BIBLIOTECA NACIONES UNIDAS MEXICO

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ECONOMIC AND SOCIAL DEVELOPMENT AND THE EXTERNAL ECONOMIC RELATIONS OF LATIN AMERICA

Volume II

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Part Two

EXTERNAL ECONOMIC RELATIONS

Chapter I

PROBLEMS AND STRATEGIES IN THE EXTERNAL RELATIONS OF LATIN AMERICA

1. Latin America: development with sharp contrasts

In order to analyse Latin America's role in the world economy and its relations with the major developed areas it is necessary to draw attention to some of the fundamental features of Latin American development which are of particular importance in weighing up the problems posed in those relations and the strategies and policies the countries of the region can adopt to overcome them. This is not to suggest that there are not many differences in development levels, problems and policies among the countries of the region. The features singled out here are the most striking, and correspond roughly to a regional average.

Latin American development has contradictory features, in which great transformations (development of light industry, progress in labour training and education, emergence of middle income strata, beginning stages of exports of manufactures) are accompanied by the persistence of backward areas and fundamental problems (high proportion of the labour force suffering from open and disguised unemployment, a large sector of the population living in a state of critical poverty, backwardness in the development of basic and high-technology industries, external bottleneck). The stage of import substitution, carried out exclusively on the basis of individual domestic markets with high, indiscriminate protection, caused foreign trade to decline in comparison with domestic output; in the period 1950-1965, imports grew by 0.4% for every 1% growth of the product. During this period imports were not only substituted but strongly held down.

The mid-1960s marked the beginning of a new stage, in which an attempt was made to combine industrialization aimed at satisfying domestic demand with the export of manufactures. Many countries of the region are currently in this stage, in which protection is rationalized and reduced, and kept within limits in which industrial development can continue while allowing greater possibilities than before 1965 of competing in international markets. At the same time non-traditional exports were promoted. After 1965, imports rose by 1.4% for every 1% of growth of the product.1/ This average performance is made up of cases where the import coefficient continued to be reduced and others where the proportion of imported goods grew as a result of lower protection and greater openness of the economy towards the exterior. Exports were diversified and their rate of growth improved.

The most important features of current Latin American development from the standpoint of the region's relations with the main developed areas are outlined below in the remainder of the chapter.

(a) Asymmetrical trade structure

The structure of Latin American foreign trade is heavily unbalanced: the composition of imports and exports is very different, unlike what occurs in the developed economies. Raw materials and fuels still represent about 85% of the region's total exports (see table 1). Even in the case of Argentina and Brazil this figure is almost 75%, and a little lower in Mexico, due to the reexport of assembled products. World demand for and trade in commodities are growing much more slowly than for manufactures; between 1950 and 1975 the share of raw materials and food in total world trade dropped steadily from 46.4% to 19.0%, while during the same period the share of manufactures rose from 43.7 to 60.4%, and that of fuels from 9.9 to 18.6%, above all due to higher prices. Thus it is not surprising that Latin America has clearly lost ground in world trade.

1/ This import elasticity is similar to what would occur if a coefficient of imported supply were held constant for the goods produced in each and every sector of the economy.

/Table 1

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Table 1

LATIN AMERICA: PERCENTAGE BREAKDOWN OF EXPORTS, AT CURRENT PRICES

	1955	1960	1965	1970	1975	Annual average growth, 1955-1975 (%)
Raw materials	66.8	64.7	66.0	64.8	47.0	6.6
Fuels	30.1	32.0	28.6	24.0	39.4	9.9
Manufactures	3.1	3.3	5.4	9.1	13.6	16.8
Total	100.0	100.0	100.0	100.0	100.0	8.6

Source: The economic relations of Latin America with Europe (CEPAL/CID/Preliminary version/175), 1978.

Although manufactures still represent a small proportion of exports, they are certainly the most dynamic element in them, as shown by the significant growth in their share over the last ten years. Some countries are already in a position to export competitively not only non-durable consumer goods but also durable consumer goods and capital goods involving intermediate technology, and even entire plants "key in hand"; and this is one of the reasons why such countries can be considered semi-industrialized. The cases of exports of this kind have arisen where progress has been made in the process of industrialization, particularly light industry, which has gone on from production for domestic consumption to win external markets. The countries in this stage of exporting manufactures already have an industrial scene characterized by the existence of external economies, diversified industry producing quite complex products, and a long experience in the operation of productive and marketing processes.

/The share

The share of manufacturing in the total product of the region rose from 18% in 1950 to 24% in 1975, when it represented 26.6 of the total product in the case of the larger, more industrialized countries. Significant although still insufficient progress was made in the adaptation of technology, leading to the introduction of many small innovations aimed at making productive process better suited to resource endowment, and the products better suited to the particular use made of them in developing countries. All this has naturally increased the competitiveness of Latin America.

However, it may still be said that the region is far from having a sufficiently active attitude towards technology. The Latin American industrialization process was promoted by policies which, broadly speaking, did not take full account of the need to develop the national capacity to carry out technological innovation; it progressed without the support of suitable government policies, and largely without the mechanisms and institutions necessary for technological progress. The examples of such progress which have occurred in the industrial field have generally not been connected with government policies and have often taken place through transnational enterprises, whose importance has been constantly increasing in the more dynamic activities of the manufacturing sector.

Latin American possesses skilled, experienced manpower with quite a high general level of education, although the situation of broad sectors of the population presents a glaring contrast. In about 1970, persons in the middle and high urban occupational strata (professionals and semi-professionals, managers, own-account workers and owners of commercial establishments, representing a skilled, specialized and managerial group) represented in five countries - Argentina, Brazil, Chile, Uruguay and Venezuela - roughly one-fifth of the labour force, and this proportion was growing rapidly. In addition to these, there are skilled workers and employees with appreciable educational and income levels.

/The imports

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The imports of the region consist mainly of capital goods, intermediate manufactures and fuels. These imports reflect the unbalanced growth of the Latin American industrial structure characterized by the high growth of light industry but very slow growth in the production of more complex capital goods and some intermediate products.

To summarize, Latin America export above all raw materials and to a lesser extent products of light industry, and imports complex capital goods. This has created a pattern of intersectoral rather than intra-sectoral specialization as in the case of the developed economies which export and import goods of a similar nature and thus reconcile specialization with a diversified trade structure. For example, exports of non-electrical machinery are 2.4 times higher than imports of such products in the United States, and 1.8 times higher in the European Economic Community. These industrialized economies specialize in some branches of non-electrical machinery and import others, with the result that exports of the sector as a whole are greater than imports (see table 2). In contrast, in Latin America exports of non-electrical machinery are barely one-tenth of the region's imports of such products.

In the case of traditional industries the situation is quite different: Latin American exports amply exceed imports, whereas in the developed economies exports and imports of these products are much the same (see table 2). In the case of commodities, the availability of natural resources greatly influences the productive potential of each country or region. Since world demand for and trade in commodities are growing slowly (as is also true of traditional industries, although to a lesser extent), whereas the demand for capital goods and manufactured inputs is growing rapidly, the asymmetrical structure of Latin American foreign trade inevitable leads to a systematic deficit on the trade account and in the balance of payments which, as we shall see below, is the basis of the region's chronic external bottleneck. Latin America's relations with the developed areas and the division of labour between the two must be changed in such a way as to

/gradually overcome

gradually overcome the present asymmetrical structure of the region's trade which places it in a dependent situation with regard to the industrialized countries; although of course a fixed or standard period of time cannot be established for all countries to rectify it. It should again be stressed that the countries of Latin America have differing features, sizes and degrees of development and industrialization; the combination of industrialization aimed at the domestic market and the export of manufactures must be adapted to each country's needs. In addition, primary commodities must also play an important role in exports, above all by stimulating their growth by means of suitable policies.

Table 2

VOLUME OF EXPORTS COMPARED WITH VOLUME OF IMPORTS IN SOME SECTORS
(Averages 1972-1974)

	United States	European Economic Community (6 countries)	Japan	Latin America a/
Commodities	1.3	0.7	0.2	2.4
Food	1.7	0.7	0.1	2.9
Agricultural raw materials	1.2	0.9	0.2	1.5
Minerals	0.6	0.5	0.2	1.9
Fuels	0.2	0.2	0.01	1.5
Manufactures	1.1	1.5	4.6	0.2
Non-electrical machinery	2.4	1.8	2.9	0.1
Electrical machinery	1.2	1.5	7.1	0.2
Transport equipment	1.0	2.2	14.4	0.2
Chemicals	2.2	1.5	1.7	0.2
Other manufactures	0.6	1.2	4.1	0.3

Source: "The economic relations of Latin America with Europe" (CEPAL/CID/Preliminary version/175), 1978.

a/ Excluding Cuba, Paraguay, the Dominican Republic and Panama.

/Intra-regional

Intra-regional trade has grown more rapidly than the total and its breakdown is different. The proportion of exports destined to the Latin American market has grown, particularly in the years when the Latin American economy was hardest hit by the external crisis, and in that trade the amount of goods with greater manufacturing value added and more advanced technology is proportionally greater than in sales outside Latin America. In other words, trade within the region has steadily increased its relative importance within the total, has played a particularly important role as a dynamic element when the recession was having an unfavourable effect on the Latin American economy, and is contributing more than extra-regional exports to the growth of the more advanced industries towards foreign markets. Intra-zonal trade will be examined below at greater length in the chapter on regional economic co-operation.

The external trade policy of many Latin American countries has undergone important changes since the mid-1960s, as part of the process of opening up their economies. The aim has been to combine exports of manufactures with production for the domestic market, and make domestic industry more efficient. There has been a tendency to transform foreign exchange policy, reduce and rationalize protection and establish export promotion policies, accompanied by significant changes in industrial, fiscal, price, monetary and financial policies. In foreign exchange policy, the value of local currencies has been fixed more realistically against foreign currencies, and in a number of countries (Argentina, Brazil, Chile, Peru and Uruguay, among others) a system of frequent mini-devaluations has been adopted to prevent inflation from undermining and disrupting the purchasing power of export earnings and thus discouraging export activities.

Protection was very high and rather undiscriminating in many countries of Latin America until the mid-1960s; nominal tariffs were frequently above 200%, and in addition were accompanied by non-tariff barriers and prohibitions. Since then, however, there has been a tendency for non-tariff barriers to decline, and tariffs have been cut and rationalized (although this trend has not been uniform in all countries) and in some cases protection has been

/reduced to

reduced to such an extent that it has affected the development of large industries. Argentina cut tariffs from an average of 151% in 1960 to a recent nominal average of 40%, with a maximum of 80%. Brazil cut its tariffs from an average 54 to 39% between 1966 and 1967, but subsequently raised them again to an average of 49% in 1973. The five countries of the Andean Group agreed to a reduction from an average of 40% in 1971 to 28% in 1976, with a maximum of 60%; the dead-line for carrying out these tariff cuts has been extended and there are important exceptions. Chile has decided to cut tariffs to a uniform rate of 10%, to be reached by mid-1979, except in the case of the motor-vehicle industry.

As the countries of the region acquired greater experience, systems of export promotion were designed or improved which made use of fiscal, financial and institutional elements and a great variety of instruments such as tax refunds or exemption, export credits, exchange facilities, favourable conditions for imports and so forth. Export promotion institutions and instruments have been modified frequently to increase their effectiveness and reduce their fiscal cost.

(b) Effect of the external sector on the problems of unemployment and poverty

The external sector seriously limits development possibilities as well as hindering the solution of some of the more serious internal problems. In contrast with aspects in which considerable progress has been made, the region continues to suffer from a shortage of productive employment and from widespread critical poverty. Thus open unemployment, partial unemployment and employment in activities of very low productivity account for a high proportion of the labour force, with the resulting failure to use the equivalent of the productive capacity of one person in four, while one-third of the population have incomes which do not cover their basic needs.

It is estimated that the active labour force will continue to grow at a very high rate until the end of the century, although the population growth rate will decline moderately, since most of those who will enter the labour market during that period have already been born; structural unemployment

/will therefore

will therefore continue to be a serious problem. In addition to these serious difficulties facing the population shutoff from employment and consumption, there are the problems of a large part of the strata incorporated in the market whose standard of living is very low, and whose productivity and income must therefore also be improved.

To solve these problems, changes must be made in the style of development and at the same time there must be a higher rate of growth. The striking features of the present style of development are: very high and diversified consumption of the top income strata, imitating the consumption patterns of the developed countries; insufficient saving and capital formation; and high import needs stemming from that conspicuous consumption.

In addition to changing this style of development, it is essential to achieve a higher growth rate of the gross product. It has been calculated that a sustained rate of growth of about 8% per annum is necessary if the problems of unemployment are to be solved. A changed style of development and higher growth would attribute a central rôle to the manufacturing sector without overlooking the major importance of increasing agricultural output to stimulate the development process. The growth of productive services is in turn linked to the growth of goods-producing activities. The economically active urban population will continue to grow at a faster rate than the total population until the end of the century, so that persons seeking employment in industry or services will in future represent a still greater proportion than in 1975. Thus a development pattern based on exports of commodities is no longer viable for the future of Latin America as it was in the past. It is essential that manufactures play a leading role in exports, although commodities will continue to be important. In particular, exports must include an increasingly high proportion of manufactures produced with skilled labour, in order to provide employment for the vast numbers of specialized workers already available in the countries, and for those who are incorporated in productive activities each year.

A higher growth rate is not feasible without substantial changes in the present performance of the region's external sector and in particular the correction of the asymmetry in external trade described above.

/(c) Balance-

(c) Balance-of-payments deficit

The region's serious balance-of-payments deficit in recent years, and the considerable growth of its external debt, which have occurred despite the very modest growth rates of the economy, are a clear sign of an external bottleneck. The balance-of-payments deficit on current account of the non-oil-exporting Latin American countries increased in both absolute and relative terms, reaching a high proportion of their exports in 1975. Although in 1977 the deficit dropped in relation to exports, returning to levels resembling those of 1966-1969, this reduction occurred at the expense of a significant drop in the growth rate of the economy: the region's gross product rose by only 4.4% in 1977 after an annual average of 6% in the period 1966-1969. In 1978 the deficit again increased in relative terms, even though the economy recorded a mediocre growth rate.

The world recession has affected the growth rate of Latin American exports. Two options are open to the countries to tackle this situation: to adjust the growth rate of the economy by holding it down to the lower levels warranted by the capacity to import, or to resort to heavier external borrowing. In practice, they have chosen to combine these two solutions. The balance-of-payments deficit on current account and the ensuing external indebtedness of the Latin American countries have helped to prevent the critical problems of unemployment and poverty in the region from growing worse. At the same time, the Latin American countries have thereby helped to avert an even more serious decline in the growth rate of world trade and have thus helped to place the developed countries - from whom they buy most of their imports - in a better position to tackle their balance of payments, unemployment and recessionary problems.

(d) External financing and debt

In the external financing obtained by Latin America, public sources have rapidly been losing ground. With a few exceptions, the countries of the region, even including those with intermediate or low levels of development, have tended to be excluded from concessionary financing and their share of non-concessionary official financing has dropped considerably. On the

/other hand,

other hand, the proportion of funds from private sources, particularly banks, has grown steadily. The terms and conditions of external financing have hardened: repayment periods have grown shorter and interests rates have risen.2/

The external debt of the non-oil-exporting Latin American countries has grown considerably. The guaranteed and non-guaranteed debt amounted to 90,000 million dollars in 1977, and passed the 100,000 million dollar mark in 1978. This growth, together with the deteriorating conditions in which loans have been obtained, have increased debt servicing as a proportion of exports for many Latin American countries. Nevertheless, debt service payments have been made possible, despite their adverse effect on the growth rate, thanks to the relatively rapid growth of exports until recent years. However, if the trend is confirmed for the latter to grow more slowly, service payments will have an even more serious effect on imports and the unfavourable consequences of the debt on the growth of many countries of the region will grow worse.

Two important points emerge from the above. The first is that since much of their external financing stems from private sources, some Latin American countries are very sensitive to any deterioration in their credit worthiness; at the same time, some countries attach high priority to the possibility of gaining access to private madeium- and long-term capital markets, and particularly the issue of securities. Before the Second World War many Latin American countries had effective access to those markets and regularly issued their securities; subsequently they lost this possibility, until in recent years a few countries began to issue securities with some success, although still on a limited scale.

The second point is that to overcome these problems posed by external restrictions, steady and dynamic growth of exports is vital. Commodities must have stable, remunerative prices, and adequate access to the markets of the developed countries. The fundamental growth element in export will continue to be the sale of manufactures, which must also be diversified

2/ See below, chapter IV on external financing and monetary problems.

/and increasingly

and increasingly include mechanical products, particularly bearing in mind the growing protectionism of the industrialized countries with respect to the more traditional manufactures. This growth of exports must be accompanied by the rapid development of the capital goods industry for the domestic market and also for export, as a means of ensuring that a too rapid growth of import requirements does not cause insurmountable balance-of-payments problems.

(e) Size of the domestic market

While some of the population have systematically remained excluded from the market, a considerable proportion has progressively been incorporated in it as a result of the industrial development process, and currently represents a large amount of purchasing power for manufactures. No less than 40% of the population of Latin America, or 130 million people, can currently purchase manufactures, and they constitute one of the largest markets in the world, quite probably larger than those of the other developing areas. In addition, if the currently marginal sectors could be incorporated in the market, and given the high population growth rate in Latin America, by the end of the century an economic area of about 600 million persons would be formed, which would compare favourably in size with any other area of the world.

In Latin America the top 5% of the population have a very high per capita income. Numbering slightly over 15 million, they have a very diversified consumption pattern, and are very demanding from the standpoint of the quality and renewal of their goods; being divided into small national groups, their consumption habits encourage a great diversification of the productive structure, small, uneconomic scales of production and a high propensity to import. It is consequently in the middle strata, where incomes are lower than in the preceding group, and in the low-income strata joining the market that most of the demand will arise to encourage the large-scale production of manufactures.

The size of this domestic market provides Latin America with great potential bargaining power (only partially used hitherto) to obtain better treatment in the trade policies of the developed countries and more suitable conditions for the operations of transnational enterprises.

/2. Priorities

2. Priorities and concerns arising from Latin America's economic situation

The trends, problems and possibilities outlined in preceding paragraphs highlight some of the priorities and concerns of the Latin American countries with regard to their external relations and the definition of a new international economic order, some of the most important of which are presented below.

As a result of the unbalanced development of Latin America today, which affects even the relatively more industrialized countries of the region, much external co-operation is called for. The relative emphasis on trade and financing, and within the latter on concessionary and non-concessionary financing, has changed to some extent, but the need for external co-operation remains as great as in any previous period. Furthermore, except in the case of a few larger, more developed countries, the region's needs continue to be much the same as those of the rest of the developing world.

In order to be suitably competitive, Latin American industry must develop in conditions very similar to international ones, while bearing in mind differences between countries and sectors and also the need to progress with the transformation of the industrial structure. Hence the concern of many Latin American countries to combine the development of new industries with the export of manufactures.

Since the bulk of their exports still consists of commodities, the Latin American countries continue to have an interest in price stabilization policies, the achievement of adequate real purchasing power and greater domestic processing of commodities, as well as better access to the developed markets. Hence the UNCTAD Integrated Programme for Commodities, and especially the Common Fund, are of particular importance for the countries of the region.

Manufactures are the most dynamic element in the growth of exports and their growth is vital to keep the external bottleneck within tolerable limits, stimulate the growth of the economy and have any chance of success in tackling the serious internal problems of structural unemployment and poverty.

/It is

It is therefore easy to explain the high priority attached by Latin American countries to questions relating to the exports of manufactures, and particularly: (i) the problems of access to the markets of developed countries; (ii) the trade policies of the developed countries, particularly protectionism and the generalized system of preferences; (iii) the policies to restructure industries in developed areas, which affect the development possibilities of specific export industries in Latin America; (iv) the rules of international trade and changes made in them in the course of multilateral trade negotiations (codes of conduct, multilateral safeguards, subsidies and countervailing duties, customs valuations, State purchases, technical standards and rules and licensing arrangements) as well as reforms in the legal framework of GATT, particularly the introduction of obligatory special, differential treatment in favour of the developing countries; (v) the practices of transnational enterprises, the agreement on a binding code of conduct for them, the establishment of an information network among countries on the most important practical aspects of the operations of such enterprises, the introduction of a modus operandi in keeping with the present degree of Latin America industrial development, with the new Latin American strategies which emphasize the export of manufactures, and with the stage reached in their internal development process; (vi) in addition, the definition of a binding code of conduct for the transfer of technology is closely linked with the objectives of the export of manufactures, and the reconciliation of that transfer with the promotion of the capacity of the Latin American countries to create technology or adapt it to their own conditions.

The development of capital and intermediate goods-producing industries which function efficiently will not only relieve the pressure on the balance of payments but is vital in the present stage of technological and industrial development in Latin America. This problem, together with the transformation of the structure of manufacturing exports, is a source of concern to the region since they are factors which affect the international division of labour. The diversification of exports, which will make it possible better to tackle the problems of access to other markets, is in keeping with the degree of industrial development and the training of labour achieved in the region.

/The persistent

The persistent balance-of-payments deficit oblige the countries of the region to seek external financing. Of particular importance in that financing are loan periods adapted to the needs of developing countries, including semi-industrialized ones, as well as access to concessionary credits; access to medium- and long-term private capital is equally important, as reflected in the care with which countries seek to preserve the appearance of their credit worthiness. Latin America is also concerned at the growing tendency in international circles, when deciding on the distribution of official development assistance, to use simplistic criteria which only take into account the per capita income of countries and do not consider other equally important aspects. Also of great interest to Latin America is the role which the real integration of the region's economy could play in periods of external difficulties, and this warrants a search for forms of co-operation between countries of the region and with other developing countries with a view to stronger co-operation better suited to development needs.

Some of the questions outlined above, of particular importance in the present international dialogue, have been singled out for more detailed treatment in the following chapters.

/Chapter II

Chapter II

PROTECTIONISM IN THE DEVELOPED COUNTRIES

1. Latin America's place in world trade

(a) Trends in Latin American exports

The protectionism of the developed countries should be viewed in the light of the long-term evolution of Latin America's place in world trade.

Latin America 3/ suffered an appreciable drop in its share of world trade between 1950 and 1975, a period in which its share of world exports fell from 10.4% to 3.9%, thereafter rising a little to 4.4% in 1977, partly thanks to high prices of a number of its main exports products from 1976 onwards (see table 3).

The slow growth of Latin American exports has been due to problems of both demand and supply.

One of the main factors on the demand side is that the conditions of access to the markets of the industrialized countries have grown more difficult, which reflects the growth of their output as a result of technological progress and support policies for producers (such as the common agricultural policy of the European Economic Community). Thus in some cases the developed countries seek to import complementary rather than competitive amounts of raw materials in order to maintain employment levels and benefit from the value added in processing them, and they have increased their share not only of exports of manufactures but also of world exports of commodities, as may be seen in tables 3 and 4.

The share of the developed countries in food and agricultural raw materials increased sharply, while that of the developing countries declined; in the second group, the relative importance of Latin America also declined in comparison with the other developing countries.

3/ Excluding Venezuela and Trinidad and Tobago, as oil-exporting countries.

/Table 3

Table 3

EVOLUTION OF WORLD TRADE BY MAJOR AREAS

	Exports FOB							Imports CIF						
	Share of total (percentages)				Average annual growth rate over period			Share of total (percentages)				Average annual growth rate over period		
	1950	1975	1976	1977	1950-1975	1976-1975	1977-1976	1950	1975	1976	1977	1950-1975	1976-1975	1977-1976
A. Developed market-economy countries	60.2	66.3	64.9	64.5	11.7	11.2	13.7	65.0	66.3	67.4	67.1	11.4	16.3	13.6
United States	16.6	12.2	11.5	10.5	9.9	6.8	5.0	14.6	10.7	11.8	12.8	10.0	25.5	23.2
Canada	4.7	3.7	3.9	3.7	10.1	18.8	8.3	4.6	3.5	3.5	3.3	10.2	10.3	5.8
EEC (9 countries) a/	26.5	33.9	32.9	33.6	12.3	10.1	16.5	31.7	33.1	33.7	33.1	11.5	17.0	12.1
EFTA (8 countries) b/	5.6	6.1	5.9	5.8	11.7	10.3	11.8	6.1	7.0	6.8	6.8	11.9	2.5	15.0
Japan	1.3	6.4	6.8	7.1	18.4	20.6	23.4	1.6	5.9	5.8	5.6	17.2	13.7	11.0
Others	5.6	3.8	4.0	3.9	9.5	14.0	13.3	5.9	6.1	5.8	5.5	11.0	30.0	7.9
B. Countries with centrally-planned economies	8.1	9.8	9.3	9.5	12.1	8.9	16.5	7.9	10.4	9.5	9.2	12.5	3.4	10.0
Eastern Europe	6.8	9.0	8.5	8.7	12.5	8.7	17.2	6.3	9.4	8.8	8.4	13.1	5.0	9.7
Asia	1.3	0.8	0.8	0.8	9.3	10.7	9.7	1.6	1.0	0.7	0.7	9.0	-13.4	15.1
C. Developing countries	31.7	23.9	25.7	25.8	10.0	20.9	14.4	27.1	22.6	22.2	22.7	10.5	9.4	16.5
Oil-exporting countries	7.3	13.4	14.5	13.6	13.9	21.0	7.2	4.2	6.5	7.0	7.4	13.3	14.1	21.3
Non-oil-exporting countries	24.4	10.5	11.2	12.2	7.6	20.9	23.5	22.9	16.1	14.8	15.3	9.7	4.7	11.5
Africa	4.0	1.8	1.6	1.6	7.7	10.1	12.9	4.4	2.7	2.6	2.7	9.1	0.4	16.5
Latin America	10.4	3.9	4.0	4.4	6.8	11.8	23.3	9.0	5.7	5.2	4.9	8.2	3.2	7.9
Asia	9.1	4.3	5.1	5.4	7.9	34.3	20.0	8.3	5.7	5.6	5.7	9.6	9.7	16.1
Middle East	0.8	0.4	0.4	0.4	7.8	13.9	-2.4	1.0	1.7	1.8	1.7	13.8	-0.6	7.9

Sources: United Nations, Yearbook of International Trade Statistics and Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics.

a/ European Economic Community.

b/ European Free Trade Association.

/Table 4

Table 4

GROWTH INDEX OF SHARES IN COMMODITY EXPORTS (1955 = 100)

	Latin America		Developing countries		Developed countries	
	1970	1975	1970	1975	1970	1975
Food	76	71	75	67	121	130
Agricultural raw materials	68	55	75	65	118	124
Minerals	108	97	95	99	110	103
Non-ferrous metals	78	49	85	65	107	115

With regard to raw materials, the share of Latin America and also that of the other developing areas declined slightly only in the case of minerals.

In the case of non-ferrous metals, Latin America's share dropped sharply, and significantly more than that of the other developing countries, while the share of the developed countries increased substantially.

Another factor which should be taken into account in connexion with the slow growth of the exports of developing countries is the lower price-elasticity and income-elasticity of demand for commodities in the industrialized countries. By way of example, it might be mentioned that the price-elasticity of imports of the United States, Japan and the EEC for animal products is -0.53, -1.13 and -0.50 respectively; for fats and oils, -0.43, -0.62 and -0.57, and for vegetable products -0.90, -0.85 and -0.52.4/ The income-elasticity of demand for commodities is about 1.

Until 1965 the proportion of manufactures in Latin America's exports was very low. Between 1965 and 1975 manufacturing exports grew significantly, and their share more than doubled, amounting to 13.6% of total exports in 1975. However,this sharp rise did not have much effect on the growth of total

4/ See W.R. Cline, H. Kawanabe, T.O.M. Kronsjo and T. Williams, Trade Negotiations in the Tokyo Round, A Quantitative Assessment, Brookings Institution, Washington, D.C., 1978.

/exports since

exports since their share was so small at the beginning of the 1960s. If this growth continues, its future effect will be much greater, although many of the manufactures exported by Latin America are precisely those which run into the greatest barriers in the industrial countries. As the competitiveness of Latin America and the other developing areas has increased, access to the markets of the central countries has become more difficult. This has occurred in the case of textiles, footwear, processed foods and various other more traditional manufactures, as will be seen below.

In addition to these factors affecting demand, there are others which limit supply. The possibilities of expanding output of many commodities, above all agricultural raw materials, are more rigid in the short term than the expansion of manufactures, and price instability in world commodity markets also has the effect of discouraging production.

The transnational enterprises have also helped to some extent to limit the growth of exports, and primarily of manufactures. Broadly speaking, the goal of the transnational enterprises has been to produce for domestic market and to a lesser extent for export to neighbouring countries; only recently have exports begun to be directed to other markets. The geographical distribution of markets is reflected in the fact that exports of parts and components are largely made to other subsidiaries or to the parent company itself.

(b) The origin of Latin American imports

Latin America's share of world imports has also declined, although relatively less than in the case of exports (see table 3).

The United States, whose importance in the region's imports declined between 1955 and 1976, continued to be its main supplier, furnishing 28.8% of Latin American imports in 1976. The EEC, in second place, slightly increased its share, which amounted to 17.6% of total Latin American imports in 1976. Imports from Japan increased by a greater amount, and its share rose from 2.2% in 1955 to 8.1% in 1976 (see table 5).

/Table 5

Table 5

LATIN AMERICA: TRADE WITH THE MAIN DEVELOPED AREAS

	Year	Exports		Imports		Balance	
		Billions of dollars	Percentage of total Latin American exports	Billions of dollars	Percentage of total Latin American imports	Thousands of dollars	Percentage of Latin American exports a/
European Economic Community (EEC)	1955b/	1.4	15.1	1.4	16.0	0.03	+2.1
	1965b/	2.5	19.2	2.0	16.7	+0.5	+19.3
	1970b/	3.4	19.7	3.3	17.8	+0.2	+3.2
	1973b/	5.3	17.9	5.4	17.2	-0.1	-2.5
	1973c/	6.6	22.5	6.8	21.6	-0.2	2.7
	1975c/	8.2	16.9	11.2	19.7	-3.0	-36.5
	1976c/	10.0	18.6	10.4	17.6	-0.4	-3.9
European Free Trade Association (EFTA)	1955d/	1.2	13.0	1.0	11.0	+0.2	+21.3
	1965d/	1.5	11.4	1.3	10.9	+0.2	+10.9
	1970d/	1.6	9.2	1.8	9.9	-0.2	-15.0
	1973d/	2.4	8.1	2.7	8.4	-0.3	-10.9
	1973e/	0.9	3.1	1.3	4.1	-0.4	-40.2
	1975e/	1.2	2.5	2.0	3.6	-0.8	-69.7
	1976e/	1.5	2.8	2.0	3.4	-0.5	-33.1
Japan	1955	0.2	2.6	0.2	2.2	0.05	20.8
	1965	0.5	4.1	0.5	3.8	0.04	8.2
	1970	1.0	5.7	1.1	5.9	-0.1	-12.1
	1975	1.9	3.8	4.7	8.2	-2.8	-150.5
	1976	2.0	3.8	4.8	8.1	-2.8	-136.5
European countries with centrally planned economies	1955	0.2	1.9	0.1	1.6	+0.1	+20.0
	1965	0.7	5.6	0.6	5.0	+0.1	+17.8
	1970	1.0	5.7	0.9	5.0	+0.1	+6.1
	1975	3.9	7.9	2.5	4.5	+1.3	+34.0
	1976	3.8	7.1	2.8	4.8	+1.0	+26.7
United States	1955	3.8	40.3	3.5	40.2	+0.3	+7.6
	1965	4.2	32.1	4.2	35.1	-0.09	-2.2
	1970	5.6	32.2	6.5	34.7	-0.9	-15.3
	1975	17.1	35.2	16.9	29.8	+10.2	+1.0
	1976	19.2	35.8	17.0	28.8	+12.2	+11.4

Source: UNCTAD, Yearbook of International Trade and Development Statistics, 1976

a/ Percentage calculated on a larger number of digits.
b/ Six original members.
c/ Nine members.
d/ EFTA (original members).
e/ Excluding the United Kingdom and Denmark.

/Latin America's

Latin America's trade with the developed countries is characterized by a striking imbalance in its composition. Whereas agricultural and mineral products showed surpluses - 7,800 and 2,400 million dollars respectively in 1975 -, manufactures recorded a considerable deficit (27,100 million dollars), or 85% of total exports to the industrialized countries.5/

If the protectionist trends continue, they will affect Latin America's export capacity, and also its industrialization process by restricting its capacity to import. This situation would also have adverse effects on the industrialized countries, which are the principal suppliers of the intermediate products and capital goods which Latin American industry requires for its development.

(c) Latin America's trade balance with other major areas

Latin American exports to the United States increased, particularly over the last decade, at a higher rate than imports, so that the trade balance with that country, previously in the red, turned into a surplus (2,200 million dollars) representing 11.4% of exports to that country in 1976. Excluding Venezuela and Trinidad and Tobago, however, Latin America shows an accumulated deficit of 1,700 million dollars between 1970 and 1975 on trade account with the United States.

The situation is exactly the opposite with the European Economic Community (EEC). From 1970 onwards the trade surplus with the EEC became an increasingly large deficit, amounting to 400 million dollars in 1976, which represented 3.9% of Latin American exports to the area. Much the same is true in the case of the European Free Trade Association (EFTA), with which the region has had a trade deficit since the mid-1960s, amounting to 500 million dollars in 1976, or 33.1% of exports to that group of countries.

Trade with Japan has followed a similar course, since the surplus obtained until the mid-1960s thereafter became an increasingly large deficit. The gap between imports and exports amounted to 2,800 million dollars in 1976, i.e., 136.5% of the latter.

5/ CEPAL, "The economic relations of Latin America with Europe", CEPAL/CID/Preliminary Version/175, June 1978.

Trade with the European countries with centrally-planned economies has followed a trend favourable to Latin America, with increasingly large surpluses throughout the period (see table 5).

2. Extent and features of protectionism

The protectionism of the developed countries is by no means new in their economic policy. During many periods in the past century and between the crash of 1929 and the end of the Second World War they applied severe restrictions to trade, and subsequently energetically and systematically protected many manufacturing sectors which make intensive use of natural resources or labour, although in other industrial sectors with more advanced technology trade barriers have gradually been reduced over the last 20 years. Examples of the above are the policies followed by the European Economic Community, the United States and Japan of restricting imports of agricultural commodities or manufactures and the tariff escalation whereby they systematically imposed higher duties on imports of commodities with more processing.

Again, there is nothing new in the use by the developed countries, together with trade restrictions on certain goods, of domestic support policies for their own output of those goods, by support prices, subsidies, credit assistance and other measures. These policies have been applied in ways which have allowed inefficient productive sectors to subsist, not because of passing circumstances but due to structural causes which could not be overcome. Clear examples of this may be found in agriculture in the EEC, which is defended by the common agricultural policy, and in the support provided by developed countries to certain industries, such as textiles.

In recent years, however, protectionism has reached new heights and acquired new characteristics, and this has revived the concern of the Latin American countries. Trade restrictions have been intensified and extended to new products; they now affect agricultural and mineral goods (especially processed products such as sugar, soya, flowers, meat, oils, dairy products, copper and zinc) textiles and textile articles, footwear and leather manufactures, preserved fish products, electronic articles and durable consumer goods, motor-vehicles, steel and ships.

These are all sectors of great interest to Latin America, where they have made a significant contribution to diversifying exports and maintaining growth rates; and to a large extent the growth and rationalization of output and the possibility of providing employment for unemployed or underemployed labour depend on the dynamic growth of exports of these sectors.

The above list is clearly not a closed one: as Latin American exports of a specific product become sufficiently large to represent serious competition for the developed countries, the latter begin to restrict imports. The problem must therefore be weighed up in the light not only of past cases but also of possible future developments.

The new forms and instruments of protectionism are ceasing to be isolated measures - if ever they were - to become a coherent system which heavily limits imports from the developing countries. They are tending to become institutionalized in clear, explicit rules of the game by means of international agreements, which systematize and stabilize them. The relative importance of tariff barriers is declining, while restrictions of other kinds are growing in importance; these are more effective and presumably will be applied normally rather than exceptionally within the legal framework which appears to be coming into being. In many cases tariff and non-tariff measures complement each other, with the latter being more severe for many products which are subject to lower tariffs; the use of more subtle and effective measures, such as voluntary restrictions and arrangements to organize markets is also increasing.

(a) Tariff protection

The average tariff applied by the developed countries is low. Together, the developed countries grant exemption from custom duties on 40% of their imports. In addition, the average tariff level has been declining over time

/through wide-ranging

through wide-ranging multilateral trade negotiations; thus in 8 developed countries,6/ the average rate on dutiable products, which was over 50% in 1950, dropped to 26% in 1956, 18% following the Dillon round (1961) and close to 9% following the Kennedy round (1967).

It seems clear, however, that the tariff cuts made by the developed countries through these multilateral trade negotiations have primarily occurred for technologically more advanced products mainly traded among industrialized countries; on the other hand, high tariffs have been maintained for the manufactures exported by the developing countries.

Thus the tariff protection for the goods of interest to the developing countries, particularly Latin American countries, is on average rather high. This is not properly reflected in the overall averages given above, and is influenced by a fundamental feature of the tariff structure of the developed countries; tariff escalation according to the degree of processing of the product, whereby higher duties are levied on final products than on less processed ones. The tariff cuts which may stem from the current negotiations will not apparently solve the problem of escalation, and in some cases may even increase it, by further cutting present tariffs on commodities by more than the tariffs on the same products when imported in manufactured form (see table 6).

It may be seen from table 6 that in the case of the domestic sectors producing manufactures of great interest to Latin American countries tariff escalation provides an effective rate of protection which is double or even triple the nominal tariff. In the EEC, United States and Japan, the effective rate for textiles and textile products is between 40 and 45%, whereas the nominal rate is between 14.5 and 23.8%. In processed foods, effective protection in the three developed areas ranges from 22.1 to 68%;7/ on the other hand, nominal protection ranges from 9.3 to 27.9%. Much the same is true of the products of light industries and more complex industries exported by Latin America.

6/ Belgium, United States, France, Japan, Netherlands, United Kingdom, Federal Republic of Germany and Sweden.

7/ Information is not available on effective protection applied by the EEC to processed foods.

