rate movements of the different countries have caused disequilibria in recent years, and there is a certain lack of co-ordination of monetary policies.

Finally, problems of infrastructure, administrative capacity, skilled labour and market size make it difficult for the relatively less developed countries to attract industrial investment.

4. Interrelations and closer links between integration groups and other countries of Latin America

A striking feature in the past was the lack of economic links between the integration schemes, marked by a somewhat isolationist tendency with respect to each other and to other Latin American countries which did not belong to the same scheme.

This has been changing in recent years. Under the influence of various circumstances, integration has ceased to be limited mainly to economic relations within specific integration groups and has entered a phase of more open relations. The geographical scope of economic co-operation has to some extent become broader than the individual subregional schemes.

A first indication of this lies in the growing geographic scope of trade within Latin America. Although most (61 per cent) of total trade in Latin America is carried on among neighbouring countries, the effects of integration are clearly tending to spread to more distant countries. In the case of the three countries with the greatest economic weight, this development and their increasing supply capacity has caused a movement towards decentralization, in which trade with distant countries is growing more rapidly than any other, and several times faster than trade with neighbouring countries. This has also happened in other groups of countries, such as many of the medium and small countries which have shown a noticeable trend towards trade with the

^{7/} It should be noted that during the negotiations with the European Economic Community led to the signature of the Lomé Convention, the four larger countries acted together.

large countries and with others which may or may not be members of the same integration scheme. This is a recent phenomenon which deserves careful attention.

In the first place, the links which have begun to grow among integration schemes and between them and specific Latin American countries in no way signifies that the economies of scale of the subregional groups have been exhausted, thus stimulating the surge for broader opportunities. On the contrary, many economies of this kind remain, but for various reasons the different groups have run into increasing difficulties in taking advantage of their economic potential, and at some stage of their development their progress has stalled or been reversed.

The possibilities thus arises that the growing links among the different integration schemes or between them and countries with which special grounds for complementarity exist, may stimulate and strengthen the different groups themselves, which in turn appears to be a prerequisite for broader integration.

In fact we are still far from such a situation, although the need for it is becoming increasingly clear from day to day. At present, there is really very little communication and trade among the integration groups, and their efforts are mainly directed towards import substitution. Furthermore, it is assumed that the more complex industrial products which the different regions cannot produce themselves must necessarily be imported from the world industrial centres.

As a result, the most dynamic component of national demand is transferred to third countries, particularly in the periods of rapid growth, while the rate of integration slackens, as may have happened in 1972-1974. Latin America as a whole is thus in a vulnerable position with regard to the capital goods and production equipment it needs, since its supply reacts belatedly to the growth of domestic demand for such goods. Both the individual countries and the regional schemes seem to run into some limit in this important area. It may therefore be assumed that the high coefficient of elasticity of imports, which reached an average value of 1.3 in 1965-1973, indicates that

/during the

manufactured products which Latin America wishes to export to the United States market or to other markets for which the evaluation made is acceptable. The institute would, of course, only make such evaluations at the request of exporters or producers. The institute can also serve as a centre for information on the norms required in the consumer market and could provide technical assistance to secure better observance of them at the lowest possible cost. It would not necessarily require large laboratories as in many cases it could undoubtedly recommend the use of existing institutions for that purpose in certain spheres. The institute would be financed by the countries and could charge for its services. For its establishment it would be worth seeking the co-operation of the authorities and enterprises of the possible exporting countries and also that of the authorities of the importing country.

(d) The European Economic Community

Although for a long time Latin America and the European Economic Community have maintained a major and growing trade relationship there is no institutionalized mechanism to monitor this relationship and stimulate reciprocal trade. It therefore seems advisable to encourage a meeting of Latin American and EEC representatives at an appropriate level to consider the implications of the establishment of a mechanism in this respect. It is desirable in studying its design to take into account not only the increasing strengthening of the trade relations between Latin America and the Community but also the advisability of enabling it to provide industrial, financial and technical assistance for the fulfilment of its objectives.

