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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

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Chapter I

THE IMPACT OF THE INTERNATIONAL SITUATION ON THE EXTERNAL SECTOR

A. RECENT DEVELOPMENTS IN THE BALANCE OF PAYMENTS

1. External trade

In the economic history of Latin America, 1972-1974 will possibly be remembered for a combination of circumstantial and structural features, which together were the cause of particularly favourable developments in external trade. Events occurring during this period clearly characterize the first half of the 1970s.

Beginning with events in countries which are not exporters of petroleum, there was a sharp increase in the value of exports as from 1972; this remained at more than 30 per cent annually for the next two years and reached an annual average of 21.2 per cent from 1970 to 1974 inclusive.

If the importance of this growth is to be correctly appraised, mention should be made of a few facts. The traditional growth of the export quantum did not increase, and was only moderate, with the result that this very large increase in the value of exports was mainly a result of the boom in the prices of raw materials. Latin America's exports had not had such an increase in value since the price rises recorded during the years of the Korean War (1950-1951), nor indeed had the prices of primary products improved so much and so rapidly, except in a few limited and transient instances. The increase in export prices was the precursor of the increase in imports in 1972 and 1973. During the second half of 1974, however, the prices of various important raw materials began to drop, apparently bringing an end to the period of generalized price increases in these products (see table 1).

Table 1

23 COUNTRIES OF LATIN AMERICA: ANNUAL VARIATIONS IN EXPORTS AND IMPORTS

(Percentages)

	Exports			Imports			Purchasing power of exports
	Quantum	Unit prices	Value	Quantum	Unit prices	Value	
1960-1970	4.6	1.1	5.8	4.9	1.3	6.3	4.4
1970-1974	2.9	26.5	30.2	12.5	14.5	28.8	13.7
1971	0.0	3.7	3.7	6.9	4.3	11.5	-0.6
1972	4.8	12.7	18.2	8.2	5.8	14.3	11.7
1973	7.2	30.9	40.1	10.7	18.2	30.9	18.5
1974	0.0	67.4	67.4	25.1	31.9	65.0	26.9
<u>Petroleum-exporting countries</u> (Venezuela, Bolivia, Ecuador and Trinidad and Tobago)							
1960-1970	4.0	...	...	3.2	...	...	...
1970-1974	-2.0	50.3	47.3	9.1	14.2	124.6	27.0
1971	-5.7	24.4	17.3	8.1	6.6	15.2	10.0
1972	-0.7	14.5	13.7	9.5	5.0	15.1	8.3
1973	7.6	34.8	45.0	2.3	16.7	19.5	24.2
1974	-8.4	186.6	162.5	17.2	30.4	52.8	101.3
<u>19 non-petroleum-exporting countries</u>							
1960-1970	4.7	...	...	4.9	...	...	...
1970-1974	4.6	15.9	21.2	13.2	14.6	29.7	5.8
1971	1.9	-2.6	-0.7	6.6	3.7	10.5	-4.2
1972	6.4	12.6	19.8	7.8	6.0	14.3	13.0
1973	7.0	28.8	37.8	12.7	18.7	33.8	16.1
1974	3.1	28.0	31.9	26.9	32.3	67.8	-0.3
<u>Large countries</u> (Argentina, Brazil, Mexico)							
1960-1970	5.2			4.0			
1970-1974	5.0	18.8	124.7	17.5	15.1	35.2	8.3
1971	1.4	1.8	3.2	8.7	4.0	13.0	-0.8
1972	7.1	18.1	26.4	12.8	6.3	19.9	18.9
1973	14.2	26.9	44.9	17.2	19.3	39.8	21.4
1974	-1.9	30.5	28.0	32.6	33.0	76.3	-3.8
<u>Medium-sized countries</u> (Colombia, Chile, Peru)							
1960-1970	3.1			4.9			
1970-1974	5.3	9.7	15.5	7.3	14.1	22.4	1.2
1971	2.3	-13.3	-11.3	5.8	3.1	9.1	-14.0
1972	2.7	2.5	5.3	1.1	5.9	7.1	-0.6
1973	-2.4	41.2	37.8	4.8	18.7	24.4	16.1
1974	19.9	15.4	38.4	18.2	30.9	54.8	5.7
<u>Central American Common Market</u> (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)							
1960-1970	8.3			8.8			
1970-1974	5.3	11.3	17.2	8.8	13.9	23.9	2.9
1971	3.6	-1.9	1.6	2.6	3.8	6.5	-2.1
1972	12.2	8.0	21.2	-1.6	6.8	5.1	13.5
1973	1.9	20.9	23.2	13.3	18.2	33.9	4.2
1974	3.9	20.0	24.6	22.6	28.3	57.4	-2.9
<u>Small countries, mainly exporters of sugar</u> (Dominican Republic, Jamaica, Guyana, Barbados)							
1960-1970							
1970-1974	4.1	18.8	23.7	5.5	12.0	18.2	10.4
1971	6.5	-0.1	6.4	3.0	3.3	6.4	3.0
1972	11.2	6.4	18.3	7.8	2.7	10.7	15.2
1973	-0.2	13.5	13.3	2.8	13.9	17.1	-0.5
1974	-0.7	65.0	63.9	8.7	30.3	41.6	25.8
<u>Remaining countries</u> (Haiti, Panama, Paraguay, Uruguay)							
1960-1970							
1970-1974	-1.8	20.5	18.3	7.1	14.7	22.8	3.1
1971	-4.4	2.3	-2.2	3.1	4.0	7.2	-6.0
1972	-1.3	16.6	15.0	-1.2	4.2	2.9	10.4
1973	-2.3	32.4	29.4	6.7	16.6	24.4	11.0
1974	0.9	34.2	35.4	20.9	36.8	65.3	-1.0

Source: ECLA, on the basis of official statistics for external trade. An estimate was made for 1974.

/During the

During the first half of 1974 the prices of some tropical products and others from the temperate zone began to fall, although the favourable situation in the prices of sugar, vegetable oils and cereals continued. This price trend was closely linked to the results of agricultural output in the world during 1974; although supply began to exceed demand in some cases, in others the deficit in output and in the accumulation of reserves to cope with surplus demand persisted. The decline in the prices of agricultural raw materials became sharper and more generalized from the third quarter onwards and a spectacular drop in metal prices commenced, both of these influenced by the decline in the rate of growth of the developed countries and the lack of stimulus given to accumulating stocks as a result of the increase in interest rates and the application of restrictive policies in the countries.

At the same time, the experience of the petroleum-exporting countries which took concerted action to increase considerably the prices of this product in real terms in a continuing form, was a precedent which was not automatically extended to other primary commodities, but gave rise to some important action being taken to defend export earnings from some raw materials. The importance of such experiences lies in their contribution to change in the basic system of trade relations of the Latin American countries with the exterior; through the depressed prices of raw materials, which have not served to increase the export quantum of such products to any great extent, the Latin American countries have traditionally experienced the effects of an important factor which limits their development. An adequate use of their bargaining power through concerted action could bring a considerable improvement in this past state of affairs.

The unit prices of the imports of countries which do not export petroleum, which increased at a very moderate annual rate during the 1960s, underwent a very considerable increase in the 1970s; although the increase lagged behind export prices for two years, the growth of imports speeded up in 1974 while the prices of many important

/exports began

exports began to decline. Thus, during the period 1970-1974, the annual average increase in import prices was 14.6 per cent, similar to that of exports; this increase, however, continued up to the end of 1974 owing to the process of world inflation, and showed prospects of continuing at least into 1975 and 1976, as will be seen below.

As far as the volume of external trade was concerned, the exports of these countries which do not export petroleum increased at the relatively modest annual rate of 4.6 per cent during the period 1970-1974, as was the case over the last fifteen years; this rate was even lower in 1974, when the average only reached 3.1 per cent. The import quantum, however, has been growing since the beginning of the present decade at increasingly high rates; the volume of imports increased to 13.2 per cent annually on average during the years 1970 to 1974 and its annual rate in 1974 was 26.9 per cent.