/Table 6

Table 6

NOMINAL AND EFFECTIVE TARIFF PROTECTION APPLIED BY THE DEVELOPED COUNTRIES TO GOODS OF IMPORTANCE IN LATIN AMERICAN EXPORTS

(Percentages)

	United States		European Economic Community		Japan	
	Nominal protection	Effective protection	Nominal protection	Effective protection	Nominal protection	Effective protection
Processed foods	9.3	22.1	13.8	a/	27.9	68
Textiles and textile products	23.8	42.5	14.5	40	15.4	45
Light industry	9.4	24.1	7.2	15	10.3	26
More complex industry	6.7	16.2	8.8	22	11.0	22

a/ Data not available.

/It might

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It might be hoped that the multilateral trade negotiations currently being held in GATT would improve this situation. However, the offers made so far by the developed countries would not significantly reduce the protection applied either to agricultural products (chapter 01 to 24 of the Brussels tariff nomenclature) and manufactures (chapter 25 to 99) exported by Latin America (see table 7).

Table 7 clearly bears out this assertion. The first column of the table gives the tariff cut stemming from the offers made by each of the import markets under the most favoured nation clause. This cut brings an advantage or benefit for imports; but subtraction must then be made of the loss for the Latin American countries represented by the erosion of the generalized system of preferences brought about those offers by reducing preferential margins. The result of that subtraction gives the net reduction in the average tariff rate benefiting imports for which tariffs cuts have been offered.

The second column indicates the value of the imports made by each market from Latin America for which tariff cuts have been offered. Multiplied by the tariff cuts, this gives the total value of the drop in tariff receipts in each market, i.e., the total value by which duties are reduced and consequently the net monetary effect or better tariff treatment for the imports in question, shown in the third column of the table.

Finally, the last column shows the total value of dutiable imports from Latin America, subject to offers or not, which should be compared with the figures in column 3 (total tariff cuts) in order to obtain the results of the negotiations.

It may be seen that in all cases the net tariff gain is very small in relation to the total value of dutiable imports, from the standpoint both of the net cut in the weighed average rate and of the total value of the tariff cut involved (see table 7). If in what remains of the negotiations no significant favourable change is made, the tariff protection of the developed countries will continue to have a great effect on Latin American exports of important products.

/Table 7

Table 7

RESULTS OF THE TARIFF NEGOTIATIONS

	Cut in weighted average rate	Imports from Latin America subject to tariffs cutting offers	Reduction in total value of tariffs due to tariffs cut	Total value of dutiable imports from Latin America
United States				
Chapters 01-24	Percentage points	Thousands of dollars		
Gross gain measured by tariff value	-3.8	697 678	26 512	
Erosion of GSP measured by tariff value	-2.8	219 227	6 139	
Net gain measured by tariff value	-2.2a/	478 451	20 373	
Total value of dutiable imports from Latin America	-	-	-	1 716 031
Chapters 25-99				
Gross gain measured by tariff value	-4.5	2 750 267	123 762	
Erosion of GSP measured by tariff value	-3.7	913 517	33 801	
Net gain measured by tariff value	-2.5a/	1 836 750	89 961	
Total value of dutiable imports from Latin America	-	-	-	3 263 350
European Economic Community				
Chapters 01-24	Percentage points	Thousand of Units of Account		
Gross gain measured by tariff value	-2.1	1 735 893	36 454	
Erosion of GSP measured by tariff value	-1.8	40 791	734	
Net gain measured by tariff value	-2.0a/	1 695 102	35 720	
Total value of dutiable imports from Latin America	-	-	-	2 741 531
Chapters 25-29				
Gross gain measured by tariff value	-3.0	1 187 916	35 638	
Erosion of GSP measured by tariff value	-4.0	563 302	22 532	
Net gain measured by tariff value	-0.8a/	624 614	13 106	
Total value of dutiable imports from Latin America	-	-	-	1 259 523
Japan				
Chapters 01-24	Percentage points	Thousands of dollars		
Gross gain measured by tariff value	-2.2	116 618	2 566	
Erosion of GSP measured by tariff value	-3.2	7 069	226	
Net gain measured by tariff value	-1.8a/	109 509	2 340	
Total value of dutiable imports from Latin America	-	-	-	410 249
Chapters 25-29				
Gross gain measured by tarif value	-3.2	104 566	3 346	
Erosion of GSP measured by tariff value	-4.1	66 049	2 708	
Net gain measured by tariff value	-0.4a/	38 517	638	
Total value of dutiable imports from Latin America	-	-	-	314 106

a/ Unlike the others, this rate was obtained by dividing the value of tariffs resulting from rates in force before the negotiations and rates coming into force following offers by the sum of the value of imports covered by the offers plus imports under the generalised system of preferences, whose preferential margins are eroded by the offers (See: El nuevo proteccionismo y el desarrollo de América Latina. E/CEPAL/L. 184). Tables 28-33.

(b) Non-tariff

(b) Non-tariff restrictions

Many of the tariff items corresponding to goods exported by Latin America are subject to non-tariff barriers which are extremely effective in restricting imports. These barriers affect raw materials, inputs and manufactured goods, which frequently have low tariffs but the trade in which is limited through quantitative or other types of restrictions in order to ensure that they supplement domestic output in the industrialized countries without competing with it. An idea of the use made of such non-tariff measures may be obtained from the following comparison which appears in table 8. For the United States, 76 out of 165 tariff headings analysed were the object of restrictions; in other words, for 1,051 tariff items covering Latin American exports for a value of 8,000 million dollars annually, 400 applications of measures of this type were identified, primarily quantitative and sanitary restrictions. In the EEC, in 479 itmes representing some 8,000 million dollars annually, around 300 applications of non-tariff measures were identified, whose variety was unequalled in other markets. In Japan, in the 431 headings considered, representing 3,600 million dollars of Latin American exports per year, 100 applications of such measures were identified. These 800 applications of non-tariff measures, whose proliferation is a basic feature of the new protectionism, do not include internal taxes. Nor do they include the so-called voluntary action taken by exporting countries to avoid the application of restrictive bilateral measures which would presumably be even harsher. Such voluntary restrictions have acquired greater practical importance in recent years.8/

8/ See, El recrudecimiento del proteccionismo en los países industriales (E/CEPAL/1055), October 1978, and Pedro Mendive (Consultant), El nuevo proteccionismo comercial y el desarrollo de América Latina (E/CEPAL/L.184), October 1978.

/Table 8

Table 8

NON-TARIFF BARRIERS APPLIED BY DEVELOPED COUNTRIES TO GOODS OF IMPORTANCE IN LATIN AMERICAN EXPORTS, 1976

(Number of headings and items affected)

	United States a/		European Economic Community b/		Japan c/	
	Headings	Items	Headings	Items	Headings	Items
Quantitative	65		117		33	
Sanitary	10		17		7	
Variable levies and components			18			
Others	1		4		3	
Sub-total of headings affected	76	400	156	300	43	100
No restriction detected		651		179		331
Grand total		1 051		479		431

a/ 165 headings considered.

b/ 172 headings considered. Does not include internal taxes.

c/ 126 headings considered.

/The multilateral

The multilateral trade negotiations taking place in GATT will have slight favourable impact on the non-tariff barriers affecting the developing countries. With very little effective participation by the developing countries, a set of proposals is taking shape aimed primarily at consolidating the present situation with regard to market distribution and the policies followed by the industrialized countries. Through the draft proposals on codes of coduct for countervailing duties and subsidies, safeguards, valuation, State purchases, technical standards and rules and import licensing, the developed countries will most probably finally agree to consolidate the instruments they have already been using while clarifying the rules governing their application.

A recent meeting of high-level experts organized by CEPAL found, inter alia, that the draft codes under consideration fundamentally cater to the interests of the developed countries, do not take due account of the interest of the developing countries and tend to institutionalize and facilitate the application of the policy currently followed by the former with regard to non-tariff restrictions.9/

With regard to changes in GATT, the legal framework which since 1948 has played an increasingly large part in governing international trade, the chances of making relative reciprocity clearer and compulsory and introducing the special and differentiated treatment accepted in the Tokyo declaration will remain, as far as can be foreseen, purely theoretical.

The results of the negotiations on these institutional questions may constitute a potential threat to the trade flows of many developing countries, frustrating yet another laborious attempt on their part to gain international recognition - of a binding nature - for their legitimate trade and economic development interests.

The above-mentioned meeting emphasized that sectors of importance to developing countries such as agriculture and tropical products have hitherto been treated only tangentially in those negotiations; that the clauses restricting trade which are currently applied only exceptionally might become institutionalized as normal practices; that there is no significant

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9/ See, Informe de la Reunión sobre el Proteccionismo de Países Desarrollados (E/CEPAL/1057), 14 November 1978, p. 5.

/differential treatment

differential treatment for the developing countries; that on the other hand they may be harmed by clauses such as those concerning gradualism, selectivity and unilateral application of safeguards. The meeting also drew attention to the fact that if this were confirmed in what remained of the negotiations, the results of the Round would have little connexion with the objectives of the developing countries and even with the statements contained in the Tokyo declaration. Access to the markets of the developed countries would not improve, and restrictions would not decline appreciably.

3. Types of protectionist measures

The variety of protectionist measures applied by the developed countries is quite large. Some of the most significant are singled out here, including those which have recently acquired importance.

(a) Quantitative restrictions

Broadly speaking, the protectionist policy of the developed countries has been based on two types of parallel measures: subsidies or minimum prices for domestic output, and import restriction. The fixing of reference prices has also frequently been a valuable auxiliary measure.

Quantitative restrictions have been widely used for some time, in the form of either absolute prohibition or quotas. Long-standing examples are the treatment of sugar in the United States, and of preserved fruit and fruit and vegetable juices in the EEC, to mention only two. An extreme case of quantitative restriction is import prohibition, a conspicuous example of which occurred in the case of meat; the EEC closed its market to Latin American imports for quite a long period, and between 1974 and 1977 conditions ranged from total prohibition of such imports to compensated trade in which imports were only permitted to the same extent as exports. The United States and Japan have practically closed their markets to certain types of meat from certain Latin American countries.

Recently, the United States has fixed import quotas for steel, and zinc producers have asked the international trade commission to do the same for zinc, and establish a duty for amounts in excess of the quota.

Among the instruments used by developed countries to defend their domestic production which de facto amount to quantitative restrictions, one of the most important is subsidies for producers on account of the extent, intensity and frequency with which they are used. The United States has often applied this measure and the common agricultural policy of the EEC is an excellent case in point. On some occasions the developed countries have chosen to subsidize domestic producers rather than increase import restrictions (as in the case of the United States and footwear, for example).

(b) Countervailing duties

In addition to the above there are various practices used by the developed countries which, without actually being identifiable restrictive measures, are in fact effectively or potentially such effective restrictions that their mere existence, or threat of it, induces countries and producers to cut back their sales, either directly or by eliminating various elements which favour their competitive capacity. In particular these practices include anti-dumping and countervailing duties (GATT articles VI and XVI) which were very little used in the past but became widespread from 1973 onwards due to the difference in bargaining power between the developed countries and the developing countries. While there have been some accusations of dumping, the application or threatened application of countervailing duties is more often brought on by the existence of subsidies.

Agreement does not in fact exist on what should be considered a subsidy, nor on the various instruments used to provide subsidies. In practice, every developed country has its own interpretations and grounds for appraisal, which may even vary according to the product under consideration. In addition, the concept which has grown up in GATT is similar to that of the industrialized countries. Thus article XVI, "subsidies", introduced in the General Agreement in 1958, was not adhered to by the developing countries.

In any event, countervailing duties can neutralize the export promotion measures and policies of the developing countries. In the case of exports among developed countries, the application of subsidies by one may lead to anti-dumping measures tending to offset them. This is not the case when export promotion measures are applied by developing countries, because, as will be seen below, their curcumstances are different from those of the

/developed countries

developed countries (without prejudice to the fact that it is not desirable for the developing countries to use subsidies of unreasonable size or duration). In practice, however, countervailing duties have been applied to Latin American exports, sometimes to an increasing extent. This may create a serious problem for the region, since it endangers the policies for the promotion of non-traditional exports applied by the Latin American countries since the mid 1960s - following paths taken long ago by developed countries - as part of their efforts to open up their economies to the exterior, and at the same time reduce protection and rationalize their industry and make it more efficient. Frequently these policies seek to offset the unfavourable effects on exports of exchange rates which over-value local currencies, of indirect taxes, etc.

The United States applied countervailing duties, for example, to Brazilian footwear and leather articles in 1977. Again, United States producers have asked for countervailing duties to be applied to men's and children's clothing, on the grounds that Colombia has established subsidies by its policy of issuing certificados de abono tributario (CAT) - tax credit certificates -, preferential shipping rates and other measures.

(c) Different treatment of Latin America

The Lomé Convention presents a special situation. Under it, the EEC grants special preferences for the developing signatory countries (ACP countries), as a result of which different treatment is given to imports from those countries and from Latin America of a series of products of great importance to the region.

Table 9 lists 65 products - tariff items - taken from the total list of 76 which the Latin American countries selected in 1973 for consideration within the group of tropical products in the present GATT round of multilateral trade negotiations. These 65 products, under the Lomé Convention, bear a zero rate for the ACP countries as a special preference, i.e., the exports of those countries enter the EEC duty-free. Under the generalized system of preferences granted by the Community to the Latin American countries *inter alia*, only 36 of these 65 tariff items or products benefit from preferential rates; and of those only 6 are duty-free.

/Table 9

Table 9

TROPICAL PRODUCTS STATED TO BE EXPORTS INTEREST TO LATIN AMERICA IN THE GATT NEGOTIATIONS

NCCC items	Product description	MNF rate	GSP rate	Preferential rate ACP countries	Imports from Latin America, 1976 (thousands of Units of Account)	Non-tariff barries
02017500	Bovine offals	7.0	No	0.0	43 031	HS a/
02049300	Whale meat	10.0	0.0	0.0	...	HS a/
02049800	Other meat	14.0	7.0	0.0	66	HS a/
03011300	Salmon, fresh, chilled or frozen	8.0	No	0.0	...	
03011900	Fresh-water fish	0.0	No	0.0	2 624	
03012100	Herring imported between 15/II and 15/VI	0.0	No	0.0	...	
03012600	Herring imported between 16/VI and 14/II	15.0	No	0.0	...	
03013500	Tunny, fresh, chilled or frozen	22.0	No	0.0	1 787	
03013600	Sardines	23.0	No	0.0	...	
03016500	Anchovies	15.0	No	0.0	...	
03019300	Swordfish fillets	15.0	No	0.0	176	
03019730	Tunny fillets	18.0	No	0.0	...	
03019770	Fish fillets	15.0	No	0.0	...	
03031200	Crayfish	25.0	8.0	0.0	9 129	
03034100	Crab and prawns	15.0	8.0	0.0	8	
03034300	Shrimp	16.5	6.0	0.0	3 858	
03036500	Mussels	10.0	No	0.0	...	HS a/
03036850	Other frozen molluscs	8.0	No	0.0	...	
03036860	Squid	6.0	No	0.0	...	
03036870	Other molluscs, not frozen	8.0	No	0.0	...	
04060000	Natural honey	27.0	25.0	0.0	33 581	HS a/, L b/, BQ c/
07051000	Beans	4.5	No	0.0	...	
07059100	Dried lentils	2.0	0.0	0.0	...	
08013000	Bananas	20.0	10.0	0.0	326 609	R d/, GQ e/, BQ c/
08015000	Pineapples	9.0	No	0.0	2 429	HS a/, R d/
08016000	Avocados	8.0	6.0	0.0	19	
08017300	Coconuts	2.0	0.0	0.0	8	
08019900	Mangos, guayabas, etc.	6.0	5.0	0.0	775	
08121000	Dried apricots	7.0	5.5	0.0	...	HS a/
09011100	Coffee, unroasted, non-decaffeinated	7.0	No	0.0	1 512 960	IT f/
09011300	Coffee, unroasted, decaffeinated	13.0	10.0	0.0	2 026	
09011500	Coffee, roasted, non-decaffeinated	15.0	12.0	0.0	582	
09011700	Coffee, roasted, decaffeinated	18.0	15.0	0.0	157	
09019000	Coffee substitutes containing coffee	18.0	No	0.0	...	

Table 9 (concluded)

NCCC items	Product description	NMF rate	GSP rate	Preferential rate ACP countries	Imports from Latin America, 1976 (thousands of Units of Account)	Non-tariff barries
09021000	Tea, in instant packaging	11.5	0.0	0.0	...	
09029000	Tea, in other packaging	9.0	No	0.0	...	
09041100	Pepper	0.0	No	0.0	...	
09081300	Nutmeg for making oils	15.0	6.0	0.0	...	
11041000	Banana flour	17.0	7.5	0.0	...	
11049000	Flour of comparable fruit	13.0	7.5	0.0	...	
12010000	Oil-seeds and oleaginous fruit	0.0	No	0.0	457 899	
15041100	Fishliver oil	6.0	0.0	0.0	...	
15071500	Castor oil (15071500)	0.0	No	0.0	16 961	
15071700	Castor oil (15071700)	8.0	6.0	0.0	16 662	
15073800	Crude oils	5.0	2.5	0.0	29 920	
15077000	Cruda solid oils	10.0	7.0	0.0	42 418	
16025100	Preparations containing meat	26.0	17.0	0.0	125 824	HS a/, R d/
16047100	Sardines, prepared and preserved	25.0	No	0.0	...	Q g/
16047500	Tunny, prepared and preserved	24.0	No	0.0	...	Q g/
17017100	Raw sugar	0.0	No	0.0	251 646	IT f/, VL h/, ST i/
18010000	Cocoa	5.4	No	0.0	51 305	
18040000	Cocoa butter and oil	12.0	8.0	0.0	39 027	
20023000	Tomatoes, prepared and preserved	18.0	No	0 0	108	HS a/, BQ c/
20024000	Esparragus, prepared and preserved	22.0	20.0	0.0	3 650	HS a/, BQ c/
20071810	Fruit juices	42.0	15.0	0.0	163	HS a/, BQ c/, GQ e/, DL j/, VL h/
20073510	Orange juice	19.0	No	0.0	54 507	HS a/, DL j/, BQ c/, GQ e/, VL h/
20074120	Pineapple juice	21.0	18.0	0.0	744	HS a/, BQ c/, GQ e/, DL j/, VL h/
20075350	Grapefuit juice	15.0	8.0	0.0	71	HS a/, BQ c/, GQ e/, DL j/, VL h/
21021000	Coffee extracts and essences	18.0	9.0	0.0	...	
23013000	Fishmeal	2.0	0.0	0.0	85 009	
24011000	Tobacco	15.0	No	0.0	40 900	IT f/
24019000	Other tobaccos	23.0	11.5	0.0	119 715	IT f/
24022000	Cigars and cigarettes	52.0	49.0	0.0	...	GQ e/, BQ c/, DL j/
29351000	Furfural	11.2	0.0	0.0	1 798	
41029900	Bovine raw hides and skins and leather	8.0	0.0	0.0	100 303	
44149000	Wood sawn lengthwise	7.0	0.0	0.0	16 622	

Note: MFN rate - Most favoured nation rate; GSP rate - Generalized System of Preferences rate.

a/ Sanitary restriction; b/ Licence; c/ Bilateral quota; d/ Restriction; e/ Global quota; f/ Specific internal tax (not included in tariff) g/ Quota; h/ The incidence of the variable levy is not included in the tariff; i/ For ACP countries, State trading; j/ Discretionary licence.

/The table

The table also shows the very many non-tariff measures which affect imports of these tropical products included in the negotiations; nine categories of non-tariff barriers have been identified, with 50 applications.

It should also be pointed out that for other commodities there is again differential preference treatment in favour of the ACP countries. Thus exports of wheat and maize from Latin America are subject to common agricultural policy whereas such exports from the Lomé Convention countries receive favourable treatment; groundnut oil, wool and cotton from Latin America are subject to rates of duty ranging from 1.5 to 15%, and are not included in the generalized system of preferences; on the other hand, such exports from countries which have signed the Lomé Convention are duty-free.

(d) Variable levies

Sliding duties are again a very effective instrument. In the case of meat, the EEC applies them at such high rate that, together with a nominal tariff which does not exceed 20%, in 1977 they established a total duty for imports of livestock of 105% and for meat of 151%. In addition, in the EEC these imports face supplementary measures such as licensing prior to import, quotas with differential sliding duties - which increase for the more efficient producer countries - and export subsidies.

(e) Exports of raw materials

The developed countries are tending to secure their supplies of raw materials and therefore limit the import from developing countries of products processed from them, while the developing countries are in turn trying to restrict the export of goods which are not processed within the country in order to encourage the corresponding industry. If these policies followed by the developed countries were to be incorporated in the principles of international trade and thus become established as rules, the advantage Latin America enjoys by possessing some of these raw materials would be limited.

(f) Agreements to restrict trade

A protectionist measure of increasing importance in recent years is the agreement to restrict trade. These are often in the form of bilateral agreements and of "voluntary" restrictions of a country's exports, leading

/to bilateral

to bilateral negotiations among countries whose bargaining power is very dissimilar, with results which are presumably less favourable for the developing countries.

Agreements to organize markets made by exporting and importing countries are an effective instrument to restrict the trade in specific goods or sectors. Thus, for example, in order to have access to specific markets of developed countries it is necessary to have adhered to the Multifibre Arrangement, which involves the signing of bilateral agreements fixing the annual growth rates allowed for the exports of each country over the base quota, which are binding. The Multifibre Arrangement was recently renewed until 1981 and various developed countries have signed it, including the United States and the European Economic Community. Bilateral agreements are signed under it. By March 1978, the United States had signed agreements or treaties of this kind with seven Latin American countries, and the EEC had also signed bilateral agreements with countries of the region. The growth permitted for Latin American exports is low, generally allowing only small increases. The accepted annual growth rates have been below 1% for textile exports to the EEC from Argentina (cotton yarn) and Brazil (eight products including yarns and cloth); quotas and restrictions on annual growth rate of exports have also been applied in the bilateral textile agreements of the EEC with Colombia and Peru.

One instrument which may harm Latin American exports and which is also included in bilateral treaties between developed and developing countries is the watch-dog system for items where quotas have not yet been established. The purpose of such systems is to forestall increases in imports which might be considered damaging to the producers of the developed countries, in which case quantitative or other kinds of restrictions might be imposed. Examples of this kind are found in the bilateral treaties between the EEC and Colombia and Peru under the Multifibre Arrangement.

(g) Safeguards

The use of safeguards is allowed when aimed at protecting balance-of-payments equilibrium and when the import of a product occurs in such quantities that it causes or threatens to cause serious harm to national producers (articles XII and XIX of the General Agreement). In the first case,

/the country

the country which has recourse to the safeguard fixes limits of recovery and time periods which cannot be exceeded; and in the second case, it indicates what institutional measure it will apply, and shows the existence of "serious harm". Recently, this measure has been arbitrarily broadened and extended, without respecting the provisions of those articles, and there has even been a move for it to become institutionalized in the draft code under consideration. In fact, then, safeguards are ceasing to be exceptional and becoming customary practices of great importance and thus systematic instruments to restrict trade. Hitherto the reaction of the developing countries faced with the application of safeguards has been limited and of slight effectiveness.

(h) Voluntary restrictions

An increasingly widely used type of measure consists in the so-called voluntary restrictions, which are usually agreed upon by the exporting and importing countries. The label is not an accurate description of the measure, since these restrictions are adopted by developing countries which are large-scale producers and exporters of the good in question, generally at the initiative of the developed country importing the good, since they know that otherwise the exporting country will apply quantitative or other kinds of restrictions which might be even worse. Naturally, the effect of these "voluntary" limitations on production and trade is similar to that of the application of restrictions; but in addition they are difficult to appeal against, because formally the developed country has not adopted any measure or violated any principle of international trade. Even the developing countries which are not among the main producers and are therefore not subject to these restrictions feel their effects, since they know that they would be if their exports increased beyond definite narrow limits. "Voluntary" restrictions have been applied on footwear, at the suggestion of the United States, by the main suppliers (Korea and Formosa) and these have indirectly affected the countries of Latin America. They will also be applied to textiles by virtue of agreements between Canada and its main suppliers as of January 1979, to replace quotas.

"Voluntary" restrictions also sometines lead to a reduction in the incentives to export a particular good on the part of a developing country, after negotiations with a developed country, in order to avoid the application of quotas or countervailing duties by the latter. This has occurred in various

/Latin American

Latin American countries. In Colombia, producers of leather goods accepted that the CAT (tax credit certificates) should be reduced and even eliminated to avoid the application of countervailing duties by the United States; and for the same reason flower-growers accepted a reduction in the CAT to a purely nominal level (but even so some groups in the United States are still asking for the application of quantitative restrictions).

(i) Other restrictions

There are also other widely-used restrictive practices, including discretionary licences, technical, packaging, marking and labelling standards and sanitary barriers.

The first of these are not always real restrictions in the strict sense of the word, but when they are accompanied by some form of quantitative restriction, such as global or bilateral quotas, tariff quotas, etc., they become restrictive. The second, used in the main import markets on the grounds that they defend consumers' interests, are often also used to regulate the volume of imports through the rise in costs caused by such standards. Finally, sanitary barriers imposed to protect public health and the environment are in fact used to regulate the level and geographical origin of imports.

4. Factors spurring protectionism

(a) Slackening of demand in certain sectors in the developed countries

The world economy is affected simultaneously by a severe recession and by inflation which is becoming both structural and endemic. The simultaneous presence of these problems makes it difficult to solve them, because many of the measures used to tackle the one are self-defeating for the other. In the countries of the Organization for Economic Co-operation and Development (OECD), unemployment is high and persistent; in some of them balance-of-payments problems have been brought down to manageable levels by controlling imports and slowing the growth rate, while in others the external sector continues to be a source of priority concern. Inflation reflects a social conflict in which wage-earners and employees fight over their shares of national income, and installed productive capacity is only partially used in some sectors.

/Although these

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Although these problems have a short-term dimension, they are not merely short-term problems but rather are specific to a long-term transition period towards new productive structures through which the economy of the developed countries is passing.

This transition began to take place as the OECD countries overcame the damage of the Second World War and completed their adjustment to post-war internationally economic circumstances. The relative position of the different developed countries changed: the economies and competitive position of some were strengthened, those of others weakened. Some productive sectors which played a leading role in the economic growth of the developed countries in the last thirty years began to grow sluggish as the accumulated unsatisfied demand became saturated. Because of the characteristics of the demand for many non-durable consumer goods and some durable consumer goods, once the minimum necessary consumption was satisfied, demand grew more slowly than income since such goods usually allows less technological renewal, which limits the ability to bring out new models.10/ This primarily affects economic sectors such as those mentioned at the beginning of this chapter, which are the object of the protectionism of developed countries: the more dynamic demand is shifting from those countries to the developing countries, where unsatisfied needs still exist.

(b) Wage trends in the developed countries

This less buoyant demand is accompanied by another factor: the change in the structure and level of wages and salaries. From the end of the war until quite recently some developed countries had a double wage structure: some industries, modern and highly productive, paid good wages while other less productive activities were paying much lower wages for equally skilled labour. This made it possible for economic activities providing employment to subsist; nevertheless, the gap between the two parallel wage structures was closing and tended to disappear, with the lower levels rising to those of the more efficient industries as the overall real wage level rose. These changes weakened the capacity of the developed countries to compete in sectors where production processes were labour-intensive.

10/ For the OECD countries growth rates are expected to be lower in most of the 1980s than on average in recent decades.

/(c) Protectionism

(c) Protectionism and changes in the international division of labour

For many years some of the main developed countries supported, for social and political reasons, comparatively backward and inefficient economic activities by means of subsidies and measures of protection against the exterior, as in the case of European agriculture and the textile and steel industries in many developed countries. As a result, in addition to subsisting in an uneconomic manner, these industries did not carry out the necessary technical renovation.

When this process was at a relatively advanced stage the increasingly stiff competition of the developing countries began to be felt in the international markets for those goods. According to an UNCTAD document,11/ between 1970 and 1976, developing countries' exports of manufactures to developed market economy countries increased in volume terms at an annual rate of about 14%, or more than twice as fast as imports of manufactures into the developed market economy countries from the world (including their intra-trade), twice as fast as manufacturing output growth in developing countries and four times as fast as manufacturing output growth in developed market economy countries. In contrast, between 1962 and 1970 there was no increase in the developing countries' share in total imports of manufactures into the developed market-economy countries, and therefore the recent trend is of the utmost importance: for the first time in history, a change, albeit limited, has begun to take place in the age-old international division of labour in which the developed countries exported manufactures to the developing countries, which in turn only sold commodities.

In many highly important industrial sectors, the developing countries are now not only satisfying their own domestic demand but also competing increasingly actively with the developed countries themselves; in addition, the number of sectors in which this is happening is increasing, and they now include not only non-durable consumer goods but also consumer durables, motor-vehicles and some capital goods. In 1976, of the total imports of 21 developed

11/ UNCTAD, Review of recent trends and developments in trade in manufactures and semi-manufactures, TD/B/C.2/190, p. 3.

market economy countries, the developing countries provided 18.3% of fuel manufactures, 40.2% of wood and furniture manufactures, 22.1% of leather and footwear, 14.8% of textiles and 37.2% of clothing; and although in the case of the engineering industries the proportion was smaller, it was still increasing very rapidly.

(d) Countries and goods involved in the process of economic change

The number of developing countries taking part in this process is so far small. In the period 1970-1976 the sales abroad of manufactures from eight markets 12/ generated 78.1% of the increment in exports of manufactures of the developing countries and two of them alone (South Korea and Hong Kong) accounted for 42.1%.13/ However, the number of developing countries involved in this process in Latin America, Asia and Africa is growing.

During the same period there was likewise a heavy concentration of most of the growth of exports of manufactures of the developing countries in certain types of goods. Seven groups (clothing, engineering excluding motor-vehicles, textiles, miscellaneous light manufacture, wood and furniture, processed food products and leather and footwear) generated 88.1% of the increment while the first two groups together accounted for 50.4%. As is pointed out above, the variety of goods exported is increasing as the developing countries gain experience and find substitutes for the products in which exports have run into difficulties.

(e) Changes in the economy and in the monetary system

The new role of the developing countries as exporters of manufactures is a natural consequence of the industrial advance which began with import substitution for the domestic markets. As indicated elsewhere in this study, the transnational enterprises which originally had a negative attitude to this process and preferred to export such goods from their countries of origin, spurred by increasing competition among themselves and although to a limited extent subsequently began to shift production of labour-intensive goods to developing countries in order to take advantage of lower labour costs and

12/ Brazil, Mexico, South Korea, Hong Kong, India, Malaysia, Mexico, Singapore and Yugoslavia. See UNCTAD, loc.cit., table 2.

13/ UNCTAD, ibid., table 14.

/also of

also of the domestic markets. For their part, national or regional enterprises of developing countries, including Latin American ones, began actively to join in the export of manufactures, and governments gave firm support to these efforts, carrying out important changes in their economic policy (more realistic exchange policies, export promotion systems, reduction of protection to industry and support to make the industry more efficient).

These changes in the economy could not fail to be reflected in parallel changes in the international monetary system. The system of fixed parities agreed on at Bretton Woods at the end of the war was abandoned and replaced by floating exchange rates. The currencies of some countries have been revalued against others, and clear priority has been attached to stabilization before growth. Changes in exchange rates have naturally affected competitiveness, which, however, only take place gradually and has not yet been fully achieved. The floating of currencies, necessary because of changes in the relative economic position of various countries, has nevertheless contributed to uncertainty and to making economic policies more complicated. The actions of one developed country have repercussions on the others, and attempts at co-operation and co-ordination among those countries are aimed at avoiding the mutual export of inflation and unemployment.

The developing countries have played and still play a practically passive role in this process. They have little effective participation in decisions on the monetary system; they must peg their currency to that of one of the developed economies with which they have strong economic relations, receiving the impact of changes in major currencies without being able to affect them. They likewise have little say in the decisions to modify the rules of international trade.

(f) The redeployment of economic activity and liberalization of trade

In the long term, part of the developed countries' answer to these problems is the redeployment of their productive structure and particularly of their industry. In order to regain a higher growth rate and continue to raise their productivity and standard of living, they are trying to modernize their traditional sectors and place them on a competitive footing, if possible; and if this is not viable, to shift the main priorities of development from these sectors which are growing sluggish to others where technological

/innovation is

innovation is more rapid and more skilled labour is employed. This process may have favourable consequences for the developing countries, on condition that it is carried out in keeping with their interests, i.e., that there is not only a shift to them of labour intensive activities, but also that they develop technologically more advanced export industries; that their national decision-making capacity is strengthened so that they cease to play a purely secondary and passive role in a process guided by the developed countries and transnational enterprises; that the enterprises of developing countries are strengthened; and that their capacity for technological innovation should increase so as to reduce this one-sided dependence on the developed world and thereby increase their decision-making capacity and bargaining power.

The process of structural transformation of the developed countries, essential in the long term, is for the time being running into strong resistance, linked with the recession and inflation and headed by the affected sectors. This raises an apparent contradiction between the long- and short-term goals of the developed countries, which can be resolved by regulating the pace of redeployment so that its short-term impact can be absorbed. However, in practice it appears that in major developed countries the immediate anxieties and pressures of the affected sectors are receiving the most attention, at the expense of long-term goals and particularly of redeployment. Top priority is attached to maintaining employment, balance-of-payments equilibrium and monetary stability, at the expense of the rate of transformation of the productive strata, the long-term economic growth rate and the growth rate of international trade. At the same time, the main impact of these cautious policies is shifted to the developing countries, through the protection of imports of goods produced by those sectors which are precisely those which offer the Third World the greatest possibilities of manufacturing export growth.

The protectionism of the developed countries and its recent growth are thus not isolated or relatively minor events, but rather intimately connected with the direction of economic policy in those countries and with the transformation and problems of the world economy.

/5. Consequences

5. Consequences of protectionism for the Latin American countries

It is not easy to make an exact, quantified evaluation of the consequences of protectionism for the Latin American countries. The restrictions applied for some decades now, together with other factors, have unfavourably affected the share of the developing countries, particularly the Latin American ones, in the world trade in many commodities or semi-manufactures, in which the developed countries have not only carried out heavy import substitution but have also significantly increased their share of world exports. The effects of the growth of protectionism in recent years cannot yet be weighed up because of a lack of sufficiently recent statistical data. In addition, the most important effects of the policies on the Latin American countries are not reflected so much in past performance as in the future growth of exports, and consist not only of the direct effects of the measures adopted but also of the consequences of such policies in the limitation by Latin American countries and enterprises of the growth of their investment and output in view of the unfavourable prospects they perceive.

A fundamental consequence of protectionism is the lag it produces in the transformation of the productive structure of the developing and developed countries, at the expense of the rate of growth of productivity and of higher standards of living. What is at stake in the Latin American countries is the rate at which they can carry out their policy of opening up their economies to the exterior and the possibility of making their industries more efficient and thus be able to take advantage of their natural and acquired comparative advantages. The growing difficulties faced by non-traditional Latin American exports are obstructing the transformation of the region's foreign trade structure, which is in turn necessary to sustain a dynamic growth rate of total exports. This reduces the growth rate of the economy and thus worsens the problems of labour unemployment and critical poverty, whose solution calls for higher rates of growth. Inasmuch as the protectionism of the developed countries persists and affects the growth rate of Latin American exports, the possibility cannot ruled out that the Latin American countries may change their outward-looking policy. Without returning to the very high, indiscriminate protection of the past, they may in turn be obliged to apply import controls; some tendencies along these lines have been visible in recent years in some countries or sectors of the region, although many of them are vigorously trying to obtain greater openness. It would certainly not be ideal for external circumstances to oblige the region to take the path of greater self-sufficiency, among other reasons because it continues to need trade with the developed countries in order to get from them the modern technology required for development; but if other options are closed, the fact of having in reserve a large domestic and regional market with tremendous growth potential could warrant a change in development strategy, in shifting some attention from the international market to national and regional ones. To the extent that these economies become closed to the exterior, harm will be done to international trade and to the growth of the economy of the industrialized countries themselves, whose defensive policy of controlling imports would thus have a counterpart in the slower growth rate of their exports of manufactured intermediate goods and equipment to Latin America.

Chapter III

INTEGRATED PROGRAMME FOR COMMODITIES: SITUATION AND PROSPECTS

The main action lines of the Integrated Programme for Commodities aim at stabilizing commodity prices and export earnings and developing the commodity economy. Existing or proposed instruments for dealing with these problems are price stabilization, commodity agreements and the common fund to stabilize prices, and the compensatory financing facility of the International Monetary Fund and the Stabex system established by the Lomé Convention for the ACP countries, to stabilize earnings; while the development of the commodity economy would include the expansion of local processing and the improvement of marketing and distribution systems.

Progress in these matters has been uneven. In practice, the analysis made delved deeper into the topics in question and activities were concentrated on stabilizing prices, but little progress was made in forms of compensatory financing other than those already established, or in developing the commodity economy. A summary is given below of the progress achieved in the negotiations on the common fund and the preparatory meetings on commodities, concluding with a review of the system of the main export commodities of the Latin American countries on which agreements exist or which are included in the list of preparatory meetings agreed upon in resolution 93 (IV) of the United Nations Conference on Trade and Development.

1. Some policies applied with a view to stabilizing prices

As has been said, the main instruments used in the international negotiations for the purposes of price stability were the commodity agreements and the common fund.