From the point of view of Latin America, an appropriate mechanism can facilitate consultations and negotiations. Such a mechanism alone would not, however, change the region's negotiating power; it is also necessary to analyse carefully the means of improving the region's negotiating capacity. Such measures could include joint action in decisions to purchase or sell certain products, or in the operation of tariffs and other disincentives to import.

/Simultaneously, and

Simultaneously, and in parallel, specific action can be taken by the Latin American countries to obtain from the Community an equivalent treatment in the sphere of trade to that which it affords to the less developed Mediterranean countries and other developing countries, including the signatories of the Lomé Convention. It is also possible to seek an understanding in respect of agricultural products for which the extra-community trade is affected by community arrangements such as the common agricultural policy. The approach of specific cases can be useful in this context, when applied to products selected from among the three main groups of manufactured products imported by the EEC; processed agricultural products, textiles and leather products and products of the more dynamic industries such as the metal working and machinery industry.

Another sphere of action in which many mutual benefits for the Community and Latin America can be expected is that of studying a broader framework of economic relations which would include, inter alia, direct private investment by the Community in Latin America. It is possible to obtain reciprocal benefits from the investment made by European enterprises, for example through production both for the internal Latin American market and the European markets, if access is gained to them.

This broader framework can also include an analysis of the long-term complementation of the economies of Latin America and the EEC which would facilitate the definition of lines of specialization and co-operation between the two regions.

(e) Japan, member countries of CMEA and other developing areas

As part of the necessary diversification of Latin America's external economic relations, the increase of trade with Japan and the member countries of CMEA can produce important results in the next few years. Japan has shown interest in joining with Latin American countries in respect of natural resources and their processing; it is beginning to carry out a policy of the decentralization of industries for reasons linked with the cost of labour and with the environment; and it has experience in the adaptation of technologies to conditions

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more like those of the developing countries. The trade of various Latin American countries with the member countries of CMEA has increased significantly, the scope of the trade agreements has been broadened and at the same time experiments in industrial co-operation and technology have been carried out, which although as yet limited are of significance. The systemization and strengthening of the co-operation efforts deserve special attention in both cases.

With regard to the developing countries of other areas, the current development of Latin America makes it possible to realize co-operation of mutual benefit for the broadening of markets and technological advance. Until now this co-operation, except in isolated cases, has been limited. SELA can be an important instrument to complement the initiatives of individual countries of the region.

2. Financing and debt

As has been indicated in previous chapters, the problems of financing and debt in Latin America are closely linked with trade. The greater the success attained in the trade sphere, in terms of the increased access of Latin American exports to the main world markets, the lesser will be the need to seek formulae to alleviate the burden of foreign debt servicing and ensure the participation of Latin America in the concessional resources available.

With regard to this last aspect, it should be pointed out that the concessional resources are being directed mainly at the poorest countries and those described as "most seriously affected". This occurs both in official bilateral aid and in the multilateral agencies, and gives rise to two problems. On the one hand, various Latin American countries are being forced to turn to the private capital markets and private banks to meet their growing financial needs, but no policies have been formulated in this respect in the international sphere and none are envisaged. On the other, a certain number of Latin American countries still need official assistance under the traditional terms and conditions, but cannot obtain it because of the emphasis placed on the poorest and most seriously affected countries. Latin America

/is thus

is thus in a middle position: while there is neither a policy nor an institutional mechanism available for the more advanced countries, the existing policies and mechanisms are mainly oriented towards assisting the poorest and most seriously affected countries rather than the less advanced countries of Latin America.