The block in the volume of exports from non-petroleum-exporting countries in 1974 was a result of the decreases recorded in the exports from Argentina, Brazil, Honduras, the Dominican Republic and Paraguay which were offset by increases in the remaining countries, in particular those resulting from the reactivation of Chilean and Peruvian exports. The decline in the volume of Argentina's exports was caused by the drop in its meat sales mainly as a result of the closure of the markets of the European Economic Community (EEC), and wool exports partially offset by other exports (cereals and manufactures). In Brazil, the poor harvest of the previous year meant a considerable reduction in its exportable surpluses (sugar, soybean, cotton, coffee, etc.). The volume of exports from Honduras decreased owing to the damage caused by hurricanes, while in Paraguay the volume of meat exports declined. In Bolivia, which is included in the group of petroleum-exporting countries, the volume of tin exports declined owing to the reduced demand of the industrialized countries.

The purchasing power of exports, if the evolution in the volume of exports and the evolution of their prices compared with imports

/is included

is included, only increased moderately, at a rate of 5.8 per cent annually during the period 1970-1974, while in 1974 it dropped by 0.3 per cent.

For the non-petroleum-exporting countries the improvement in exports has had an important link with the economic situation, which has been associated with a temporary improvement in prices which has already begun to change direction; the concerted policy to defend the prices of raw materials, although incipient, could constitute an important structural change. The value of imports has increased both because of very considerable growth in volumes and because of an increase in prices, which would appear to be more long-lasting than in the case of exports. As will be seen in the next section, the result of this is that the improvement in the trade balance experienced by some Latin American countries in 1973 changed its trend in 1974 with the aggravation of the trade deficit, and will tend to deteriorate still further in 1975 and 1976 as will be seen below. In this sense 1974 was a year of transition; during the first half prices of primary products were still increasing, while in the second half they began to deteriorate with consequent effects on export earnings.

The case of the petroleum-exporting countries (Bolivia, Ecuador, Trinidad and Tobago and Venezuela) is, of course, different. The increase in petroleum prices was larger than that in prices of other raw materials on average, and the purchasing power of this commodity will probably be maintained. It was only in 1974 that the value of the exports of these four countries increased by 162.5 per cent, and even during the period 1970 to 1974 on average, the annual increase in the value of exports was 47.3 per cent. The quantum of these exports decreased in the present decade to date, particularly because of Venezuela's policy of reducing petroleum exports, together with the decrease in the volume of petroleum exported by Ecuador in 1974 because of breaks in the pipeline. Unlike the group of countries mentioned above, the increase in the import prices of these four was far below the growth of petroleum prices, with the result that the

/increase in

increase in the purchasing power of exports was very marked during the period 1970-1974 on average (27 per cent annually) and particularly in 1974 (101.3 per cent).

2. The trade balance and the balance of payments

The facts given in the last section on the evolution of Latin America's exports and imports have had important effects on the trade balance and the balance of payments of the countries; the countries will be divided into two groups to examine these - exporters of petroleum and the rest. The case of the non-petroleum-exporting countries will be considered first (see table 2).

The external bottleneck of the 1950s and the first part of the 1960s has slackened off in these countries in recent years. The rapid growth of exports of manufactures which occurred in the second half of the 1960s, the acquisition of more external financing and the exceptionally favourable evolution of the prices of the raw materials exported by the region as from 1972, and particularly in 1973 and first half of 1974, created the impression that external constraint was tending to cease to be a basic limitation on the development of the Latin American countries.

The increasing trend in the prices of basic commodities continued and reached its culmination during the first half of 1974, with the result that although a reverse trend began in the second half of the year with the decrease in the prices of various commodities, on average, the year was still a period of fairly good prices for primary goods.

During the same year, however, the increases in the prices of the goods which Latin America imports, both for the manufactures and the primary products which some countries of the region purchase, and which include petroleum and food products, were very much intensified. This meant, as has already been seen, that the prices of imports in the non-petroleum-exporting countries increased in 1974 at a slightly higher rate than those of exports.

Table 2

LATIN AMERICA: BALANCE OF PAYMENTS, TOTAL AND BY COUNTRIES

(Millions of dollars)

	Exports (FOB)		Imports (CIF)		Other not services not deriving from factors		Trade balance		Net payments of profits and interest		Current account balance		Net movement of capital		Balance of payments before compensation		Percentage variation			
	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	Exports	Imports		
	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974
Latin America (23)	26 305	44 030	26 124	43 110	1 443	1 614	1 624	2 534	-5 135	-9 240	-3 511	-6 706	7 460	9 794	3 949	3 088	44.6	67.4	30.5	65.0
Petroleum-exporting countries	7 138	18 740	4 823	7 370	-54	-110	2 261	11 260	-1 890	-5 000	371	6 260	397	-2 430	768	3 830	45.4	162.5	20.4	52.8
Venezuela	5 573	15 400	3 190	4 520	-132	-180	2 251	10 700	-1 691	-4 620	560	6 080	128	-2 680	688	3 400	47.4	176.3	22.7	41.7
Bolivia	277	560	294	460	-18	-20	-35	80	-23	-30	-58	50	52	50	-6	100	32.4	102.2	32.4	56.5
Ecuador	574	1 150	562	940	-36	-50	-24	160	-90	-150	-114	10	210	120	96	133	77.5	100.3	33.7	67.3
Trinidad and Tobago	714	1 630	777	1 453	132	140	69	320	-86	-200	-17	120	7	80	-10	200	20.2	128.3	1.8	86.6
Non-petroleum-exporting countries	19 167	25 290	21 301	35 740	1 497	1 724	-637	-8 726	-3 245	-4 240	-3 882	-12 966	7 063	12 224	3 181	-742	44.3	31.9	33.3	67.8
Large countries	11 984	15 340	13 044	23 000	1 079	1 230	19	-6 430	-2 274	-3 030	-2 255	-9 460	5 481	8 910	3 226	-550	53.4	28.0	38.6	76.3
Argentina	3 269	3 850	2 241	3 200	127	150	1 155	800	-399	-460	756	340	-36	-90	720	250	68.4	17.8	11.8	42.8
Brazil	6 283	7 850	6 963	13 470	-33	-80	-713	-5 700	-740	-1 100	-1 453	-6 800	3 819	5 800	2 366	-1 000	57.4	24.9	45.6	93.5
Mexico	2 432	3 640	3 840	6 330	985	1 160	-423	-1 530	-1 195	-1 470	-1 558	-3 000	1 698	3 200	140	200	29.3	19.7	41.3	64.8
Medium-sized countries	3 818	5 285	3 876	6 000	-89	-95	-147	-810	-471	-590	-618	-1 400	498	1 200	-120	-200	40.5	38.4	23.9	54.8
Colombia	1 334	1 700	1 150	1 600	-45	-50	139	50	-207	-230	-68	-183	191	80	123	-100	40.5	27.4	26.4	39.1
Chile	1 347	2 035	1 608	2 230	-30	-30	-291	-225	-89	-155	-380	-380	127	270	-253	-110	63.7	51.1	21.5	38.7
Perú	1 137	1 550	1 118	2 170	-14	-15	5	-635	-175	-205	-170	-840	180	850	10	10	25.1	36.3	25.1	94.1
Small countries	3 365	4 665	4 381	6 740	507	589	-509	-1 486	-500	-620	-1 009	-2 106	1 084	2 114	75	8	22.1	38.6	26.0	53.8
CACM	1 685	2 100	1 861	2 930	29	32	-147	-791	-177	-193	-324	-984	418	1 014	94	30	23.5	24.6	34.4	57.4
Costa Rica	341	440	451	710	35	35	-75	-235	-41	-50	-116	-285	127	260	11	-25	21.3	29.0	20.9	57.4
El Salvador	364	450	377	510	-29	-30	-42	-90	-12	-14	-54	-104	33	124	-21	20	20.9	23.6	36.5	35.3
Guatemala	440	570	431	700	7	11	16	-119	-48	-57	-32	-176	111	151	79	-25	34.5	29.5	33.3	62.4
Honduras	260	260	262	430	-7	-7	-9	-177	-33	-26	-42	-203	42	213	0	10	26.2	0	35.7	64.1
Nicaragua	280	380	340	580	23	30	-37	-170	-43	-46	-80	-216	135	266	25	50	12.4	35.7	56.3	70.6
Small countries, mainly exporters of sugar and bauxite	1 019	1 670	1 504	2 130	205	227	-280	-233	-237	-325	-517	-558	480	577	-37	19	13.0	63.9	17.7	41.6
Dominican Republic	442	660	486	760	-8	-10	-52	-110	-78	-105	-130	-215	150	195	20	-20	27.2	49.3	31.5	56.4
Jamaica	393	680	673	900	145	160	-135	-60	-139	-195	-274	-255	243	289	-31	34	3.8	73.0	8.4	33.7
Guyana	137	260	175	260	-3	-3	-41	-3	-13	-15	-54	-18	27	23	-27	5	-3.5	89.8	19.9	48.6
Barbados	47	73	170	210	71	80	-52	-60	-7	-10	-59	-70	60	70	1	0	27.0	48.9	19.7	23.5
Remaining small countries	661	895	1 016	1 680	273	323	-82	-462	-86	-102	-168	-564	186	523	18	-41	35.2	35.4	24.7	65.3
Haiti	52	70	86	110	3	3	-31	-37	-6	-7	-37	-44	31	43	-6	-1	19.2	34.6	22.8	27.9
Panama	160	280	505	850	262	310	-83	-260	-45	-55	-128	-315	128	315	0	0	9.6	75.0	12.2	68.3
Paraguay	127	165	140	210	2	3	-11	-42	-10	-11	-21	-53	40	73	19	20	47.2	29.9	68.7	50.0
Uruguay	322	380	285	510	6	7	43	-123	-25	-29	18	-152	-13	92	5	-60	50.1	18.0	34.6	75.4