(a) Commodity agreements

In accordance with resolution 93 (IV), to which reference has already been made, a series of preparatory meetings was to have been held between September 1976 and February 1978 on a group of individual products mentioned in the resolution, to which others could be added in accordance with the

/procedure set

procedure set out in it. The objectives of these meetings were to propose appropriate measures to achieve the objectives of the Integrated Programme, determine financial requirements, recommend follow-up action, and basically, prepare draft proposals of commodity agreements. The experience acquired in the course of the preparatory meetings has demonstrated that the time allocated for carrying out these extensive and complex tasks was extremely short. Only in the case of rubber was it possible to convene the negotiating conference. As has already been said,14/ this slow progress in concerting agreements was particularly due to the lack of political willingness on the part of some governments, particularly of developed countries, which are reluctant to adopt norms restricting their action. It was not only the producer countries which adopted common positions or presented specific proposals. The lack of financing for the buffer stocks caused by the delay in setting up the common fund introduced another basic limitation. A further obstacle - also mentioned in the report quoted - was the lack of importance given to stabilization arrangements; in this respect, the experience of the preparatory meetings on jute, hard fibres, cotton and tropical timber showed that it was relatively easy to reach arrangements on measures such as impetus to research, productivity improvement, promotion and diversification. Difficulties also arose when the inclusion in the agreements of semi-processed or processed products was proposed, although resolution 93 (IV) expressly includes some of them (such as jute and hard fibre products). In some of these preparatory meetings, too, requests were made for studies which are not easy to prepare and in some cases do not seem to have a clear and direct link with the measures under consideration.15/

Despite the numerous obstacles met with, account should be taken in evaluating the results obtained of the considerable progress which the preparatory meetings have signified - and which the negotiations may

14/ See UNCTAD, Comprehensive report on progress under Conference resolution 93 (IV). Report by the Secretary-General of UNCTAD (TD/B/IPC/AC/20), June 1978.

15/ See UNCTAD, Comprehensive report on progress under Conference resolution 93 (IV), op.cit., pp. 3 to 6.

/possibly represent -

possibly represent - in that, within an overall and systematic approach, they establish a dialogue, identify the basic points of coincidence and dissidence, and make a move towards unifying the positions of both consumers and producers.

The programme of preparatory meetings covered an appreciable number of commodities of importance for countries of the region (vegetable oils and oilseeds, cotton, tropical timber, iron ore, manganese and copper), although the meetings on bananas and bauxite are pending. With regard to meat, which is a product which has been suffering restrictions in various markets for several years, the UNCTAD secretariat did not achieve any progress in the preparatory meetings, since this is a product which is included in the present multilateral negotiations in GATT. Another four products of importance in the exports of different countries of the region (sugar, coffee, cocoa and tin) are at present governed by international agreements, and have their own organizations which review the problems relating to them.

In view of the slow progress made during the series of preparatory meetings on commodities, the Trade and Development Board at its last session agreed to extend the deadline for achieving the objectives of the Integrated Programme for Commodities, as laid down in UNCTAD resolution 93 (IV) to the end of 1979.

(b) The negotiations on the common fund

The first stage of the negotiating conference on the establishment of a common fund for the financing of buffer stocks took place in March 1977, and following four weeks of discussions in which no substantive agreements were reached, it was suspended, and resumed in November of the same year. Although some progress was made in this stage of the negotiations, they had once again to be interrupted when no consensus was achieved on fundamental principles upheld by the different groups of countries.

Following a period of intensive consultations by the Secretary-General of UNCTAD, with governments and financial agencies, the negotiating conference met from 14-30 November 1978, and substantial progress was made, although no specific agreements could be reached: on this occasion, a request was

/made to

made to the Secretary-General of UNCTAD to reconvene the negotiating conference before the fifth session of UNCTAD, while the Chairman presented his conclusions and pointed out that progress had been made in some of the most important matters, although there was still no agreement on some major elements.

In this third stage of the conference, agreement was reached on two particular problems which were at the root of earlier disagreements; the first was the nature of the fund, i.e., whether it was to be a supply of resources or a pool of individual reserves; the second concerned possible functions of the fund apart from financing reserves ("second window"). With regard to the first of these, it was accepted that the fund should have its own resources, derived from direct contributions by the governments (a fixed equal sum for all the member States and an additional sum according to the formula governing United Nations contributions) and resources from the operation of international commodity agreements, as a proportion of the maximum financial requirements of such agreements (in the form of cash deposits, capital available on demand and guarantees). The fund's resources would also include loans, voluntary contributions and net gains.

With regard to the last mentioned, it was accepted that the "second window" would finance measures other than those relating to the constitution of reserves, to include research and development and productivity increase. The resources would come partly from direct contributions by the governments, and the rest from voluntary contributions, and would be held in a separate account.

A general discussion also took place on the problem of allocating votes. It was agreed that they would be granted to the member States, and not to the international commodity agreements, while no member State would have the right of veto. The Chairman's report indicates that the fund would contribute from its first window to the financing of international buffer stocks, and in accordance with the forms of action determined, of internationally co-ordinated local reserves as part of international commodity agreements.

/Among the

Among the main topics on which the Chairman of the Conference considered that it would be necessary to continue negotiations, was the amount of the capital payments and the percentage of the deposits which would come from the commodity agreements, the amount of the funds which would be allocated to the "second window" to finance other measures and their sources of financing (voluntary, compulsory or both), and the basis for the weighted distribution of votes, in keeping with the principles of equality and proportion.

It would seem that the progress achieved to date, provided some flexibility existed in the positions of the groups, would make it possible to reach a compromise agreement between the opposing ideas of the different groups.

2. Compensatory financing to stabilize earnings

Parallel to the problem of price instability, it has been necessary to tackle that of instability in export earnings through compensatory financing. The instruments used in both cases are complementary and not optional, since their purposes are different. The compensatory financing facility set up by the International Monetary Fund (IMF) and the Stabex system within the Lomé Convention exist for the moment. However, there are shortfalls in their coverage of countries and products, and in their modalities, which as the UNCTAD secretariat pointed out would require the reform of the IMF facility and the establishment of a new special facility for commodities.

The UNCTAD secretariat is studying the possibility of some reforms which could be proposed in the IMF compensatory financing facility for a more efficient application. Among the matters considered is the desirability of introducing an objective formula to determine the drop in earnings, using a sufficiently large number of years to establish the trend, taking into account the purchasing power of exports, fixing the amounts drawn in terms of such indexes as per capita income, the situation of the balance of payments and the reserves position, rather than according to quotas, and easing the regulations on the refunding of compensation, linking them to the country's payments capacity.

The UNCTAD secretariat also proposes to study the feasibility and financial needs of a new facility to offset the decline in earnings as a result of commodity exports. This facility would operate as follows: (i) access would be reserved for developing countries only and would cover all commodities (foodstuffs, agricultural raw materials, minerals and metals); (ii) compensation would be available when export earnings from specific commodities declined, subject to balance-of-payments requirements, and taking into account the tranches in the IMF facility; (iii) the formula for measuring the drop in earnings would be based on the trend over a sufficiently long period and would take into account changes in the purchasing power of export earnings; (iv) the decline in the earnings of the relatively less developed countries would be totally covered; (v) the refunding of the compensation would be linked to the country's payments capacity.16/

3. Development of the commodity economy

The development of the commodity economy is essentially bound up with local processing of these products and their marketing and distribution systems.

In developing countries, local processing does not only lead to larger export earnings - since a larger value added is sold - but also gives impetus to the overall industrialization process. The UNCTAD secretariat has estimated that the semi-processing before export of ten commodities 17/ in the developing countries would have meant additional annual gross earnings of around 27 billion dollars, on the basis of 1975 figures.18/

Latin America exports the majority of its commodities unprocessed. Of imports of 17 products from 11 Latin American countries by the OECD

16/ See UNCTAD, op.cit.

17/ See UNCTAD, The processing before export of primary commodities: areas for further international co-operation, Geneva, 1978.

18/ Copper, bauxite, phosphates, natural rubber, cotton, jute, hides, non-coniferous timber, cocoa and coffee.

/countries 74%

countries 74% had not been processed, 10% had been semi-processed and 16% had received further processing (see table 10). Among the main causes of this situation are the tariff and non-tariff barriers set up by the governments, those resulting from the structure of the markets and the operation of the transnational corporations, the obstacles arising out of the scale of production required and investment requirements, and other restrictive practices such as product differentiation, and the increase in shipping freights.19/

Faced with these restrictions, developing countries have in several cases prepared policies to give impetus to processing by the producer country. The best known example is that of the restrictions imposed on the outflow of unprocessed products, which include prohibitions, quotas and duties; this policy has been successfully applied to exports of hides and timbers. If the measures agreed upon are to be really efficacious, however, they must be co-ordinated among the developing countries which apply them. The co-ordination of investment and supply to the markets could also be intensified, which is what the Central American Common Market and the countries of the Andean Pact have done in certain cases. There is in any case a broad margin for increasing trade among developing countries, especially in semi-processed and processed products.

With regard to co-operation among developed and developing countries, the main lines of action suggested by the UNCTAD secretariat 20/ could be the following: market access for processed products, abolition of the discrimination between primary and processed products in market access, the structure of shipping freights and the special and bilateral systems of preferences; prohibition on new subsidies to industries in developed countries which are in competition with those of developing nations and the gradual reduction of existing subsidies; closer supervision of the price policy of the transnational corporations, in order to eliminate

19/ For an analysis of each of these barriers and obstacles, see UNCTAD, The processing before export of primary commodities: areas for further international co-operation, op.cit.

20/ See UNCTAD, Commodities. Action on export earnings stabilization and developmental aspects of commodity policy, Geneva, 1978.

/Table 10

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Table 10

OECD COUNTRIES: IMPORTS OF 17 BASIC COMMODITIES a/, ACCORDING TO DEGREE OF PROCESSING

(Thousands of dollars and percentages)

Degree of processing	World total		From 11 Latin American countries b/		Percentage of supply from the 11 countries
	Value	Percentage	Value	Percentage	
Grade 1	51 358 030	34.70	7 720 792	73.50	15.03
Grade 2	29 279 776	19.78	1 096 259	10.44	3.74
Grade 3	67 388 491	45.52	1 687 926	16.07	2.50
Total	148 026 297	100.00	10 504 977	100.00	7.10

Source: UNCTAD data bank.

a/ Meat, fish, fruit, vegetables, sugar, coffee, cocoa, tobacco, hides, tropical timber, pulp and paper, wool, cotton, iron ore, bauxite, manganese and zinc.

b/ Argentina, Barbados, Brazil, Colombia, Costa Rica, Guatemala, Guyana, Honduras, Mexico, Trinidad and Tobago and Venezuela.

/the differences

the differences between the prices of products when they are controlled by enterprises from developing countries; and an improved allocation of financial resources - especially by international institutions - for local commodity processing in developing countries.

Marketing and distribution. It is well known that the marketing and distribution of a large proportion of commodities is controlled by the developed countries. This control if particularly exercised through the transnational corporations, owing to their dominant position in the distribution channels of the developed consumer countries, and also in financing, transport and related services. The production, marketing and distribution of various commodities is to be found concentrated in the hands of a few enterprises; for example, six or less firms control more than half of world trade - excluding the countries with centrally-planned economies and taking each commodity separately - in bananas, bauxite, alumina, aluminium, manganese and tea; and more that 70% of the United States market in bananas, cocoa, coffee, copper, rubber and tobacco.21/ This control permits the generalized practice of trade within a single enterprises, as is discussed below in chapter VII, while in several cases the vertical integration of the enterprises takes in the production, processing and distribution of the commodity, as in the case of bananas, tobacco, bauxite, sugar, tea and rubber.

As a result of their lack of bargaining power and absence of control over the production and marketing process, among other factors, the part of the final consumer price which the producer developing countries receive is notably low in many cases; for example, it is less than one-third in commodities the processing of which is relatively simple, as in the case of cocoa, citrus fruits and bananas. If it is also considered that

21/ See UNCTAD, Marketing and distribution of primary commodities: areas for further international co-operation, Geneva, 1978.

./the value

the value of the export includes the local costs of transport and marketing, it may be concluded that the part of the price received by the primary producers is very small.22/

In the face of this situation, the UNCTAD secretariat is studying a series of measures,23/ among which the following may be mentioned: (i) increase in technical, financial and legal support by the developed countries and the international financial institutions for developing commodity marketing and distribution systems with funds which could come partly from the duties placed by developed countries on food and beverages from developing countries; among other things, this would mean the financing of stocks, storage services and market research, and the setting up of joint marketing committees and State export agencies; (ii) support to research into the structure and functioning of markets and long-term contracts in connexion with commodities; (iii) creation of an international framework which would contain the marketing and distribution policies for primary products and include measures concerning information supply; inclusion of marketing, transport and distribution of primary products in policies to counter restrictive trade practices; elimination of discrimination against developing countries in transport, marketing and distribution; and the undertaking to support the standardization of trade practices and agreements, including long-term contracts and within these, the fixing of prices and renegotiation of their clauses.

4. The preparatory meetings on commodities: situation of the main products exported by Latin American countries

The international commodity markets were characterized in 1978, with very few exceptions, by marked instability and strong tendencies for prices to drop. The weakening of prices is still more significant when measured

22/ See UNCTAD, Proportion between export prices and consumer prices of selected commodities exported by developing countries (TD/184/Sup.3, May 1976) and A. Orlandi, "Prices and gains in the world coffee trade", CEPAL Review, first half of 1978.

23/ See UNCTAD, Commodities. Action on export earnings stabilization and developmental aspects of commodity policy, op.cit.

/in real

in real terms, i.e., by their purchasing power. Table 11 gives a comparison of the prices in dollars at current prices and in dollars at constant 1970 prices for some of the most important export commodities of the Latin American countries, excluding petroleum. The next few paragraphs examine the evolution of the negotiations, consultations or preparatory meetings held on commodities of export interest to these countries, indicating where relevant the influences on prices and on the general situation of the market.

(a) Sugar

The entry into force, as from 1 January 1978, of the International Sugar Agreement, was successful for a few weeks in countering the downward trend in the prices of raw sugar in the world market during the previous two years; but this trend once again gained momentum as from March, and prices plummated to levels well below the minimum of 11 US cents per pound laid down in the Agreement. The depression in the market, which originally reflected a large-scale disequilibrium between total volumes of world production and consumption, was accentuated by United States and European Economic Community sugar policies. As from January 1978, the United States Government also imposed an additional duty of 2.7 US cents per pound on imports of raw sugar. This duty, plus the current tariff (2.8 US cents per pound) raised the total duty on imported sugar to 5.5 US cents per pound thus placing the price of sugar imports in the United States on a level close to that of the domestic support price which stood at 14.65 US cents during 1978. The adverse effects of the surcharge on imports established in the United States were aggravated by the situation of uncertainty existing throughout the year with regard to the ratification of the International Sugar Agreement by the United States Congress. It was not ratified, and this not only caused a continued climate of insecurity with regard to the future of the Agreement but made it impossible for its operational machinery to begin to function, including the system of contributions to the stock financing fund, which should have begun to operate on 1 July 1978, and could not do so because its application depended on the legislation adopted for the purpose by the importing countries.

/Table 11

Table 11

LATIN AMERICA: PRICES OF THE MAIN COMMODITIES EXPORTED BY THE REGION a/

(Dollars at current prices and dollars at constant 1970 prices)

	Sugar b/ (US cents/ lbs)		Coffee c/ (US cents/ lbs)		Cocoa d/ (US cents/ lbs)		Bananas e/ (US cents/ lbs)		Beef f/ (US cents/ lbs)		Wheat g/ (US dollars/ ton)		Maize h/ (US dollars/ ton)	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
1970	3.67	3.67	56.4	56.4	30.6	30.6	6.6	6.6			54.7	54.7	73.0	73.0
1971	4.50	4.29	49.1	47.0	24.4	23.2	7.3	7.0			61.7	58.8	71.3	67.9
1972	7.27	6.38	56.7	49.7	29.2	25.6	6.9	6.1			69.8	61.2	75.1	65.9
1973	9.48	7.13	72.7	54.7	51.3	38.6	8.7	6.5	92.05	69.21	137.8	103.6	119.3	89.7
1974	29.70	18.33	77.9	48.1	70.8	43.7	11.0	6.8	71.77	40.30	180.8	111.6	158.7	98.0
1975	20.43	11.23	81.7	44.9	56.5	31.0	13.5	7.4	60.20	33.08	151.0	83.0	154.1	84.7
1976	11.56	6.32	158.0	86.3	92.8	50.7	12.4	6.8	71.72	39.19	134.5	73.5	138.9	75.9
1977	8.11	4.06	244.3	122.2	172.0	86.0	14.0	7.0	68.41	34.21	104.7	52.4	114.4	57.2
1977														
1st quarter	8.63	4.43	254.0	130.3	170.9	87.6	14.3	7.3	73.15	37.51	110.2	56.5	131.3	67.3
2nd quarter	8.95	4.59	300.9	154.3	175.8	90.2	16.0	8.2	68.19	34.97	98.1	50.3	116.7	59.8
3rd quarter	7.44	3.70	219.3	109.1	184.4	91.7	14.6	7.3	63.83	31.76	98.8	49.2	96.2	47.9
4th quarter	7.42	3.57	203.1	97.6	156.8	75.4	11.1	5.3	68.50	32.93	111.7	53.7	113.5	54.6
1978														
1st quarter	8.33	3.84	194.6	89.7	138.9	64.0	14.5	6.7	85.10	39.22	122.4	56.4	124.2	57.2
2nd quarter	7.38	3.37	185.5	84.7	144.9	66.2	16.5	7.5	97.93	44.72	130.8	59.7	135.5	61.9
3rd quarter	7.23	...	...	...	155.3	...	11.4		94.01		130.8		132.2	
4th quarter														

	Cotton i/ (US cents/ lbs)		Wool j/ (US cents/ lbs)		Soyabean k/ (US dollars/ ton)		Linseed oil l/ (US dollars/ ton)		Fishmeal m/ (US dollars/ ton)		Copper n/ (US cents/ lbs)		Tin o/ (US cents/ lbs)	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
1970	30.7	30.7	55	55	121	121	226	226			64.19	64.19	166.7	166.7
1971	35.8	34.1	55	52	131	125	194	185			49.06	46.72	158.9	151.3
1972	37.5	32.9	95	83	144	126	205	180			48.56	42.60	170.8	149.8
1973	54.0	40.6	166	125	221	166	558	420	542	408	80.78	60.74	218.3	164.1
1974	66.4	41.0	129	80	274	169	1 124	694	372	230	93.36	57.63	371.5	229.3
1975	55.1	30.3	106	58	220	121	743	408	245	135	56.01	30.77	311.6	171.2
1976	79.6	43.5	145	79	231	126	571	312	376	205	63.56	34.73	344.0	188.0
1977	73.9	37.0	154	77	280	140	462	231	454	227	59.34	29.67	489.6	244.5
1977														
1st quarter	83.6	42.9	163	84	303	155	524	269	454	233	65.54	33.61	454.8	233.2
2nd quarter	79.8	40.9	151	77	360	185	578	296	489	251	62.18	31.89	439.3	225.3
3rd quarter	68.1	33.9	149	74	229	114	422	210	412	205	54.45	27.09	495.9	246.7
4th quarter	63.9	30.7	151	73	229	110	323	155	461	222	55.18	26.53	568.1	273.1
1978														
1st quarter	69.2	31.9	144	66	250	110	366	169	440	203	56.44	26.00	539.9	248.8
2nd quarter	73.0	33.3	153	70	286	131	477	218	414	189	59.26	27.06	529.5	241.8
3rd quarter	71.8		164		264		434		...		63.58		594.4	
4th quarter														

Sources: (1) UNCTAD, Monthly Commodity Price Bulletin, Special Supplement 1960-1976 and November issue 1978.
(2) United Nations, Monthly Bulletin of Statistics (July and November 1978).
(3) FAO, Production Yearbook, 1975 and 1977.
(4) FAO, Monthly Bulletin of Agricultural Economics and Statistics, Volume 1, No. 7/8, 1978.

Note: Column A: International price in dollars at current prices.
Column B: Adjusted price: international prices deflated by the unit value index of exports of manufactures by developed countries, 1970 = 100.

a/ Current prices deflated by the unit value index of exports of manufactures by developed countries, 1970 = 100.
b/ Raw sugar, fob Caribbean ports, for exports to the free market (1).
c/ Colombian coffee, manizales type, New York (2), prod. No. 84.
d/ Cocoa beans, average daily prices New York/London, future (1).
e/ Central American bananas, cif Hamburg (3), (1).
f/ Beef, frozen, boneless, average import prices in the United States, fob entry port (3) for 1970 to 1975; (1) for 1976 and following years.
g/ Wheat, No. 2, Hard Red Winter, United States export price, fob Gulf ports (1).
h/ Maize, Argentina, cif United Kingdom up to 1972; from 1973 on cif North Sea ports (1).
i/ Mexican cotton, SM-1 1/16, cif United Kingdom (1).
j/ Clean wool. United Kingdom, combed, quality 50 (New Zealand Wool Marketing Corp., Clacton-on-Sea, England (1).
k/ Soyabean, United States, No. 2, yellow, bulk, cif London up to 1976; from 1977, cif Rotterdam (1).
l/ Linseed oil, any origin, United Kingdom (1).
m/ Fishmeal, any origin European ports, 64-65% protein, cif Hamburg (3).
n/ Copper, cash prices in the London Metal Exchange, electrolytic copper bars (1).
o/ Tin, cash in the London metal Exchange (1).

/The European

The European Economic Community for its part not only decided not to take part in the International Sugar Agreement, but went ahead with an active policy to export sugar, upheld by a system of refunding or subsidies which increased rapidly during the last two years. In view of the situation of exportable surpluses which has characterized the world sugar market in recent years, the subsidizing of EEC exports has enabled it to increase its participation in the market, at the expense of the exporters members of the Agreement, whose efforts to counter the downward trend in prices were thwarted by the policy of subsidized exports introduced by the Community. In order to illustrate the magnitude of the progressive increase in EEC subsidies to sugar exports, it should be mentioned that between the end of 1975 and mid-1976 these subsidies fluctuated between 40 and 55 Community units of account per ton; for the agricultural year 1976/1977, they fluctuated between 104 and 177 units of account, and in July 1978 they reached their maximum level of 265 units of account per ton.24/

(b) Coffee

The last International Coffee Agreement came into force in October 1976, and up to the end of September 1978 there had been no need to bring its regulatory clauses, particularly export quotas, into effect. In mid-1977, however, the international commodity market showed signs of deterioration, and in the face of the prospect of a more intensive decline in prices, the Administrative Council of the Agreement met at the end of September to consider what measures could be adopted. At these meetings, agreement was reached in recognizing that the minimum agreed price for introducing export quotas - 77 US cents per pound - was too low but there was no agreement on establishing a new range of prices whose minima or maxima would control the application or abolition of export quotas. However, it was agreed that the Executive Board of the Agreement would

24/ In July 1978 the EEC unit of account was equivalent to 1.24 US dollars consequently, the subsidy granted by the Community at that time was equivalent to 328 dollars per ton. The average price of raw sugar for export to the world market in the third quarter of 1978 was 159 dollars per ton.

/keep the

keep the market under observation and meet to take the relevant decision when the guiding price of the Agreement (which is an average of different types of coffee) was less than 1.28 or more than 1.74 US cents per pound.

(c) Cocoa

The prices of cocoa beans in 1977 reached their highest levels of any period, as a result of the impact of a decline in production; although it was only 12% of the world total compared with 1976, it reached much higher percentages among the major African producers (Ghana, Nigeria, and Cameroun), while Brazil's production also dropped, although to a lesser extent. The instability of the market, however, has continued, partly because although world output in 1977-1978 was an improvement on the previous year, it was unable to return to the levels of the period 1974-1975, and also partly because there have been pessimistic rumours about the 1978/1979 harvest in Brazil and West Africa. As a corollary to the climate of uncertainty which has prevailed in the international cocoa trade, as from September 1977 the publication of the cash prices of cocoa bean transactions in the New York cocoa market was suspended. The present International Cocoa Agreement, in force since September 1976, has not had to use its regulatory machinery (export quotas and purchases for the buffer stock), since market prices have exceeded the ceilings established in the Agreement. Since October 1977, the prices established by the International Cocoa Organization have ranged from a minimum of 65 to a maximum of 81 US cents per pound. Although the text of the present Agreement anticipates the possibility of extending it for a further two years when it expires in September 1979, the International Cocoa Organization decided to set up a preparatory committee to prepare a new draft agreement with machinery and provisions which would attract countries which do not belong to the present Agreement. The negotiations for this new agreement would take place in the first months of 1979.

(d) Tin

Tin prices have fluctuated fairly considerably over the last two years, but have generally maintained an upwards trend supported by short-

/and long-and long-term factors. To begin with, world production of refined tin has not increased significantly in the course of the last 10 years, while during some periods annual consumption has far exceeded production; this has been the result of periodic sales of tin from the strategic reserves of the United States, and in other years from the reserves accumulated in the buffer stock operating within the International Tin Agreement. So as to provide a greater inducement to increasing tin production, the International Tin Council has modified - by raising it - the range of prices within which the buffer stock of the Agreement can operate; its minimum ceiling in July 1978, was fixed at the equivalent of 4.32 dollars per pound of metal and its maximum at 5.45 dollars; the maximum ceiling was only slightly below the market price during those months. The lack of metal in the buffer stock, supplies of which ran out in January 1977, and the continuing uncertainty during the second half of the year as to whether the United States Congress would authorize the marketing of 30,000 tons of metal and a contribution of 5,000 tons to the buffer stock of the Agreement, resulted in further price increases which reached their maximum when Congress adjourned without having taking a decision on these two matters. Part of the increases recorded in the last months of the year were thus the result of speculation, so that a moderate drop may be expected if the United States Congress adopts the proposals described in the first months of 1979.

The commodities reviewed so far (sugar, coffee, cocoa and tin) have international agreements in force, and therefore have their own administrative organization and institutional system for carrying out intergovernmental consultations or the necessary negotiations *vis-à-vis* situations not covered by the Agreement or which require to be interpreted or referred to rules. This, for example, is the case of the revision of the price ranges laid down in the agreements, which bring into force machinery to restrict or liberate exports or production. The inflation which has been affecting the developed countries for several years now and the consequent drop in the purchasing power of the dollar, have meant that these price ranges become obsolete within a short time and require

/periodic revision.

periodic revision. Some of the objectives of the Integrated Programme are thus achieved within the agreements as a result of the measures adopted to reduce or attenuate price fluctuations.

(e) Copper

In the programme of preparatory meetings on commodities organized by the secretariat of UNCTAD, copper has received considerable attention. Between 1977 and 1978 five meetings were held, without any consensus being reached for setting up an organization grouping copper producers and consumers, although at the third meeting it had been agreed that a standing intergovernmental copper body should be established, and to that end a working group had been convened to prepare the draft proposals on rules of procedure, organizational structure and financial requirements of such a body. In the subsequent preparatory meetings, however neither the proposal to set up the standing body nor others which would lead to the drawing up of proposals for negotiating an international copper agreement materialized.

The depressed situation of copper prices worsened in mid-1977 and lasted until mid-1978, when a moderate recovery began; this has only meant re-establishing prices at their average 1976 level, whereas in real terms they emerge as lower than prices in any year during the period 1970-1977. It should be recalled that as from the end of June 1976 the member countries of the Intergovernmental Council of Copper-Exporting Countries (CIPEC) left it to their members to adopt the production policies most in keeping with their interests, thus abandoning the agreement maintained up to that time to cut down production as much as 15%, as a means of countering the rapid fall in prices during 1975. When this restriction was dropped in 1976, as has already been said, prices once again followed a downwards course which has only been interrupted in recent months.

While this was happening at the level of the international negotiations, the International Trade Commission of the United States had recommended that the President of that country impose restrictions on imports of refined copper by establishing a total annual quota of 300,000 tons, arguing that excessive imports were harming national producers. Total imports of refined copper by the United States in 1977

/amounted to

amounted to 387,000 tons, and it is anticipated that in 1978 they will exceed 600,000 tons. It must, however, be recognized that this increase in United States imports has taken place because local producers have for many months kept prices above those of the London Metal Exchange, so that many users of copper have preferred to import it rather than buy it at the prices demanded by local producers. The above recommendation was rejected by the President at the end of October 1978, since it was considered that it would cause domestic inflation and have adverse effects on the multilateral negotiations in progress.

(f) Iron and manganese

The prices of iron and manganese ore have tended to fluctuate only slightly in the last two years, when compared with other metals. The first preparatory meeting on iron ore was held at the end of November 1977, but no specific measures were discussed at it, except the recommendations to set up an intergovernmental group of experts who would meet and analyse information on the different aspects of the world iron ore economy. The group of experts held their first meeting at the end of April 1978, but decided to defer until a subsequent meeting the review of the proposals on stabilization measures and techniques in connexion with this product, and also requested that certain studies be carried out.

With regard to manganese ore, the first preparatory meeting was held in mid-June 1977 and concluded with a joint statement by the producer countries to the effect that it was necessary to identify specific problems relating to the production and marketing of manganese as a preliminary step to a future meeting of both consumers and producers. In brief, although the preparatory meetings on both ores permitted a first exploration of the trade positions of the main countries importing and exporting these products, they did not succeed in making sufficient progress to indicate what type of measures or techniques could be used to tackle the problems in this connexion.

(g) Cotton

Cotton prices declined persistently during 1977, succeeded in recovering partially in the first half of 1978, and once again declined moderately during the third quarter of the same year. Latin American

/cotton has

cotton has to compete with that of two countries which occupy the first and second places in world exports - the United States and the Soviet Union, whose exports during the trade year 1977-1978 accounted for 29% and 22% respectively of the world total. In contrast, the exports of the Latin American countries as a whole have declined in recent years, especially in Brazil, Mexico and Peru, owing in some cases to the slow growth of production (which leaves less of a surplus for export owing to the increase in domestic consumption), and in others because it has been possible to develop exports of cotton products (yarns, fabrics and manufactures). The problems of the international cotton trade have for many years been discussed in the International Cotton Advisory Committee, an organization which covers a large group of producer countries, although it has not been possible to reach agreements implying any degree of international co-operation to defend prices or the stability of the cotton markets, or the handling and operation of buffer stocks. Within the Integrated Programme for Commodities three preparatory meetings on cotton have taken place, and have shown once again the great complexity of the problems which must be solved in this field, and the major discrepancies existing between exporting and importing countries, and even between developing exporting countries in reaching agreements. To some extent this is due to the fact that cotton is facing competition with synthetic fibres, which means that it must be taken into account that measures restricting its trade (for example, to defend a specific level of prices) may cause its position to deteriorate vis-à-vis other fibres. Insofar as the developing countries in particular wish to stress the promotion of exports of cotton manufactures rather than of raw cotton, the problems become even more complex, owing on the one hand to the existence of an agreement on cotton textiles and on the other to the intensification of the protectionist barriers of some developed countries vis-à-vis exports of textiles, through what are inaccurately termed "voluntary agreements" to restrict exports.

(h) Meat

Exports of beef continue their recovery from the severe quantitative restrictions to which they were submitted in recent years in the European

/Economic Community

Economic Community and Japan, although they have still not succeeded in returning to prices comparable - in current terms - to those existing before the application of these restrictions was generalized. The review of the problems relating to international trade in beef have progressed simultaneously in two fora - the multilateral trade negotiations in GATT, and the Integrated Programme for Commodities. In the special subgroup on meat within the Agriculture Committee of the multilateral trade negotiations, bilateral negotiations have been taking place with regard to conditions of access to markets and other aspects of international trade in meat, from which final agreements have still not materialized. At the end of March 1978 the first preparatory meeting on meat was held in UNCTAD, during which there was discussion of questions relating to: (i) guarantees of greater security of access to the markets of the importing countries, continuity and security of supplies and voluntary restriction of exports in periods of excess supply; (ii) more precise and clear agreements on sanitary regulations; (iii) a multilateral approach to the application of measures such as subsidies to exports and safeguard clauses, and (iv) improvement of the machinery of information, supervision and consultation. The discussions at this preparatory meeting, however, were unable to progress towards more specific agreements, while awaiting the results of the GATT negotiations.

In the United States, where imports of meats are governed by a law which lays down quotas with an annual growth factor, the President vetoed a bill recently approved by Congress which, if it had been applied, would have further restricted total imports of meat to that country. The President's veto was based on the fact that a further restriction of supply would have inflationary effects, especially at moments of low levels of domestic supply, and also on the fact that more restrictions on imports could cause a deterioration of relations with traditional suppliers, such as the Latin American countries. The total quota of imports of meat for 1978 was finally increased by 200 million pounds, i.e., 15% higher than the previous year.

/(i) Wheat

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(i) Wheat

Wheat export prices declined steadily until mid-1977 from their high levels in 1974, and then began a process of recovery which lasted throughout the first nine months of 1978. Although from the strictly formal point of view an International Wheat Agreement continues to exist, because the Agreement which expired in 1974 has been renewed annually by means of protocols, it is a fact that these renewals have only served to maintain the administrative structure of the organization while a new Agreement is being negotiated. It should be observed that the last International Wheat Agreement, unlike those in force in the previous two decades, did not contain clauses on maximum prices nor commitments on the part of the member countries with regard to sales and purchases of wheat. Its express objectives were to promote international co-operation, solve international wheat problems, promote the expansion of international trade in wheat and wheat flour, and contribute as far as possible to stabilizing the international wheat market. In the preliminary conversations for the negotiation of a new agreement held to date, however, it has become evident that this agreement should contain provisions regarding prices and the maintenance and operation of stocks in the exporting countries. In these preliminary negotiations it would already appear to have been agreed that an endeavour would be made to set up three different instruments: an agreement on wheat trade, an agreement on trade in secondary grains, and a third on food aid. This last-mentioned agreement had precedents in the International Wheat Agreement of 1971 and is of great importance to the most backward developing countries. The negotiation of this group of agreements is bound up with the multilateral trade negotiations in GATT.

Of the programme of preparatory meetings, those on bananas and bauxite - commodities which interest the Latin American countries - could not be held. A working party within the FAO Intergovernmental Group on Bananas examined the elements for an international agreement on the product and promoted a series of consultations among exporting countries on export quotas and how to settle them. Within the group of exporting countries, however, doubts still exist as to the feasibility of an international banana agreement of a restrictive nature.

This brief summary of the course of the international commodity negotiations suggests that progress is slow, and even practically nil, and that the governments of both developed and developing countries will have to give definite proof of political willingness if the objectives of the Integrated Programme for Commodities are to be achieved.

/Chapter IV

Chapter IV

EXTERNAL FINANCING AND MONETARY PROBLEMS

The big imbalances recorded in the balance-of-payments current accounts of most of the countries in the world since 1974 have slowly been diminishing. The surplus of the oil-exporting countries, which was very high in 1974, has been going down since then because of the high capacity of absorbing imports shown by some of them. Indeed, in some cases the increase in imports has exceeded that of exports, so that the surplus has gone down or even sometimes been converted into a current account deficit. At the same time, the deficit of the rest of the world has diminished.

Within this general picture, however, the situation of the rest of the world has changed. The industrialized countries on the whole, and especially the Federal Republic of Germany and Japan, have appreciably reduced their current account deficit or increased their surplus, while the developing countries as a whole also reduced their current account deficit up to 1977, although 1978 seems to have brought a recrudescence of the external imbalance of these countries.

Latin America, too, has been subject to these trends: the current account deficit of the non-oil-exporting countries of the region, which came to 16 billion dollars in 1975, dropped in 1977 to a little less than 6 billion dollars, but it is estimated that in 1978 it will have risen again to a total of 9 billion dollars (see table 12).

There does not seem to be any quick and easy way of reducing the current account imbalances of the Latin American countries. On the one hand, although the capacity of the oil-exporting countries to absorb imports has proved to be greater than was at first believed, as soon as that capacity threatened to reduce those countries' current account surpluses, new oil price rises came along which have tended to maintain their favourable balances.

/Table 12

Table 12

EXTERNAL FINANCING OF NON-OIL-EXPORTING LATIN AMERICAN COUNTRIES

(Billions of dollars)

	1966-1970	1974	1975	1976	1977
Deficit on current account a/	-2.0	-13.1	-16.1	-11.5	-7.5
Increase in reserves b/	0.4	-0.7	-2.2	4.9	4.4
Use made of external financing	2.4	12.4	13.9	16.4	11.8
Net external financing received	2.5	12.6	14.4	16.2	10.5
Direct investment	0.7	1.6	2.3	2.2	(2.3)
Transfer payments	0.1	0.1	0.1	0.2	(0.2)
Net loans c/	1.7	10.9	12.0	13.8	(8.0)
Loans from official sources	0.9	1.9	1.9	(2.0)	(2.2)
Multilateral	0.4	0.9	0.8	(0.9)	(1.0)
Bilateral	0.5	1.1	1.0	(1.1)	(1.2)
Loans from private sources	0.8	9.0	10.1	11.8	(5.8)
Suppliers	0.4	0.2	0.1	0.6	(0.6)
Commercial banks	0.3	8.2	8.2	7.5	4.7
Bonds	-	0.1	0.2	0.5	(1.0)
Others and unspecified	0.1	0.6	0.6	2.2	-0.5

Source: International Monetary Fund, Balance of Payments Yearbook; Bank for International Settlements, yearbook and supplements for July and December 1978; CEPAL estimates.

a/ Excluding official transfer payments.
b/ Positive figures indicate an increase in reserves.
c/ Including long-, medium- and short-term non-compensatory and compensatory loans.

/This means

This means that the rest of the world has to accept a corresponding deficit in their balance-of-payments current account. Moreover, the import-absorption capacity of the oil-exporting countries is manifested in an appreciable increase in their demand for products of the industrialized countries, so that the compensatory effect of these imports is reflected fundamentally in the latter countries while the current account deficit of the developing countries, including those of Latin America, tends to persist.

It is perhaps the very current account imbalances of the countries themselves which generate a flow of financial resources that steadily increase the size of the private financing market. While the balance-of-payments financing resources of the International Monetary Fund and other resources of multilateral or bilateral official financing have not grown in keeping with the level of imbalances or of trade, the private credit markets have developed extremely rapidly and offer relatively abundant financing. Consequently, most of the countries of the region have not had any difficulty in obtaining financial resources to cover their current account deficit: indeed, the financing available has enabled the countries of Latin America to increase their gross international reserves in recent years.

Table 12 shows the use made of external financing by the non-oil-exporting Latin American countries, together with the sources of such financing. It can be seen from this table that loans from private sources, which represented on average one-third of total net external financing in the period 1966-1970, covered almost 60% of that financing in 1977. The component which has shown the most spectacular growth is that made up of lonas from foreign commercial banks. These loans, which represented 12% of net external financing on average in the period 1966-1970, accounted for over 50% in 1977.

These figures indicate that the importance of both bilateral and multilateral concessionary and non-concessionary official financing in covering the current account deficit of the non-oil-exporting Latin American countries is going down.

/The OECD

The OECD countries' policy of giving priority in their development assistance programmes to the relatively more backward countries, together with similar tendencies in the World Bank, as well as their limited capacity for making lonas, help to explain the sharp drop in financing from official sources. The Inter-American Development Bank (IDB), for its part, has been hampered in expanding its operations by the delay in obtaining promised contributions from some of its member countries.