This new problem of Latin America could be resolved by modifying the criteria of classification used to determine the poorest and most seriously affected countries. At the current time, the classification is made simply by dividing the countries into two groups on the basis of their per capita income; the figure of 300 dollars is one of those generally used to make the division between the poorest countries and others. It is proposed that instead of this classification there should be a triple classification. A first group, made up of countries with a per capita income of 300 dollars or less, would be treated as they are now. The countries with a per capita income of more than 300 dollars could be divided into two groups, taking into account not only the per capita income but also other characteristics such as the production structure and degree of industrial development, the effective export possibilities, and access to short and long-term private financial markets. With multiple criteria such as those described, the countries with a per capita income of more than 300 dollars would be classified in the second and third groups; the second would be made up of the countries which still depend on the export of a few basic products and which have limited access to the private financing markets and the third, by the countries which have already secured a greater degree of economic diversification, access to the goods and financial markets and a relatively higher per capita income. The countries of the second group would receive economic and financial co-operation of a not very different type from that which Latin America obtained at the end of the nineteen sixties, although with appropriate improvements; for those of the third group it would be necessary to provide for a more differentiated type of international economic co-operation, adapted to their new situation, with greater emphasis on public and private financing and a lesser degree of concessionality, and a strong accent on the commercial aspects.

to fluidity in the pattern of domestic credit. The establishment of collective discount mechanisms, perhaps in an appropriate international body, would have the double advantage of promoting the more stable operation of the euromoney credit market and facilitating the general supervision of the conditions of that market. This mechanism could also provide the possibility to other international or regional institutions to invest part of their resources in credit shares in euromoney oriented in the directions most compatible with the objectives of each institution.

(b) Public capital

As has already been mentioned there are a certain number of countries in Latin America which still require access to financing from official sources on concessionary terms. In these circumstances, the efforts being made by governments to help the Inter-American Bank and the World Bank to finance the needs for resources of the Latin American countries which require their assistance are significant. In this respect the increase in the resources of the IDB, in order to ensure an appropriate strengthening of its concessional loan services, as well as the ordinary loans, deserve special attention. This is also true of the World Bank to the extent that this body continues to support Latin America. Furthermore the resources of UNDP should be broadened soon and significantly in order to secure a stable and solid financial base for its activities.

(c) Compensatory financing

The compensatory financing service of the International Monetary Fund has been relatively little used except in the last year after its liberalization. There are three aspects in which action can be taken to secure greater expansion and liberalization of this service. The first relates to the advisability of revising the criterion for the use of these resources so as to guarantee a certain real volume of imports and not merely compensate for the abnormal fall in exports. In this way the terms of trade would be brought into consideration and it would be possible to protect the financing of development plans from the fluctuations which can occur in exports and imports for reasons which are beyond the control of the authorities. The second aspect relates

/to the

to the fact that despite the recent improvements in the compensatory financing service there are still various restrictions which affect the terms and conditions of loans. These restrictions can be lessened in the following aspects; (a) by making it possible to take more account of the general rising trend of prices; (b) by liberalizing the limitations on bills of exchange in relation to quotas; and (c) by establishing the amortization of bills of exchange drawn up in relation not with time but with the "surpluses" generated when the situation which gave rise to the drawing right improves.

Finally, the third aspect relates to the advisability of continuing to increase the total volume of loans of this service, in accordance with needs, as the recent increase is being offset by the disappearance of the petroleum service.

(d) Institutional mechanisms

As has been shown in previous pages, some of the Latin American countries are increasingly turning to private sources of financing and non-concessional resources, while other Latin American countries have to continue to resort, to a greater or lesser degree, to the traditional forms of bilateral and multilateral official aid for development. The existence of these groups of countries and their differing needs are a central political aspect for Latin America today. There is an urgent need to design mechanisms which ensure a greater degree of symmetry in evaluating the various groups of countries and also the creditor countries. It is worth giving consideration now to the adoption of new initiatives on an experimental basis at the regional level involving three important participants: (a) public and private sources of financial and technical assistance; (b) the receiver countries, whatever their level of income or industrialization; (c) a group of individuals with very high technical qualifications and intellectual independence who are capable of evaluating the observance of the compromises entered into both by those who provide the financing and by those who receive it. This group would also serve to provide the necessary information and analysis.

Some countries have found that the so-called "consultative groups" partially meet this need. However, the increasing importance of private creditors points in the direction of seeking mechanisms which would allow an easier and more stable relation with them and also with the public creditors.

A mechanism involving the three participants mentioned could also facilitate the joint financing of public and private sources and would provide a greater degree of security for planning the future in the Latin American countries. Furthermore, it would strengthen the capacity of the private and public financial agencies to evaluate the effort in the economic sphere and the solvency of the debtor countries.