Source: 1973: ECLA on the basis of data from IMF, Balance of Payments Yearbook, vol. 26. 1974: ECLA estimates.

The export quantum increased only slightly during the year while the volume of imports grew at an unprecedented rate of 27 per cent. The rate of growth of the gross product in these countries, together with this increase in imports, was also very high, and produced the paradoxical situation that in a world in which the industrial countries increased their gross product by only 0.25 per cent, these Latin American countries, although they did not export the vital petroleum - or even import it in many cases - increased their product at a relatively high rate.

It should be borne in mind, as will be seen below in chapter II, that imports have been increasing for several years, not only because of the economy's need for intermediate and capital goods, but also through a policy of greater openness to the exterior and applied by many countries, and assisted in turn by bigger flows of external financing.

It may be asked what all this meant for the performance of the trade balance of the non-petroleum-exporting countries. The trade balance deficit for these countries as a whole, which was 637 million dollars in 1973, increased to 8,726 million dollars in 1974. If to this deficit is added the sum of the payments of interest and dividends on foreign investments, a total current account balance of payments deficit of 12,966 million dollars was generated for 1974, which was around half the value of exports for that year.

This deficit was basically offset by considerable inflows of non-compensatory capital.

In this group of countries there are some particularly noteworthy cases of which Brazil is one. Its trade deficit increased from 713 million dollars in 1973 to 5,700 million in 1974; if the payments of interest and dividends and other non-factor services are included, its current account balance of payments deficit amounted to the considerable figure of 6,800 million dollars, or nearly as much as the country's exports, which were worth 7,850 million dollars in that year. Even with an entry of 5,800 million dollars' worth of capital, a balance-of-payments deficit of 1,000 million dollars was produced, producing a situation which this country had not experienced for several years.

In Mexico the current account balance of payments deficit nearly doubled between 1973 and 1974, and amounted to 3,000 million dollars in this latter year compared with exports for a value of 3,640 million dollars.

In Peru too the current account balance of payments deficit increased markedly, from 170 million dollars in 1973 to 840 million in 1974, i.e., more than half the value of exports in that year, which were worth 1,550 million dollars. Since 1968 this country had been having problems of access to external financing, because of its policy of nationalizing the property of foreign enterprises; this situation was modified in 1974, and capital flows were reactivated (partial use being made of Euro-dollars) in volumes which made it possible to double its imports without decreasing its international reserves.

Central America also had a serious deficit in 1974 which caused concern particularly in Honduras, Costa Rica and Nicaragua. In these countries, the current balance of payments deficit exceeded 50 per cent of exports. In Honduras it amounted to 216 million dollars compared with 260 million dollars' worth of exports, which were seriously affected by the hurricane Fifi. In Costa Rica and Guatemala, although inflows of capital increased they were not sufficient to ward off the deterioration in these countries' international reserves.

In Barbados the current external deficit was also large, since in 1974 it reached the sum of 70 million dollars compared with exports for a value of 150 million (goods and mainly travel transactions). Some Caribbean countries which export sugar and bauxite (the Dominican Republic, Jamaica and Guyana) profited from the high prices of these products which brought the increase in their export earnings to an unprecedented level; Guyana cut its current external deficit down sharply and Jamaica reduced its deficit to a lesser extent, although in the Dominican Republic the disequilibrium increased owing to the larger growth of imports.

Uruguay, Panama and Haiti also had large current account balance of payments deficits in 1974, both in absolute terms and in comparison with exports. In Uruguay the great expansion of imports and the lack of dynamism in exports as a result of disposal difficulties came to take the form of an overall external deficit with a reduction in their international reserves.

Events in Argentina contrasted with all these cases; in this country which does not export petroleum the movement of foreign funds continued to be negative and the policy of improving the net external position on the basis of the trade surplus persisted; although this declined in 1974 owing to a greater increase in imports than exports, the country was still able to strengthen its net international reserves by about 250 million dollars.

The trend of capital flows continued to benefit some of the non-petroleum-exporting countries which had large deficits in their current account balance of payments. In the volumes of capital received, Brazil and Mexico continued to be dominant: the flows of 5,800 million dollars to Brazil and 3,200 million dollars to Mexico together accounted for 74 per cent of the total capital received by the region. Among the small countries, support to Panama, Jamaica and the Central American countries was maintained in amounts which in many cases were greater than the foreign funds received by Colombia or Chile. In the majority of the non-petroleum-exporting countries, however, except Argentina and Colombia, capital flows in the last year exceeded payments of profits and interest on foreign capital, increasing import capacity compared with export capacity and thus contributing to explain the boom in imports.

The figures given up to now for the current account balance of payments deficits of all these countries speak for themselves and show how a serious problem in the external sector has been aggravated. Although in 1974 imports maintained the high rate of real growth mentioned above (27 per cent), it was basically at the expense of considerable external indebtedness in these countries.

The second group to be mentioned are the petroleum-exporting countries of the region: Bolivia, Ecuador, Trinidad and Tobago and Venezuela. In all these countries the increase in petroleum prices generated an unusually large increase in the value of exports; for the countries as a whole, this value increased by 162.5 per cent in 1974, and in all the countries mentioned the increase was more than 100 per cent. The shift from a purchasing to a selling market on account of the OPEC decision, basically changed the operation of the external sector and provided these four countries with a real opportunity of taking a decisive step in their economic development. Large surpluses were furthermore generated in the current account balance of payments, especially in Venezuela, which became an exporter of capital. The surplus of Venezuela's investment funds may make an important contribution to regional development, since it will make it possible for a series of initiatives to be considered which were not feasible until recently, and for investment agreements, or bilateral or multilateral credits within Latin America to be agreed upon; the recent agreements with Peru and the Central American countries signed by Venezuela are a result of very clear-cut decisions on the part of this country to take part in the external financing of Latin American countries.^{1/}

Although the increase in the value of exports of these petroleum-exporting countries was similar, the performance of their balance of payments revealed important differences in 1974. In Venezuela imports grew rapidly, but still more slowly than exports, and created a considerable positive balance in the trade balance; even after making allowance for the large net payments of interests and profits on

^{1/} It is estimated that the current external surpluses for the petroleum-exporting countries of the world as a whole will reach around 57,400 million dollars in 1974, i.e., two-thirds of the total surplus of these countries. In 1973 the current external surplus of the petroleum-exporting countries was only about one-fifth of the value of the total surpluses.

external financing (these increased on a par with petroleum exports), it recorded a current account balance of payments surplus of 6,080 million dollars.