The big current account imbalances of the countries and the expansion of private financing markets have brought with them quite marked fluctuations in the exchange rates of the principal currencies, since the combination of big imbalances and great ease in changing the composition of the currency holdings of countries, enterprises and individuals makes it very difficult to keep exchange rate fluctuations within narrow limits.

The expansion of private financing markets and the floating of currencies have been the main features of the international monetary system in recent years. These two features, which define the framework within which the external economic relations of the countries are carried on, will be examined first, after which brief mention will be made of the domestic policies of opening up to the exterior followed by the countries of Latin America within the international context, and finally an examination will be carried out in somewhat greater detail of the external financial situation of the non-oil-exporting countries of Latin America.

1. The expansion of the private financing markets

The available estimates indicate that the Eurocurrency market has grown at an average rate of 19% per year between 1973 and 1978, while the level of total external indebtedness (both public and private, guaranteed or non-guaranteed) of the developing countries has grown at an average rate of 22% between the same dates, the rate for Latin America (excluding the oil-exporting countries) being similar to this global figure.

The main sources feeding the private financing markets are funds deposited by the oil-exporting countries and deposits made by monetary authorities and enterprises which have accumulated foreign exchange surpluses.

Exchange rate floating is an added incentive to the private sector to build up foreign exchange balances, since in these conditions the private sector has to play an intervention role in the market which, in a system of fixed parities, would only be the responsibility of the monetary authorities. Since the system of floating parities has already been operating for several years now, it is probable that the private sector has adjusted its currency holdings to this factor, so that the predominant elements in its currency demands in the future will be those affecting the composition of its currency holdings rather than their level, the latter being influenced only by such elements as the growth of trade and international payments, whose effect is slower.

The private financing markets have functioned in such a way as to facilitate a higher level of recirculation of funds between surplus and deficit countries than had been expected. Thus, the Eurocurrency market, in particular, which operates without any formal regulation by the national monetary authorities, has a high multiplication capacity which will continue as long as the United States payments deficit persists. The multiplication capacity of this market is limited by the outflow of resources to the latter country, and even if, in net terms, there is a permanent inflow of additional resources, this limiting factor only operates in a weak manner.

The growth of the Eurocurrency market will undoubtedly be affected to the extent that the United States succeeds in balancing its external current and total payments, particularly if the measures taken by the United States emphasize action on the domestic interest rates in that country. If these rates rise, there could be a return flow of funds to that country which would restrict the capacity of the Eurocurrency market to function over and above the level of expansion of the availability of resources in the United States. If, at the same time that an improvement is secured in the current account of the United States, a reduction is not achieved in the current account surplus of the Federal Republic of Germany, Japan and the oil-producing countries, then the current account deficit of the developing countries, and especially the Latin American countries, will be bound to increase in keeping with the improvement of the United States, thus further increasing the financing requirements of those countries.

/It is

It is unlikely that such a conjunction of unfavourable factors will take place, however, and the likelihood will be still less to the extent that the international agencies responsible for the global appraisal of the effects of the policies of those countries keep the system under close supervision and press the countries with surpluses to co-operate in the process of international adjustment. It is therefore in the interest of the Latin American countries that there should be the greatest possible co-ordination of the economic policies of the industrialized countries and the other big surplus holders.

2. Currency floating

The private financing markets also help to introduce a certain degree of instability into the economies of the countries. The ease with which the composition of the currency holding of governments, enterprises and individuals can be changed means that the expectations which may be generated regarding the future values of currencies are reflected very rapidly in the market and even tend to be self-intensifying. Thus, for example, because the prices of import and export products react more quickly than the volumes produced, the devaluation of an important currency brings about a reduction in the export prices and an increase in the import prices of the country in question even before the respective volumes have been modified. The devaluation therefore tends to cause an aggravation in the very short term of the imbalances which gave rise to it and on which the expectations were based, and it also tends to intensify itself until the effect on the export and import volumes becomes stronger than that on prices.

Examination of what has happened in the last year or two tends to confirm this appraisal and appears to suggest that in present circumstances the fluctuations in exchange rates will have to be much greater than was expected in order to bring about the sought-for balancing effect on current payments. In other words, in order for the exchange variations of the currencies of the most important countries to tend to bring about a balancing effect on the current account, it will be necessary for a length of time to pass which must surely be measured in semesters rather than months. Moreover, the imbalances will tend to get worse before they will begin to get better.

/Naturally, if

Naturally, if the industrialized countries co-ordinate their economic policies in order to secure a more symmetrical adjustment process, this would reduce the violent exchange rate fluctuations with their sequel of negative secondary effects.

It seems almost like a joke that the most generally accepted theoretical analysis asserts that the floating of the most important currencies will give greater freedom to countries in their domestic policies. Thus, for example, it is suggested that a country suffering a higher rate of inflation than its trading partners would see its currency go down on the market in comparison with the other currencies and that by these means the economies of the other countries would not be affected by inflationary pressures. Even with floating, however, there are various mechanisms by which the inflationary pressure in one country will tend to spread to others.

The evolution of domestic credit and the existence of inflationary pressures in a given country will be taken into account by the market in determining the exchange rate of its currency, so that the market will anticipate future inflation to some extent in its transactions.

Thus, it may happen that the loss of international value of a currency may be greater than that justified by taking account exclusively of the rates of inflation in various countries at a given moment, or alternatively the fall in the external value of the currency may be less, depending on the expectations for the future. Whatever happens, however, if the domestic interest rates are not rapidly adjusted to the expected changes in the external level of the currency this may generate capital movements which will tend to strengthen the tendency to devaluation. For example, if a devaluation of 10% over one year is expected and the domestic interest rates do not vary with relation to external rates, it will become profitable to take capital out of the country which is to devaluate its currency and transfer it ot countries whose currency is being relatively revalued.

Although interest rates have reacted more rapidly in recent months, the normal situation has been for them to change rather slowly. This brings about a flight of capital from a country with a weak currency to a country with a strong currency, thus creating inflationary pressures in the latter which affect either the supply of means of payment or, through the substitution

/of currencies,

of currencies, the demand. In order to avoid this, the interest rates of the country which is going to devalue should be raised, or else those of the other country should be lowered in keeping with the expected rates of relative devaluation or revaluation.

The countries do not generally permit their currencies to float absolutely freely, but intervene in the market in order to moderate the fluctuations, thus impairing the efficacy which exchange rate adjustment could have as a means of eliminating the spread of inflationary pressures.

Another mechanism by which inflation is transmitted from one country to another is connected with the fact that price levels (and, in inflationary circumstances, exchange rates) are more flexible in an upward than in a downward direction. For this reason, even with floating of currencies the relative price adjustments which have to take place as a consequence of exchange variations push prices upwards.

This reluctance of prices to go down is reflected in the fact that while the prices of the products imported by the country which is carrying out a devaluation tend to go up in terms of its currency, the prices of the products imported by countries whose currency is gaining value in relative terms at the international level do not tend to go down proportionately in terms of those countries' own currency, so that the inflationary pressures tend to spread.

For all these reasons, there would appear to be grounds for expecting the inflationary pressures of one country to spread to other countries regardless of whether they have fixed or floating exchange rates. In order to see whether this really does take place, we may take the standard deviation of the inflation rates of the countries, divided by the average rate of inflation for several years. Table 13 shows the results obtained.

Thus, the coefficient of variability is practically identical for the period of floating exchange rates (1974-1977) and for the period of fixed exchange rates (1960-1970), whereas in the intermediate period (1970-1973) this coefficient shows a marked drop. The empirical evidence therefore does not bear out the traditional theoretical conclusions but suggests instead that the mechanisms for the international transmission of imbalances operate both with fixed exchange rates and with floating rates.

/Table 13

Table 13

PRINCIPAL INDUSTRIALIZED COUNTRIES a/: RATES OF INFLATION, STANDARD DEVIATION AND COEFFICIENTS OF VARIABILITY, 1960-1977

	Average rate of inflation b/ (a)	Standard deviation (b)	Coefficient of variability (percentage) (c) = (b)/(a)
1960-1970 (average)	3.5	1.5	43
1970-1973 (average)	6.5	1.7	26
1974	13.8	5.3	38
1975	12.6	5.2	41
1976	9.7	4.3	44
1977	9.2	4.4	48
1974-1977 (average)	11.3	4.8	42

Source: International Monetary Fund, International Financial Statistics, May and November 1978.

a/ Comprises Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, United Kingdom and United States.

b/ Simple average of percentage variations of average consumer price indexes for each year for the nine countries listed.

/The floating

The floating of currencies also creates an incentive for the private sector to increase its currency holdings so that it can carry out the intervention role which is at least partially abandoned by the official sector. The changes in the composition of the currency holdings of the private sector, as we have already noted, cause some difficulties in the management of monetary policy and make necessary a very precise harmonization - very difficult to achieve in practice - between interest rates and exchange rates. In the absence of this harmonization the movements caused by the desired changes in the composition of the private sector currency holdings may be of such magnitude as to cause unacceptable exchange fluctuations and make necessary official intervention, with its consequent effects on the supply of money and on the correct evaluation of the necessary degree of restrictiveness or liberality of the monetary policy. This evaluation is made more difficult by the changes in the demand for domestic currency generated by the desired change in the composition of currency holdings.

The abrupt exchange variations of the currencies of the industrialized countries cause increased uncertainty about the future of the foreign trade of the developing countries. This is because the developing countries do not usually have very well developed foreign exchange markets where it is possible to cover risks easily. If the exchange rate fluctuations are not correctly predicted, they tend to cause unexpected losses or profits, and since this uncertainty is a real cost, the fluctuation of currencies tends to divert productive resources from the generation of internationally tradeable goods to other goods and services.

The fact that most of the developing countries link their currency to that of one of the industrialized countries with which they trade does not eliminate these unfavourable effects, although it does tend to reduce them. Even if the trade and financial movements of a developing country are related exclusively to a developed country, the linking of the former country's currency to that of the latter will not eliminate the disadvantages of floating, since the exchange rate movements for the main country will be induced by its own external equilibrium needs, and not by those of the developing country. The exchange fluctuations which could have a balancing

/effect for

effect for the principal country do not necessarily have the same effect for the developing country, and indeed they will generally tend to be unbalancing for the latter. This is all the more so when the developing country in question trades with more than one other country.

If we consider the different speeds at which the prices and volumes involved in external trade vary, we arrive at the conclusion that movement of the exchange rate alone can hardly have much balancing effect on trade in the short run, especially when we consider that exchange rate movements are directed more towards the overall equilibrium of the balance of payments than to that of the current account. If an important currency is in the process of devaluation, for example, this accentuates the trade imbalance and thus strengthens the devaluation process, which, in its turn, leads to pressures for increases in the domestic prices of the country whose currency is being devalued, and these pressures generally tend to accentuate also the expectations of future exchange rate changes in the same direction.25/

In order to check and reverse this process, other economic policies are called for, particularly those affecting currency and interest rates. The size of the monetary and credit markets and the rapidity with which inter-currency transactions can be carried out, however, make it more difficult to decide what degree of strictness or liberality of monetary policy is needed on the basis of observation of the growth rate of some monetary aggregate.

Thus, for example, if the process of variation of exchange parities led to a desire to reduce the importance of a particular national currency in the currency holdings, this would be equivalent to decreasing demand for that currency, so that a reduction in the rate of growth of its supply might prove insufficient to secure the desired effect. A tendency to reduce the importance of a given currency or currencies in holdings may result, in reality, in monetary policies being incapable - if managed within limited margins - of checking and reversing the tendency towards devaluation.

25/ As more experience is gained with floating exchange systems, the expectations could cease to play the destabilizing role which they appear to have at present. Better understanding of the functioning and economic consequences of the floating should make expectations more "rational".

In order to secure correction of this tendency, what is generally required is a sufficiently large rise in the rates of interest paid on currency of the country which is devaluing to persuade currency holders that it is no longer worth continuing to change the composition of their holdings. In order to do this, the domestic interest rate would have to be such that - taking account of certain expectations of devaluation - it could induce movements of capital in the right direction or prevent them from taking undesirable directions.

Producing this effect may call for considerably larger variations in domestic interest rates and in the money supply than those recorded so far. To some extent, these variations may be made less abrupt by the direct intervention of the monetary authorities in the exchange markets. The amounts involved are such, however, that it is difficult to believe that direct intervention alone could modify exchange movements appreciably. It is therefore to be expected that financial markets will be subject to bigger fluctuations in the future than in the past, either because exchange rates vary or because interest rates have to be changes.

These larger fluctuations could be reduced by closer co-ordination of the economic policies of the industrialized countries, since if such policies led to low inflation rates which were similar from one country to another, the magnitude of the fluctuations needed on exchange and financial markets to achieve equilibrium would be reduced.

In order to achieve such co-ordination it is necessary to make the process of adjustment of external payments imbalances symmetrical, thus minimizing the cost of achieving such adjustments in terms of growth. If all or most of the weight of the adjustment falls on the deficit countries, as it usually does at present, this means that the international monetary system will have a deflationary bias, since the system will be adjusted fundamentally on the basis of the restrictive policies of deficit countries. If the process of adjustment were made more symmetrical, however, the process would contain not only the restrictive policies of the deficit countries, but also measures of an expansionary nature in the surplus countries.

/At the

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At the same time, the international co-ordination of economic policies would help to guarantee a more orderly and systematic process of expansion of international liquidity. Such co-ordination would help to limit the balance-of-payments deficit, measured in terms of the liquidity of the countries with reserve currencies, thus helping to slow the growth of the private currency markets and opening the way for an increase in the creation of Special Drawing Rights, the expansion of which would permit the reduction and possible elimination of transfers of real resources to the benefit of countries with reserve currencies.

Both the achievement of greater symmetry in the process of adjustment and the regulation of expansion of international liquidity are matters of interest to Latin America. As regards the process of adjustment, it is in the interest of the Latin American countries that the world economy should grow at a rapid rate, since their own growth rates depend upon it. Moreover, they need to accumulate international liquidity and would benefit from increases in the amount of Special Drawing Rights, while at the same time the greater stability on the international money and credit markets achieved through the international co-ordination of economic policies would facilitate a steady and orderly process of financing.

3. Policies of opening up to the exterior

Within this general framework, various Latin American countries have been increasingly opening up their economies to movements of goods and capital, albeit to different extents. This opening-up, which produces favourable effects on the assignment of resources when it is designed to correct excessive levels of protection, sometimes runs into certain difficulties Typically, a movement towards opening up of the economy will tend at the beginning to increase the balance-of-payments current account deficit, since imports will tend to react more quickly than exports. On the other hand, as opening up the economy is considered a favourable element by international private banking circles when judging the solvency of a country, it is normally accompanied by a flow of capital to the country, and this flow, which generally takes the form of external loans, makes it possible to finance

/the current

the current account deficit and even leave a surplus. Consequently, such opening up to the exterior generally results in a favourable balance-of-payments position on the whole (when the duration of the loans obtained is more than one year).

The process of opening up the economy is usually accompanied by fiscal and other reforms which help to generate considerable changes of relative prices in the economy. Even without these complementary measures, however, it still tends to bring about such changes, which are all the greater when the initial protection has been at a high level.

The changes in relative prices, in turn, bring about an appreciably greater reassignment of resources than is usual. This reassignment calls for additional financing, thus raising both the demand for domestic credit and domestic interest rates. If the movement of goods is freed, but not that of capital, domestic interest rates may rise to dizzy heights in the process unless measures are taken to increase the supply of domestic credits. These measures are often difficult to apply, especially if the country is facing an inflationary process. It should be remembered that experiments in opening up the economy often go hand in hand with the elimination of restrictions on the variation of domestic interest rates. High domestic interest rates, in their turn, stimulate the inflow of capital where this is possible, and tend to have the effect of redistributing wealth in favour of those who have access to the limited cheaper external financing. Moreover, a net inflow of external capital may be an important factor in the expansion of the means of payment, which usually brings additional complications in monetary policy.

If the movement of capital is freed, the increase in the domestic demand for credit will be reflected not only in the interest rates, but also in a rapid process of external indebtedness building up in a few years or even months and involving loans of shorter duration than has been usual in the past and at full commercial interest rates.

If exports could rapidly grow and diversify in these circumstances - a process which should be accompanied by a gradual relative freeing of imports - the increase in external indebtedness would not involve any excessive risk, but what happens is that the external indebtedness itself tends to provoke a certain degree of over-valuation of the national currency which adversely affects the stimulus to export. Only careful management of interest rates and domestic monetary policy, as well as exchange policy and international reserves, will enable future problems to be avoided.

International reserves for their part, are increased by the process of rapid indebtedness, and this is precisely what causes some degree of monetary over-valuation. Such over-valuation occurs when the authorities consider that the rapid increase in reserves thus produced is unnecessary, or at least too fast, and try to limit it by accepting some degree of over-valuation of the currency. In reality, however, the increase in reserves which takes place in such circumstances must be viewed in the light of the fact that it is due to the inflow of short term capital, which means that higher reserves must be maintained in order to be ready for a possible reversal of such inflows.

When interest rates and/or exchange rates are fluctuating on international markets the probability of reversal of capital movements is greater.

Apart from this, the increase in external indebtedness to private creditors has generated among the latter some concern about the composition of their assets in terms of borrower countries: the "sovereign risk". This concern has been reflected in some cases by action of an official nature in the creditor countries to apply certain risk criteria. Generally speaking, the procedures used for this purpose are not the most suitable, since they are based on a few partial indicators of a static nature which do not reflect future prospects.

From this point of view, the increase in the resources of the International Monetary Fund and a suitable review of its conditionality criteria would be an important contribution to greater stability of the market. The recent agreement to increase the country quotas in the IMF by 50% is a positive step in the right direction, although it is still not big enough.

In addition, the stability of the private financing market calls for an improvement in the process of international adjustment and in the creation of liquidity. Both objectives can be achieved by greater co-ordination of

/the economic

the economic policies of the industrialized countries, together with suitable supervision by the IMF and an increase in its resources.

4. External financing in Latin America

As already noted, the current account deficit of the Latin American non-oil-exporting countries has been covered fundamentally by means of credits from the private commercial banking system in the exterior. A growing proportion of these credits is obtained without official guarantee and does not figure in the detailed statistics on guaranteed debt prepared by various international agencies, especially the World Bank.

The information on State-guaranteed external indebtedness shows that in 1977 this indebtedness came to a total of 146 billion dollars for 75 non-oil-exporting countries, i.e., five times the 1967 figure. For the Latin American non-oil-exporting countries, the officially guaranteed external debt at the end of 1977 came to almost 60 billion dollars, six times the 1967 level (see table 14).

These figures do not include the non-guaranteed debt of the countries in question. Table 15 gives an estimate of the overall indebtedness of the non-oil-exporting Latin American countries, including both State-guaranteed debt and the non-guaranteed debt. In 1977 the overall indebtedness of these countries together came to over 90 billion dollars, and it is estimated that in 1978 it rose to more than 100 billion dollars.

As already noted, the composition of the global debt has changed rapidly, with a big increase in loans from private sources and a consequent relative drop in the proportion of loans from official sources.

The rapid change in the composition of external financing has brought with it a deterioration in the terms, since loans from official sources are generally for a longer period and at lower interest rates than those from private sources. This is what has happened with the external debt of the Latin American countries. The situation is illustrated in tables 16, 17 and 18.

/Table 14

Table 14

NON-OIL-EXPORTING DEVELOPING COUNTRIES (NODEVCO): STATE-GUARANTEED EXTERNAL DEBT a/

(Billions of dollars)

	1967	1970	1973	1974	1975	1976	1977 b/
75 non-oil-exporting developing countries	30	44	67	82	100	123	146
Most advanced-Mediterranean developing countries c/	5	6	9	10	12	14	16
Subtotal (NODEVCO)	25	38	58	72	88	109	130
Latin American non-oil-exporting countries (LANOCO)	10	15	24	32	38	49	59
Others	15	23	34	40	50	60	71

Source: World Bank, World Debt Tables, 1977, and estimates based on partial information from IMF and World Bank.

a/ Refers to actually disbursed medium- and long-term debt outstanding at end of year.

b/ Estimate based on information from IMF, OECD and World Bank.

c/ Comprises Cyprus, Greece, Malta, Portugal, Spain, Turkey and Yugoslavia.

/Table 15

Table 15

NON-OIL-EXPORTING LATIN AMERICAN COUNTRIES: ESTIMATED TOTAL DEBT

(Billions of dollars)

	1974			1975			1976			1977		
	State-guaranteed debt	Non-guaranteed bank debt	Total debt a/	State-guaranteed debt	Non-guaranteed bank debt	Total debt a/	State-guaranteed debt	Non-guaranteed bank debt	Total debt a/	State-guaranteed debt	Non-guaranteed bank debt	Total debt a/
Argentina	3.05	2.42	5.54	2.09	3.10	5.50	4.25	2.22	7.00			9.0
Brazil	8.99	9.62	18.60	11.46	10.51	21.97	(14.00)	15.84	29.84			32.0
Mexico	8.08	4.82	12.89	11.25	7.37	18.62	15.55	8.37	24.28			28.0
Subtotal	20.12	16.86	37.03	24.80	20.98	46.09	33.80	26.43	61.12	41.0	28.0	69.0
Chile	3.73	0.55	4.47	3.68	0.46	4.54	3.53	0.81	4.80			5.0
Colombia	2.09	1.34	3.43	2.35	1.39	3.74	2.45	1.42	3.87			4.0
Peru	2.07	0.92	3.00	2.66	1.19	3.86	3.38	1.25	4.81			6.0
Uruguay	0.52	0.08	0.68	0.62	0.09	0.82	0.69	0.05	0.89			1.0
Subtotal	8.41	2.89	11.58	9.31	3.13	12.96	10.05	3.53	14.37	12.0	4.0	16.0
Other countries b/	2.98	0.01	3.11	3.94	0.39	4.43	4.89	0.69	5.79	6.0	-	6.0
Total	31.51	19.76	51.72	38.05	24.50	63.48	48.74	30.65	81.28	59.0	32.0	91.0

Source: World Bank, World Debt Tables, September 1977 and supplements for July, September, October and November 1977; Bank for International Settlements, Annual Report and Press Review, June and December 1977; International Monetary Fund, International Financial Statistics, January 1978, and estimates by CEPAL.

Note: All the figures refer to the debt actually disbursed as at the end of each year. The State-guaranteed debt includes only medium- and long-term debts. The non-guaranteed bank debt is that contracted without State guarantee with foreign commercial banks operating in Belgium, Canada, Federal Republic of Germany, France, Italy Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and United States, and with branches of United States banks operating in the Caribbean and the Middle East. These figures are probably underestimates, as they only include partial information on the operations of extra-national financial centres. Apart from this underestimation, the estimates of the total indebtedness do not include non-guaranteed suppliers' credits.

a/ Including debts to the IMF.

b/ Since Panama is an international financial centre it was not possible to estimate the non-guaranteed debt for this country.

/Table 16

Table 16

MEMBER COUNTRIES OF THE DEVELOPMENT ASSISTANCE COMMITTEE: NET FINANCIAL FLOWS TO DEVELOPING COUNTRIES

(Net disbursements)

	Annual average 1961-1970	1971	1972	1973	1974	1975	1976	1977
	(a) Billions of dollars							
Total net financial flows	11.0	17.8	19.7	24.6	28.0	40.4	40.5	43.7
Official development aid	6.0	7.7	8.5	9.4	11.3	13.6	13.7	14.8
Private disbursements a/	4.2	8.0	9.6	12.8	14.5	23.6	23.7	25.9
Other official flows	0.8	1.3	1.5	2.5	2.2	3.0	3.3	3.0
	(b) Percentage of gross national product							
Total	0.77	0.80	0.77	0.79	0.81	1.05	0.97	0.92
Oficial development aid	0.44	0.35	0.33	0.30	0.33	0.35	0.33	0.31

Source: OECD, Development Co-operation, 1977 Review, November 1977, p. 164; IMF, Survey, 3 July 1978, p. 200.

a/ Including private transfer payments.

/Table 17

Table 17

MEMBER COUNTRIES OF DAC AND MULTILATERAL AGENCIES[a]: GEOGRAPHICAL DISTRIBUTION OF NET FINANCIAL FLOWS TO CERTAIN NON-OIL-EXPORTING DEVELOPING COUNTRIES (NODEVCO)

(Billions of dollars)

	1972			1976		
	Total flow (a)	Flow on concessionary terms (b)	(b) as percentage of (a)	Total flow (a)	Flow on concessionary terms (b)	(b) as percentage of (a)
LANOCO countries b/	4.18	0.75	18	6.70	0.90	14
Africa c/	2.78	1.73	62	8.87	4.14	46
Asia d/	4.29	2.62	61	6.21	3.62	58
Oceania	0.54	0.38	70	0.67	0.57	85
Europe e/	1.83	0.37	20	2.30	0.42	18

Source: OECD, Development Co-operation, 1977 Review.

a/ Multilateral agencies whose flows are wholly or partly on non-consessionary terms (concessionary element less than 25%) are not included.

b/ In the case of South America and America in general unspecified amounts were included as corresponding to LANOCO countries.

c/ Excluding Gabon, Nigeria and Algeria.

d/ Excluding the Middle East and Indonesia.

e/ Including Cyprus, Gibraltar, Greece, Israel, Malta, Portugal, Spain, Turkey and Yugoslavia.

/Table 18

Table 18

AVERAGE TERMS OF STATE-GUARANTEED LOANS AND CONCESSIONARY FACTOR, BY REGIONS

Region	Year	Loan commitments: Maturity (years)	Loan commitments: Grace period (years)	Interest rate (percentage)	Concessionary factor in loan (percentage)
Latin America	1969	14.0	3.6	6.7	18
	1975	10.5	3.1	7.7	10
	1976	10.4	3.1	7.5	11
Mediterranean countries	1969	16.0	3.8	5.6	25
	1975	15.8	6.2	7.6	15
	1976	15.1	5.3	7.0	17
Africa south of the Sahara	1969	24.2	6.5	4.0	42
	1975	21.3	5.4	5.5	32
	1976	19.6	5.1	5.4	31
East Asia and the Pacific	1969	19.4	5.3	5.5	29
	1975	13.2	3.8	8.0	11
	1976	14.0	4.5	7.8	12
North Africa and the Middle East	1969	13.0	2.8	5.5	22
	1975	15.5	5.6	6.1	23
	1976	14.8	4.5	6.6	20
South Asia	1969	30.5	7.4	2.8	55
	1975	31.9	8.1	2.5	59
	1976	29.2	7.7	3.2	52

Source: World Bank, Annual Report, 1978 (p. 131).

/Official development

Official development assistance by the member countries of the Development Assistance Committee (DAC) has gone down from an annual average of 0.44% of their gross national product in the 1960s to 0.31% in 1977, and it will probably continue falling.

Projections made by international agencies indicated that for the years 1976-1980 official development assistance by the member countries of DAC would tend to represent a decreasing percentage of their gross national product. This forecast has been more than fulfilled, since the proportion projected for 1976-1980 was 0.33%.

In the United States, whose behaviour is of particular importance for Latin America, the proportion of the gross national product accounted for by official development aid was 2.79% in 1949, when the Marshall Plan began, falling to 0.53% in 1960, 0.31% in 1970 and 0.22% in 1977, the projection for 1980 being only 0.21%.

Moreover, the percentage of concessionary elements in the net financial resources transferred by the DAC member countries and multilateral agencies to the non-oil-exporting Latin American countries shows a tendency to fall.

In 1976 the concessionary factor in the State-guaranteed loans obtained by Latin America was lower than in similar loans to any other region of the world.

The marked change which has taken place in the last ten years in the source of credits for the Latin American countries has also considerably affected the duration of the loans. As already stated, credits from official sources tend to be of longer duration, and in certain extreme cases the amortization payments have even been renegotiated. In contrast, since 1975 the credits from private sources have generally been of a shorter-term nature (one to seven years) and up to the end of 1977 only in exceptional cases were they for more than seven years (see table 19).

Even if the level of indebtedness had remained constant, the annual amortization payments, which increase in inverse relation to the average duration of the loan, and the payments of interest would have increased because of the change in loan sources.

Table 19

PUBLICIZED EUROCURRENCY BANK LOANS, BY MATURITY TIMES

(Percentages)

	1974	1975	1976	1977	1978 (second half)
Industrialized countries	100.0	100.0	100.0	100.0	100.0
1 - 3 years	3.2	8.0	5.5	1.2	3.1
3 - 5 years	11.6	36.7	27.5	10.6	5.3
5 - 7 years	30.6	39.0	54.1	63.0	11.0
Over 7 years	50.7	8.1	4.4	19.0	75.8
Maturity not known	3.9	8.1	8.5	6.2	4.7
Developing countries					
1 - 3 years	1.9	5.7	2.3	3.9	2.6
3 - 5 years	13.6	62.9	53.6	19.5	3.8
5 - 7 years	18.5	24.1	30.6	63.8	25.9
Over 7 years	62.5	5.0	4.7	8.6	65.3
Maturity not known	3.6	2.2	8.9	4.2	2.4

Source: World Bank, Borrowing in International Capital Markets, December 1977, pp. 94 and 95, and September 1978, pp. 133 and 134.

/Normally, as

Normally, as already noted, the deadlines for repayment of private loans without State guarantee are shorter than those for State-guaranteed loans. The rapid increase in the former must therefore have brought about a fall in the average duration of loans, but even in the case of guaranteed loans the proportion from private sources, generally of shorter duration than those from official sources, has grown too. Consequently, although there are no reliable data on the average duration of loans, everything clearly points to a deterioration in this respect.

Table 18 shows how the average duration of State-guaranteed loan commitments in Latin America fell from 14 years in 1969 to 10.4 in 1976. The fall is even more striking if account is taken of the total indebtedness and not just that accounted for by State-guaranteed loans. Moreover, the same table shows that the average duration of loans in Latin America is the lowest of all the regions considered.

The liquidity conditions on the Eurocurrency market in the first half of 1978 facilitated access to longer-term credits, but even so the Eurocurrency bank loans to developing countries for periods of over 7 years represented a lower percentage of the total publicized credits granted to those countries than the corresponding figure for the industrialized countries (see table 19).

It seems clear that the availability of longer-term loans on the Eurocurrency markets will depend essentially on the degree of liquidity of those markets, i.e., on the circumstances of the lender rather than of the borrower. It could well be that the more a borrower country wants to extend the duration of its loans the more difficult it will be for it to do so, as the market will take the unsatisfactory structure of the country's indebtedness as a negative indicator.

One way of facilitating a change in the structure of loan maturities might be to increase the issues of bonds by the Latin American countries in the exterior. Only a few Latin American countries have made use of bond issues to any substantial extent. Thus, Mexico, Brazil and Venezuela are already established bond issuers, but the rest of the Latin American countries have either not made use of this form of financing at all, or else only to a negligible extent.

/The countries

The countries supplying capital have laid down limitations on access to their markets in accordance with their own domestic policy needs. These limitations, together with the fact that investors in bonds are not generally financial intermediaries with direct knowledge of or close contacts with the issuing countries, make it difficult to penetrate these markets.26/

If to this general picture we add the protectionist tendencies which are to be seen in the main world markets and which are considered in Chapter II of the present document, it becomes even clearer that in the process of opening up to the exterior it is necessary to take into account the fact that the growing external indebtedness often involved in this can only be dealt with successfully in the medium term through a rapid expansion of exports.

5. Conclusions

The magnitude of the international imbalances, together with the process of opening up to the exterior, in which a number of the countries of Latin America are involved have increased their needs for external financing.

The growth of Latin America external indebtedness has enabled the region to play a balancing role in international economic relations. At a time when the world economy has shown marked weakness, Latin America's economic growth rates have been relatively buoyant, although this has involved quite a heavy sacrifice in the form of external imbalance. These growth rates have been possible because a considerable part of the external imbalance has been financed. If this had not been so, the region would have been obliged to apply much more drastic external adjustment measures which would have reduced its demand for goods from the rest of the world and would therefore have helped to aggravate the situation of relative

26/ On this subject see the document of the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the transfer of real resources to the developing countries (Development Committee), Seminar on Access to Capital Markets, Paris, 11-13 October 1978.

/weakness and

weakness and sometimes even of outright deterioration of the level of world economic activity. If this latter event had taken place, the drop in Latin America's growth rate would have been even greater.

Although the Latin American countries have been able to play this balancing role in international economic relations by having recourse to private financing markets, the fluctuations in world rates of exchange and interest rates do not guarantee the continued expansion of these markets, so that the growth of their exports have become a key element in the economic strategy of the Latin American countries. Such growth will enable them to sustain both their growing external indebtedness and the greater activity of the world economy.

In order to ensure the growth of Latin American exports, the domestic policies of the countries are not enough. An expanding world economy is also required, together with a steady reduction of the tariff and non-tariff barriers set up by the industrialized countries. If these conditions are not fulfilled, Latin America's growth rates could suffer more than they have done in the recent past, unless some great increase in the trade among developing countries could fill this vacuum. This seems improbable, however, in view of the magnitudes involved, so that if world trade does not recover its dynamism and if the industrialized countries maintain or even increase their present protectionist tendencies, Latin America could be forced to look inward again, as it had to do during the Second World War and the decade following it.

Now, however, Latin America will undoubtedly have to place more emphasis on intra-regional trade and carefully appraise the short-, medium- and long-term costs and benefits of the various courses of action open to it in the field of external protection.

/Chapter V

BIBLIOTECA NACIONES UNIDAS MEXICO

Chapter V

REGIONAL ECONOMIC CO-OPERATION

1. Recent factors influencing co-operation

Economic co-operation among Latin American countries should be evaluated from two complementary angles. First, consideration should be given to developments in connexion with *de facto* integration, i.e., the intensity and structure of intra-regional trade and forms of co-operation concerning specific aspects which have either emerged or considerably increased in the last few years. Secondly, developments in connexion with Latin America's formal integration processes should be reviewed.

The complexity of a balanced appraisal is evident if it is taken into account that in the *de facto* integration there has been a significant increase in the degree and variety of the links between countries, while in the formal integration processes there have been considerable delays and problems in attaining the established objectives. In addition, the co-operation effected through specific agreements, actions or projects is regarded as complementing that effected through the multilateral and institutionalized integration processes in operation; and this complementarity makes regional co-operation more dynamic and permits a wider distribution of its benefits.

In carrying out this appraisal it is also necessary to take into account the recent evolution and medium-term prospects of the world economy. The 1975 world recession marked the starting-point of a period of slower growth and has intensified protectionist trends in the developed countries. It may be assumed, therefore, that the greater difficulties in exporting to other regions which the Latin American countries now face are not transitory but long-range situations, as noted in another chapter of this study. In view of these problems, the regional market is an important potential source of dynamism which the Latin American countries can use in the next few years to achieve a faster and more sustained rate of growth and a more active transformation of their production structures. Despite the short time since these world problems

/began to

began to make themselves felt, and also the shortage of information, the criteria included later in this study regarding developments in intra-regional trade in recent years would seem to confirm this important potential role of regional co-operation.

On the other hand, the international difficulties have also, to a greater or lesser extent, affected the countries of the region. Several of them have faced serious balance-of-payments problems and have had to adopt emergency measures to restore external stability. In some cases they have restricted imports, which has affected the imports from the region itself. More frequently, however, the restrictive measures have been applied less intensively to regional imports than to those from outside the region, so that the former has retained a certain preference.

Another factor which may affect the potentialities of integration is the recent decreases in the tariff margins of preference owing to the fact that several countries have adopted trade liberalization policies. All these factors should be taken into account in taking stock of the recent progress made in economic co-operation in the region and in gaining a full idea of its prospects for the coming years.

2. Real integration. Evolution of intra-regional trade

(a) Total volume of inter-Latin American trade

In spite of the problems encountered by the formal integration processes, the real links between Latin American countries have continued to be vigorously strengthened, as shown by the high rates of growth of intra-regional trade and its increased share in the total. Between 1960 and 1977, exports by Latin American countries 27/ to the region rose at an average rate of 42.7% annually (2.7 times the growth rate of exports from outside the region) to a total value of 7,687 million dollars in 1977.

The share of exports to the region in total exports rose from 8.0% in 1960 to 16.7% in 1977, when they attained the highest proportion ever (see table 20 and figure 1).

27/ 18 Latin American countries are considered: 11 LAFTA countries, 5 CACM countries, Panama and the Dominican Republic.

/Table 20

Table 20

LATIN AMERICA a/: EVOLUTION OF EXPORTS BY DESTINATION

(Percentages)

	1960	1965	1970	1974	1975	1976	1977b/
	Share of Latin American exports in total world exports						
Latin America a/	6.2	6.3	4.9	4.7	4.2	4.2	4.5
	Inter-Latin American exports as a percentage of total exports						
Latin America a/	8.0	10.3	12.6	14.7	16.4	16.2	16.7
Argentina	15.8	16.7	20.8	24.2	25.8	26.9	25.4
Brazil	7.0	12.7	11.3	12.3	14.4	12.7	12.8
Mexico	2.9	6.0	8.8	12.9	13.0	14.0	13.8
CACM	8.2	18.0	28.0	29.4	28.2	24.5	21.8
Rest of Latin America c/	6.2	10.5	14.6	18.7	20.7	19.2	20.5
Andean Group d/	7.6	7.6	8.4	11.7	14.0	13.3	13.9
Andean Group d/ and Chile	7.6	7.7	9.2	12.4	15.1	15.1	16.1

Source: Foreign trade statistics, and International Monetary Fund, Direction of Trade.

Note: Any differences that may be noted between this table and others in earlier chapter are due to the fact that a more restricted definition of the region has been considered here, including mainly countries participating in integration processes.