3. Direct private investment and transnationals

Direct foreign private investment in Latin America is very significant not only for the economy of the countries of the region but also for the economy of the developed countries from which it derives. It is of great magnitude and provides an important supplement to the exports from the country of origin (through "indirect exports") and allows greater expansion of the transnational enterprises. The importance of investment in Latin America for the developed countries provides the countries of the region with a potentially high power of negotiation which has so far been used in only a limited way.

At the current time a new negotiating trend is emerging in Latin America. It arises from the fact that the substantial contribution of the transnational enterprises does not consist mainly of financial resources deriving from the country of origin but of technology, organizational forms and a programme of financing based largely on international resources and resources from the country of destination. In these conditions the Latin American governments could negotiate - and in various cases are negotiating - for the association of local, public or private interests with the transnationals which operate in the country, and the more active role that the transnational enterprises can have in the exports of these countries - including the goods which they themselves produce for the domestic market - using the international

/distribution mechanisms

distribution mechanisms and the facilities of access to other markets which are available to them. In this respect valuable experience has been accumulated in recent years in the sphere of joint ventures.

At another level, it is necessary to give special consideration to the international trade transactions carried out between branches of a same enterprise in order to ensure that the prices do not become uncompetitive.

To this end, at the same time as continuing the work of elaborating an international code of conduct for the transnational enterprises, frameworks for action can be prepared for the future negotiations on direct investment between the governments and the multinational enterprises on the basis of the experience in this matter which has been acquired recently both in Latin America and in other regions of the world.^{3/}

4. Technology

Some remarks were made in a previous chapter on the technical progress in Latin America, with special reference to the problems raised by the transfer of technology from the industrialized countries and the need to strengthen the region's own capacity for technological adaptation and creation.

Because of the complexity of the challenges and tasks which Latin American countries confront in this sphere, the effort required clearly exceeds their capacity of resolving the tasks on their own, so that international co-operation and the external relations concerned with these matters acquire special importance.

In the paragraphs which follow, in order to give them special emphasis, some proposals are repeated - many of which have already been set forth in the chapter already mentioned - which seem relevant to the purposes of this part of the document.

^{3/} This is briefly referred to in chapter I of the first part of this study.

In the first place there is no doubt that it is necessary to install and improve mechanisms of the public sector to assist in the search for and diffusion of technologies which are appropriate to the conditions prevailing in the Latin American countries and it is considered worth analysing the possibility of the State taking direct responsibility for the acquisition of certain technologies in the world market. It is clear, for example, that the success of the creation and introduction of the so-called "intermediate technologies" in the developing countries requires on the part of the State the design and implementation of policies to make possible their development and incorporation.

It is also considered important to promote the realization of the proposals already made in international fora by industrialized countries which envisage:

- (i) Establishing and strengthening centres for the exchange of information between developed countries and Latin America;
- (ii) Promoting the realization of co-operative agreements by means of which small and medium-sized firms of the United States and other developed countries would provide technology to Latin American firms and help in their installation and management;
- (iii) Expanding and strengthening the access of Latin America to the technical information services of the developed countries;
- (iv) Strengthening the efforts which are being made to facilitate the exchange of experience and information among the developing countries.

The promotion of the measures mentioned and the arrangements and mechanisms which result from the consideration of those measures should be carried out within a global concept of technological policy which recognizes the current inequalities between the countries in respect of their negotiating power in the market of technology; the seriousness of the brain drain for the developing countries; the unsuitability of many forms of technology deriving from countries to be applied to developing countries; and the need for the developing countries to have access to information concerning the forms of technology available in

/developed countries

developed countries in order to be able to adopt suitable decisions and so as to reserve the right to decide on the technology to be used.

At the level of Latin America it is highly advisable to:

- (i) Promote regional and sub-regional mechanisms for exchange and co-operation;
- (ii) Promote the substitution of local engineering for imported technical assistance services;
- (iii) Improve the apprenticeship processes in the firms which use imported technology;
- (iv) Encourage the diffusion of technological advances to the rest of the economy.