In Ecuador and Trinidad and Tobago, however, imports increased so much that they absorbed a large part of the increased value of exports; although these two countries still had surpluses in their trade balance and in their current account balance of payments, they were only moderate if the size and rapidity of the growth of the purchasing power of their exports is borne in mind.

For the petroleum-exporting countries, which despite their increased export earnings continue to have serious problems of development, of shortfalls in the structure of domestic production and of the standard of living of large sectors of the population, one of the main problems consists in making an efficient use of these increased resources, in order to make the most of this opportunity - which may be unique - to cope with situations of backwardness which are very difficult to deal with under conditions of traditional external dependence.

Mention should be made of the impact on these four countries of the net payments of profits on direct foreign investment and interest on loans, which increased from 1,890 million dollars in 1973 to 4,350 million dollars in 1974, mainly as a result of the share of foreign enterprises in the development of petroleum (except in Bolivia). These factor payments by the four petroleum exporting countries exceeded in 1974 those made by the nineteen remaining countries of the region. These payments accounted for 27 per cent of the export earnings of the four countries, and absorbed nearly half their trade balance in 1974.

B. PROSPECTS AND PROJECTIONS OF THE PROBLEM OF EXTERNAL RESOURCES FOR 1975-1976

It becomes immediately obvious from projections of the trade balance prepared in order to analyse the prospects of the external sector and the economy of the Latin American countries ^{2/} for the next two years, that the petroleum-exporting countries (Venezuela, Bolivia, Ecuador and Trinidad and Tobago) must be separated from the rest. For the first-mentioned, particularly Venezuela, one of the basic problems is how to invest the additional funds coming in from petroleum and to do so efficiently. This problem will not be examined in this section, except insofar as the possible part investment of these funds also helps to cope with the problems of other countries of the region. Basically, an analysis will be made here of the prospects of the rest of the Latin American countries, i.e., the non-exporters of petroleum.

This analysis will endeavour to determine the potential deficit or surplus of the trade balance of each country for the years 1975 and 1976, based on the assumption that they wish to achieve an annual rate of growth of the gross domestic product at constant prices equal to the targets of the IDS or the national development plans. These rates fluctuate between 5.5 and 8 per cent annually.

The projection of the trade balance ^{3/} for 1975 and 1976 determines the ratio of the deficit (if it exists) to exports, so as to have a measure of the importance of the problems which each country may possibly be faced with and their evolution in time.

In order to determine whether a country will have serious trade balance problems, account is taken of: (i) whether according to the projection it shows a potential deficit equal to or exceeding

^{2/} Twenty three countries are included, considering those of the Central American Common Market as a single unit. Cuba is not included since sufficient data to make an analysis similar to that effected for the countries included here is lacking.

^{3/} Including non-financial services: imports CIF are considered and the other non-financial services, mainly tourism, are included.

30 per cent of its exports, and (ii) whether the size of this ratio is greater than its value for 1971.^{4/}

The hypothesis used in the projections refer to the growth of the product, the performance of the exports of each of the main primary products (quantities and prices) and of manufactures and the performance of imports (quantities and prices, influenced among other things by world inflation). Import projections were made independently of export projections; for each country or group of countries consideration was given to growth rate targets, elasticity of imports to the gross domestic product, the structure of imports and price increase rates postulated for the different groups of imported goods. The export projections were prepared, considering basic commodities and manufactures separately. In the case of the basic commodities the unit values and volumes of 42 products were projected separately, using inter alia, data provided by the World Bank and FAO, and the traditional growth rates of the volume of exports.

Owing to the lack of accuracy in the projections, especially in the face of the uncertain prospects of the international situation, it is advisable instead of making a single projection to specify probable maximum and minimum quotas within which the trade deficit or surplus of each country may reasonably be situated. With this in view two projections were presented, represented by alternatives I and II.

Alternative I. In this alternative - which will possibly be closer to actual fact - a relatively slow growth rate is assumed for volumes of exports of basic commodities (in the majority of cases between 3 and 5 per cent annually), while 1976 levels of between 8 and 20 per cent higher than in 1972 are taken for the prices of these goods (expressed in dollars at current prices in each year). A moderately high growth rate is assumed for exports of manufactures (between 25 and 50 per cent annually, according to the possibilities of the different countries).

^{4/} Colombia constitutes a special case, and was included on account of the sudden change from a surplus to a deficit country, although the resource deficit would only be equal to 12 per cent of exports in 1975 and 1976 according to the least favourable alternative.

As far as imports are concerned, the hypotheses include annual growth rate targets for the real domestic product and an elasticity of imports to the gross domestic product similar to those of previous years.

The projections indicate the countries which will face serious problems in their trade balance in 1975-1976, because their trade balance deficit is equal to or greater than 30 per cent of exports, and because this percentage is higher than that corresponding to 1971. The countries in this situation are Barbados, Bolivia, Brazil, Chile, Haiti, the group of the five countries of the Central American Common Market, Mexico, Peru and Uruguay, and to a lesser extent Colombia and the Dominican Republic. The results are given in table 3.

Alternative II. As far as exports are concerned, only the growth rates of exports of manufactures varied, and annual increases of between 80 and 100 per cent according to the countries 5/ were populated. This was their performance in recent years; for this to be repeated in 1975 and 1976, the world recession would not have to have any effect on exports of manufactures, or these would have to be neutralized. On the import side, slightly lower growth rate targets for the real gross domestic product were used as well as low elasticities of imports to the gross domestic product. In many cases this would imply a rate of elasticity which would presumably be equivalent to a zero growth rate in import substitution.6/

The results may be seen in table 4.

5/ Except in Argentina, where the increase was taken to be 50 per cent.

6/ By a zero growth rate in import substitution is understood a situation in which all sectors of the economy domestic output and imports increase at a rate equal to that of domestic demand, i.e., in this case import substitution neither progresses nor recedes, in relative terms, in relation to the growth of domestic demand. As is indicated elsewhere in this document, the imports of several of the largest Latin American countries increased in important sectors more rapidly than production and domestic demand.

Table 3

RATIO OF SHORT FALL IN EXTERNAL RESOURCES TO EXPORTS

(Projection: Alternative I)

	1971-1972 (Average)	1973	1974	1975	1976
Barbados	.781	1.106	.857	.791	.989
Bolivia	.166	.126	Surplus	.287	.410
Brazil	.344	.274	.726	.555	.473
Central America	.082	.093	.377	.395	.483
Colombia	.262	Surplus	Surplus	.117	.126
Chile	.059	.241	.111	.554	.547
Haiti	.354	.612	.529	.284	.478
Mexico	.299	.288	.420	.439	.246
Peru	Surplus	Surplus	.410	.483	.312
Dominican Republic	Surplus	.116	.167	.222	.450
Uruguay	.043	Surplus	.241	.472	.599

Table 4

RATIO OF SHORTFALL IN EXTERNAL RESOURCES TO EXPORTS

(Projection: Alternative II)

	1971-1972 (Average)	1973	1974	1975	1976
Barbados	.781	1.106	.857	.872	1.022
Brazil	.344	.214	.726	.396	.141
Central America	.082	.093	.377	.346	.382
Colombia	.262	Surplus	Surplus	.008	Surplus
Chile	.059	.241	.111	.454	.330
Haiti	.354	.612	.529	.253	.424
Mexico	.299	.288	.420	.222	Surplus
Peru	Surplus	Surplus	.410	.433	.210
Dominican Republic	Surplus	.118	.167	.168	.254
Uruguay	.043	Surplus	.241	.421	.495

/The absolute

The absolute values of exports and imports of non-financial goods and services for each country and for the balance of resources are given in table 5 for 1974 and also for the two years of the projections, including both alternatives. Argentina is also included, and is of special interest since it is the only non net exporter of petroleum which should show a surplus situation in the next few years according to these projections.

In view of the results of the projections and what is known - in some cases only assumed - as regards the possible evolution of the economies of the countries for 1975 and 1976, it is possible to formulate comments which are a useful guide in shedding light on the nature of the problem despite their tentative and preliminary nature.