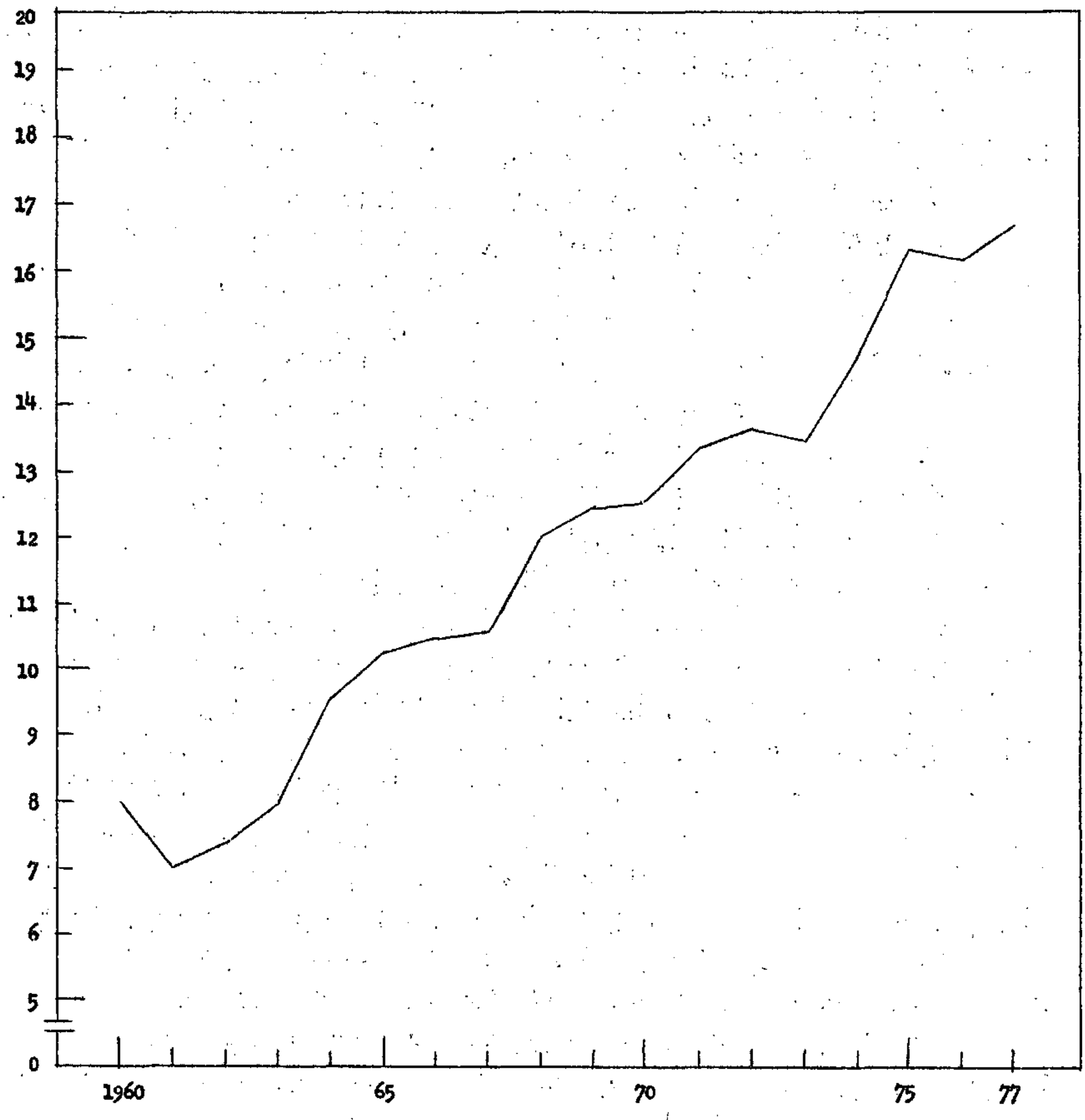
a/ Comprises 18 countries: 11 LAFTA countries, 5 CACM countries, Panama and the Dominican Republic.
b/ Provisional figures.
c/ Comprises 9 countries: 4 from the Andean Group (excluding Venezuela), Paraguay, Uruguay, Panama and the Dominican Republic.
d/ Comprises 5 countries: Bolivia, Colombia, Ecuador, Peru and Venezuela.

/Figure 1

Figure 1

LATIN AMERICA : INTRA-REGIONAL EXPORTS AS A PROPORTION OF TOTAL EXPORTS

(Per cent)



/In 1977,

In 1977, exports to Latin America from nine countries of the region represented over 20% of their total exports, and those of other countries between 10 and 20%.28/ Exports from the Central American Common Market (CACM) to Latin America reached its highest proportion in 1974, subsequently decreasing mainly owing to the lesser relative dynamism of trade within that group of countries. The vigorous growth of trade within the Andean Group continued, as did the trend towards a more moderate growth in LAFTA.

The vigorous increase in intra-regional trade may be attributed mainly to three factors: (i) the effect of the integration processes in operation in Latin America; (ii) the export promotion policies implemented by Latin American countries; and (iii) the new forms of co-operation between pairs or groups of countries, encouraged by the greater mutual knowledge gained by entrepreneurs and governments of various Latin American countries.

The industrialization of the countries in the region has given rise to greater possibilities of complementarity between their economies, which has sustained the rapid expansion of intra-regional trade.

The increase in inter-Latin American exports is particularly significant if consideration is given to the steady decline in Latin America's share of world trade and the difficulties currently affecting the world economy. Between 1960 and 1977 Latin America's share in world exports dropped from 6.2% to 4.5% (see table 20). The increase in the proportion of exports to Latin America in relation to the total was particularly marked in 1975, the year in which the effects of the world recession made themselves felt, and it subsequently remained high, with a slightly rising trend. In other words, in a period of general economic recession the Latin American market played an important role in maintaining a more rapid rate of growth; and although the growth rate of exports to Latin America also dropped in real terms, the decrease was smaller than that of sales outside the region. Among the countries which took most advantage of the regional market to cushion the

28/ The first group comprises Argentina (25.3%), Ecuador (34.1%), El Salvador (22.9%), Nicaragua (24.1%), Paraguay (27.2%) and Uruguay (34.3%). In the second group are Brazil (12.8%), Colombia (16.6%), Guatemala (19.8%), Honduras (12.2%), Mexico (13.8%), Panama (16.3%) and Peru (17.3%).

effects of the external difficulties, mention should be made of Brazil, Peru, Ecuador, Colombia and Costa Rica. In 1975, these countries' intra-regional exports developed along much more favourable lines than their extra-regional exports. This also occurred, on a lesser scale, in the case of the intra-regional exports of all the other countries of the region except three.

(b) Structure of intra-regional trade

Intra-regional trade is also important because of its structure. Manufactures 29/ clearly account for a larger proportion of exports to the region than of sales outside Latin America. In a group of LAFTA countries 30/ for which up-to-date information is available, in 1976 manufactures represented 53.1% of their sales to the region and 23.1% of their sales outside the region (see table 21). This happened in countries of different sizes: thus, for example, manufactures represented over 45% of total exports to the region in Argentina (52.1%), Brazil (57.6%), Colombia (65.3%) and Uruguay (48.1%). These proportions are appreciably higher than in the case of exports to other regions.

Of the manufactures themselves, those with the highest industrial value added and produced with the most advanced technology represent a higher proportion of exports to Latin America than of sales to the rest of the world. In this same group of LAFTA countries, in 1976 intermediate goods industries and metal manufactures and machinery industries accounted for 77.3% of exports of manufactures to the region, compared with only 39.6% of exports to the rest of the world. In 1961, in contrast, the two proportions were more similar: 32.9% and 30.3% of sales to the region and to the rest of the world, respectively (see table 22).

Traditional industries in the six LAFTA countries referred to have recently accounted for a small proportion of total sales of manufactures to the region (18.9% in 1976), whereas in 1961 they accounted for a very high proportion (64.6%). This change, which has come about gradually, does not mean that the volume of traditional exports has decreased, but that exports of intermediate goods, metal manufactures and machinery have increased more rapidly (see table 22).

29/ According to the Standard International Trade Classification (SITC), partially refined petroleum, petroleum products and non-ferrous metals are not included.

30/ Argentina, Brazil, Colombia, Paraguay, Peru and Uruguay.

/Table 21

Table 21

GROUP OF LAFTA COUNTRIES a/: SHARE OF MANUFACTURES b/ IN SALES INSIDE AND OUTSIDE THE REGION

(Percentages)

Year	Exports to the region			EExports to the rest of the world		
	Manufactures	Non-manufactures	Total	Manufactures	Non-manufactures	Total
1961	29.2	70.8	100.0	7.7	92.3	100.0
1965	30.5	69.5	100.0	7.4	92.6	100.0
1970	44.4	55.6	100.0	13.3	86.7	100.0
1974	60.9	39.1	100.0	23.2	76.8	100.0
1975	58.4	41.6	100.0	22.4	77.6	100.0
1976	53.1	46.9	100.0	23.1	76.9	100.0

Source: LAFTA, foreign trade statistics.

a/ Comprises the following countries for which data are available: Argentina, Brazil, Colombia, Paraguay, Peru and Uruguay.

b/ According to the Standard International Trade Classification (SITC); partially refined petroleum, petroleum products and non-ferrous metals are not included.

/Table 22

Table 22

GROUP OF LATFA COUNTRIES a/: STRUCTURE OF EXPORTS OF MANUFACTURES b/ BY MARKET OF DESTINATION

(Percentages)

	1961	1965	1970	1974	1975	1976
1. To the LAFTA market						
Products of the metal manufactures and machinery industries and intermediate goods industries	32.9	63.3	70.6	77.2	77.4	77.3
Products of traditional industries	64.6	30.9	24.0	19.0	18.1	18.9
2. To the rest of the world						
Products of the metal manufactures and machinery industries and intermediate goods industries	30.3	30.8	31.1	37.1	42.0	39.6
Products of traditional industries	69.2	67.3	65.9	59.3	54.5	57.6
3. Exports of manufactures as a proportion of total exports						
To the LAFTA a/ market	22.9	30.5	44.4	60.9	58.4	53.1
To the rest of the world	7.7	7.4	13.3	23.2	22.4	23.1

Source: LAFTA, foreign trade statistics.

Note: The difference between these partial data and 100% is accounted for by miscellaneous manufactured products.

a/ Comprises the following countries for which data are available: Argentina, Brazil, Colombia, Paraguay, Peru and Uruguay.

b/ According to the Standard International Trade Classification (SITC); partially refined petroleum, petroleum products and non-ferrous metals are not included.

/This different

This different composition of sales of manufactures to the region and outside it, which is also observed individually in the large, medium-sized and small countries, lends significant support to the efforts to develop and diversify industry and exports of manufactures. Thus in 1976 the metal manufactures and machinery industries and intermediate goods industries of Argentina produced 76.1% of its exports of manufactures to LAFTA, compared with only 40.4% of its exports to the rest of the world. Brazil, for its part, recorded 80.2% and 42.1%, respectively, for the same industries and destinations.

Viewed from a different angle, the regional market absorbs a high proportion of the total exports of the metal manufactures and machinery and intermediate goods industries. In 1976, 45.6% of the total exports of these goods by the five LAFTA countries mentioned above were destined for the region (see table 23).

It may be observed that there are marked differences in the evolution of the destination to which these countries have sent their exports of such goods. Thus Brazil, after a strong tendency towards the regional market (64.4%) in 1965, has increasingly turned to extra-regional markets for these exports of manufactures; however, in 1976 Latin America still represented a considerable share of its total external market.

Argentina, on the other hand, has tended to associate itself increasingly with the region in the export of intermediate goods, metal manufactures and machinery; in 1976 it sold 60% of these goods in the region. As a general rule, the linkage with the regional market tends to be closer in the case of incipient exports of manufactures involving more advanced technology.

The regional market's loss of relative importance in certain exports of manufactures would seem to be associated with a situation which may be of great interest to those countries seeking to include more advanced manufactures in their export goods. Preliminary research indicates that the regional market has served as a testing ground for many new exports, particularly those of a more sophisticated type from an industrial and technological point of view.

/Table 23

Table 23

GROUP OF LAFTA COUNTRIES: RELATIVE IMPORTANCE OF REGIONAL MARKET IN TOTAL EXPORTS OF INTERMEDIATE GOODS AND METAL MANUFACTURES AND MACHINERY TO ALL DESTINATIONS

(Percentages)

	1961	1965	1970	1974	1975	1976
Group of 5 LAFTA countries	26.1	55.8	53.9	50.3	50.0	45.6
Argentina	28.9	43.4	55.9	65.9	56.4	60.0
Brazil	20.1	64.4	50.9	39.2	45.8	35.8
Colombia	31.2	49.2	57.0	56.3	54.4	58.5
Peru	46.3	34.6	56.0	67.5	49.8	70.5
Uruguay	66.7	63.6	86.5	43.1	90.6	87.9
Rest of the world	73.9	44.2	46.1	49.7	50.0	54.4
World	100.0	100.0	100.0	100.0	100.0	100.0

Source: LAFTA, foreign trade statistics.

/According to

According to the results of investigations made in specific sectors of the metal manufactures and machinery industries, several countries of Latin America, including the largest countries, started to export these types of goods primarily to other Latin American countries. Thus, all or a high proportion of these early exports were destined at first for the regional market. After a few years, once the manufacturers had gained sufficient experience, they began to place an increasing proportion on markets outside the region, which brought down the proportion destined for the regional market. Thus, the regional market provided support in the early years for the development of production and exports, which subsequently made it possible to conquer other markets.

Table 24 shows, in fact, that of a number of exports of metal manufactures and machinery by the most important exporting countries of LAFTA the proportion sold in that regional market has gradually diminished, especially since 1965. This trend is even clearer from an analysis on the basis of products (for example, electric generators, office machines, metal-working machines, etc.). The trend of exports by transnational corporations, however, is not always so marked.

This role, which the regional market still seems to be playing in the case of new, industrially and technologically more complex exports, is highly interesting as a basis for an export diversification policy. It makes it possible to progress towards the sale outside the region of goods for which there is more dynamic demand, with important effects in terms of internal industrial and technological development.

In contrast with the great importance of the regional market for exports, nine-tenths of Latin America's imports of manufactures still come from outside the region and only one-tenth from other Latin American countries. For example, in 1974, Argentina, Brazil and Mexico imported between 20 and 50% of the non-electrical machinery they required, but in none of these countries was more than 1% of the demand satisfied with products from the region. These three countries also imported approximately 20% of their electrical machinery requirements, but only 1 to 2% was supplied by Latin America. As regards transport machinery and equipment, none of these countries obtained from the

Table 24

SOME LAFTA COUNTRIES: IMPORTANCE OF THE REGIONAL MARKET FOR EXPORTS OF METAL MANUFACTURES AND MACHINERY

(Value in millions of dollars and percentages)

	1961		1965		1970		1974		1975		1976	
	Value	Per-cent age	Value	Per-cent age	Value	Per-cent age	Value	Per-cent age	Value	Per cent age	Value	Per-cent age
Argentina												
Metal manufactures and machinery industries	6.1	91.8	23.0	72.2	104.9	68.4	550.2	70.6	473.0	59.6	501.5	62.6
Machinery (except electrical)	1.6	87.5	10.0	63.0	48.2	66.8	188.1	74.0	214.8	63.6	182.9	68.5
Electrical machinery	1.9	94.7	2.7	88.9	8.7	88.5	47.2	79.4	37.8	79.9	37.0	78.6
Transport equipment	0.2	100.0	1.3	84.6	10.2	99.2	135.8	67.5	146.7	54.2	144.4	66.4
Other	2.4	91.7	9.0	75.6	39.8	56.5	179.1	67.1	73.7	48.0	137.2	46.4
Brazil												
Metal manufactures and machinery industries	14.5	55.2	67.1	78.5	205.2	55.6	847.0	45.1	1 141.1	48.5	1 213.6	38.0
Machinery (except electrical)	2.8	53.6	9.2	79.3	64.7	69.5	282.1	53.0	425.9	50.0	388.6	45.4
Electrical machinery	0.2	100.0	4.5	93.3	17.6	76.1	189.2	28.6	172.0	41.5	203.6	32.4
Transport equipment	8.1	50.6	7.3	87.7	14.6	34.9	176.0	55.1	298.6	47.8	330.2	41.8
Other	3.4	64.7	46.1	75.5	108.3	47.0	199.7	40.9	244.6	51.6	291.2	27.8
Colombia												
Metal manufactures and machinery industries	2.3	56.5	4.0	57.5	9.0	61.1	59.5	57.5	54.6	67.8	61.3	64.1
Machinery (except electrical)	0.7	71.4	1.3	53.8	3.7	64.9	19.6	58.7	18.4	84.2	24.0	70.8
Electrical machinery	0.8	62.5	0.3	66.7	0.9	55.6	6.7	76.1	6.8	70.6	6.1	86.9
Transport equipment	0.7	28.6	0.1	100.0	0.6	50.0	5.4	59.3	7.1	47.9	8.2	48.8
Other	0.1	100.0	2.3	56.5	3.8	60.5	27.8	51.8	22.3	59.6	23.0	56.5
Mexico												
Metal manufactures and machinery industries	20.9	9.1	44.1	27.0	176.0	17.5	405.7	20.6	323.8	...	362.0	...
Machinery (except electrical)	5.5	18.2	8.8	30.7	49.6	36.1	123.0	30.7	184.5	...	199.0	...
Electrical machinery	1.0	10.0	2.2	54.5	54.0	5.7	44.9	14.0				
Transport equipment	3.2	3.1	1.9	15.8	24.2	6.2	132.4	7.8	85.4	...	90.0	...
Other	11.2	6.3	31.2	24.7	48.2	17.2	105.4	16.0	53.9	...	73.0	...

Source: LAFTA, foreign trade statistics. Manufactures of metal manufactures and machinery industries according to the Standard International Trade Classification (SITC).

/region more

region more than 0.1% of their total demand for units, parts and spare parts. While these sectors rely heavily on the Latin American market for their exports, on the other hand supplies are unquestionably obtained from outside the region insofar as the proportion not produced locally is concerned (see table 24).

This apparently paradoxical situation is the result of two deficiencies in the economic structures of the countries of the region which they are only gradually overcoming: first, these economies are still exporting a very low proportion of their manufacturing output and, secondly, they are still dependent on imports from the developed world for their supplies of manufactures involving more advanced technology. In this respect, a "supply gap" has been talked about, and it has been maintained that integration and mutual complementarity between the Latin American economies is a feasible and effective means of overcoming those structural deficiencies.

(c) Equilibrium among the countries

The unequal benefits obtained from integration by the various countries constitute one of the factors that has done most to hinder this process, the adoption of new decisions and the implementation of those adopted. Countries at a more advanced stage of industrial development are in a position to export to the region on a larger scale than the less advanced countries, which leads to disequilibrium in the volume and structure of regional trade. Therefore, the problem lies basically in the relationship between countries of differing size and stage of development. The existing trade instruments, though important, have proved insufficient to compensate for concentrating trends generated by differences in the production structure. Experience shows that it would take a fairly long time to create the necessary competitive production capacity in countries now lacking it, and that preferential trade treatment alone is not sufficient to accelerate industrial development in the less developed countries.

The trade balance of the smaller countries (Bolivia, Paraguay, Uruguay, the Central American countries, Panama and the Dominican Republic) and Peru with the region have been consistently negative. In contrast, the three largest and most industrially developed countries (Argentina, Brazil and Mexico) have, in all but a few years, accumulated surplus balances in their trade with the rest of Latin America (1,040 million dollars in 1977). Moreover, these balances have been increasing in absolute terms and in proportion to exports.

Another aspect of the disequilibrium in intra-regional trade derives from its structure. The most industrialized countries are in a position to export to the region goods involving more advanced technology. The small and medium-sized countries have not yet succeeded in exporting more complex manufactures on any great scale, and if they do it is generally to neighbouring countries at an equal or more backward stage of development. The quantitative disequilibrium existing in intra-regional trade thus tends to be accentuated by the qualitative disparity. It should be remembered that the demand for more complex manufactures is growing more rapidly than that for products of the traditional industries. Therefore, the existing trade deficits may well increase unless the countries manage to change the asymmetrical nature of intra-regional trade.

3. Formal multilateral integration processes

The problems impeding the progress of the integration processes in Latin America are only too well known. The design and implementation of the general multilateral formulas - with the exception of the Andean Group once the crisis caused by Chile's withdrawal had been overcome - have proceeded at slower rates than originally expected, except in their initial stages. Trade carried out independently of the LAFTA and CACM integration systems progressed more rapidly than that generated by the instruments of the systems themselves. In spite of the greater relative importance of intra-regional trade in the total volume of trade, in the majority of the countries it still represents a lower proportion, which is no incentive to governments to reorient their economic and trade policies in line with the requirements of this trade. Furthermore, national enterprises have only just started to operate actively in the market of other Latin American countries, with some exceptions, and are at a distinct disadvantage with respect to transnational corporations.

/The attempt

The attempt to solve the problems arising from the different stages of development of the various countries, and to make more rapid and extensive progress in the subregional groups that had greater decision-making powers, led to the establishment of the Central American Common Market and the Andean Group. In the latter, set up to create the conditions which in the longer term would enable more rapid progress to be made in integration with the more developed countries, the members centred their attention on seeking a greater measure of real integration among them. The relatively less developed countries belonging to the Eastern Caribbean Common Market (ECCM) have also sought to obtain through this system a fuller participation in the Caribbean Community and Common Market (CARICOM).

The cases of Honduras in Central America and Bolivia in the Andean Group reveal the difficulty of solving the problem of equilibrium. In spite of their efforts, these countries have not managed to keep abreast of the others, and still less to narrow the gap between their stage of development and that of the other members of their respective groups.

In the Andean Group the proportion of exports to Latin America in relation to its total exports has grown faster since 1970 than in any other integration system, as can be seen in table 25. In the rest of the LAFTA countries - decisively influenced by the major countries, Argentina and Brazil - the proportion has increased moderately in the course of this decade. Table 26 shows that the percentage represented by intra-regional trade in the rest of the LAFTA countries has not increased since 1965, and has even fallen in relation to 1970. In Central America the effects of the recession that started in 1969 still persist, and since 1970 trade among countries of the area ceased to expand as vigorously as before, to the point where it lost some of its relative importance in 1976 and 1977, although these economies continue to be more closely interlinked than those of any other countries of the region.

/Table 25

Table 25

LATIN AMERICA: SHARE OF EXPORTS AND IMPORTS WITHIN EACH INTEGRATION SYSTEM

(Percentages)

	1960	1965	1970	1975	1976a/	1977b/
Latin America (18 countries)						
Regional exports/total exports	8.0	10.3	12.6	16.4	16.2	16.7
Regional imports/total imports	9.8	14.1	13.3	11.7	14.6	15.9
LAFTA (11 countries)						
Regional exports/total exports	7.7	9.0	10.3	13.3	13.4	14.3
Regional imports/total imports	9.6	12.9	11.2	11.0	12.6	13.8
Andean Group c/						
Regional exports/total exports	0.7	1.2	2.2	3.3	4.2	4.9
Regional imports/total imports	1.0	2.0	2.9	3.5	4.8	5.3
Andean Group c/ and Chile						
Regional exports/total exports	1.5	2.0	2.8	5.1	5.3	6.4
Regional imports/total imports	2.2	2.9	4.0	6.5	6.8	7.1
CACM (5 countries)						
Regional exports/total exports	7.0	17.4	26.1	24.4	21.1	19.2
Regional imports/total imports	6.4	15.2	24.2	17.9	18.5	18.9
CARICOM (4 countries)						
Regional exports/total exports	3.9	3.6	4.2	7.2	6.7	6.3
Regional imports/total imports	4.5	3.4	2.6	7.3	6.5	7.0

Source: CEPAL, on the basis of official foreign trade statistics; LAFTA; and IMF, Direction of Trade

Note: Latin America (18 countries): 11 LAFTA countries, 5 CACM countries, Panama and the Dominican Republic.

a/ Provisional figures.

b/ Estimates.

c/ Andean Group (5 countries): Bolivia, Colombia, Ecuador, Peru and Venezuela.

/Table 26

Table 26

SHARE OF EXPORTS OF MEMBER COUNTRIES OF LATIN AMERICAN FREE TRADE ASSOCIATION, ANDEAN GROUP, CENTRAL AMERICAN COMMON MARKET AND CARIBBEAN COMMUNITY AND COMMON MARKET IN TOTAL INTER-LATIN AMERICAN TRADE

(Millions of dollars at current prices, and percentages)

Year	LAFTA	Andean Group a/	Rest of LAFTA	CACM	CARICOM b/	Trade between systems	Total inter-Latin American trade c/
1965	65.6	4.1	36.6	10.4	2.1	21.9	100.0 1 275.3
1970	64.5	4.8	40.9	15.0	2.2	18.3	100.0 1 917.4
1973	66.2	6.3	37.0	10.9	3.1	19.8	100.0 3.533.3
1974	66.7	7.6	34.6	9.1	3.1	21.1	100.0 5 896.4
1975	66.7	7.3	33.9	9.2	3.7	20.4	100.0 5 915.4
1976 d/	68.1	9.3	36.4	9.9	3.2	18.8	100.0 6 608.0
1977 e/	68.0	9.3	35.9	9.8	2.5	19.7	100.0 8 139.0

Source: CEPAL, on the basis of official statistics, LAFTA, and IMF, Direction of Trade.

Note: The figures represent trade within each system as a percentage of the total for Latin America. Trade between the systems was obtained by subtraction.

a/ The Andean Group comprises 5 countries: Bolivia, Colombia, Ecuador, Peru and Venezuela.
b/ CARICOM comprises 4 countries: Barbados, Guyana, Jamaica and Trinidad and Tobago.
c/ Latin America comprises 23 countries: 11 LAFTA countries, 5 CACM countries, 4 CARICOM countries, Panama and the Dominican Republic.
d/ Provisional figures.
e/ Estimates.

/Trade between

Trade between countries belonging to different subregional integration systems have also increased significantly in absolute terms. It should be noted, however, that the share of trade between systems in the total for Latin America has not increased greatly in the present decade (see table 26). There is little communication between the systems and they are not yet taking full advantage of the regional trade and co-operation potentialities, which could be translated into practical results if economic relations among all the countries were diversified and intensified. The relations of CACM and CARICOM with the rest of Latin America are particularly limited.

Some indirect effects of the integration processes, however, have been greater mutual knowledge among the countries of the region, closer links between their public and private sectors, greater facilities in terms of regional trade documentation and formalities, a considerable improvement in internal transport and communications networks, and the development of financial systems in support of intra-regional trade. Although these effects cannot be ascribed strictly to the integration processes, it is clear that even in LAFTA - despite the limited progress that has been made for some years in the process itself - meetings of entrepreneurs and governments have gradually brought about a favourable change in the way in which the regional market is being taken into account in the formulation of trade, investment and production policies. Trade in items not subject to any integration decision has increased, which is important not only in quantitative but also in qualitative terms since it includes manufactures and even turn-key plants which are exported almost exclusively within the region. Mention should also be made of the setting-up of joint enterprises between countries, the establishment of branches of enterprises of one country in other countries of the region, technical co-operation, etc. (see later in this chapter the section on new forms of co-operation). From this point of view, the indirect effects of the integration processes have supplemented the greater incentives provided by the governments' export promotion policies and the modifications in exchange policies which have made exports more attractive.

The two main types of instruments used in the integration processes - trade liberalization and programming - are reviewed briefly below. A short account is also given of the salient aspects of policy co-ordination.

(a) Trade liberalization

The liberalization of intra-regional trade has shown fairly successful results in the Central American Common Market, and is being equally successful in the Andean Group. Central America made active progress in the lowering of trade barriers before this was done by any other integration system in Latin America. The proportion of intra-area trade reached a higher level than in any other group of countries, in relation to both total exports and domestic production. The share of manufactures in this intra-area trade was substantial and influenced industrial development and the import substitution process in these countries. During the 1970s, however, the effect of the difficulties experienced in the process became evident.

In the Andean Group, in spite of the countries' specific problems and claims, active and extensive progress has been made in implementing the automatic liberalization process, and has started to be reflected in an increase in this intra-area trade. Although in some cases the rate of elimination of non-tariff barriers has been slowed by balance-of-payments problems and practical difficulties of implementation, their gradual elimination is envisaged within fixed periods of time.

In LAFTA the National Schedules of products on which tariffs were to be lowered had an important effect on intra-area trade during the first few years; subsequently, the process was hindered by a lack of political will. From the moment that progress in these Schedules became slower, the growth of trade in items on which tariffs had not been reduced, that relied above all on export promotion policies, was greater than that of trade in items that had been subject to liberalization. No significant progress has been made in the reduction of non-tariff barriers, but with some transitory exceptions the countries have tried not to extend the trade restrictions they have had to use owing to balance-of-payments difficulties to negotiated goods. In the last few years the policy of across-the-board tariff reductions which some member countries of LAFTA had introduced for their imports has considerably decreased the preference margins granted, as will be seen below. The member countries have not yet reached agreement regarding forms of compensation for the effects of such reductions; nor have they succeeded in establishing machinery for the automatic liberalization of trade, and progress in respect of the Common Schedule has been limited.

In CARICOM, as in the Andean Group, internal trade liberalization has been accompanied by a common external tariff and special régimes for the less developed countries. In actual fact, integration efforts in CARICOM have been primarily aimed at the trade liberalization process. This group's intra-regional trade has until recently developed along very dynamic lines, but with greater benefits for the larger countries than for the small East Caribbean islands. The need to give fresh impetus to industrial development is making itself felt in the area, for which purpose other machinery in addition to trade liberalization will be required.

(b) Programming instruments and the harmonization of policies

Industrial programming, which aimed at specialization in spearhead sectors that would permit advantage to be taken of the size of the regional market and afford the less developed countries real opportunities within the integration process, met with greater difficulties and delays than was originally expected. In LAFTA the industrial complementarity agreements have been prepared with the considerable participation of enterprises, especially transnational corporations; the purpose of some is to distribute markets, and of others to facilitate the exchange of short-term surpluses or shortfalls. The advantages of these agreements are not extended to countries not participating in them, except those at a relatively less advanced stage of development. Complementarity agreements have been concluded basically between the major countries; although the relatively less developed countries automatically enjoy the benefits of these agreements, they have been unable to take advantage of them except in very limited form, as (save to some extent for Ecuador) they lack the competitive industrial capacity required. Because of their fairly flexible application, complementarity agreements could be used much more intensively and permit the fuller participation of national enterprises, inasmuch as such enterprises have gradually assumed a more active role in intra-area trade.

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In the Cartagena Agreement the primary aim of industrial programming was the development of new sectors. The three agreements already signed (covering the metal manufactures and machinery, petrochemical and motor-vehicle sectors) and those currently under consideration provide for instruments that vary in each according to the individual sectors' requirements The process of putting into practice the relevant projects under the three programmes adopted is necessarily slow owing to the time involved in the negotiation and maturity of these investments. Moreover, there have been delays connected with the entry of Venezuela and Chile's withdrawal from the Agreement, which had to be taken into account in assigning sectors of production to the various countries. The other programmes envisaged but not yet adopted (covering the chemical, electronic, telecommunications, pharmochemical, steelmaking and fertilizer sectors) require much smaller investment and their approval is expected to be a simple matter. With the approval of these programmes and the Andean Court of Justice, the Andean Group has completed a first stage of basic decisions which would enable it to enter the next phase of negotiations with other countries or groups of countries in the region with a view to the co-ordinated development of industrial sectors.

As regards the régime for Central American integration industries, much less progress was made than in trade liberalization. Some important new industries were established, but it was not possible to achieve a more general implementation of this system in line with the possibilities of the subregional market.

In CARICOM no machinery was established to co-ordinate industrial development in the area, and industrial growth was achieved mainly in the traditional branches of industry.

In many cases it has been difficult to bring about the harmonization of policies to any great extent, and this is generally regarded as one of the last phases in the integration process. One of the most successful examples has been the harmonization of foreign investment policies in the Andean Group by means of decision 24, modified by decisions 37, 37A and 102. Such harmonization, in defining common rules for the treatment of foreign investment, ensures that such investment, and in particular the transnational corporations, will adapt their activities to the lines of strategy laid down

/by the

by the countries, and prevents the competition among them to attract investment from weakening the position of individual countries in negotiations with transnational corporations. At the same time, it makes for greater stability in the treatment of foreign investment in the five countries, which is considered a favourable and important point by both the countries themselves and the transnational corporations. Preliminary research indicates that the Andean system for the treatment of foreign investment has not driven such investment away from the area; on the contrary, it has increased vigorously in the last few years, although not all the countries appear to have benefited to the same extent. Both CACM and CARICOM have made progress in the harmonization of fiscal régimes.

(c) Conclusion of LAFTA transition period

The adaptation of the Montevideo Treaty has taken on fresh urgency with the conclusion of the transition period (article 2 of the Treaty, modified by article 1 of the Caracas Protocol) established for bringing the free trade area into full operation (in respect of "substantially all" their reciprocal trade).

Resolution 370 (XVIII) adopted at the eighteenth session of the Conference of the Contracting Parties of LAFTA (November 1978) instructs the Standing Executive Committee to carry out during 1979 the preparatory work for the restructuring of LAFTA. According to the aforementioned resolution, this work should cover the following pints:

"(a) Capacity of the present structure of LAFTA to give impetus to the regional economic integration process;

(b) Effectiveness of the liberalization programme and auxiliary machinery (in particular, complementarity agreements);

(c) Structure and trends of trade in negotiated products and its relationship with intra-regional trade and total trade of each of the Contracting Parties;

(d) Result of the system of support for economically relatively less developed countries;

(e) New economic integration formulas and mechanisms for promoting this process in the region;

/(f) Legal

(f) Legal and economic implications of the conclusion of the transition period; proposal of suitable measures to overcome them;

(g) Bases for the legal and institutional restructuring of LAFTA;

(h) Procedures facilitating the convergence of LAFTA and other economic integration systems in Latin America; and

(i) Some aspects of area development policies (formula for commitments based on an analysis of the possibilities of adopting action agreed on by the Parties, especially in the production and trade fields)." 31/

The result of this preparatory work will be reviewed at an extraordinary session to be convened at a high government level with the object of consolidating the indispensable agreements for the restructuring of LAFTA. The negotiations will culminate in a meeting of the Council of Ministers, which should take place not later than 31 July 1980.

The conclusion of this transition period affords the opportunity to consider, together with an extension of the period, a possible improvement of the process that would enable operational flexibility to be adequately combined with the provisions orienting future negotiations with a common framework.

In the last few years some factors have not favoured the more intensive use of instruments of the Treaty, nor economic integration among the member countries. A particular factor is the reduction in area preferences as a result of across-the-board tariff reductions introduced by some member countries. Added to this is the effect of subregional preferential machinery and to a lesser degree, of piecemeal arrangements with exclusive preferences for the smaller countries in their relations with the major countries of the area. The general tendency has been to use procedures and instruments of a bilateral nature or by groups of countries rather than multilateral machinery. These facts do not mean a lack of interest in regional relations, but are the result of the search for more expeditious and specific links between countries or groups of countries in respect of objectives, sectors or concrete projects.

31/ The text in parentheses has been added by the CEPAL secretariat.

In a fairly large number of cases (perhaps a little over 50%) the changes in customs tariffs introduced by member countries have affected the preferences negotiated in the National Schedules. It may be estimated that in a certain number of cases the reduction in the margin has not entirely eliminated its operational potentiality. Among those cases in which the reduction of duties on imports from all countries has affected area preference margins the following situations are identified: (i) where the area preference left in force a residual duty on imports from the area, there would be some possibility of restoring at least a proportion of the preferences concerned by means of additional reductions in the customs duties applicable to the area, without altering the new levels established for third countries; (ii) where there is no residual duty on imports from the area, there is no possibility of restoring the preferences concerned by means of additional reductions in the customs duties applicable to the area; in this case, the re-establishment of some margin of preference would entail a review of the duties applicable to third countries; (iii) where the negotiated customs duty for the area may be higher than the new levels for third countries a paradoxical situation arises; (iv) in some cases advantages which are granted to relatively less developed countries but are not extensive to other countries or liberalization programmes contained in complementarity agreements, may have been affected.

To restore the effectiveness of LAFTA instruments in promoting the expansion and diversification of area trade is a matter which merits the attention of the signatories of the Treaty. There is also need for a certain degree of harmonization of policies and instruments in order to provide a coherent and stable operational framework within which flexibility will be compatible with the fulfilment of commitments and respect for the interests of all, without prejudice to the possibility of dealing with particular situations and emergencies by means of special measures and procedures and some exceptions duly provided for and regulated. As regards the nature of the negotiations, the objective would be not only a certain dismantling of the tariff system in favour of intra-area trade, but the maintenance of an adequate and stable preference margin to bring about the desired effects.

/4. Forms

4. Forms of co-operation in specific aspects

From various points of view it has been said that some integration systems in Latin America have entered a phase of virtual stagnation or are experiencing serious difficulties as a result of the chronic failure to comply with commitments assumed in the respective Treaties or the obligations deriving from the integration organ's decisions. Concurrently with the relative weakening which, to a greater or lesser extent, Latin America's global integration systems have recently been experiencing, however, a vigorous trend may be noted towards the expansion of economic co-operation among countries of the region through piecemeal action of a specific nature. Generally speaking, such action is not explicitly provided for by the machinery incorporated in the existing global regional or subregional integration systems, although in each case consideration might be given to the possibility of incorporating it in view of the flexibility of the global agreements. Some of the main areas of joint action recently undertaken by two or more Latin American countries in connexion with trade, infrastructure, production sectors, technological development and financial co-operation are reviewed below, together with some information concerning the main forums or machinery used by the countries of the region to promote such action in addition to or by way of supplementing the activities assigned to the formal integration systems.

In the field of intra-regional trade, to which the main instruments incorporated in the existing formal integration systems relate, the past decade has marked some slight resurgence of bilateral agreements, in especially between countries in the southern cone of Latin America; the formal conclusion of these agreements has frequently taken place within the framework of LAFTA. A first form of action and probably the most advanced in this field consists of agreements establishing a bilateral programme of trade liberalization, with bigger preference margins and shorter time-tables for the signatories than those established by LAFTA. These instruments compris(the agreements concluded between Argentina and Uruguay in August 1974, between Uruguay and Brazil in June 1975 and between Brazil and Paraguay in December of the same year. Another form of action in this field comprises agreements designed, through tariff and non-tariff concessions, to intensify reciprocal

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trade in products included in special lists, which is of interest to the signatory countries; among these are the agreements concluded between Bolivia and Paraguay in 1974 and between Chile and Paraguay, Bolivia and Uruguay, and Chile and Uruguay, in 1975. A third form of action which has given rise to a larger number of agreements consists of commitments involving pluriannual supplies of basic commodities between Latin American countries; these agreements, which constitute the main specific integration experience in the agricultural field, lead to substantial trade flows and more efficient production planning, providing more certainty regarding the subsequent sale of commodities. Brazil, for example, has actively promoted this type of arrangement, and has current commitments for the purchase of wheat from Argentina and on a lesser scale from Uruguay, and natural gas (and possibly steel products, nitrogenous fertilizers and cement) from Bolivia. Brazil has also attempted to promote trade co-operation with some bordering countries such as Bolivia, Paraguay and Uruguay, through financial and technical assistance in carrying out studies on the Brazilian market for products from those countries. A fourth form of trade co-operation which has been attempted between some Latin American countries comprises arrangements designed to promote direct purchases between the public enterprises of those countries.