Various Latin American countries have been encouraging domestic research and the development of technology, particularly on the part of the private sector. The experience has not been very encouraging, however. Until now the Latin American countries have not shown any inclination to programme expenses in research and development and have limited themselves to passive participation of a fiscal nature. The research carried out by the public sector has not followed a clearly defined policy but has confirmed the decisions of research expenditure adopted by the scientific and academic community. As a result of the unsystematic and partial approaches which have been followed, there are some spheres of economic and social activity (health, nutrition, environmental health, etc.) in which there is an urgent need for new knowledge and techniques. The social benefits of these needs are clearly greater than the private benefit and this justifies the role of the State already mentioned.

It is finally important to consider whether the national and regional technological phenomena are in harmony with the evolution which can be envisaged in each of the economies. Discrepancies may arise which would delay or frustrate this evolution. This gives rise to the need to orient and regulate the technological processes on a realistic basis which would go beyond the abstract and unoperative ideas with which policy in this sphere has often been approached.

5. Economic Integration

In recent years a range of specific economic co-operation and integration arrangements between pairs or groups of countries in the form of industrial projects, trade agreements and joint infrastructure projects has emerged with increasing momentum. This action needs to be stimulated in order to take advantage of its potential dynamism. SELA, created for this purpose, intends to define the possibilities of co-operation in sectors such as the agricultural and food industries, fertilizers, and pulp and paper, among others, as well as to serve as an organ for Latin American consultation and co-ordination in respect of third countries and at international meetings.

This specific action should be complemented by parallel advances in the integration processes; these processes can provide the general framework for that action and create greater effective interdependence between the economies of the countries covering a broad range of production sectors. Experience seems to indicate the advisability of providing greater flexibility to the operation of these processes, taking into account the major differences which exist in the levels of development of the countries which form part of them.

The projects can also be used to correct the imbalances between countries originating in these differences and reflected both in the trade deficits or surpluses of various countries with the area and in the diverse structures of their exports and imports to it.

(a) Strengthening, flexibility and rapprochement of the integration schemes

The agreements or programmes for sectors between countries belonging to different integration schemes can be realized in a way compatible with the strengthening of these processes. They are useful instruments for the sectors which go beyond the size of a sub-region and require additional access to or co-operation with another integration area or country belonging to it. It is necessary to explore thoroughly the possibility of co-operation between, for example, the Central American and Andean Group schemes, or between the two schemes and

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CARICOM, or between any of them and one or more of the larger countries of Latin America which do not belong to those schemes.

In the case of Central America it is of course essential that a formula should be found that satisfies its aspirations and gives vitality to the integration scheme. At the same time as progress is made in this direction in the sectors of the base industries such as iron and steel, paper and cellulose, machinery and metal working and chemical industries, it is necessary to link many of these developments with the markets and resources of other countries so as to give them a better base of interest and support in broad economic spheres. Programmes of this type seem feasible in the immediate area of the Caribbean, with Venezuela through the investment programme such as those already in operation, and with Mexico or the Andean Group as a whole for certain industries. These possibilities should provide vitality and internal cohesion to this regional scheme. They will also serve to promote a set of major initiatives adopted by the Economic Co-operation Committee of the Central American Isthmus at its latest meeting.

CARICOM is taking advantage of many possibilities of joint action but at the same time there is no doubt that it could proceed on a more solid basis if it had export markets and the necessary production and specialization agreements with other groups like that of Central America or the Andean Group or with other countries of Latin America.

It also seems necessary to introduce more extensive relations of co-operation and complementation between associations such as the Andean Group and the more industrialized countries of Latin America. Within margins of flexibility in the operation of co-operation and economic integration agreements there is the possibility of trade concessions between the Andean Group as a unit in relation to each of the countries. However the basic instrument of linkage could be the complementation agreements which the Andean Group should be in a position to negotiate with them. These negotiations would be based on broad industrial programmes with each of the more industrialized countries and with two or more of them depending on what proves advisable in view of the conditions and industrial activities involved.

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