The main elements which define the evolution of the trade balance of the countries which according to the results of these projections will be facing serious problems, will be:

(a) The prices of exports of primary products, expressed in values of current factor cost, will probably be appreciably lower in 1975 compared with 1974 in many of the countries. In Chile, Argentina, Peru, Central America and Mexico the annual decrease in the unit value of exports should be between 32.4 and 11.2 per cent in 1975 compared with 1974, and be particularly marked in Chile. Uruguay, however, should record a decrease in unit values in 1975 and 1976 but they would still be high in comparison with 1972. The main items influencing these in the unit values of exports would be cotton, copper, nickel, lead and zinc.

For some of these countries 1976 will bring very modest price improvements compared with 1975 - in monetary terms - while in others it will produce stagnation; the increases will by no means offset the decreases of 1975.

The volume of exports will not offset this adverse trend in prices, since their only significant increase will be in Peru and Central America (between 1974 and 1975) and in Brazil in 1976; in 1975 Argentina will make a considerable increase in the volume of its exports, owing in part to the revival of meat exports which had decreased in 1974 on account of the restrictive measures applied by the LEC.

Table 5
BALANCE OF EXTERNAL RESOURCES
(Millions of dollars)

Current prices	Alternative I			Alternative II	
	Low exports and high imports			High exports and low imports	
	1974	1975	1976	1975	1976
Argentina					
Exports FOB	9 850	5 075	5 900	5 366a/	6 756a/
Imports CIF	-3 200	-3 788	-4 292	-3 788	-4 292
Other non-financial services (net)	150	165	182	165	182
Balance of resources	800	1 452	1 790	1 743	2 646
Barbados					
Exports FOB	70	86	90	86b/	90b/
Imports CIF	-210	-242	-276	-232	-263
Other non-financial services (net)	80	88	97	88	97
Balance of resources	-60	-68	-89	-58	-66
Bolivia					
Exports FOB	560	429	454		
Imports CIF	460	-530	-616		
Other non-financial services (net)	-20	-22	-24		
Balance of resources	80	-123	-186		
Brazil					
Exports FOB	7 850	10 297	12 223	11 019	14 561
Imports CIF	-13 470	-15 926	-17 902	-15 296	-16 512
Other non-financial services (net)	-80	-88	-97	-88	-97
Balance of resources	-5 700	-5 717	-5 776	-4 365	-2 048
Central America					
Exports FOB	2 100	2 212	2 345	2 212b/	2 345b/
Imports CIF	-2 930	-3 128	-3 525	-3 020	-3 287
Other non-financial services (net)	39	43	47	43	47
Balance of resources	-791	-873	-1 133	-765	-895
Colombia					
Exports FOB	-1 700	1 665	1 848	1 845	2 360
Imports CIF	-1 600	-1 805	-2 020	-1 805	-2 020
Other non-financial services (net)	-50	-55	-61	-55	-61
Balance of resources	50	-195	-233	-15	279
Chile					
Exports FOB	2 035	1 599	1 798	1 626	1 892
Imports CIF	-2 230	-2 453	-2 749	-2 333	-2 485
Other non-financial services (net)	-30	-32	-32	-32	-32
Balance of resources	-225	-886	-989	-739	-625
Haiti					
Exports FOB	70	95	92	95b/	92b/
Imports CIF	-110	-125	-139	-122	-134
Other non-financial services (net)	3	3	3	3	3
Balance of resources	-37	-27	-44	-24	-39
Mexico					
Exports FOB	3 640	4 578	5 743	5 318	8 111
Imports CIF	-6 330	-7 863	-8 561	-7 775	-8 370
Other non-financial services (net)	1 160	1 276	1 403	1 276	1 403
Balance of resources	-1 530	-2 009	-1 415	-1 181	1 144
Peru c/					
Exports FOB	1 550	1 496	1 798	1 539	1 920
Imports CIF	-2 170	-2 203	-2 342	-2 189	-2 308
Other non-financial services (net)	-15	-16	-17	-16	-17
Balance of resources	-635	-723	-561	-666	-404
Dominican Republic					
Exports FOB	660	760	793	760	793
Imports CIF	-760	-918	-1 138	-877	-982
Other non-financial services (net)	-10	-11	-13	-11	-13
Balance of resources	-110	-169	-358	-128	-202
Uruguay					
Exports FOB	380	392	414	392b/	414b/
Imports CIF	-510	-584	-670	-564	-627
Other non-financial services (net)	7	7	8	7	8
Balance of resources	-123	-185	-248	-165	-205

a/ Imports do not vary in cases I and II.

b/ Exports do not vary between cases I and II.

c/ There is a substantial difference between ECLA and the Board of the Cartagena Agreement as regards Peruvian exports due to the Board's more optimistic hypotheses as regards the prices of fishmeal and zinc ore.

/The price

The price prospects for various primary products vary very much among themselves.

Some metals may be more sensitive than foodstuffs to the drop in the growth rate and to the difficulties in the economies and in the balance of payments of the developed countries; the price of copper has already dropped considerably in recent months. The drop of metal prices in a period of recession may also affect quantities as well as prices. The cycle of these products, unlike that of agricultural products, depends more on demand (and hence on the world situation) than on unprogrammed fluctuations in output. Among these last, mention should be made of increases connected with new deposits or the more intensified development of known deposits (such as the recent increase in copper production in Chile and that announced in Peru for 1976), and also of the agreements for controlling or reducing production and exports in order to protect prices (such as CIPEC's recent decision to cut down production by 10 per cent, and the decision of the main coffee exporters to withhold up to 20 per cent of exportable production for 1974/1975).

The possibility of organizing buffer stocks financed with assistance from the petroleum-exporting countries is another form of regulating supply.^{7/} Aid from the petroleum-exporting countries may also contribute to maintaining the quantity of foreign exchange available in the metal-exporting countries even without the formation of buffer stocks, thus backing-up the decision not to increase output in order to acquire more foreign exchange by increasing the quantum exported, and contributing in this way to maintaining prices. As these products constitute non-renewable natural resources, careful consideration should be given to the possibility of bringing in a policy to conserve stocks. The other possibility is to replace some metal

^{7/} In mid-December 1974, Venezuela signed an agreement with the five countries of the Central American Common Market and Panama in support of the policy maintained by these countries to withhold exports of coffee, and granted them credits from a fund of 80 million dollars created for this purpose.

inputs by others, if the prices of some of these drop less sharply with the depression, and is perhaps greater than in the case of food products; this underlines the importance of a concerted policy among the exporters of different goods (copper, aluminium and others).

Cereals may come down in price in 1975 and 1976, particularly in the latter year, if the consequences of the poor harvests of recent years are obviated and stocks restored. But the world food crisis, the main feature of which is a potential deficit in supply, augurs a sustained trend in prices in the medium-term. Purchases of cereals by the Soviet Union and other socialist countries, stimulated by the growing priority which they would appear to be giving to satisfying the domestic demand for food, point in the same direction. Up till now the developed countries have refused to participate in agreements to accumulate stocks with a view to providing food on a large scale to the poorest developing countries; with the variations in harvests due to weather factors in North America and the Soviet Union, this could lead, for some years at least, to relatively large but unstable volumes and prices in world trade in cereals. For important reasons, commodity agreements with the participation of exporters and importers of cereals would be advisable. In addition to the traditional reasons, Latin America could make an important contribution both to the rich and to the poor countries, were a food aid policy combined with reasonable prices to be adopted at the international level, in the form of a plan in which both the developed countries, the petroleum-exporters and countries with a potential food deficit would take part. With a policy of this type, Latin America could count to a certain extent on stable markets on the basis of commodity agreements, and would also obtain technical and financial aid for agriculture in order to achieve specific targets in connexion with cereal output and world food production. Meat, particularly beef, stands in a potentially different position from cereals, since it is a commodity which is regarded in many cases a luxury product, relatively speaking, with relatively high income and price elasticity,

/and subject

and subject to possible import restrictions, like those recently adopted by the EEC. Both in the EEC countries and in the United States protectionism is more probable here, and could affect the import capacity of Latin American countries and reduce imports from these areas.