The <u>integration of physical infrastructure</u> among the Latin American countries has shown considerable and persistent progress in the last few years, particularly in the transport, communications and energy fields, facilitating the expansion of their reciprocal trade and the complementarity of their production sectors. Of the 19 interior borders of South America considered in a recent report on the subject,32/ only three lack the physical infrastructure necessary for linking the centres of economic activity of the adjacent countries: Venezuela-Brazil, Colombia-Brazil and Colombia-Peru.

Road transport is the only means with a continuous physical infrastructure almost the whole length of the region, although the services it offers are highly concentrated in the South Atlantic countries. Railway interconnexions, in contrast, are confined more to the countries of the southern cone, and

32/ See Institute for Latin American Integration (INTAL), "La infraestructura y servicios en la integración de América del Sur", <u>Integración latinoamericana</u>, No. 25, June 1978.

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although in general the national railways show a decrease in the networks in service, this is compensated for by increases in the tonnage carried. Inland-waterway transport is used extensively in the River Plate Basin, on the rivers Paraná, Paraguay up to Asunción, and Uruguay on its first stretch and in the Amazon basin up to Manaos in Brazil and Iquitos in Peru. Rapid progress has been made by the Inter-American Telecommunications Network with only some micro-wave interconnexions still to be completed, although the satellite system with ground stations has been more widely used.

In the energy field, joint action is concentrated in the electricity sector. In recent years the interconnexion of national systems for the transmission of electric energy has continued to expand, together with the considerable increase in the number of binational projects for the hydroelectric utilization of joint river basins, of which the Itaipú project between Paraguay and Brazil and the Salto Grande project between Argentina and Uruguay are in full process of construction, and those at Yaciretá (Paraguay-Argentina), Puyango Tumbes (Ecuador-Peru), Laguna Mirín (Brazil-Uruguay) and Corpus (Argentina-Paraguay) are still in an earlier stage. The importance of these projects in the development of the energy infrastructure of the region will be realized if it is considered that the four binational projects in the River Plate Basin alone require a total investment of some 10 billion dollars.

In the last few years, economic complementarity among the Latin American countries through piecemeal action seems to have gained significant dynamism notably in the production sectors, among other areas. The predominance of foreign investment channelled through large-scale transnational corporations whose parent companies are located in industrialized countries has made it difficult to determine the volume of investment which enterprises of some Latin American countries have made in other countries of the region. The latter process in its turn conceals the existence of other flows of production resources based not only on the existence of financial surpluses but on more permanent and complex factors such as the entrepreneurial and technological capacity of countries that have reached more advanced stages of development. The increasing heterogeneity observed among the Latin American countries, as a result of the unequal dynamism of their sectoral economic growth processes, constitutes an additional incentive to carry out joint action for the

/development of

development of their production sectors, since in many cases such action involves combining the markets, natural resources, technological capacity and financial surpluses of the various countries. The influence of large-scale public enterprises deliberately promoted by the State, or the action of subsidiaries of transnational corporations which are expanding from the developing countries, has also helped to intensify this process.

The question of direct inter-Latin American investment was not reflected in the legal instruments of the main integration systems at the end of the 1960s, after which the establishment of enterprises with capital originating in the area was proposed within LAFTA (resolutions 99, 100 and 157), the Agreement of the Régime for Central American Integration Industries was approved, and decision 56 was adopted within the context of the Cartagena Agreement. These instruments were envisaged as auxiliary measures for the liberalization of trade and on the whole produced no significant effects in terms of the intra-regional transfer of production factors. As the integration systems began to show signs of stagnation, and as a result of the stage of development reached, the countries of the region redoubled their interest in becoming integrated in the world economy and expanding their industrial exports, while they became more and more desirous of having larger-scale activities and enterprises which could take advantage of the opportunities afforded by the expansion of the regional market, and even compete on the international markets.

According to a recent study on the subject,33/ the annual flow of direct investment of Latin American origin, which in 1971 was only 1.5 million dollars, grew year after year to the figure of 36 million dollars in 1975. Although in absolute terms this may not appear very high, it must be borne in mind that these statistics probably reflect only a very small proportion of the actual sums invested by the Latin American countries. Much of this investment is not covered by government licensing arrangements, for tax or accounting reasons, which makes it difficult to distinguish between direct investment and the flight of capital; in other cases it takes the form of

33/ INTAL/IDB, Las empresas conjuntas latinoamericanas, Serie estudios básicos No. 1, Buenos Aires, 1977.

non-monetary transfers, or is effected from third countries where the funds are deposited for security reasons. In any case, attention is drawn to the dynamic nature of the process and its global importance for relatively less developed countries like Bolivia and Ecuador,34/ in which this investment already represents a significant percentage of the stock of external capital.

Inter-Latin American investment has shown itself to be very flexible as regards the manner in which it is effected. Most of the analyses of this process, and of the legal instruments adopted to promote it, suggest the advisability of a "joint enterprise" model, with features designed to safeguard the equitable control and distribution of the company's profits, and with a markedly prescriptive bias. The aforementioned study identified 200 cases of joint Latin American enterprises, many of which do not have the same characteristics as the model. It seems that a great many Latin American investments in other countries of the region follow a different pattern. Among the features of inter-Latin American investment are, of course, its wide range of organizational possibilities, the tendency towards association with local capital, the participation of public enterprises in large-scale investment, and a certain apparent compatibility between the economic structure and the sectoral distribution of the external investment of capital-exporting countries which would seem to reveal the influence of their relative advantages.35/ Colombia's industrial investment is concentrated in the food, textile and traditional chemical industries, while Argentina's investment covers basic metals, machinery and equipment and, on a lesser scale, foodstuffs. In terms of its relative participation in the production activities of the recipient countries, inter-Latin American investment tends to be concentrated in the manufacturing sector.

This points to the importance which the technological complementarity process is acquiring among the Latin American countries. Since traditionally the bulk of the technology originates from outside these countries and, like

34/ In 1974, 70% of the investment approved by the competent body in Bolivia and 90% of the foreign investment earmarked for the manufacturing sector in Ecuador was of Latin American origin.

35/ Nearly 70% of Argentina's investment abroad is concentrated in manufacturing activities and the remaining 30% in the banking sector, while in Colombia the proportions are reversed.

other developing countries, they are compelled to acquire it in highly unfavourable markets, in some cases they can only exercise some of their rights in connexion with the process of acquiring technology (which they frequently use inefficiently or not at all), such as that of selecting the most suitable technology from among the available choices, and of so negotiating the respective contrasts as to reduce to a minimum the transfer of monopolistic income.

For many years, most of the analyses described the technological challenge facing the countries of the region in terms of the acquirement of fairly suitable foreign technology. Recent studies show that this is an over-simplified view and that a great many problems whose solution is important for the development process of the countries of the region arise only at the time of transfer of such foreign technology.36/ According to these studies, the most advanced countries of the region already have a sufficient stock of professional capacity to produce a certain internal flow of technological knowledge to supplement the imported technology. This, on the one hand, facilitates the choice of technology (opening a bigger margin for disaggregation of the "technological package" offered by the industrialized centres) and, on the other hand, permits the fuller adaptation of imported technology to local limitations and needs. This is reflected, above all, in a larger volume of domestic expenditure on technological research in an increasing number of countries in the region.37/ These efforts will help to solve problems of incompatibility between the imported technological design and local conditions, facilitating the construction of a "new technological package" more suited to those conditions which could have favourable acceptance in other markets with similar features as to geographical conditions, scales, types and prices of the factors of production, and institutional

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36/ See the studies of the IDB/CEPAL Programme on Research on Science and Technology Questions, in particular working monograph No. 30, i.e., Jorge Katz, Cambio tecnológico, desarrollo económico y relaciones intra y extrarregionales de la América Latina, August 1978.

37/ In 1968 Brazil's expenditure on research and development was only about 300 million cruzeiros annually (at 1975 prices), while its current plan provides for an annual expenditure of approximately 6 billion cruzeiros (ibid., p. 16).

structures, thus generating an important export flow of technology to other countries of the region. This could take place through many different mechanisms, including direct exports of products with "incorporated" technology, the sale of licences to firms in third countries, direct investment programmes, and even the sale of a complete or turn-key plant. The above study identified in a single country (Argentina) 36 cases of sales of turn-key plants, associated with a wide range of manufacturing activities, to the region. There are indications that industrial process and turn-key plants are also exported on a fairly large scale in other countries, such as Brazil and Mexico.

The oldest financial mechanisms adopted by the Latin American countries to facilitate trade operations within the region are the Central American Clearing House (1961) and the Reciprocal Payments and Credit System of LAFTA (1965). This System, currently composed of 11 member countries of LAFTA and the Dominican Republic, operates through the establishment of ordinary reciprocal credit lines with maximum ceilings, in United States dollars, between each pair of Latin American central banks. The System started to operate in 1966, with the participation of six central banks whose cumulative credit lines amounted to 46.7 million dollars, while at present the total amount of the credit accorded within this framework is over 1,200 million dollars annually. From the time the System was brought into use until 1977, operations for 13,794 million dollars were channelled through it. If the total volume of operations effected through the System is compared with the total volume of intra-regional trade, even taking into account that some of those operations only represent financial transfers, it will be seen that a large proportion of such trade has been channelled through the System's accounts, which has saved the central banks of the region considerable sums in foreign exchange and has avoided the use of extra-regional points for effecting the transfers, with the resulting saving in commissions, interest and expenditure. The Santo Domingo Agreement concluded among the same countries in September 1969, with the object of mitigating the temporary balance-of-payments deficits incurred by the signatory countries, supplemented the System with the opening of new conditional credit lines freely available to the central banks of the said countries, the aggregate total of which increased from 30 million dollars in the first year to 205 million in 1977. Those countries which have made use of the Agreement have emphasized its usefulness, stating that despite the relatively modest volume of financing and short maturity periods, they had brought considerable relief in situations of liquidity shortage.

Among the Central American countries an agreement in support of their balances of payments is currently in operation. In September 1973 the central banks of this group of countries established the system of Latin American Bank Acceptances (Aceptaciones Bancarias Latinoamericanas - ABLA), an instrument which, besides helping to finance regional trade, can be negotiated in extra-regional financial markets. So far the placement of such securities in those markets has not fulfilled the countries' expectations, a fact which in the final report of the sixth meeting of commercial banks of the LAFTA countries held in July 1977 was largely attributed to internal factors connected with the national tax systems, the fact that there were too few operations over the minimum amount required for such placements (25,000 dollars) and the uncompetitive nature of the system owing to its costs.

In the last few years the growing needs of the Latin American countries in terms of external financing and the difficulties encountered in obtaining access to the sources of official development aid has encouraged them to seek other options in the field of intra-regional financial co-operation. A number of projects aimed at opening up new sources of financial co-operation were thus brought into operation. They include the Latin American Export Bank and the Latin American Tourist Bank, both with their headquarters in Panama City; the financial organ of the Latin American Energy Organization (OLADE); and the Latin American Arab Bank with its headquarters in Lima. Mention should also be made of the agreement of the Latin American central banks to provide support for the liquidity of bonds placed by IDB with the central banks of the region. At the bilateral level, the Investment Fund of Venezuela has been carrying out various programmes of regional financial co-operation, including a trust fund of 500 million dollars in IDB, and another of 25 million in the Caribbean Development Bank.

/In addition

In addition to these informal types of regional economic co-operation there are other projects within the framework of more permanent and relatively more formalized machinery. Foremost among these because of its geographical coverage and the wide range of its objectives is the Latin American Economic System (SELA), which promotes joint action for the development of a specific sector or project, with the participation of the countries concerned, through the machinery of action committees. In addition to the committee in support of the reconstruction of Guatemala, so far SELA has promoted the establishment of these mechanisms in the fields of fertilizers, food supplements, artisan-type activities, low-cost housing, and sea and fresh water products, and is working on the establishment of three more committees in the agricultural sector, i.e., a region mechanism for information on surpluses, shortfalls and prices of selected agricultural commodities; one for grains, seeds, oilseeds and fruit; and another for meat and dairy products. SELA has also promoted meetings of experts from technical and financial integration organs with the object of identifying specific possibilities of co-operation among the various subregional systems existing in Latin America. Lastly, as noted in another section of this report, it has performed important functions as a Latin American consultation and co-ordination mechanism in connexion with the region's external economic relations.

One of the oldest of the partial mechanisms existing for economic co-operation among various groups of Latin American countries is the River Plan Basin Agreement. Although the main physical integration projects in the area covered by this Agreement (the Itaipú, Salto Grande, Yaciretá and Corpus hydroelectric complexes which together with the Acaray and Monday projects in Paraguay constitute an important focal point of energy interdependence) have to a large extent been promoted outside the formal framework of the system, in the last few years it has succeeded in bringing into operation the River Plate Basin financial fund and promoting various new undertakings in other infrastructural and services sectors. In July 1978 the eight countries of the Amazon River Basin, following intensive but relatively brief negotiations mainly stimulated by Brazil, signed the Amazon River Basin Treaty aimed at promoting integration and co-operation in an area of 13 million square kilometres situated in the heart of South America.

/Notable among

Notable among the partial mechanisms with which we are concerned, in addition to the Central American Economic Co-operation Committee which has had a long and fruitful existence, is the Caribbean Development and Co-operation Committee, an advisory organ of the CEPAL secretariat set up in 1975 which has been taking steps to promote co-operation in the health, education, cultural, tourism, communications and natural resources fields.

In recent years action of various types has been taken to promote border integration programmes between countries of the region. These programmes have been based on the possibility of utilizing shared natural resources, promoting economic development in relatively depressed geoeconomic areas belonging to two or more countries, or correcting local disequlibria in border regions. Although they are all basically intended to establish transport and communications infrastructure and services, they do not necessarily exclude joint action in production sectors. Currently in progress are the border integration programmes between Colombia and Venezuela, Peru and Ecuador, Colombia and Ecuador, Brazil and Uruguay, and the border areas of Argentina, Bolivia, Chile and Paraguay.

Because of the interesting and dynamic situation involved, it may be noted that for some years there have been a great many sectoral bodies in Latin America not strictly at governmental level, which carry out co-operation activities among institutions and enterprises associated with a particular sector in the various countries of the region. Currently operating in the energy sector are the Latin American Energy Organization (OLADE), composed of 20 Latin American countries, the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL) and the Regional Electricity Integration Commission (CIER). There are also several organizations operating in the transport sector, such as the Latin American Railways Association (ALAF), the Latin American Highway Transport Association (ALATAC) and the Latin American Shipowners' Association (ALAMAR). In the manufacturing and services sectors there is the Latin American Industrialists' Association (AILA) comprising industrialists' entrepreneurial associations in the LAFTA countries, the Latin American Food Conservation Industrialists' Association (ALICA) composed of food industries of the LAFTA countries, the Latin American Iron and Steel Institute (ILAFA) comprising the respective steel industries, and the

/Confederation of

Confederation of Tourist Organizations of Latin America (COTAL). In the financial sector there are institutions such as the Latin American Association of Development Financing Institutions (ALIDE) comprising public and private development banks, and the Latin American Federation of Banks (FELABAN) which represents the commercial banks of the region.

The last few years have also recorded increased concern for the establishment of regional mechanisms for the joint defence of the marketing conditions of some commodities of particular interest to Latin America. Among these is the Group of Sugar Exporting Countries of Latin America and the Caribbean (GEPLACEA) which, while not negotiating on behalf of these countries or representing them in the International Sugar Agreement the new version of which came into force provisionally on 1 January 1978, performs important functions in terms of the exchange of information and technological co-operation in the sugar industry. Mention should also be made of the Union of Banana Exporting Countries (UPEB), the establishment of which was stimulated by the favourable conditions of the world market for bananas between 1974 and 1976; its central objectives include the co-ordination of the supply policy of banana-producing countries in order to avoid an over-supply and drop in prices. In addition, the six major coffee-growing countries of the region decided in 1977 to maintain a consultation and mutual support mechanism which has been operating unofficially up to the present time. That same year, Argentina and Uruguay concluded a meat agreement with the object of defending the common interests of both countries with regard to this commodity.

There is little information available on these new forms of co-operation among the Latin American countries. It is also too early to evaluate the importance of these activities from an economic standpoint, their effect on the economic complementarity of participating countries, and their relative importance for the respective national development processes. A striking feature, however, is the dynamic nature of these new forms of co-operation compared with the slow progress of the main integration systems existing in Latin America. Consideration of this fact leads to the conclusion that the impression that regional economic integration would seem to be passing through a critical period is not entirely correct, since in the last few years the interrelationship of the Latin American economies has considerably intensified.

/Chapter VI

Chapter VI

ECONOMIC RELATIONS WITH THE UNITED STATES, THE EUROPEAN ECONOMIC COMMUNITY (EEC) AND THE MEMBER COUNTRIES OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (CMEA)

A. RELATIONS WITH THE UNITED STATES

1. The Setting

Latin America's concern over trade and other economic relations with the great industrial centres of the world stems from certain premises about the objectives of good relations. The first of these underlying premises is that satisfactory economic development levels of the countries of the region are dependent on the creation of conditions which will permit the transformation of national economic structures and production and further export diversifications. Another premise is that the region's future development process will depend, in the external sector, on a combination of development of new manufacturing sectors for the internal market, a substantially increased rate of trade growth, and the acceleration of regional integration. The third premise is that a sufficient degree of social maturity and political sophistication exist in Latin America and elsewhere for the goal of improved income distribution to be generally accepted, even among higher income groups, as a reasonable one.

If these premises are accepted, then it is possible to go a step farther and examine the logic, as well as the empirical evidence, that prove that the structural transformation of production, the diversification of exports, and the improved income distribution being sought will not automatically come about in a spontaneous chain reaction once a critical mass of self-propelled market forces unite. In reality these forces must be complemented by planning and careful preparation for the necessary allocations and transfers of technology and other resources. The difficulty of doing this does not make it any less important to strive to reach agreement among developed and developing countries on arrangements that will eventually

/facilitate a

facilitate a more rational international division of labour.38/ The urgency of adjusting to the new realities of a dynamic world economy is beginning to be recognized now in the large industrial centres, including the United States, and it is no longer only the developing countries that are talking about the emergence of a new pattern of world production and trade. On the other hand resistance to change is very strong.

A study recently made in the United States for the use of the Joint Economic Committee of Congress attempts to identify which United States industries are likely to face heavy competition in the next five to ten years from imports of products manufactured in eight developing countries including Brazil and Mexico. The study deals with the growth of imports of certain goods over the period 1971 through 1975 and with the vulnerability of domestic industries manufacturing the same goods to import competition. It is recognized that in the future the United States will confront increasingly intense foreign competition in respect of many manufactured products, the nature of which will become increasingly sophisticated. The authors see a new threat from the advanced developing countries in that they will be competing harder than before for sales in third country markets. They conclude that the United States will be likely to retain an unchallengeable competitive advantage only in products and techniques that are at the very forefront of technological development or that require a huge integrated market for their creation. Finally they recommend that the growing challenge to United States competitiveness be met not through isolated instances of adjustment assistance, orderly marketing agreements and protectionism at the individual product level, but rather by broad economic measures including the maintenance of a high level of employment and a satisfactory growth rate, permitting exchange rates to adjust to balance-of-payments disequilibria and stimulating domestic investment through tax incentives.39/

38/ For a discussion of trade-related structural adjustment, see UNCTAD, "Adjustment Assistance Measures" (TD/B/C.2/198), 4 April 1978. The related subject of industrial collaboration agreements is dealt with in documents TD/185/Supp.3 and TD/B/C.2/179.

39/ See Stephen B. Watkins and John R. Karlik, Anticipating Disruptive Imports, a study prepared for the use of the Joint Economic Committee of the Congress of the United States. United States Government Printing Office, Washington, 1978. p.3.

These recommendations sound very familiar to Latin American ears, for the representatives of countries of this region have been expressing the same or similar concepts in international forums for quite some time. A recent example may be found in the views expressed by regional spokesmen at the annual meeting of the IMF and World Bank.

The new international division of labour now emerging, which requires careful orientation, is highlighting the growing dependence of the United States and other industrialized countries not only on trade outlets but also on the economic progress of the Latin American and other developing countries. The 1978 World Development Report of the International Bank for Reconstruction and Development emphasizes the importance of the developing countries' import markets for the industrialized countries 40/ and GATT's annual report issued in the same year 41/ points out that the developing countries can continue to play the stabilizing role in the world economy which they have been playing since 1973 only if they can go on selling freely in the markets of the developed countries. The report points to the failure of the developed countries' imports of manufactured goods from developing countries to continue their previous growth trends, the textile and apparrel industries being the most outstanding examples of this phenomenon. This failure is directly related to the recent increase in protectionism.

On the other hand the developed countries' exports of manufactures to the developing countries have over the years 1973-1977 shown more dynamic growth than trade in such products between developed countries. This is true for each of the major industrial areas (North America, Western Europe and Japan).

Despite all the fuss about the emergence of the poorer countries as competitors, the fact is that they remain overwhelmingly more important as buyers. The GATT report referred to earlier notes that in 1977 Japan's

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40/ International Bank for Reconstruction and Development, World Development Report, 1978, p. 16.

41/ See GATT, El Comercio International en 1977/1978, Geneva, 178.

/exports of

exports of manufactures to developing countries were 10 times the amount of its manufactured imports from them and even for Western Europe and North America the ratios were five and two respectively. As for increasing protectionist restrictions the report noted that these already significantly increased in 1977 in industries such as textiles, clothing and footwear in which the old industrial countries are at a competitive disadvantage vis-à-vis the developing countries, and are now spreading into industries in which the developed countries compete with each other and, through chemicals, into the advanced technology industries in which they enjoy a comparative advantage.

In the specific case of United States-Latin American trade relations it is not only Latin America's markets for manufactured exports which are of great importance for United States employment and prosperity but also those for agricultural goods. Exports of United States farm products to Latin America in the fiscal year 1977/1978 surpassed the 1973/1974 record of 2.5 billion dollars.42/ This took place in the context of a 26% increase in total United States agricultural exports in the first half of 1978 compared with the preceding six-month period.43/

Imports from Latin America are important to the United States not only because this is how the Latin American countries earn the foreign exchange needed to buy from the United States but also because the importation of lower-priced goods from developing countries helps to curb inflation and avoids the costly maintenance of inefficient industries.

In order to arrive at a point where practical policy objectives for a more rational international division of labour can be drawn up, it will be necessary to analyse carefully the estimated total production and export potential of the Latin American countries for the next twenty years. A preliminary attempt at this type of analysis has already been made in a recent study of Latin America's economic relations with Europe, carried out by CEPAL in 1978.

A similar sufficiently detailed and profound work is required in respect of Latin America's trade relations with the United States.

42/ United States Department of Agriculture, Foreign Agriculture, 25 September 1978, p. 15.

43/ As reported in The Economist, 16 September 1978, pp. 91-92.

/2. Short-run

2. Short-run barriers to long-term goals

(a) Protectionism in the United States

One of the most important barriers to the achievement of a more satisfactory international division of labour is the resurgence of protectionism in the developed countries, following the recession of the mid-seventies. The origins of this phenomenon and its prejudicial effects for the Latin American and other developing countries have been described elsewhere in the text and the present section will thus be limited to reviewing the salient points of new and established protectionism in the United States.

Some recent examples, of interest to Latin America, of the intensification of protectionism in the United States are: (i) the establishment of the trigger price mechanism for steel products early in 1978, following similar action establishing minimum, or "basic" prices for such products in the European Economic Community; (ii) the Beef Import Act of October 1978, providing a valve to shut off imports of beef when domestic production rises and allow them to increase when it falls; (iii) the duty increase and additional charge on sugar imports (a proposal to support sugar prices at 15 cents a pound through import duties and quota reductions was defeated in the House of Representatives in its closing 1978 session); (iv) passage in the Senate and House of Representatives of a bill to prevent the President from making trade concessions in respect of United States textile and apparel imports at the Multilateral Trade Negotiations;44/ and the failure of Congress to extend the President's authorization to waive countervailing duties.

44/ The following quotation from Watkins and Karlik (op.cit., p.7) is relevant here: "Under the series of bilateral export restraints in effect with most of the developing countries, United States imports of wearing apparel grow only slowly in the aggregate, although particular categories can increase more rapidly if imports of others are reduced. These shifts depend on changes in relative demand and profitability for the various items. Thus, the slow growth or in some cases even decline in imports of certain types of apparel reflects not the competitiveness of foreign producers but rather the distorting effects of our imports restraint system. As for the future; continued restraints on apparel imports appear highly likely."

/Other restrictions

Other restrictions of importance for Latin America applied by the United States in the past two years affect imports of footwear, of great importance to Brazil and of potential importance to Uruguay; television sets, of some interest to Mexico; transport equipment (also of interest to Mexico), and shipbuilding items, of importance for Brazil. In the case of footwear the United States has shown great concern over the increase in imports, due to their anticipated effect on national industry and employment. It may be noted, however, that the Wall Street Journal of 27 September 1978 (p.45) indicated an increase of 40% in the profits of the United States Shoe Corporation in 1978. This is only one corporation, but it is a very important one and its situation is one of several barometers of the health of the industry.

Protectionist tendencies in the United States extend noy only to agricultural and manufactured products but also to certain mineral products which are traditional Latin American exports, such as tin, copper and zinc. Bolivia protested the proposed sale by the United States of 45,000 tons of tin from the strategic reserves stockpile and the figure was subsequently reduced in a Senate Committe. The proposal did not pass the 95th Crongress which adjourned in mid-October 1978, but it is expected that it will be re-introduced in 1979. Another mineral product facing possible new import restrictions is copper. North American producers have requested the United States International Trade Commission to establish import quotas in order to alleviate the depressed condition of United States copper mining. A similar situation prevails with respect to zinc.

Additional information on protectionism in the United States and other industrialized countries can be found in the chapter of the present document dealing with this subject.45/

The Secretariat of the OAS has recently attempted a rough estimate of the increased protectionist tendencies of the United States by comparing the application of countervailing duty and escape clause actions during periods

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45/ See Part Two, Cahpter II.

/before and

before and after the 1974 Trade Act. In the case of escape clause action, the increase was from 12 instances in 1971-1974 to 38 in 1974-September 1978. For countervailing duties over almost the same time spans the increase in the number of cases was from 16 to 62.46/

A new study of conditions of access to the United States market reveals that while the average tariff level is relatively low and only a few types of non-tariff measures are applied, nevertheless the severity and effectiveness of the latter present a formidable barrier to trade.47/ It has been observed, moreover, that in the case of certain light industries with relatively high manpower density the effective rates of protection outstrip by far the nominal tariff duties. Even if it were not already well known that employment considerations are an overwhelmingly important determinant of tariff policies in the United States, a detailed analysis of the structure of the tariffs and the pattern of their modifications under different rounds of GATT negotiations would bring this phenomenon to light.

In the study referred to, 1,051 tariff headings of export interest to Latin America were examined and it was found that for 444 of these the effective rates of tariff protection in the United States have been increased through the action of non-tariff barriers, including quantitative restrictions, sanitary regulations and other measures. Textiles, foodstuffs and other light industries are affected. As for agricultural raw materials, out of 156 headings studied 80 were subject to either quantitative restrictions or sanitary regulations. Another group of products studied - processed foodstuffs - was subject to non-tariff barriers in an even larger percentage of cases, in addition to having a higher tariff level. The textile industry is a particularly good example of the effectiveness of non-tariff barriers.

The Tokyo Declaration which preceded the multilateral trade negotiations now drawing to a close clearly states that one of the major aims of the negotiations was to benefit the trade of developing countries, improve their

46/ OAS Secretariat, Note (undated) entitled "Protectionism Trends in the United States Affecting Latin American Countries".

47/ E/CEPAL/L.184. See also Part Two, chapter II of the present document which deals with protectionism in developed countries.

/foreign exchange

foreign exchange earnings, favour the diversification of their exports, improve prices for their primary commodity exports and in general improve market access for products of interest to such countries. The relief from protectionism which Latin American countries had hoped for when the present round of MTN got under way has not materialized, however. The products subject to more generous reductions by the United States in the negotiations tended to be those that were already subject to a low level of protection, while there was no significant change in the situation of those receiving higher levels of protection.

(b) Countervailing duties and subsidies

After the 95th Congress adjourned in October 1978 without extending the President's authority to waive countervailing duties against exports to the United States that have been subsidized or dumped, the President informed the European Economic Community that he was confident the new Congress would grant the extension for several months. The authority for the waiver was granted to the President in the Trade Act of 1974 and it was considered to be a temporary provision while the negotiations (MTN) were in progress. There is fear among developed countries that should Congres not grant this extension, a trade war could ensue, and the issue has recently become one of the most important and newsworthy ones in United States foreign trade relations.

Traditionally the developed countries have, with some exceptions, considered that government subsidies granted to stimulate exports constitute an unfair trade practice - a form of dumping which jeopardizes the interests of the importing country.48/ Not all countries have agreed on what constitutes an export subsidy or on what type of tax rebates and drawbacks may be made by a government without justifying the imposition by the importing country of a countervailing duty. One of the generally accepted principles of international trade has been that the amount of a tax rebate may not exceed

48/ A detailed discussion of the traditional positions taken by the different trading groups, and the relevant provisions of GATT, may be found in CEPAL "Fiscal Incentives for Export", Economic Bulletin for Latin America, Vol. XII, N° 1, May 1967, pp. 33-55.

/the tax

the tax actually paid, and that any excess over that amount is to be considered a subsidy. On the other hand, there is the question of what types of taxes may be rebated without this representing an export subsidy, and there has been considerable disagreement on this point.

The GATT position on subsidies has until recently been similar to that of the developed countries. In 1958 paragraph 4 dealing with this subject was added to Article XVI of the Agreement, but most of the relatively less-developed member countries of GATT have not adhered to this paragraph. Although the countries that have not subscribed to paragraph 4 are presumably not compelled to abide by its provisions, the member States of GATT that have done so may bring a complaint before the organization if they consider the granting of an export subsidy by another member State to be prejudicial. A glance at the list of practices which, according to GATT, constitute export subsidies 49/ reveals that not all indirect taxes can be refunded, but only those connected with imports or indirect taxes levied at one or more stages on the same goods when sold for domestic consumption. The developed member countries of GATT have not been able to agree on how to treat some indirect taxes, such as those on fuels and machinery. Moreover some industrialized countries have allowed the remission of social welfare contributions related to production for export, although this practice is listed as a subsidy by GATT.

While there is considerable confusion and some disagreement among the countries as to what constitutes an export subsidy, the usual practice - particularly among groups of countries comprising economic integration areas - has been to authorize the refund of indirect taxes in order to correct imbalances in the competitive conditions of the different countries, whereas the refund of direct taxes is permitted in exceptional cases only or is not mentioned at all as an authorized practice. The GATT position is clear. The third item on its list of subsidies mentioned earlier is "the remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises".

49/ See GATT, Basic instruments and selected documents, Ninth Supplement, pp. 186-187.

/Despite all

Despite all the expressions of principles concerning subsidies, the use of techniques of exemption from, or refund of, direct internal taxes as a means of export promotion is common in a large number of countries.

It should be clearly understood that the General Agreement on Tariffs and Trade condemns the introduction of the products of one country into the commerce of another at less than the normal value of the products if this causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. In other words, if no damage is done, and if the result is simply to enable the importing country to buy at a more favourable price, the subsidy is not condemned. Similarly the Treaty of Montevideo prohibits subsidies that "disrupt normal competitive conditions in the area".

The present United States legal position concerning export subsidies is to be found in Title III of the 1974 Trade Act, Chapter 1 of which is entitled "Foreign import restrictions and export subsidies".

The main provisions of this chapter are the following: The President of the United States may take certain steps to eliminate trade restrictions or subsidies originating in other countries, including:

(a) Suspension, withdrawal or prevention of the application of benefits of trade agreement concessions;

(b) Imposition of duties or other restrictions on imports from the foreign country concerned, or imposition of fees or restrictions on its services.

The President may take such action when he determines that a foreign country:

(a) Maintains unjustifiable or unreasonable tariff or other import restrictions which impair the value of trade commitments made to the United States or which burden, restrict or discriminate against United States trade;

(b) Engages in discriminatory or other acts or policies which are unjustifiable or unreasonable and which burden or restrict United States trade;

/(c) Provides

(c) Provides subsidies (or other incentives having the effect of subsidies), on its exports of one or more products to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products in the United States or in those other foreign markets, or

(d) Imposes unjustifiable or unreasonable restrictions on access to supplies of food, raw materials, or manufactured or semi-manufactured products which burden or restrict United States trade.

With respect to point (c) (subsidies), the Secretary of the Treasury must find that a country has provided a subsidy, or an incentive having the effect of a subsidy; the International Trade Commission must find that the subsidized exports to the United States have the effect of substantially reducing sales of the competitive United States product or products; and the President must find that the Anti-Dumping Act of 1921 and a relevant section of the 1930 Tariff Act are inadequate to deter the practice.

Criteria which may be satisfactory for regulating the trade relations of the developed countries among themselves can be inadequate or inappropriate for regulating the exports of developing countries. It is necessary to take into account the quite different conditions and circumstances prevailing in the latter. Just as the world had come to accept the concept of the infant industry and its protection through the use of tariffs, acceptance must be forthcoming for the infant export activity. Any developing country activity that is in the early stages of world market penetration has to overcome a number of obstacles connected with the organization of distribution channels, the lack of familiarity with foreign markets, the adaptation of its production to demand patterns in target markets, etc. In order to succeed in overcoming the problems encountered in these early stages, special support is necessary, and consequently this case cannot be compared with that of developed countries which have already emerged from the early stages of market-winning but might still want to apply subsidies.

A recent study has held that export subsidization by developing countries is perfectly justifiable in certain circumstances and that Latin America's development strategy has resulted in unintentional high implicit taxation of non-traditional exports, so that at times such exports have actually been discouraged, rather than promoted. It was pointed out, for example, that an examination of conditions prevailing in Argentina in the year 1969 shows that the combined system of tariffs, taxes, exchange rates and incentives made it more attractive for the Argentine producer to sell on the domestic rather than on the export market. It is of particular interest to note that some of the economic activities which appear to have had insufficient export subsidization to offset the other policy disincentives correspond precisely to those categories of goods which are highly import-sensitive in developed countries (e.g., footwear, textiles, optical goods).

It is believed that other Latin American countries which have followed similar development policies and strategies and had over-valued currencies have likewise had a built-in, unintentional bias against exports. The import-substituting industrialization followed in most Latin American countries in the 1950s and 1960s involved policies for the protection of domestic producers against competition from imports, labour legislation regulating minimum wages and other rights and benefits, higher taxation of profits and personal income, preferential credit rates for basic industries, and other intervention which increased the need for, and cost of government services. Such policies, while raising the level of industrialization, sometimes led to the taxation of exports of traditional products and indirectly made more difficult the competition of non-traditional products in the world market.

The United States has begun to recognize the need of developing countries to use subsidies, and it is very important for Latin America that such partial acceptance should be consolidated in the United States and should spread to other developed countries whose views on the subject have not yet matured. The use of export subsidies is an essential trade policy tool during the present stage of transition through which the Latin American region

/is passing

is passing as it emerges from the era of exporting only primary products into one where it provides semi-manufactures and manufactures for world markets. United States support of the developing countries' position will be very important for achieving the necessary change in GATT rules.

According to recent information from the United States Department of Commerce, eventual agreement on the question of subsidies was expected in the MTN, based on the existing provisions of the GATT and with emphasis on the effects of subsidies and the limitation of those that could result in trade distortion.50/ While a new code on subsidies and countervailing duties is expected to be one of the results of the MTN, there is no evidence yet that it will be along the lines sought by Latin America, i.e., one that would establish a special and differential régime for developing countries. On the contrary, the development of negotiations so far would appear to point to a rather limited outcome. Earlier optimism concerning the possibility of achieving the régime mentioned above had been encouraged partly by a clause in the Tokyo Declaration dealing with the subject of reciprocity, which said, "They recognize in addition the importance of applying differential measures to the developing countries, through means that would provide for them special and more favourable treatment in the negotiating sectors where this might be possible and appropriate".51/

3. The United States as a competitor of Latin America

Just at a time when some of the developing countries are reaching "semi-industrialized" status in so far as their general economic development is concerned, and just when manufactured products are beginning to achieve some prominence among their exports, they find themselves in some cases faced with greater competition from the developed countries in the international trade area. What are some of the ways in which this greater competition is expressed? In the case of the United States a Presidential task force

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50/ United States Department of Commerce, Business America, 6 November 1978.

51/ GATT, "Ministerial Declaration approved in Tokyo on 14 September 1973", MIN (73) 1, 14 September 1973, p.5.

/has recently

has recently been working on an export promotion proposal which would increase United States sales abroad by 10 to 15 billion dollars over five years. The proposal foresees: (i) new export financing, including an increase in the capacity of the Export-Import Bank to make loans to foreign buyers of United States manufactured goods, as well as improved financing for exports of agricultural products; (ii) removal of internal barriers to trade, including a suggestion that the Justice Department liberalize its interpretation of the anti-trust laws in order to permit United States exporters to form joint export associations outside the United States, and a further suggestion that the discouraging effects of laws against bribery be examined, and (iii) tax incentives.

Substantiating these proposals, one of the recent objectives set for the United States economy by Mr. G. William Miller, Chairman of the Federal Reserve Board, is an almost 50% increase in exports over the next five years. At the Treasury, Assistant Secretary Bergsten has pointed to United States export expansion as one of the two main structural changes now required in the economy (the other being a reduction in energy consumption).