In the case of tropical food products (coffee, cocoa and bananas) there are no new factors of importance resembling those affecting goods connected with energy or temperate zone food products. It is thus probable that the most traditional elements of supply will have a determining influence on prospects for the next few years. Co-ordinated action on the part of producers to avoid the deterioration of the purchasing power of prices would appear to be particularly appropriate in this case. If the price-elasticity of demand is not very high, a defensive action by the producers on prices could ensure them more stable and satisfactory earnings in real terms. Effected within reasonable price margins which defend export earnings, this action, should not arouse too much resistance in the developed consumer countries, and could have a significant influence on the earnings of developing exporter countries.

The price of sugar will possibly tend to drop to some extent, more rapidly than cereal prices; in the medium-term, however, sugar will continue to be an important food product and for this reason some of the considerations already put forward in connexion with cereals may be applied to it.

(b) Exports of manufactures, which in recent years have grown considerably in many Latin American countries, and which have been a basic factor in the rapid rate of growth of exports as a whole, will very probably be affected by a more difficult international situation in the next few years. As it drops, the growth rate of exports of manufactures will have an effect on the balance of payments and also on production and employment; this will be significant for specific sectors of industry. A distinction should be made here between two cases which may show very different reactions: exports outside the region and intra-area exports of manufactures. As far as extra-area

/exports are

exports are concerned, the standstill reached in the growth of the developed economies and the balance of payments difficulties in the industrialized countries will probably have a very important effect. Not only will demand drop in the industrialized countries, but at the same time competition between them will increase and it will become more difficult to maintain a high growth rate of exports in countries like those of Latin America, which only recently entered the international market. Besides, as was recently seen in the EEC countries and the United States, if they did not apply these particularly far-sighted policies they could well take defensive measures to the detriment of the growth rate of their imports of Latin American manufactures. Trade union pressure to defend employment, especially in traditional industries, and the defence of the balance of payments may have an important role to play here.

In the face of a drop or even of a standstill, in the internal growth rate of some sectors, the laws and regulations governing trade in the developed countries - the United States for example - may allow the application of import restrictions on goods such as footwear, textile products and clothing, when increases in imports may be considered to have taken place at the expense of domestic producers.

Naturally, voices of prudence are raised against the adoption of defence measures by a country or region, because this may provoke similar reactions by other countries and cause a cumulative tendency towards recession in the economy. Recent cases have existed, however, in which private considerations have prevailed over those of general interest, owing to pressures from some one sector.^{8/} In the projections contained in the present document at worst, a moderately large drop in the growth rate of exports of manufactures has been postulated, always assuming that the Latin American countries will make a great effort to maintain the growth of these exports, despite the adverse international

^{8/} The assembly industries recently established in Latin American countries for the purpose of carrying out part of the process of industrial production which corresponds to industrialized countries, may suffer the effects of the international problems.

situation, and also assuming that they will meet with understanding from the developed countries. Exports of manufactures should continue to be a very important active factor in the growth of total exports, unless the international situation should slip into a recession on an even larger scale than at present anticipated. In any case, the growth rate of total extra-area exports would be significantly affected by this decline.

An aspect which has some connexion with exports is the case of the foreign labourers who work in the United States and whose remittances are of some importance in the balance of payments of some Latin American countries. It is possible that these labourers, and consequently their earnings, will be particularly hard hit by the effect of the reduction of employment in the United States.

Intra-area exports of manufactures are less directly connected with the international market and the developed economies, and also are able to profit from the integration processes in operation. It is thus possible that they will maintain a growth rate more similar to that recorded in recent years; they may well play a stabilizing role, and contribute in particular to maintaining the tempo of external trade - through the decisions of the Latin American countries themselves rather than through extra-area exports - especially if the Latin American countries deliberately step up intra-regional co-operation and trade through the integration schemes in progress and additional or parallel measures.

The increase in intra-area trade in recent years was not so much connected with increased earnings as with the reciprocal opening-up of the economies and the progress made in the integration processes; thus the drop in the rate of growth of earnings which could take place in the next few years should have no reason to affect it to the same extent if this policy of expansion and integration were intensified. In the particular case of capital goods, it is possible that the entrepreneurs will adopt a more cautious attitude towards investment, bearing in mind that prospects for 1975 and 1976 are uncertain; in particular this may affect both intra-area and extra-area trade in these

/goods, unless

goods, unless an energetic support policy is applied to investment projects which will give impetus to the integration and development of the countries and also serve to maintain regional activities producing capital goods at a satisfactory level. The possible difficulties in international trade and the prospects of a more prolonged economic recession in the developed countries may stimulate integration, since both this and intra-area trade would help to face up to the next few years under better conditions. Some Latin American countries which do not belong to any integration system, like the Dominican Republic and Haiti, would not profit to the same extent from this intra-area trade and would therefore be more exposed to the fluctuations of the international market; it would therefore be valuable to endeavour to include these countries in one of the integration systems in force.

(c) New exports constitute an important aspect. In recent years many Latin American countries have had successful experiences with new exports, both of manufactured goods and agricultural or mineral products which despite their intrinsically traditional nature have constituted new items for some countries. In Brazil earnings from exports of soybean and sugar already exceed those from coffee, while increased exports of cereals offset lower earnings from tropical products. In the Central American countries, however, where traditional products (coffee, bananas, cotton, meat) perhaps tend to grow more slowly or even to come to a standstill, new exports to the rest of the world perhaps have even more limited possibilities, except where agreements are made with other Latin American countries which provide new opportunities for expansion; the progress of co-operation among the Central American countries, the Caribbean countries (both the English-speaking countries and those which do not belong to any integration system) and neighbouring countries members of LAFTA, such as Mexico, Colombia and Venezuela, may be particularly significant here.

The ability to make new exports is an important aspect of the countries' capacity to deal successfully with possible difficulties.

/(d) Another

(d) Another item which may behave differently from other exports is tourism. Prices in Mexico, lower than European prices, may well maintain the growth rate of tourism, and even increase it if Mexico succeeds in coming to replace in part other more expensive tourist options, in a period of economic difficulties. Some Central American and Caribbean countries could also take advantage of these possibilities by making use of an appropriate policy.

(e) Up to now factors involving exports have been examined. An analysis will now be made of some of the main factors in connexion with prices and quantities of imports, beginning with an analysis of the increase in petroleum prices and in the prices of associated fertilizers. As far as petroleum is concerned, the two countries which have experienced the most adverse effects or which have the least prospect of obviating them are Uruguay and Chile. Brazil also includes a high percentage of petroleum in its imports, but with the discoveries of petroleum which have just been made there it would appear that in a few years' time these imports may decrease to a significant extent. Even if this reduction comes after 1975 and 1976 and the present analysis, the prospects of coping with the problem in part or in its entirety in later years may also change the situation in these next two years.

In Haiti and Barbados petroleum imports account for a smaller share of their total imports but even so they are fairly important and thus the effect of the price increase in this product has important repercussions for them. The same occurs to a lesser extent in Central America, but as this subregion recently reached an agreement with Venezuela to buy petroleum with part payments of funds which will be deposited in each of the Central American countries, it may be said that the problem has been dealt with to some extent. Tables 1, 2 and 3 only calculate what is payable to Venezuela in cash. In any case, import requirements of petroleum and fertilizers will probably become increasingly considerable in Central America during the next few years. For all these smaller countries, especially those which

/have a

have a low level of development and serious problems, the co-operation of the petroleum-producing countries of Latin America, particularly Venezuela, will be essential in order to face up to the next few years.

Mexico and Peru make important imports of petroleum, but the situation is changing rapidly. Mexico will import little petroleum, in 1975 and 1976 and will even be able to export some. Peru has begun to export on a modest scale, and will increase its exports until around 1976 when it will be able to offset approximately half its present imports; as from 1977 it should be making large-scale exports which will increase rapidly. In Argentina, which according to what has already been said should not have serious problems in its trade balance over the next few years, petroleum imports are of importance but not very large, and they will probably tend to decrease over the next few years.

As regards fertilizers, where they weigh most heavily in total imports has recently been in Central America and Brazil.

According to the projections, Colombia should not have as serious balance of payments problems as some other countries in the next few years. Its petroleum output has been decreasing and consumption has been increasing, so that in 1975 import requirements will probably begin to make themselves felt. There would appear to be probabilities of new discoveries which should keep the problem within limits, but it will probably be necessary to import the product in 1976.