According to recent press reports President Carter has already accepted some of the recommendations of the task force and announced new efforts to increase exports from the United States. The programme envisages:

- An addition of 550 million dollars in the fiscal year 1980 to the Export-Import Bank's loan authorization;

- Targeting 100 million dollars of the Small Business Administration's current funds for loan guarantees to small business exporters;

- Allocating an additional 20 million dollars to the Commerce and State Departments for export development programmes;

- Working with Congress to resolve promptly the tax problems of Americans employed abroad;

- Reducing domestic barriers to exports such as regulations, export controls, antitrust laws and environmental reviews.

With respect to agricultural exports, it is proposed to increase the short-term export credit financing of the Commodity Credit Corporation by 1-1.7 billion dollars in the fiscal year beginning 1 October.

/In the

In the light of United States plans to boost future exports, it is of interest to see how past export promotion efforts of that country have compared with those of other developed nations.

The United States Export-Import Bank has examined the extent of export credit in other industrialized countries (direct and discount loan authorizations during 1976, excluding guarantees and insurance) in order to see how United States assistance to its exporters compares with that of its competitors to theirs. The results were as follows:

Canada	728 million dollars
France	7,600 million dollars
Italy	1,500 million dollars
Japan	3,300 million dollars
United Kingdom	1,200 million dollars
United States	2,000 million dollars

However in the first quarter of 1978 the United States Export-Import Bank had already made direct loan commitments amounting to 760 million dollars (compared to 700 million dollars for the whole of fiscal year 1977). According to the Department of State, "The Bank's immediate goal is to support at least 12 million dollars in annual exports from the United States".52/

As for agricultural market development, until now the United States has spent far less than its major competitors. According to a Department of Agriculture source, in 1976 Israel spent 15 times more and Australia 11 times more, the figures being expressed in terms of percentages of farm export earnings.53/ Funding for market development comes mainly from the private sector and has risen 15% in 1978. The proposed Agricultural Trade Act of 1978 foresees expansion of the Government's export promotion programme, including its mechanisms for gathering, analysing and disseminating market information. The World Food and Agricultural Outlook and Situation Board

52/ United States Government, Department of State, Department of State Bulletin, Vol. 78, N° 2016, July 1978, p. 38.

53/ United States Department of Agriculture, Foreign Agriculture, 2 October 1978, p. 12.

/was created

was created in 1977 to co-ordinate all the Department's economic analyses. Despite its past relatively low export promotion profile, the United States has remained the world's largest producer and exporter of farm products, its annual exports of such goods recently reaching 26.6 billion dollars.

The Departments of State and Commerce are now exploring the possibility of adapting certain export promotion programmes which competitors of the United States have been following. Along these lines, the United States might expand its free or partially subsidized market research facilities for new exporters of manufactured goods; increase the Government's contribution to the cost of participating in certain trade fairs, missions, centres and shows in other countries; finance reverse trade missions; and arrange for large firms already established abroad to assist smaller newcomers with technical guidance and possibly even storage facilities.

4. The Generalized System of Preferences

The main instrument which the United States has employed in recent years for executing its trade policies designed to benefit the developing countries has been its scheme of the Generalized System of Preferences. The details of regulations governing United States participation in this international undertaking are included in the 1974 Trade Act and moreover have been analysed in earlier documents of CEPAL.54/ Although certain changes in product coverage have been made from time to time, the nature of the United States scheme has not been significantly altered since it went into effect in 1976. With respect to country coverage, Ecuador and Venezuela are still excluded due to their participation in OPEC. Cuba likewise has been excluded from the scheme. Provisions regarding rules of origin are still limiting the eligibility of imports from Latin America and other developing areas. In order for a product to qualify for preference under the United States scheme, at least 35% of its added value must have originated in the exporting country; the figure is 50% in the case of a product with value added in two or more

54/ E/CEPAL/L.133 of 19 April 1976 and E/CEPAL/L.1024 of 15 March 1977.

/countries forming

countries forming part of a trade association or integration area. The restrictive nature of these percentage specifications increases very significantly through the fact that the added value is limited, for purposes of the law's application, to direct costs. Transport, distribution, profits, insurance and other indirect costs are excluded from the 35 and 50% stipulations, which results in their becoming much more rigid requirements. A third limitation on the effectiveness of the United States GSP is the continuing application of the competitive need formula, under which exports of a product from an eligible developing country cease to receive preferential treatment once they exceed 50% of total United States imports of the article or else amount to a ceiling which was established at 25 million dollars in the first year and is subject to adjustment thereafter. An examination of the number of Latin American country-product cases subject to the formula in 1978 shows that it exceeded that for earlier years. Thus, the number of country-tariff item cases in 1978 was 123, whereas in 1976 it was only 106.55/

It was pointed out at a recent AID Conference on the multilateral trade negotiations and trade policies toward developing countries that "the competitive need formula ... may sometimes be tantamount to a marginal tax rate in excess of a hundred per cent. It may penalize success so heavily as to mullify the long-run benefits of the original concession".56/

The greatest limitation on the effectiveness of the United States GSP has of course been the exclusion of so many products from the scheme. About 700 United States tariff items have been left out on the grounds that they are sensitive and that their exclusion is mandatory under the 1974 Trade Act. Many of the excluded items are of actual or potential interest to Latin America (textiles, apparel, shoes, etc.). However, the list of exclusions which is the longest and the most discouraging is that containing all the

55/ UNCTAD, "Generalized System of Preferences. Scheme of the United States of America, Amendment". TD/B/GSP/USA/5, 17 May 1978.

56/ Agency for International Development, Bureau for Intergovernmental and International Affairs, Trade Policies Toward Developing Countries, The Multilateral Trade Negotiations. Washington, D.C., 1978, p. 233.

/products whose

products whose absence from the scheme is discretionary. These products have been excluded by decision of the President, after public hearings and recommendations by the International Trade Commission, due to the possibility of unfavourable effects of imports on United States industries and employment. Examples of such products have been provided in previous documents. Here it might be mentioned that it is sometimes difficult for officials in Latin American and other developing countries to understand the reasons for the exclusion of certain products from the preferences scheme. An example is the case of wines, which are of export interest to Argentina, Brazil and Chile: whereas the United States in 1976 imported a total of 268 million dollars worth of wines (classified under the three statistical items corresponding to these countries exports) less than 1% of this total was imported from developing Latin American countries,57/ and more than 99% was imported from developed countries. Surely in the case of this product the threat to United States production is not coming from the developing countries - at least not in the immediate future. Another puzzling case of exclusion from the GSP is certain perishable agricultural products imported from Southern Hemisphere developing countries in the opposite season to United States harvests. Costs to United States consumers could be lowered if these products were included in the GSP scheme.

B. RELATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY (EEC)

Much of what was said in the previous section concerning a new international division of labour is also valid for economic relations with EEC. Since this subject is fully examined in a study on relations with the Community and the rest of Europe which is to be published shortly,58/ only selected features of Latin America's trade with EEC will be mentioned here.

57/ United States Department of Commerce, "United States Imports for Consumption and General Imports", FT 246/Annual, 1976

58/ This study is in the course of preparation jointly by the secretariats of the Economic Commission for Europe and of CEPAL.

/1. Brief

1. Brief outline of Latin America's trade with EEC

As was mentioned above, the Community continues to be the second most important market for the Latin American region, after the United States. Moreover, in the two most recent years for which reliable data are available, the share of both Latin America and the developing countries as a whole in EEC exports increased. It was during the recession that the developing countries as a whole increased their purchases, and this provided an important boost for economic recovery.

Some differences have been noted among Latin American countries. The greatest increase was recorded in purchases made by Brazil, which became a more important market for Europe than the Andean Group, in contrast to the situation in 1955. During this same period, Mexico also increased its share of EEC exports, while the relative share of Argentina in exports from the Community to the region dropped sharply.

Manufactures represented 88.1% of exports from the enlarged EEC to the region in 1975. Between 1973 and 1975 Latin America imported from the Community on average three times as many manufactures as Japan, and about a third as many as the United States and the European Free Trade Association (EFTA). If manufactures are broken down by SITC sections, it can be seen that in some of them the relative importance of Latin America for the Community is even greater. Thus for chemicals (SITC 5), Latin American imports from EEC amounted to just over half of EFTA imports from the same source; meanwhile, United States imports of chemicals represented only three quarters of the value of Latin American imports from EEC. Almost a quarter of the total exports of chemicals to the developing countries from the enlarged EEC were sent to Latin America.

Latin America is a substantial supplier of basic commodities for the enlarged EEC, even though its share of imports from outside the Commmunity is slightly lower than total purchases by the Community from the United States or Africa; in 1973-1975, the latter provided respectively 16.9% and 15.8% on average of purchases of such products outside the Community, while Latin America supplied 14.9%.59/ There are many products for which

59/ Monthly Bulletin of Statistics.

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Latin America is EEC's most important supplier (iron ore, copper, sugar and cotton, for example). For a large group of basic products, their share in total EEC imports from Latin America did not change significantly during the period studied. Even so, there are major differences between the various products, which are linked with problems in conditions of access and other conditions encountered by the products in the Community market.

Almost two thirds of imports of manufactures from Latin America to the enlarged EEC fall under sections 6 and 8 of SITC (excluding division 68), which generally cover manufactures other than metal manufactures and machinery and chemicals. Latin America's share in total EEC imports of such products, compared with other areas, is insignificant, as most of the trade in manufactures is carried out among developed countries. On the other hand, trade in such manufactures is of importance because of the high degree of competitivity in respect of many products in this group acquired both by Latin America and other developing countries. In 1974 most imports of this type of manufacture from the region to the enlarged EEC were textiles, clothing, footwear and other leather products, and iron and steel; these headings accounted for a value of 397 million dollars, of which 249 million dollars represented textile products and clothing. These imports have grown strongly in value from the practically insignificant 1965 levels, and are also of importance because they also originate from the relatively less developed countries, and not only from the three large countries (Argentina, Brazil and Mexico). These are the products which encounter the greatest obstacles when seeking access to the developed countries. Most of these goods are described as "sensitive" under the Community's generalized system of preferences.

The region exports not only traditional manufactures, but also manufactures from modern industries, especially from Argentina, Brazil and Mexico, which sell substantial amounts. In 1975, the sales of six products in the metal manufactures and machinery section from Brazil to EEC reached a value of 51 million dollars, 26 million dollars of which was made up by power generating machinery (SITC 711).

/Similar products

Similar products were exported to EFTA, for a value of 18.5 million dollars, with the most important category being road motor vehicles (SITC 732), for a value of 13 million dollars. Although no systematic data are available disaggregated in this form for previous years, the information at hand appears to indicate that these categories are recording substantial growth.

As was indicated above, Latin American exports to the Community have not managed to grow as fast as imports from the Community, especially in recent years, and this has meant that the trade balance with the Community, which was positive up to 1970, has turned into a deficit.

2. EEC special preferences

EEC does not offer the Latin American region specially favourable conditions of access to its markets which might have an influence on the region's percentage share in Community imports. On the contrary - the various agreements signed between EEC and various Mediterranean countries, with the signatories to the Lomé Convention - 53 African, Caribbean and Pacific (ACP) countries - and with some other European, Asian and African countries have resulted in the creation of a trading block between the Community and a very large number of developing or semi-developed countries, and this undoubtedly has adverse consequences for the exports of countries outside the block.

EEC grants non-generalized (or special) most-favoured-nation trade treatment to more than 70 countries.60/ This figure is made up as follows:

(i) Non-reciprocal preferences granted to the 53 ACP countries which signed the Lomé Convention, the three Maghreb countries and the four Mashrek countries which enjoy preferential trade agreements;

(ii) Reciprocal preferences implicit in the agreements in force with the four Mediterranean countries which form a customs union with EEC (Cyprus, Greece, Malta and Turkey), the eight member countries of EFTA, and Israel, which have signed agreements with EEC for the creation of a free trade association.

60/ An examination of the nature and scope of the generalized preferences appears below.

/Apart from

Apart from these agreements, there are special agreements with individual countries concerning a single product or group of products. They include the agreements with Yugoslavia on beef, and the special agreements with members of the Commonwealth to compensate them for the loss of customs benefits caused by the entry of three new members into EEC.

The Lomé Convention in principle grants completely free access to EEC for the products of the 53 ACP countries (apart from products which are subject to the Common Agricultural Policy), without any obligation of reciprocity. This is complemented with three additional agreements on industrial co-operation, technical and financial assistance and stabilization of export revenues (STABEX).

A special case is that of sugar, which, although it does not benefit under the STABEX system, is subject to a special supply agreement, under which EEC guarantees the ACP countries that it will purchase sugar quotas at prices not below the support prices which are paid to producers within the Community.

As far as manufactures are concerned, many of the ACP countries have a potential export capacity distinctly lower than that of Latin America. Even so, their position compares very favourably with the position of the Latin American countries, since for them access, which is totally liberalized, is not subject to the quota system which applies to the "sensitive" and "semi-sensitive" products under the EEC generalized system of preferences. Furthermore, some ACP countries are already in a position to take advantage of this better treatment. The Lomé Convention contains a safeguard clause which authorizes restrictive measures applied in such way that they cause minimum difficulties to the ACP countries if imports produce "serious disturbances in the economy of the importing country".

The less favaourable treatment which the EEC countries trade policy grants to Latin America in comparison with these other 70 developed and developing countries might have greater effects in the future than in the past, to the extent that the recession causes a deterioration in the markets for the goods which are subject to this different treatment.

/In conclusion,

In conclusion, it may be said that protectionism on the part of the EEC countries will be one of the central topics in the negotiations between the Community and Latin America in coming years. The negotiations will need to take into account in addition the different commercial treatment applied to imports originating from the region.

3. Generalized system of preferences: the EEC scheme and its use

In a document published in 1975, CEPAL carried out a detailed analysis of the European Economic Community scheme within the Generalized System of Preferences.61/ Since then, changes have occurred in the lists of products included in the scheme, but not in the structure or in their importance for Latin American countries.

In the Community scheme for 1978 the base year for some calculations of general quotas was changed, but this was used only to compensate partially for changes in real values. In 1978 there were no improvements in the amounts of the quotas for textile products, and only nine new processed primary products were added to the previous 296.

The scheme proposed for 1979 includes: (i) the addition of 13 tariff lines to the scheme, which correspond to processed agricultural products; (ii) the reduction of the preferential rate for 14 products of the same type; (iii) changes in the quota system for preserved pineapples; (iv) measures to benefit the relatively less developed countries. In addition, the proposal provides for a change in the scheme of preferences applicable to textiles in order to facilitate the fulfilment of undertakings made in the bilateral agreements associated with the Multifibre textile agreement.

In recent years it has been observed that the EEC generalized system of preferences has largely tended to introduce changes which can benefit the relatively less developed countries, and it is believed that this trend will continue in years to come. There are now few Latin American countries which are optimistic concerning an appreciable improvement in the scheme of direct interest for them.

61/ "Latin American development and the international economic situation: Second regional appraisal of the International Development Strategy, Part Two: The external economic relations of Latin America and the international situation" (E/CEPAL/981/Add.2).

As far as benefits drawn from the Community scheme are concerned, both in 1975 and in 1976 the Latin American countries which drew greatest benefit were Argentina, Brazil, Mexico, Peru and Venezuela. Imports to EEC from those countries subject to preferential treatment totalled the following, in millions of units of account:

	1975	1976
Argentina	47	74
Brazil	162	291
Mexico	59	81
Peru	32	19
Venezuela	1	190

It should be pointed out that the total for all the beneficiaries was 1,792 million units of account in 1975, and 3,501 million units of account in 1976.62/

Twenty-five basic products make up about two thirds of Latin American exports to EEC.63/ Of these, 16 are subject to the payment of tariff duties, and only three benefit from preferences. These preferences take the form of only partial tariff reductions, but the margins of advantage over countries without preferential treatment are very small. From the outset the EEC scheme had the purpose of encouraging the export of manufactures and semi-manufactures from developing countries, rather than the export of primary products. In fact, not only do the latter not enjoy preferences, but the Community, through the application of its Common Agricultural Policy, strongly discourages exports of many agricultural commodities.

62/ "Generalized system of preferences: Replies received from preference-giving countries" (TD/B/C.5/30/Add.4) and "Generalized system of preferences: Replies received from preference-giving countries: European Economic Community" (TD/B/C.5/30/Add.12).

63/ A list of these products appears in "The economic and social development and external relations of Latin America" (E/CEPAL/1024/Rev.1), p. 230.

/The express

The express intention of stimulating the export of industrial goods from the developing countries has been partially frustrated by the limitations imposed by the Community itself. These limitations take the form of tariff quotas and limits which hamper they entry of liberalized goods once the limits laid down have been fulfilled. Regrettably, some of the products affected are precisely those non-traditional export products which Latin America has been endeavouring to promote with the aim of cutting down its disadvantageous dependence on a small number of export products which are subject to sharp fluctuations in prices and international demand.

Forty-six "sensitive" industrial products are subject to tariff quotas, with prior allocation of each quota among the members of the Community. Some tariff quotas include a reserve portion, so that the allocation can be adjusted in line with the use of the quota. There are 131 "semi-sensitive" products, and these are subject to limits within the Community. For almost all the other non-agricultural products which are described as "non-sensitive", the maximum limits laid down by the Community are applied when the product changes category as far as "sensitivity" is concerned. Each of the exporting countries, in particular, is limited in principle to a given percentage of the quota laid down by the Community (the maximum amount constraint), which means that none of them can alone export more than 50%, 30% or 20% of the limit, depending on the product. The maximum amount constraint are specified, product by product, in the list of goods which enjoy preferences included in chapters 25 to 99 of the tariff nomenclature.

Industrial raw materials are not included among the preferences, but in general pay very low or zero duties.

According to information supplied to UNCTAD by the European Economic Community there is a large disparity between the value of imports (from all sources) of the products included in the system of preferences and the value of imports of the same products which effectively received preferential treatment from the Community; the ratio in 1979 was 3:1.64/ Some Latin American countries (Brazil, Mexico and Peru) recorded a higher degree of benefit, according to the figures supplied by UNCTAD. Argentina's percentage was in line with the world average, and Venezuela's was very low.

64/ TD/B/C.5/30/Add.4.

/Two factors

Two factors which seriously limit the use of the preferences are: (i) the maximum quotas and limits imposed by the Community for certain "sensitive" and "semi-sensitive" products, and (ii) insufficient knowledge and understanding of the scheme on the part of exporters, to which the complexity of its rules contributes. Concerning the first of these points, in 1976 five Latin American countries exceeded the maximum limits laid down by the Community (Brazil with seven products, Mexico and Venezuela with two products each, and Argentina and Colombia with one product each). All the countries benefiting from the scheme, including Latin American countries, found their liberalized exports of 23 other products limited, as a result of the quantitative restrictions imposed by the Community.65/ This means that in the Latin American countries the products affected by the application of this type of restriction within the system of preferences reached 36, while the products affected in the developing countries as a whole totalled 105. The 36 products correspond to the following categories: hides and skins, wood, cement, yarn, fabrics and clothing, footwear, citric and glutamic acid, petroleum products, certain manufactured articles of metal and building materials.

For 13 of the products for which a quantitative restriction under the scheme affected a Latin American country or countries, the maximum liberalized amount reached less than half a million dollars. For other products, the total was 800,000 dollars. And for a third group of products, the limits are extremely low compared with the total exports of the "beneficiary" country to the Community (for example, hides and skins exported by Argentina, and footwear and planed wood exported by Brazil).

65/ "Operation and effects of the generalized system of preferences: Scheme of the European Economic Community: calendar year 1976 - addendum" (TD/B/C.5/17/Add.22).

/4. Protectionism

4. Protectionism and conditions of access to the EEC market

Obstacles to free access for Latin American exports to the markets of the Community occur in various form, varying from one group of products to another.

The special preferences described above affect access for Latin American tropical products to the EEC markets. It is largely these products which the Lomé Convention countries and others enjoying special EEC preferences are exporting in competition with Latin America. Products originating from Latin America, on the other hand, are to a large extent subject to rather high tariffs under the most-favoured-nation formula. The Generalized System of Preferences is usually not applied to primary products, and grants only reduced preferential margins to semi-manufactures. Of the tropical primary products which feature among the most important Latin American exports, bananas, coffee, cocoa and tobacco pay rather high tariffs, compared with the exemption from import duties granted to the ACP countries. Furthermore, they are generally progressive as the degree of processing of the product increases. For example, coffee beans pay 5.4%, roasted coffee 15% and soluble coffee 18%. And much higher rates apply to processed products, such as cigars.

A small number of tropical products pay no duty or very low duties (peanuts, copra, timber). In these cases Latin America would suffer no discrimination but for the derived effects of STABEX, which may lead the Community to prefer to buy such products from the ACP countries, thus avoiding the compensatory payments stipulated in the case of a fall in the revenues of such countries.

On the other hand, various products, principally temperate-zone products, which are of great importance among Latin American exports - beef, wheat, maize and sugar - are subject to the Community's Common Agricultural Policy. This policy protects Community farmers by restricting the import of such products by means of a complex system of quantitative restrictions and levies of different kinds which tend to cancel the comparative advantages

/which producers

which producers from other regions might have. The Common Agricultural Policy has contributed to increasing self-sufficiency in such products within the Common Market, and to competition affecting third world producers in international markets which receive the surplus production generated in the Community as a result of the price support policy.

In recent years the agricultural surpluses of the Community have reached very large proportions (one million tons of stocks of powdered milk, and 300,000 tons of butter), while the cost of the support policy for the prices of milk products in 1976 was estimated at 2 billion units of account.

As was said earlier, conditions of access for Latin American exports of non-agricultural raw materials are theoretically good, since the tariffs applied to them are low or zero. However, some of these products (iron ore, leather, cotton, sisal and abacá) are subject to the STABEX, which, as in the case of certain tropical products, the EEC has more interest in importing from the ACP countries in order to avoid the countervailing duties laid down by this system. With regard to manufactures, the restrictions on free access imposed by the system of quotas and other ceilings, and the treatment of those products referred to as "sensitive" and "semi-sensitive", has already been explained in connexion with the Generalized System of Preferences.

A review of the conditions of access to the EEC market made by CEPAL in 1978 has shown that this market is to a large extent more strongly protected than that of the United States or Japan; apart from the structure of the tariff, the non-tariff measures have been designed in such a way that despite the wide range of items contained in the present round of multilateral trade negotiations, it is not within the competence of GATT to negotiate them, thus making it impossible for them to be catalogued and identified.66/ The study identifies 23 categories of non-tariff measures, and shows that nearly all of them (including many which are not known in the United States or Japan) are applied by the Community. These measures ensure that, despite the fact that duties are kept at low or zero levels, the effects of the protection are not lost. It should be noted that 172 tariff positions were analysed in this document, of which 156 were found to be covered by non-tariff restrictions.

66/ "El nuevo proteccionismo comercial y el desarrollo de América Latina", (E/CEPAL/L.184), October 1978, p. 59

The Community is very representative of the new protectionism which defends a series of products of great interest to Latin America. Although the new trends are not explicitly directed against the region, they affect it more severely than other developing areas. Specifically, the main immediate damage which this policy causes in Latin America is taking place in the textile, clothing manufacture, footwear and leather manufactures sectors. Exports to the EEC of other products subject to restrictions (steel, metal manufactures and machinery, electronic and transport materials) have still not become very important, but they are in the line of the natural expansion of Latin American exports.

As has been the case with the United States, the relief from protectionism which the Latin American countries hoped to obtain under the multilateral trade negotiations has not materialized. Taking into account the undermining of the Generalized System of Preferences by the concessions offered in these negotiations, the net gain for the products contained in chapters 1 to 24 of the Customs Co-operative Council Nomenclature (ex-BTN) in a reduction of 2 percentage units in the average weighted rate, which is equivalent to a reduction in the tariffs obtained of 35.7 million dollars.67/ This figure is only a small fraction of the Latin American exports affected by the proposed reductions. For the products contained in chapters 25 to 99 the results have been similar, with net gains of only 0.8 percentage unit in the rate, and of 13.1 million dollars in the total tariffs.68/

67/ The average weighted rate of the tariff for the products in chapters 1 to 24 dropped from 64%. This difference of 2 percentage units, multiplied by the value of Latin American exports of these products in 1976, give the total value by which the duties collected are reduced as a result of the negotiation.

68/ E/CEPAL/L.184, *op.cit.*, p. 85.

/C. ECONOMIC

C. ECONOMIC RELATIONS WITH THE EUROPEAN COUNTRIES MEMBERS OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (CMEA)

1. Growth of trade

The trade relations of the Latin American countries with the European member countries of CMEA have already become very important, because of the number of Latin American countries taking part, the volume and value of the trade involved and also certain qualitative changes which these relations have undergone in the course of the years. It may be observed from an examination of table 27 that the exports of several Latin American countries to European member countries of CMEA recorded relatively high growth rates between 1973 and 1977: 225% in Argentina and 152% in Brazil, the two countries with the highest proportion of exports to CMEA; 219% in Colombia and 113% in Peru - lower values, but also illustrative of a vigorous growth rate; and lastly, 478% in Ecuador, also starting from relatively low values. Although the number of Latin American countries exporting to the European member countries of CMEA has increased significantly, however, the mass of these exports (excluding those from Cuba) continue to be concentrated in a very few countries: in 1960, Argentina and Brazil supplied 91% of these exports, and in 1977 the same two countries continued to generate 75% (still excluding Cuba's exports). The same table shows that exports by Peru and Colombia have also achieved values of some significance. Those of the other two countries - Mexico and Uruguay - are smaller and have been subject to large-scale fluctuations, while those of Costa Rica - also of modest value - have increased notably in the last two years. The high degree of concentration of exports by countries of origin is also repeated in the countries of destination: in fact, two of them - the Soviet Union and Poland - absorbed nearly two thirds of Latin American exports (excluding Cuba's exports) to CMEA. If the evolution of Latin American trade with the member countries of CMEA is considered, it should be recalled that as from 1960 Cuba began to engage in active trade with these countries, partly as means of mitigating the effects of blockade which some countries imposed on it as from 1961, and also partly as a result of the co-operation

/Table 27

Table 27

LATIN AMERICA: TRADE WITH THE EUROPEAN MEMBER COUNTRIES OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (CMEA), 1960-1977

(Millions of dollars)

Year	Argentina	Brazil	Colombia	Costa Rica	Ecuador	Mexico	Peru	Uruguay	Total 8 countries	Cuba	Total Latin America
						Imports					
1960	59.6	71.3	2.2	-	-	1.0	0.1	8.8	143.0	114.8	258.8
1965	112.5	89.0	11.5	-	-	58.6	16.3	9.9	297.8	395.0	698.0
1970	73.7	123.0	33.6	6.7	8.4	3.7	32.9	28.4	310.4	628.8	945.8
1971	68.4	130.0	24.6	3.5	14.1	5.4	53.7	9.9	309.6	412.9	736.9
1972	59.0	213.0	20.4	5.1	13.1	3.8	46.8	16.0	377.2	330.2	744.2
1973	134.8	340.0	35.9	9.7	12.2	7.9	68.1	37.5	646.1	650.4	1 359.4
1974	280.7	396.0	43.4	3.2	22.8	15.0	112.9	40.3	914.3	1 233.9	2 237.9
1975	319.3	759.0	33.4	2.9	31.5	9.8	202.0	29.0	1 386.9	2 193.6	3 658.6
1976	289.7	896.0	71.2	8.8	46.0	21.4	131.7	17.9	1 482.7	...	...
1977	437.9	858.0	114.6	28.0	70.6	9.1	145.0	38.3	1 701.5	...	...
						Exports					
1960	48.5	79.6	2.1	-	-	2.6	1.3	17.0	151.7	93.3	250.3
1965	31.1	63.8	10.7	-	-	4.9	2.1	2.1	114.7	500.0	626.0
1970	17.5	58.0	17.1	1.0	4.7	6.2	3.8	8.5	116.8	775.3	920.3
1971	20.9	109.0	17.5	1.1	5.5	7.2	3.5	4.7	169.4	809.8	996.8
1972	21.5	92.0	11.0	1.3	5.1	6.8	5.5	2.9	146.1	843.8	1 017.8
1973	26.8	98.0	14.4	3.2	5.6	9.3	15.5	5.6	178.4	970.0	1 217.0
1974	57.6	186.0	25.2	4.2	8.8	12.5	24.3	5.3	323.9	1 377.0	1 753.0
1975	100.3	225.0	15.8	5.9	11.2	20.8	30.0	8.5	417.5	1 717.3	2 175.3
1976	82.6	268.0	24.6	5.2	7.8	43.1	29.3	10.2	470.8	...	...
1977	80.0	253.0	33.2	5.9	9.9	19.0	28.7	21.0	450.7	...	...

Source: International Monetary Fund, Direction of Trade. The data on Cuba are from official Cuban sources. The total for Latin America includes other countries not listed.

/agreements which

agreements which Cuba signed with the CMEA countries as from the beginning of the 1960s. As from 1965, the value of Cuban exports to the European CMEA countries has generally exceeded - and in some years has more than surpassed - the value of the exports of the rest of the Latin American countries to the same destination (see table 27).

The evolution of imports from the European member countries of CMEA shows somewhat different features. Firstly, Cuban imports achieved a rapid and sustained rate which brought them in 1975 to an amount slightly over three times that of 1965. Imports from the rest of the Latin American countries quadrupled 1965 imports. The figures in table 27 show clearly that the growth of the imports of the Latin American countries as a whole (excluding Cuba) has been very slow, and that between 1960 and 1972 the annual variations were of little importance; they began to grow at a higher rate as from 1973 and up to 1976, but the following year they again underwent a slight decline. The large share of Argentina and Brazil may be seen heretoo: it accounted for 85% of total Latin American imports (excluding Cuba) from CMEA in 1960 and 74% in 1977. It is however, interesting to note that a much larger number of Latin American countries participates in the import trade from CMEA countries than in exports to that area, although the individual values are relatively small. For example, Barbados, Guatemala, Haiti, Honduras, Panama, Paraguay, the Dominican Republic, Venezuela and Trinidad and Tobago - countries which have very small exports to the European member countries of CMEA - do record imports from these countries, mainly in terms of products from Czechoslovakia and the German Democratic Republic.

The breakdown of the trade of Latin American countries with the European member countries of CMEA, particularly exports, shows a high level of concentration in primary goods, in countries like Argentina, Brazil and Colombia, where the export of manufactures to other markets is of some importance. Mexico's exports, however, are more diversified, since slightly less than half is made up of primary goods, slightly over 40% of semi-manufactures and the rest is distributed among manufactures; however, as can be seen in table 27, the total sum of Mexican exports to the European member

/countries of

countries of CMEA accounts for relatively modest figures with large annual fluctuations. The predominance of primary goods in the exports of all the other Latin American countries would seem to indicate that it has not been possible to achieve the objectives set out in the majority of the trade agreements existing between Latin American countries and European member countries of CMEA, aimed at promoting the export of manufactures to the latter. The breakdown of imports from CMEA shows no particular features; capital goods and other manufactures predominate in them.

The different growth rates of exports and imports from and to the European member countries of CMEA in each of the Latin American countries, and the differences in the tendency and magnitude of the trade balance of each does not allow of useful generalizations in this field.

The surplus of the overall trade balance of Latin America is mainly represented by two countries. In the others it reflects the maturing periods which takes place between the moment at which the co-operation agreements are signed and the date when implementation of the agreed project begins.

As was observed when imports were discussed, a certain number of Latin American countries import from European member countries of CMEA without exporting to them, with the result that traditionally there is a deficit in their trade balance with these countries. Consequently, the problem of the trade balance is very different for the different countries depending on the breakdown of their exports, agreed systems of payment (compensation, convertible currencies or a combination of these), and the nature of the commitments acquired in economic co-operation agreements which involve projects with relatively long periods of implementation. Some of these aspects are examined briefly below.

2. The contractual basis

The contractual basis - the set of conventions and greements containing general principles and conditions - and the specific modalities of mutual relations are already quite well developed. To date the countries of the two regions have signed about 200 agreements covering trade, payments and economic, technical and scientific collaboration and co-operation, which

/form a

form a basis on which to develop trade and other forms of long-term economic relations. Under these agreements the countries of the two regions grant each other most-favoured-nation treatment and at the same time the CMEA member countries have unilaterally granted the Latin American countries concessions within the generalized system of preferences, and other facilities. The contracting parties have also provided for exceptions to the most-favoured-nation clause, bearing in mind participation in economic integration schemes. Some countries have agreed to develop direct mutual trade, thus avoiding or diminishing trade through intermediaries, taking as a price basis world market prices at the time the contracts are signed. With regard to the form of payment, as was pointed out above some countries have agreed to undertake payment in convertible currencies, whereas others use clearing accounts.

With a view to creating suitable conditions for the development of economic relations, an effort is being made to achieve greater collaboration between the institutional systems of the countries of the two regions.

In developing their economic relations, the countries of Latin America and the CMEA member countries laid the basis for greater collaboration and co-operation among the national bodies taking part in trade, the joint construction of plants, technological collaboration, etc. The problem of participatory agents, in the case of economic relations among countries with different socio-economic and political régimes, has been difficult but the main difficulties have gradually been solved. The national institutions participating as agents are public, private, semi-private, national and binational bodies.

The progress made in economic relations between Latin American countries and CMEA member countries both in the creation of a contractual basis and in collaboration among institutions opens up more favourable prospects for the future. In past decades many prejudices have been overcome and greater mutual understanding of the needs and possibilities of each contracting party has been achieved.

Nevertheless, difficulties and problems still exist. Among the problems calling for further study are the disparity between the opportunities provided by the contractual basis and the use actually made of them; the delays in ratification of agreements; and the need to strengthen and improve collaboration among the national institutions planning, orienting, directing or supporting economic relations between the countries.

To conclude, it may said that the development of economic relations between the Latin American countries and the CMEA member countries will depend both on factors of a material or economic nature and on political factors.

The contractual basis on which relations between the Latin American countries, excluding Cuba, and the European member countries of CMEA have been developing has undergone important changes in some respects whereas in others they have maintained their characteristic features. The early trade agreements signed with Latin American countries in the mid-1950s, using the clearing system, were signed with Argentina and Colombia and subsequently with Brazil. Before the end of the decade, Argentina and the CMEA countries replaced these compensation agreements with others which provided for payment in freely-convertible currencies. Brazil maintained trade relations with Czechoslovakia on the basis of a system of payments in convertible currency, and with the other CMEA countries on the basis of bilateral clearing agreements, but as of May 1969 trade with the Soviet Union (which accounts for the greatest volume) is in convertible currency. According to unofficial information, negotiations are underway for the use of convertible currency in bilateral agreements with other CMEA countries. In Colombia the experience was somewhat similar: the clearing agreements with the Soviet Union and Czechoslovakia were replaced by agreements which included systems of payment in convertible currencies, but compensation agreements were retained with Bulgaria, Hungary, Poland, Romania and the German Democratic Republic. However, Colombian trade with the European countries of CMEA which is governed by clearing agreements is greater than the trade with the countries operating in convertible currencies.

It is clear, then, that the Latin American countries have a clear preference for the use of convertible currency arrangements, and this is one of the major changes taking place in the process of strengthening and expanding economic relations between countries of the two areas. The other

/major change

major change concerns the nature itself of the agreements, which were at first strictly limited to the field of trade relations, but more recently have become broader and cover, in addition to trade questions, co-operation objectives in different fields of economic and social development. The first of these changes, the gradual advance towards systems of payments in convertible currencies, is unquestionably very important, but it would be an exaggerated simplification to believe that it would suffice to maintain and broaden trade relations and economic co-operation between countries of the two areas. In the first place, even in the agreements stipulating the use of convertible currencies, the European countries of CMEA have stressed the need to maintain balanced trade flows, although this concept of equilibrium should be understood as a medium-term objective. Secondly, it has been argued that if payment of trade balances in convertible currencies was to become the general rule, there might be a long-term decline in purchases by European CMEA member countries from the developing countries,69/ especially when such exports are products which may be considered non-essential.

In the case of Latin America, the clearing agreements between Brazil and Colombia and some European countries of CMEA have been the subject of controversy, since one school of thought believes that they represent credits granted to the CMEA countries, i.e., financing of their imports, while another school argues that they represent a means of promoting exports which it would otherwise be difficult to secure. Along these lines, the problem of the use of the surplus balances generated by clearing agreements should not be solved by attempting to do away with the generation of surplus balances, but rather by promoting their use for the purchase of goods in the markets of the countries where they originate, or if that is either impossible or undesirable, by promoting agreements which facilitate the

69/ See "Review of the present state of payments between developing countries and socialist countries of Eastern Europe", Report by the Secretary General of UNCTAD (TD/B/AC.22/2), 4 October 1977, p. 8.

/transfer of

transfer of the positive balances to other CMEA member countries. In any case, it would seem that this is a decision which cannot be based purely on considerations of the profitability of financial cost of maintaining balances in clearing accounts, since other elements should be taken into account, such as whether those exports allow stockpiled surpluses to be sold, or the use of partially idle material and human resources, or new investment to increase installed production capacity, generating economies of scale. In sum, what should be determined is whether compensatory agreements constitute means of creating new markets (in which case the problem of the use of surplus balances should not be considered purely from the financial standpoint) or whether they only serve to substitute markets, in which case they should be viewed in another light.

The problem of systems of payment has been one of the most difficult to solve in the economic relations between European countries of CMEA and the developing countries. In their Joint Statement at the Fourth Session of UNCTAD in 1976, they declared their willingness to reinforce the multilateral aspects of trade and economic relations in particular by extending the practice of multilateral settlements on the basis of the transferable rouble (and in other currencies, by common agreement with the countries concerned).70/ The coexistence of clearing-account and convertible-currency agreements in the trade between Latin American and CMEA countries illustrates this situation. However, to give greater practical application to the Declaration, the countries of both regions must try to make their medium and long-term economic interests converge, an area which has not yet been sufficiently explored.

The developing countries have repeated in various forums and on a number of occasions their interest in establishing formal arrangements for the creation of a multilateral system of payments with the European countries of CMEA, and to that end they adopted, inter alia, UNCTAD resolution 95 (IV) which requested the Secretary General of UNCTAD to convene a group of experts to study a system of multilateral payments between CMEA countries and developing countries. The work of this group of

70/ Document TD/211, 28 May 1976.

/intergovernmental experts,

intergovernmental experts, which is of great interest in view of the different problems to be solved or considered when establishing a multilateral system of payments between developing countries and CMEA member countries, did not lead to consensus on a multilateral system of payments; it concluded by suggesting various processes for approaching such a system, such as the combination of payments in clearing accounts and in convertible currencies to varying degrees, the use of joint commissions as a mechanism for discussing and finding appropriate solutions in the field of payments, and the introduction of more flexible methods in present payments systems by increasing technical credits, extension of the periods for settling balances and the use of special accounts in oconvertible currencies.71/

The other major change mentioned above was the gradual progress observed in the types of agreements regulating relations between countries of the two areas, which are no longer limited to the narrow field of trade but also cover various areas of economic co-operation. Argentina and Peru are the two Latin American countries (excluding Cuba) which have signed the greatest number of economic co-operation agreements with European countries of CMEA, followed by Colombia and Mexico. Obviously, co-operation agreements only provide the institutional framework within which the programmes and projects enbodying the co-operation in different fields must subsequently be defined. Thus there is a relatively large gap between the aims and objectives set forth in the co-operation agreements and the practical results achieved.

It is impossible to evaluate these results here, partly because they do not lend themselves to generalization and partly because the projects are to materialize and be put into effect in the final three of four years, and thus the majority of them are still in the stage of execution. In order to show the breadth of the CMEA countries' conception of co-operation,

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71/ See "Report of the Intergovernmental Group of Experts to study a multilateral system of payments between socialist countries of Eastern Europe and developing countries", document TD/B/683, 14 December 1977.

mention may be made of some of the more important projects they have signed with Argentina and Peru. With Argentina, the major projects are in the energy sector (thermal electricity and hydroelectricity), mining (coal and petroleum) and transportation (supply of railway cars). At the end of 1978 the Government of the Republic of Argentina announced that it had awarded the Soviet Union the contract for the final design of the Middle Parana hydroelectric project, involving two power stations with a total capacity of 5,700 megawatts. With Peru, agreed project include the Paita fisheries complex, the expansion of the Cañon del Pato hydroelectric power-station, the Olmos irrigation project, the exploitation of the Antamina copper deposits and others in the fields of education and health.

The evaluation of the economic relations between Latin America and the member countries of CMEA from the standpoint of the volumes of purchases and sales, construction costs, structure of trade in goods and technical assistance provides a limited view. In many cases short-term factors have had a strong effect, causing abrupt changes reflecting the influence of individual cases rather than long-term trends. A fuller view is gained from the analysis of the contractual basis and of the collaboration among the institutions of the two areas, which, together with economic considerations, establish the conditions for long-term economic relations.

/Chapter VII

Chapter VII

TRANSNATIONAL CORPORATIONS IN THE PRESENT STAGE OF LATIN AMERICAN DEVELOPMENT

1. Expansion and common concerns

The internationalization of the Latin American economies through foreign investment and technology has continued in recent years. Foreign enterprises are particularly important in the dynamic sectors of manufacturing industry - engineering and metal products and chemicals - financial activities, marketing and processing of commodities and exports of manufactures. This may be illustrated by the following CEPAL estimates: 72/ direct accumulated investment 73/ by the industrialized OECD countries in Latin America and the Caribbean amounted at the end of 1975 to 37,600 million dollars, practically the equivalent of total Latin American exports in that year; the share of the transnational corporations in the aggregate gross domestic product of the region in 1975 was only 7%, but twice as much in the manufacturing product. Sales of manufactures by United States transnational enterprises in the region grew at an annual average rate of 20.5% during the first half of the 1970s, being concentrated in chemicals, machinery and equipment, including electrical machinery, and transport equipment (60% of total sales of manufactures in 1974-1975); manufacturing exports of those enterprises increased at a rate of 23% per year during that period, and accumulated United States investment in the financial sector amounted to

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72/ For further details, see CEPAL, "Trends and changes in the investment of transnational corporations in the developing countries and particularly in Latin America", Economic Survey of Latin America, 1977, vol. I.

73/ It is assumed by definition that direct foreign investment corresponds more or less to investment by transnational corporations. Furthermore, in the case of the United States more than 70% of total direct foreign investment is carried out by only 250 to 300 of them. For the United Kingdom, over 80% is controlled by 165 transnational enterprises and for the Federal Republic of Germany more than 70% is accounted for by 82 corporations (see United Nations, Multinational corporations in world development, ST/ECA/190, New York, 1973).

/some 4.6 billion

some 4.6 billion dollars in 1975, an annual increase of 55% between 1967 and 1975. Partial data confirm the steady expansion of transnational enterprises in the second half of the 1970s: direct investment by United States enterprises in the region increased in 1977 by 15.9%, compared with 8.0% in 1976 and 11.3% in 1971-1975.74/ 75/

The interest of the transnational enterprises in the Latin American market arouses a variety of reactions among the countries of the region, but in most cases two basic considerations prevail: in the first place, the contribution which they can make, and which many Latin American countries wish to receive, in the fields of technology, capital, access to external markets and business and plant management; secondly, the desire to avoid any interference by foreign investment in domestic policy matters, to ensure that investment is in keeping with each country's development strategy and policy guidelines, and to see to it that their modus operandi is the most suitable for local needs and circumstances.

These fundamental concerns are reflected in the common principles upheld by the developing countries with respect to the preparation of an international code of conduct for transnational corporations. They were also confirmed in the Guatemala Appraisal which established the need for transnational enterprises to comply with the laws and regulations and submit to the exclusive jurisdiction of the host country, refrain from any interference in domestic matters, international relations and external

74/ See United States Department of Commerce, Survey of Current Business, August 1978, volume 58, N° 88.

75/ The increased value of direct investment in recent years mentioned in this paragraph has been affected by the upsurge in world inflation and particularly the higher prices of capital goods and services which are imported as part of foreign investment. For example, the prices of industrial goods in the United States grew at an annual average rate of 9.8% between 1972 and 1977, with increases of 6.0% in 1975, 6.4% in 1976 and 6.7% in 1977, i.e., lower than at the beginning of the period. Furthermore, it may be assumed that the purchasing power and the effect of this investment on Latin American economies have not decreased as a result of local inflation which is reflected to a greater or lesser extent in foreign currency becoming more expensive.

policy, respect national sovereignty over natural and economic resources, comply with national policies, objectives and priorities, report on their activities, make net contributions of financial resources, contribute to local scientific and technological capacity and, finally, refrain from restrictive trade practices.76/

The Commission on Transnational Corporations, the governmental body of the Economic and Social Council in this field,77/ at its fourth session in Vienna in May 1978 considered the results of various meetings of the Intergovernmental Working Group on a Code of Conduct 78/ and decided that the Group's mandate should be extended in order to decide on a number of important pending questions, such as the definitions and legal nature of the Code and the obligations of the parties involved.79/

Obviously, the preparation and international acceptance of a code of conduct for transnational corporations is a complex and difficult process, related to the establishment of the New International Economic Order and the objectives pursued by the developing countries in the North-South dialogue. Without neglecting the prime importance of intergovernmental negotiations on this subject, it should be borne in mind that the capacity and courses of action of Latin American governments *vis-à-vis* the transnational enterprises are related to the real conditions and experience of the different countries, from the standpoint of the links between the two sides and the elements of bargaining power and government policies.80/ Taking into account the great diversity of national and sectoral situations in Latin America

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76/ See the *Guatemala Appraisal*, adopted by CEPAL resolution 362 (XVII), in the series *Cuadernos de la CEPAL*, N° 17, 1977, paragraphs 169 to 173.

77/ In 1978 the Latin American and Caribbean members of the Commission were: Argentina, Brazil, Colombia, Cuba, Jamaica, Panama, Peru, Suriname and Venezuela.

78/ The Working Group has the same membership as the Commission on Transnational Corporations.

79/ See Commission on Transnational Corporations, Report of the fourth session, 16-26 May 1978, Supplement N° 12, Part III, paragraphs 12-15.

80/ See the "Guatemala Appraisal" *op. cit.*, paragraphs 172 and 173.

/and the

and the Caribbean, some new aspects of their experience are singled out below; these represent different options for relations between the transnational corporations and the economies of the region.

2. Towards new modalities in the links between transnational enterprises and the economies of the region

There follows a study of some aspects of the increasing adaptation of transnational corporations to the present level of development of the countries of the region, stressing the concerns and policies linked with growing, balanced integration in world trade, national technological and scientific development, and the greater participation of local agents in the activities heavily dominated by the transnational corporations.

One of the aspects of greatest interest to the countries of the region is the fact that the transnational corporations operating in manufacturing activities in the region often have a negative effect on the balance of payments. These enterprises influence imports by promoting the development of sectors with a high content of imported technology and imported inputs and goods. There are aslo the effects of the way in which prices are fixed in intra-company trade, which may have an adverse effect, although it is sometimes difficult to quantify the impact of this factor.81/ Furthermore the financing provided by the corporations as direct investment in the strict sense is of limited importance, since increasingly they have taken up obtaining funds in the developing countries in which they invest, as well as in international financial markets in collaboration with those countries. Thus the financial contribution they make is limited in comparison with the payments abroad generated in the form of profits, interest, royalties and provision of technical assistance. The transnational corporations have not only generally been very reluctant to export but in some cases they have applied restrictive practices in this connexion.82/ Consequently, many

81/ See for example UNCTAD Dominant positions of market powers of transnational corporations: use of the transfer pricing mechanism (TD/B/C.2/167), November 1977 and Intrafirm Transactions and their Impact on Trade and Development, UNCTAD, Seminar Programme, Report Series N° 2, May 1978.

82/ See for example UNCTAD Recent Development in the control of restrictive business practices in Latin America (CTD/B/C.2/AC.6/17), June 1978.

/Latin American

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Latin American countries have begun to wonder whether the transnational enterprises are contributing to increase their balance-of-payments deficit. For example, studies by the Ministry of Planning of Brazil have shown that many of the transnational enterprises in that country have trade and payments deficits, and this heavily influences the country's total deficits in view of the large volume of their activities.83/ Polices are being adopted with increasing frequency to encourage trasnational enterprises to export some of their output and to use increasing amounts of local (or possible Latin American) inputs and goods. In a number of countries, agreements are made with the transnational enterprises regarding minimum export levels, and the incentives and advantages granted by Governments are linked to the increase in the national content of the output of the enterprises. For example, the Port Programme 513 of Brazil calls for a minimum of 85% national content, and certificates of origin, based on a painstaking analysis, are a precondition for access to local credit, sales to government bodies, etc. Finally various governments of the region control and regulate the transfer prices of goods and also of services and technology, and the remittance of profits and capital through exchange mechanisms. They also regulate the use of local credit, in some cases imposing the condition that all or most of the financing of transnational enterprises should come from outside sources. The common rules of the Andean Pact countries are an outstanding although by no means unique case in the region of policies aimed at balance-of-payments equilibrium.

The countries of the region are likewise concerned to develop national capacity for technological innovation and the capacity to penetrate international markets so as not to depend unilaterally on the transnationals in these fields. To this end, an effort is being made to ensure that direct foreign investment is not present as a package which cannot be broken down, and to negotiate separately those aspects which interest each country; for this purpose, technology is purchased without the foreign enterprises owning the plant in the country; technological components are purchased separately

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83/ Ministerio do Planejamento, Subsecretaría de Cooperaçao Econômica e Técnica Internacional, Balanço de Pagamentos de 115 Empresas Multinacionais, 1974.

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from different enterprises; negotiations are undertaken for the marketing abroad of models, parts or components produced by national enterprises with the support of the distribution network of the transnational corporations; and the transnationals are induced to enter into partnership with local public or private capital, and even with a minority foreign holding, instead of having total ownership of the installations. Although the degree of control is not necessarily proportional to the share in the firm's capital and decision-making machinery, it does at least allow national interests to become increasingly acquainted with aspects of production, marketing and financing, thus increasing local decision-making and managerial capacity.

There is a tendency for Latin American countries to play a more active role in their relations with transnational corporations. The new modalities mentioned below are in some cases facilitated by the presence of state enterprises which, with their larger size and economic and financial capacity as well as government support, are usually in a better position than private, medium-sized or small local enterprises to negotiate on an equal footing with the transnationals. This is the case of state enterprises in various countries of the region, particularly those connected with basic export commodities (petroleum and mining) and the steel and petrochemical industries; and they have even set up companies jointly with local and foreign private interests (as will be seen below).

The creation of multinational enterprises by various countries of the region also helps to reduce the disadvantages of local private enterprise. In 1976, 200 such enterprises were identified, mainly based in Argentina, Colombia, Mexico, Venezuela, Brazil and Peru (80% of the total). These multinational enterprises have operated in almost all the countries of the region.84/ Government bargaining power has also been increased by the competition in some markets of state firms of the socialist countries, as well as of medium-sized and small firms of the industrialized market-economy countries.

84/ For further details see BID/INTAL, Las empresas conjuntas Latinoamericanas, Buenos Aires, 1977.

/Naturally the

Naturally the use made of these new tendencies depends on the firmness with which each government defines and applies clear policies which take the new opportunities into account. Recent experience in Latin America and other areas of the world indicates than when circumstances demand, the transnational corporations possess a significant degree of flexibility and adaptation of their operations to local conditions. When their interests in the market of a given country or group of countries is very great, and they face a government exercising its bargaining power reasonably and firmly, they tend to alter significantly their traditional forms of operation, accepting conditions more favourable to the host countries in order to gain entry. Symptoms of this are the recent agreements between transnational corporations and socialist countries, and the appearence of a new modus operandi of the transnational corporations. The partial information available seems to indicate that corporations wishing to enter or expand in the market of a country or region tend to adopt a more flexible attitude and offer more favourable conditions in order to be able to penetrate oligopolistic markets, and in so doing usually push the already established corporations into likewise improving their operating conditions in order to face the new competition.

New forms of co-operation have arisen from the negotiations between transnational corporations and developing countries, the major ones being -

(i) co-production and specialization agreements;

(ii) sub-contracting;

(iii) co-operation arrangements limited to technology and marketing; and

(iv) joint ventures between foreign and national firms.

These will be discussed briefly in the following paragraphs.

(a) Co-production and specialization agreements

These are undertaken between plants located in developed countries and plants situated in developing countries. Under co-production agreements, a plant of a foreign enterprise located abroad and a public or private national or regional enterprise, or a subsidiary of the foreign enterprise located in a developing country, share out the components or types and models of a specific good, each producing part and marketing it in such a way that

/exports are

exports are made by both the developed and the developing country. In the case of specialization, which is similar to the above arrangements, the developing country becomes responsible for distributing at the world level the production of a model of the finished good rather than parts or components.

These arrangements are different from what usually occurred in Latin America during the import-substitution process, when the enterprise or subsidiary of the developing country produced only for the domestic market. In the case of co-production and specialization, the developing country exports part of the goods produced while at the same time importing others.

Arrangements like these have recently been made by FIAT and VOLKSWAGEN with Brazil, NISSAN with Mexico and PEUGEOT with Argentina. FIAT had to agree to undertake exports of parts and components as a requirement for producing in Brazil; NISSAN produces parts and components in Mexico which are sent to Japan, The VOLKSWAGEN "beetle" and PEUGEOT "404" are still being produced for export in Brazil and Argentina, respectively, after ceasing to be produced in the countries of origin, in view of continued world demand for them. These arrangements are positive; although they do not eliminate the countries' dependence on the transnational corporations in technology and marketing and are not a substitute for the creation of greater local capacity in those fields or for strategies for the export of advanced manufactures, they do represent a step in that direction.

(b) Sub-contracting

Under a sub-contracting agreement, a developing country firm undertakes on behalf of a developed country some stages of the production of a good, which is then transferred from the developed to the developing country at a certain stage of production to incorporate the stage in question and is then reexported. The stages located in the developing country usually make intensive use of unskilled labour. The technical specifications are fixed by the foreign enterprise, which also supplies technical assistance and equipment. The most important example in Latin America of such arrangements are the "maquila" industries in Mexico, involving clothing, electronics and other types of industry with a value added in the country of 468 million dollars in 1975 and gross exports of 1,020.6 million dollars in the same year.

/These operations

These operations have been facilitated by tariff items 806-30 807-00 of the United States, whose basic for the customs tariff evaluation is fixed as the value added abroad rather than the total value of the import, which makes it possible to displace partial activities of some production processes and make use of cheap labour.

Sub-contracting bears some resemblance to co-production and specialization, but is different in that it is limited to isolated processes and does not involve the complete production of final products or parts and components. The advantages for countries with surplus labour are clear, since it generates employment and foreign exchange. However, such activities located in developing countries remain very vulnerable from the standpoint of the foreign corporation, which may at any moment decide to transfer them to another country. In addition, the investment in the developing countries is generally minimal, and in the great majority of cases only relatively unskilled labour is employed, at low wages. The effects in terms of the diffusion of technology and the promotion of other industries - i.e., external economies - are practically non-existent, since the semi-processed goods employed are totally imported from a developed country, for the sole purpose of building into them a labour-intensive process and then reexporting them. These limitations have meant that in Mexico an attempt is being made to ensure that these industries acquire other inputs in the country, and are not only located on the border, where they were initially set up (as twins of the parent companies located on the other side of the border), but in other regions of the country as well, so as to integrate them more successfully with the rest of local manufacturing industry.

(c) Co-operation agreements limited to technology and marketing

These arrangements are used to break down the direct investment "package" so that the developing country can acquire only the elements it does not possess, thus supporting efforts to create greater local capacity for decision and action in industry and technology. Technology itself can be broken down into its various parts or components (design, construction and operation of the plant, improvement of products and production processes,

/development of

development of new products, research, etc.), and an effort is made to acquire each of these from the source of supply which is cheapest and best suited to local conditions, with a view to making better use of local production resources, narrowing the technological gap and producing goods better adapted to the specific use which will be made of them in the markets to which they are destined. The relatively less developed countries perhaps lean towards agreements under which the foreign firm sells the turn-key plant to the local public or private enterprise, initially trains technical personnel and a certain proportion of skilled workers, and provides advisory services during the first years of operation of the plant, until the latter can gradually do without its support. To diversify its sources of supply, the developing country must have a sound knowledge of the alternative sources of the desired elements and have the ability to analyse the different options in the light of its own needs, and to absorb, handle and disseminate the different types of technology.

Marketing agreements are less frequent; they are used in some cases, for example, between transnational enterprises and socialist countries, and are beginning to appear in Latin America. This co-operation limited to specific areas also helps to avoid or reduce certain drawbacks identified in the intra-firm transactions common in Latin America and throughout the world, through which the exports of the transnational enterprises are carried out between affiliates of the same enterprise or between them and the parent company. When the same company is both purchaser and seller, it is hard to verify that the prices established truly correspond to the market value of the good, and that the developing country is really obtaining the income corresponding to the value added by the activities of the enterprises in its territory and is paying proper prices for the inputs imported by the enterprise.

Some recent cases illustrate new forms of transfer of technology and marketing of goods. In Brazil there are examples in petrochemicals, computers and aircraft manufacture. In one case of the design and manufacture of civilian aircraft, the foreign enterprise provides technical assistance

/for the

for the production of parts, assembly, quality control, etc., and has the right to export; the Brazilian state enterprise can in turn export, possibly using the foreign firm's distribution network. In synthetic fibres, Mexico encouraged competition among foreign enterprises of different origins and in the choosing among them took into account not only the provision of technical assistance during the initial and future stages, but also the possibility of reserving the right to acquire the different technological components separately. In 1978, Ecuador and Venezuela imposed the following conditions on the transnationals competing for markets allocated under the motor-vehicle sectoral programme: the vehicles and their components must comply with United States standards on pollution, fuel consumption and quality control; no payment shall be made for patents and licences, but only for technical assistance and material costs, and training will be undertaken so that production can begin with a minimum of 50% of local technical and administrative staff, to reach 90% after five years of operation. These conditions will affect not only exports within the Andean Pact but also exports to third markets, and targets have been fixed for the future.

(d) Agreements between foreign and local enterprises for joint ventures

These agreements tend to cover capital, technology and managerial capacity provided by one or more foreign enterprises and even from different developed countries, combined with local elements from the developing country. Agreements to establish joint companies are frequent between transnational corporations and governments between transnationals and state enterprises, and between transnationals and national or regional private enterprises. For example, the Brazilian public enterprise PETROQUISA set up COPENE (Petroquímica Nordeste), a firm combining local public and private capital with capital from a number of transnational enterprises from different industrialized countries, which also contributed contracts for licensing, management, etc. The advantages for the countries of the region are clear, since they have a real share in the firm's ownership, technology, administration and marketing the training of local managerial staff is promoted and the State has influence over basic areas of development.

/The agreements

The agreements also suits the transnational enterprises, since they are able to share risks with the State, and can use relatively cheaper resources, overcome administrative obstacles because of their direct co-operation with the public sector, etc.

The use of these new kinds of links with transnational corporations described summarily above, largely depends on the political will of the governments and on the elements which make up its bargaining power vis-à-vis the corporations. Some of those elements primarily those connected with local circumstances, are discussed below.

3. Elements in negotiating capacity

(a) The transnational enterprises' interest in the regional market

The negotiating capacity of the countries of the region depends, among other things, on the degree of interest of foreign enterprises in establishing plants there. It is therefore worth examining some of the factors which influence this interest. First of all, it should be noted that in the case of the transnational enterprises of the United States, the United Kingdom, France, the Federal Republic of Germany and Japan, the production of their subsidiaries located in foreign countries in 1971 was 1.75 times greater than the exports of those enterprises from their countries of origin. This indicates that the possibility of expansion, achievement of economies of scale in efforts to create technology, and increased profits, both for the transnationals themselves and for their countries of origin, depend to a very large extent on their possibilities of investing in external markets. In Latin American and the Caribbean, the amount produced with the direct and substantial participation of transnational enterprises is appreciably greater than the exports of those same enterprises to the region.

To this should be added the growing competition between transnational enterprises all over the world and the fact that Latin America absorbs a very high proportion - greater than other areas - of total investment in the developing world and constitutes the most important area for many of the

/most dynamic

most dynamic manufacturing activities. We will now review some factors which constitute solid reasons why the transnational enterprises are so interested in operating in countries of the region.

As already noted, the competition between transnational enterprises of various origins to win markets is increasingly intense and provides the countries of the region with an increasingly wide choice. The changes in the relative economic power of the various industrialized centres which have been observed since the beginning of the 1960s are also reflected in the different rates of expansion of those countries' transnational enterprises. In relative terms, there has been a decline in the previous leadership of the United States, which still dominated world investment in 1967 with a figure of 54% of the total, and at the same time there has also been a decline in the position of the former colonial centres such as the United Kingdom, France, Italy and Belgium, which accounted for over a quarter of world investment (26%) in the same year. By 1976, the United States share had gone down to 48% and that of the second group of countries had gone down even more, to 17%. The winners in this competition have mainly been the Federal Republic of Germany and Japan, which together increased their share from 4 to 14%, and a group of industrialized countries with medium-sized and small markets, such as Canada, the Netherlands, Switzerland and others, which increased their share from 14 to 19%. In Latin America and the Caribbean the share of the United States in direct foreign investment dropped over the five-year period 1971-1975 from 66% to 59%, while that of the European countries and Japan rose from 34 to 41%. As in other cases, however, the regional situation conceals different individual types of evolution. In the period in question, for example, participation by European and Japanese firms increased in Colombia from 17 to 46%, in Venezuela from 27 to 53%, in the CACM from 9 to 27%, and in Brazil from 62 to 67%.85/

85/ Ibid., see United Nations, Transnational Corporations in World Development: a Re-examination (E/C.10/38, March 1978, table III-32). The data on Brazil were prepared on the basis of the Boletín do Banco Central do Brasil, which uses a different methodology from that employed in the CEPAL estimates.

/Moreover, Latin

Moreover, Latin America absorbs a considerable part of world direct private investment. This means that there is a high degree of interest among transnational enterprises in gaining an opportunity to produce in these markets. In 1975, 74% of world direct foreign investment by the industrialized countries was made in industrialized countries themselves and 26% in the developing countries (as against 31% in 1967). Among the latter, the OPEC countries received 6% (with 2% for Venezuela), countries and territories offering tax exemptions, 3%;86/ while finally Argentina, Brazil, Mexico and Peru received 8%. Eleven countries of Latin America and the Caribbean accounted for approximately half the total invested by the industrialized countries in the three developing regions. The importance of Latin America for foreign investors is even more outstanding in manufacturing, although relative data are available only on United States investment in this field: thus, in the same year 1975, 19% of total United States investment all over the world corresponded to the developing countries, among which Latin America and the Caribbean accounted for the very high proportion of 15% of the world total.

Most of the accumulated direct foreign investment in Latin America and the Caribbean at the end of 1975 was in the countries with the biggest markets: 24% in Brazil, 13% in Mexico, 11% in Venezuela and 5% in Argentina, while the two "tax havens", Panama and Bermuda, accounted for 6% and 10%, respectively. The countries of the Andean Pact accounted for 20% in the same year while those of the Central American Common Market received only 2.5%. The English-speaking countries and those of the Caribbean in general acquired growing importance for foreign investors, and their share in the total for developing America (including Bermuda and the other "tax havens" listed above) increased from 17% in 1967 to 26% in 1975.

Despite the stagnation of the world economy in the last few years, the average annual increase in direct investment in the region was much greater in 1972-1975 than in 1968-1971, rising from 6.7 to 12.0%. In the latter of these two periods, the biggest increases were in Brazil (15.6%), Mexico (18.3%),

86/ Panama, the Bahamas, Barbados, Bermuda, the Cayman Islands and the Netherlands Antilles.

/Ecuador (13.6%),

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Ecuador (13.6%), Peru (18.9%), Uruguay (32.9%), Suriname (28.8%), and the Caribbean countries (32.4%).87/

The biggest possibilities of foreign investment in Latin America and the Caribbean at present are in certain sectors of manufacturing and finance. In the first case, this is the result of a long-term evolution whereby the sectors in which foreign direct investment is made in the region have changed considerably, with a big drop in the share of mining, petroleum and services and a big proportional increase in manufacturing. In the case of United States investment, for which data are available, between 1967 and 1975 the share of investments in mining and smelting in the region dropped from 15 to 7% of the total, that of petroleum from 28 to 15%, and that of commerce from 11 to 10%. In contrast, the share of manufacturing in the same period rose from 31 to 39%. The processes of nationalization have had some influence on the drop in foreign investment in mining, petroleum and public services, while investments in manufacturing have been made mainly with a view to producing goods for domestic or sub-regional markets. Only recently have some investments begun to be made in production for export, such as those made by the United States in the so-called making-up industries in Mexicó and in a few other countries of the region which have signed agreements on external marketing with transnational enterprises.

Another very dynamic field for foreign investment is that of finances, whose share in total United States investment in the region came to 21% in 1975, i.e., more than half as much as manufactures (35%). This is connected with the "tax havens" mentioned earlier and with the growing importance of transnational banks in the credits granted to countries of the region; thus, the share of private credit in total financing has almost doubled in the last ten years, increasing from one-third to two-thirds.88/

87/ See footnote 73.

88/ See Carlos Massad and Roberto Zahler, Dos Estudios sobre Endeudamiento Externo, Cuadernos de la CEPAL, Nº 19, 1977.

/The relative

The relative importance of foreign enterprises in comparison with national public and private enterprises is generally greater in sectors of dynamic demand or more modern technology. Thus, out of the 2,800 biggest manufacturing enterprises in Brazil in 1975, foreign enterprises had a particularly high share of total sales in transport equipment (76%), metal products (71%), machinery and accessories (including electrical machinery) (67%), rubber products (66%) and chemicals (62%). In Mexico, according to the 1970 industrial census, the biggest shares of transnational enterprises in gross production were in the sectors of transport equipment (64%), rubber products (64%), chemicals (51%), basic metal industries (47%), and machinery and accessories (38%). A similar picture was to be seen in Argentina and Colombia.

(b) National elements in negotiating capacity

To return to the important elements affecting the interest of transnational enterprises in the region and the negotiating capacity of governments, the outstanding points here are size of market, cost of labour, and the environment.

(i) Size of market. As regards consumer durables and some non-durable goods involving intermediate technology (motor vehicles, electrical household appliances, synthetic fibres, etc.) purchased by the intermediate and upper strata, the Latin American market occupies an important place among the regions of the world because of the growth of those strata, while its potential becomes still greater as broad sectors of the currently underprivileged classes are incorporated into them. The region does not yet function as a single market, in spite of the increasing degree of effective integration achieved precisely in these sectors. At all events, four economic units are of a considerable size: Argentina, Brazil, the Andean Group and Mexico. The customs protection applied by Latin American countries has gone down, but it will probably continue to be higher than that of the developed countries, thus helping to ensure an important market for the domestic production of this type of goods, with the participation of transnational enterprises. For capital and intermediate goods, the effective Latin American market is already considerable and is expanding rapidly with the progress of those sectors currently being given high priority in

Latin American development strategies. These goods, too, are produced with the collaboration of transnational enterprises. As for non-durable consumer goods using simpler technology, the present market is already very large and will grow as the currently underprivileged part of the population is incorporated into this market.

(ii) Cost of labour and comparative advantages. This cost is generally considerably lower in Latin American countries than in the developed countries, and because of the big gap separating the per capita income of these two types of countries, it will probably continue to be lower even though advanced income distribution policies are applied. Although care must be exercised in making comparisons, because of the differences in the origin and methodology of the information available, it can be said that for substantial sectors of manufacturing, including engineering and textiles, the ratio of the cost of labour between Latin America and the developed countries is usually between 1:2 and 1:8. Of course the productivity is higher in the developed countries, but even taking this into account there is in many cases a lower cost of labour in Latin America for the same productivity as in the developed countries. This explains the tendency for the transnational enterprises impelled by the vigorous competition between them, to move the production of certain goods or certain parts of production processes calling for high labour density to developing countries. This process is favoured by Latin American industrial development, which includes metalworking and chemical industries; the relatively high level of education and skill reached by the labour on the market, and the capacity for adapting technology. Hindrances and obstacles to the process are raised by the economic difficulties of the developed countries and uncertainty about the future of the world economy.

The foregoing does not apply only to traditional industries. The comparative advantages thus "acquired" have improved considerably, thus reducing costs, increasing quality and creating an already significant capacity for innovation; these aspects explain the very rapid increase in the competitive export of manufactures of engineering goods and others of intermediate technology. The continuation of the process of industrial development which is taking place will also considerably increase in the future the comparative advantages of Latin America for the production of capital goods, chemicals and metal products, many of which are already produced and exported on competitive terms in the region.

(iii) The environment. The increase in investment requirements and costs in developed countries because of environmental protection policies applied with increasing rigour by their governments are increasing the interest of enterprises in developing certain sectors of their activity (for example, chemicals and metal production) in developing countries. The problems of environmental contamination are also of concern to the countries of the region, however, which cannot permit the development of these sectors under conditions which simply mean transferring these unfavourable effects to Latin America and are therefore tending to establish their own policies for protecting the environment. Because of their lower population density and the different priorities assigned by these countries to problems of the environment (such as the appropriate use of non-renewable natural resources, the expansion of renewable resources, etc.) compared with other problems such as those of unemployment, extreme poverty and shortage of housing, however, it may be assumed that the additional costs and investments needed to take care of these problems will be smaller in the countries of Latin America than in the developed countries.

4. Government policies

In the previous section, reference was made to the different elements making up the negotiating capacity of the countries of Latin America and the Caribbean which arise from the real interest of transnational enterprises in investing in the region and the various economic factors presumed to signify comparative advantages for foreign investors. In this last part, the picture of the region's negotiating capacity will be supplemented with reference to some aspects of government policy, including regulation of the presence and activities of transnational enterprises and the negotiation of individual agreements with them.

(a) Regulation of the presence and activities of transnational enterprises

The scope of this regulation varies considerably from one country to another. In some cases there has been a liberalization of regulations, while in others more trust is placed in the case-by-case negotiation of contracts and agreements with the transnational enterprises. In some countries, such as Mexico and the Andean Group countries, however, an important role is assigned to regulation.

In the Andean Group, this path has been followed, by agreement among the five participating countries, through Decision 24, as amended by Decisions 37, 37A and 103, which seek to secure some degree of harmonization of national policies in these matters. The participation of foreign enterprises in the benefits of the tariff liberalization programme of the Cartagena Agreement has been made subject to their conversion into joint enterprises (i.e., enterprises in which between 51 and 80% of the capital belongs to domestic investors) within a period of 15 years (20 in Bolivia and Ecuador) from 1 January 1974. Access to domestic credit has also been limited to short-term credit only (up to 3 years), and it has been laid down that authorization must be obtained for any new investment, reinvestment and contracts for the transfer of technology, while the reinvestment of profits and their remittance abroad have been limited. The regulation of the presence and activities of foreign enterprises in the manufacturing sector of the Andean Pact countries has been facilitated in the programmed sectors (metal products and machinery, petrochemicals and the motor industry, so far), where the governments of the Andean Group decide on the assignment of productive resources in the various countries and the transnational enterprises have to adopt their strategies to these decisions. It should be noted that in many of the Latin American countries certain areas have been set aside for domestic capital, and enterprises have been nationalized or turned into mixed enterprises, especially in mining and fuels.

Fiscal policy is of great importance in the regulation of transnational enterprises, both as regards the income of the government (especially for basic export products) and as regards the work of orientation and stimulation of certain activities (such as export) and relatively under-developed regions, etc. As the transnational enterprises largely dominate the dynamic sectors of the economies of the region, it is very important to carry out a continuous appraisal of their role (benefits and costs) within the context of the policies, programmes and plans of the government.

/Once the

Once the policy has been decided and the laws have been promulgated, governments must establish the administrative machinery for putting these into effect, and this often highlights the need for co-ordination among the various government departments involved, such as Ministries of Industry, foreign trade, finance, economic planning, legal affairs, agriculture and mining, and the State enterprises. The effectiveness of the machinery for supervising the application of the laws and agreements negotiated (continuous administrative vigilance on the one hand and specific intervention on the other) will depend of course on there being a team of public servants capable of analysing the economic, legal and management aspects of the activities of the transnational enterprises.89/

In planning the orderly development of the various sectors of the economy, governments obviously have to obtain various kinds of information. The possession of data on the respective sector, on the transnational enterprises which are participating or could participate, and on concrete projects will enable them to take the initiative in selecting the best projects, determining if foreign inputs are needed, and selecting the possible investors (transnational enterprises or others). Taking the initiative instead of waiting passively for investment proposals may be an advantage in the negotiating process. At all events, it is desirable that governments should refrain from entering into any relationship with a transnational enterprise unless thay have sufficient information and unless they make sure that the agreements and/or legislation stipulate that they will receive an adequate flow of information on the enterprise's activities as long as the contract lasts. Access to pertinent information before starting negotiations strengthens a country's negotiating position and the subsequent receipt of a flow of data is essential in order to supervise and regulate the activity, while it may be of inestimable value when the time comes to renegotiate the contract.

89/ See United Nations, Centre on Transnational Corporations, "Transnational enterprises: Key questions in the preparation and execution of technical co-operation programmes and projects in developing countries", New York, February 1978.

/The efficiency

The efficiency with which the recipient governments deal with foreign investment and technology will depend basically on their possession of adequate and timely knowledge regarding the transnational enterprises which might come into the country or are already operating in it and the maintenance of adequate supervision and control of their activities.

The situation in this field in Latin America and the Caribbean suffers in some cases from certain shortcomings and difficulties which may be tentatively summarized as follows:

(i) in most cases the government's information on foreign investment and technology and on the transnational enterprises is limited to that concerning the approval and registration of the investment project. This information contains only the basic data for the identification of the investor: the details of his external contribution (finance, technology, etc.) and the details of the recipient enterprise (identification, capital and associates, economic and accounting information, management, promotional benefits and contracts for the transfer of technology); there is usually little or no information about the investments and activities of the investor in other countries (especially Latin American countries) and about other potential investors who could undertake the project being negotiated;

(ii) generally speaking, there is no continuity of the information, nor is there adequate co-ordination between the bodies responsible, since they are different in each stage of the process because they are subject to different higher administrative authorities and do not have a clear place in a globally and comprehensively prepared process;

(iii) in some cases there are shortcomings in the systems of publication of data, while the reliability of the data themselves is not uniform. At the same time, there is little co-operation and systematic exchange of information among the countries of the region;

(iv) in short, the administrative arrangements and information systems regarding transnational enterprises do not usually function as efficiently as they should, so that in many cases governments lack sufficient information for appraising, checking and supervising the commitments of foreign investors and their participation in the economic development of their respective countries.

/(b) Negotiation

(b) Negotiation of contracts and agreements with transnational enterprises

Generally speaking, the developing countries have to deal with negotiators acting on behalf of the transnational enterprises who are extremely skillful and have long experience in negotiation techniques and the drawing up of contracts. It is therefore important that the developing countries should organize an effective negotiating group, including technical, legal and financial experts, while it goes without saying that meticulous prior preparation for the negotiations is called for.

Once an agreement has been negotiated, a contract must be drawn up which adequately safeguards the interests of the host country. Such documents contain clauses which lay down their duration, the material and financial commitments of the transnational enterprise, time schedules for the planning and initiation of the project, and the amount and quality of production ("performance guarantees"). They frequently also include provisions on the employment and training of nationals of the host country, preferential treatment for goods and services and exports of the latter, the use of national currency and foreign exchange, conditions regarding the transfer of technology, compensation and responsibility in respect of claims by third parties, and the so-called "standard clauses" on such points as notification, cases of force majeure, and assignments and transfers.

Brazil makes quite frequent and increasing use of case-by-case negotiation, as in the already mentioned case of the motor industry, which has been authorized to produce for the domestic market, but with the obligation to export a certain proportion of its production. Mexico and Argentina have also made use of negotiation, especially in the same case of the motor industry. In Brazil, negotiations have been held with a view to the association of foreign and national capital in the steel, engineering, aluminium, chemicals, mining, atomic energy, oil, telecommunications and other industries. In the mining and fuels industries case-by-case negotiation between governments and foreign firms is a widely-used and important instrument in Latin America.90/

90/ See Benny Widyono, "Transnational corporations in export-oriented primary commodities", CEPAL Review, N° 5, Second Semester of 1978. See also La actividad bananera en el Istmo Centroamericano y las políticas recientes, CEPAL/MEX/77/20, November 1977.