In the face of the petroleum problem it is not only the dependence on imports which is important but also, very basically, the capacity to deal with the larger payments, and the consequences on economic activity and development of a possible reduction in imports and domestic use.

It hardly seems probable that petroleum prices will come down very substantially in the next few years; although they may not keep up with the growth rate of international prices in their entirety, it would seem probable that a relatively high level of prices in real terms will be maintained at least for some time.

/The increase

The increase in the prices of imported manufactures will have a very important effect on the trade balance of the Latin American countries in the next few years. These manufactures, a very high percentage of which comes from developed countries, account for approximately 50 to 70 per cent of total imports in all the countries considered; even the most developed countries of the region, like Argentina, Brazil and Mexico, depend heavily on imports of manufactures.

The prices of these goods will increase in the next few years owing to world inflation. In fact, it will be this group of goods whose prices will probably increase most compared with the others considered in the present document, and will have adverse effects of some consideration for Latin America on the terms of trade, at least in 1975 and 1976. There would appear to be no prospect of these effects diminishing in the next few years.

The other important aspect of imports is the rate at which their volume increases. In many Latin American countries, the high growth rate of exports in recent years has been accompanied by a similarly high growth rate in imports. The growth elasticity of imports to the product is higher than one in all the countries which will have serious problems with their trade balance. In some countries - Argentina, Barbados, Brazil, Chile and Uruguay - the value of this elasticity is nearly two. These high rates of growth of imports partly reflect a fuller opening-up of the economy, and it has been possible to maintain them during periods of relatively rapid growth of exports; the situation in the next few years will be different. The possibility of a readjustment of these coefficients was foreseen in alternative II of the projections. The change of hypothesis as regards the elasticity of imports has a fairly important defect on their performance and hence on the trade balance. A considerable proportion of imports is made up of intermediate and capital goods; the latter may be constrained for some time by delaying replacing equipment. But in any case such constraint will have adverse effects on the growth or rate of economic activity. The same occurs with intermediate goods.

/However, it

However, it would not only not be detrimental, but indeed would be extremely advantageous to reduce the growth rate of imports from outside the region by means of a Latin American concerted import substitution policy, in which imports from abroad would be reduced at the same time as intra-area trade was increased, thus establishing on a co-operative basis an industry of intermediate and capital goods for the entire Latin American market, and hence suitable conditions for scales of production, costs and qualities. This means that an industrialization policy concerted to some extent among the Latin American countries may make a very important contribution to tackling the difficulties of the external sector, by maintaining a satisfactory rate of growth in the countries of the region despite the difficulties existing in the international market.

The amount of the accumulated debt, the relative volume of the sum required to service it compared with exports, and access to the international financial markets are elements of extreme importance in defining the capacity of the Latin American countries to face up to possible trade balance problems. The present situation of indebtedness varies considerably from one country to another. The possibility of access to the international financial markets also varies; the largest countries, particularly Brazil and to some extent Mexico, have been achieving this in recent years, but it is different for the majority of the remaining countries.

The countries most severely affected by recent international event because of their relatively lower stage of development, have possibilities of access to the funds supplied through international mechanisms. There is consensus among the developed countries that aid should be given to these most needy countries - of which there are few in Latin America - so that they will have relatively more favourable conditions than the rest in this respect. But although access to international aid funds is easier for them, the problems which they have to face up to are also more critical, since it is the very survival of large sectors of the population which is at stake in such cases.

Some important aspects may be mentioned here as final comments:

/(a) In

(a) In addition to examining each of the aspects separately (probable evolution of the prices of the main primary export goods, impact of the increase in petroleum prices and of imports of manufactures, etc.), the overall panorama of each country cannot be omitted. On the one hand some adverse elements may find themselves offset by other positive aspects; on the other hand, the capacity of the countries to react is not homogenous.

(b) The correct appraisal of the trade balance problems which the countries will face in the next few years and the approach provided in possible solutions may be very different according to whether a duration of one or two years is postulated for them, or whether they are attributed a more permanent status. Projections for 1975 and 1976 only have been prepared in the present document. Nevertheless, it is obvious that if it is assumed that the difficulties would only be those connected with the present situation, specific solutions may be resorted to - like the increase in external indebtedness - to a greater extent and with less risk of creating other problems than if it is assumed that the difficulties will persist for a longer time.

(c) The price increases in the developed countries, which will presumably reach fairly high levels over the next few years compared with periods of historical importance in the last few decades, introduce into the Latin American economy an element of imported inflation which has only been present in the last few years. This gives a different importance to national stabilization objectives, since it would hardly appear realistic to adopt over-strict national targets in the face of a world situation of inflation.

(d) The effect on domestic social and political aspects of a possible decrease in the rate of growth of the gross domestic product, stemming from problems in the trade balance, should be considered. Internal social pressures and the solution of conflicts, as well as aspects of income distribution are revealed in a different light when the growth rate of the product is high than when it is seriously limited by trade balance problems.

/In brief

In brief, it would seem that the countries facing the most serious difficulties in their trade balance in the next few years, both on account of the amount of the potential deficit compared with exports and because of their capacity of reaction and longer-term prospects, are Uruguay, Chile, Haiti and some Central American countries. In Peru, the problems have not ceased to be serious, but this country has prospects of petroleum exports in a few years' time, and exports of this commodity have actually materialized to a partial but important extent, which places the problems which the country may face in the immediate future in a different light. As far as Brazil and Mexico are concerned, future prospects are still a matter of concern, but their reaction capacity is greater than that of the above-mentioned countries, and in Mexico the prospects of a change in the situation as regards petroleum also bring in a favourable element of great importance. Lastly, in Colombia the situation requires care, but is apparently manageable unless the evolution which actually does take place is less favourable than what has been foreseen here.

Chapter II

FOREIGN TRADE

A. THE INTERNATIONAL COMMODITY MARKET

1. 1971-1974: decline and recovery

The picture presented by international trade in primary commodities during the first four years of the United Nations Development Decade is marked by sharp contrasts. The first phase showed a trend towards contraction, with falling market prices for a considerable number of Latin America's staple export products, a situation which in some cases persisted until mid-1972. The fact that the total value of exports decreased in ten countries of the region during 1971, and increased at a rate of less than 6 per cent in six others, was largely due to the unfavourable evolution of export prices in that year. With the resurgence of economic expansion in the industrialized countries, commodity markets brisked up again so that in the course of 1972 some products began to recoup the losses sustained in the preceding year. Diverse as were the conditions prevailing in the markets for the various products, it was nevertheless clear that by the end of 1972 the phase of market decline was over for a good many commodities, and that the 1971 price depression could be considered to have had less incidence on Latin American exports than any other in the past two decades.

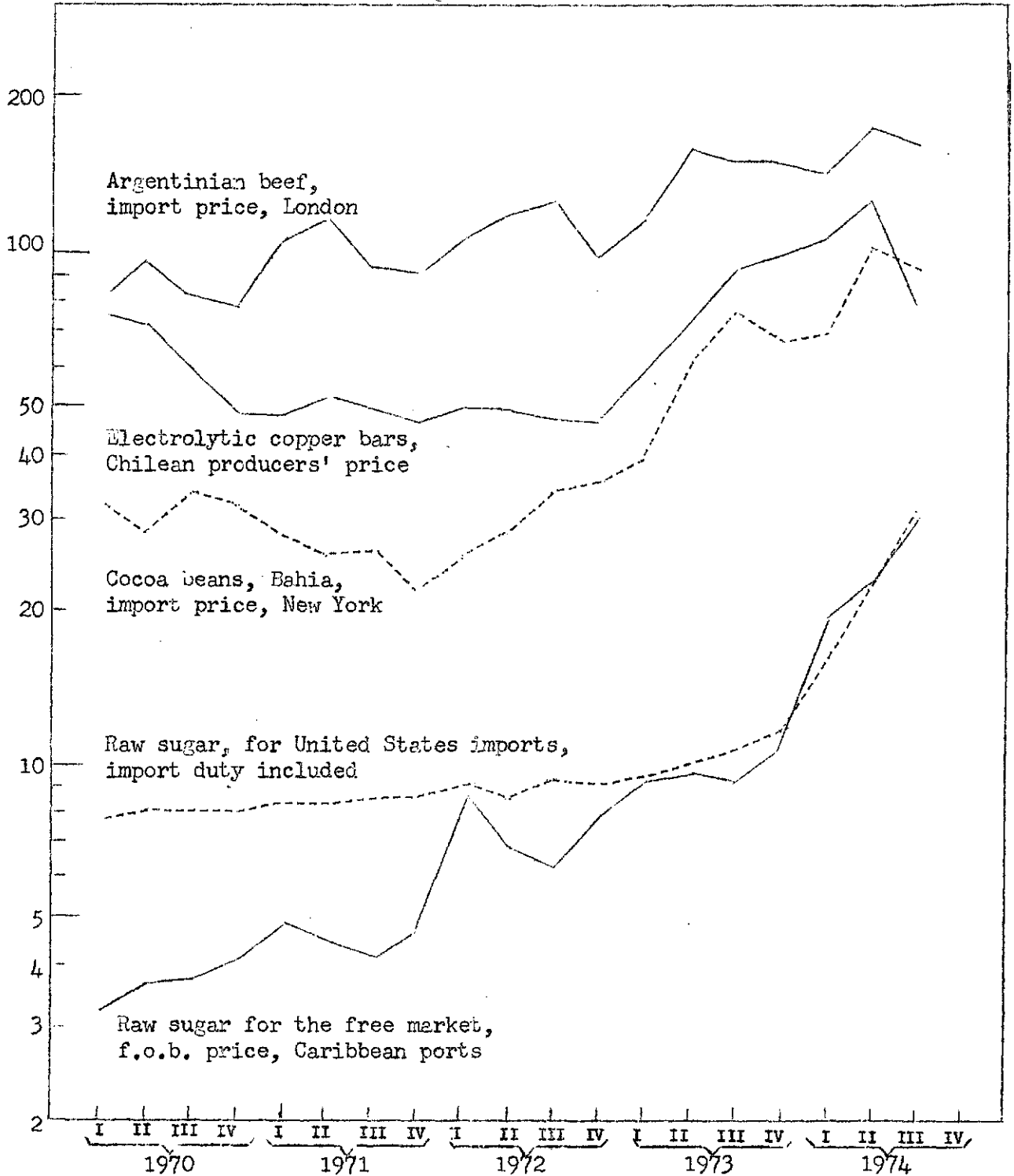
The rising trend in commodity markets gained impetus as from the early months of 1973, no longer merely in consequence of the contractions that were becoming apparent in available supplies of certain export products, but also under the influence of more general factors, such as the new official devaluation of the dollar, and the aggravation of monetary instability with the ensuing proliferation of speculative transactions in certain commodities and of purchases for stockpiling. Furthermore, the intensification of inflationary pressures in the industrialized economies, and the steady depreciation of the dollar in relation to other countries currencies, faced the developing exporter countries with the need to consider measures

/that would

that would offset the loss in the purchasing power of the dollar. The first to attain this objective in part were the developing countries exporting petroleum, which succeeded in negotiating with the producer companies a method of periodic adjustment of the reference prices of the petroleum exported, based on the changes in dollar quotations in relation to the currencies of the leading industrialized countries. However, exporters of other products (for example, coffee) were unable to follow suit, despite the fact that coffee quotations in dollars at current prices had fallen below their 1970 levels, and in addition the effect of the devaluations in 1971 and early in 1973 had to be reckoned with. In the meantime, some of the products exported mainly by the developed countries (particularly cereals) had recorded substantial price increases, while others - from developing countries - were in seriously short supply. It was a combination of factors (such as the high level of demand for certain commodities, limited supplies for export in the case of others, and monetary instability) that was largely responsible for the boom which characterized the markets for many primary commodities as from the beginning of 1973, and which, in the course of that year and the early months of 1974, culminated in the period when prices rose for the largest number of products, in some instances to their highest level in monetary terms, since 1950-1951, at the time of the outbreak of hostilities in Korea (see figures 1 to 4).

Figure 1

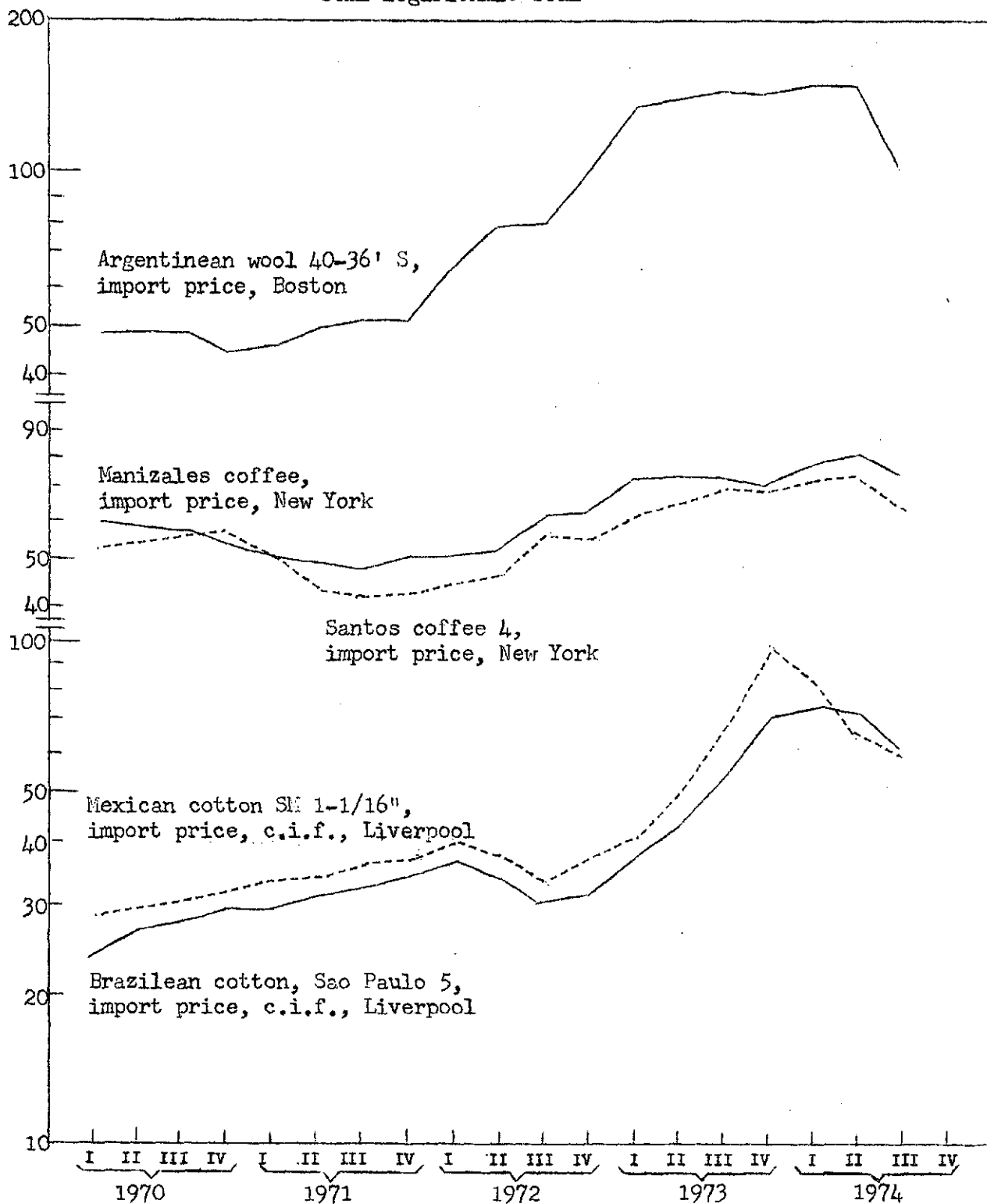
PRICES OF PRIMARY COMMODITIES
(Dollar cents per pound)
Semi-logarithmic scale



/Figure 2

Figure 2

PRICES OF PRIMARY COMMODITIES
(Dollar cent per pound)
Semi-logarithmic scale



/Figure 3

Figure 3
PRICES OF PRIMARY COMMODITIES
(Dollars per ton)

Semi-logarithmic scale

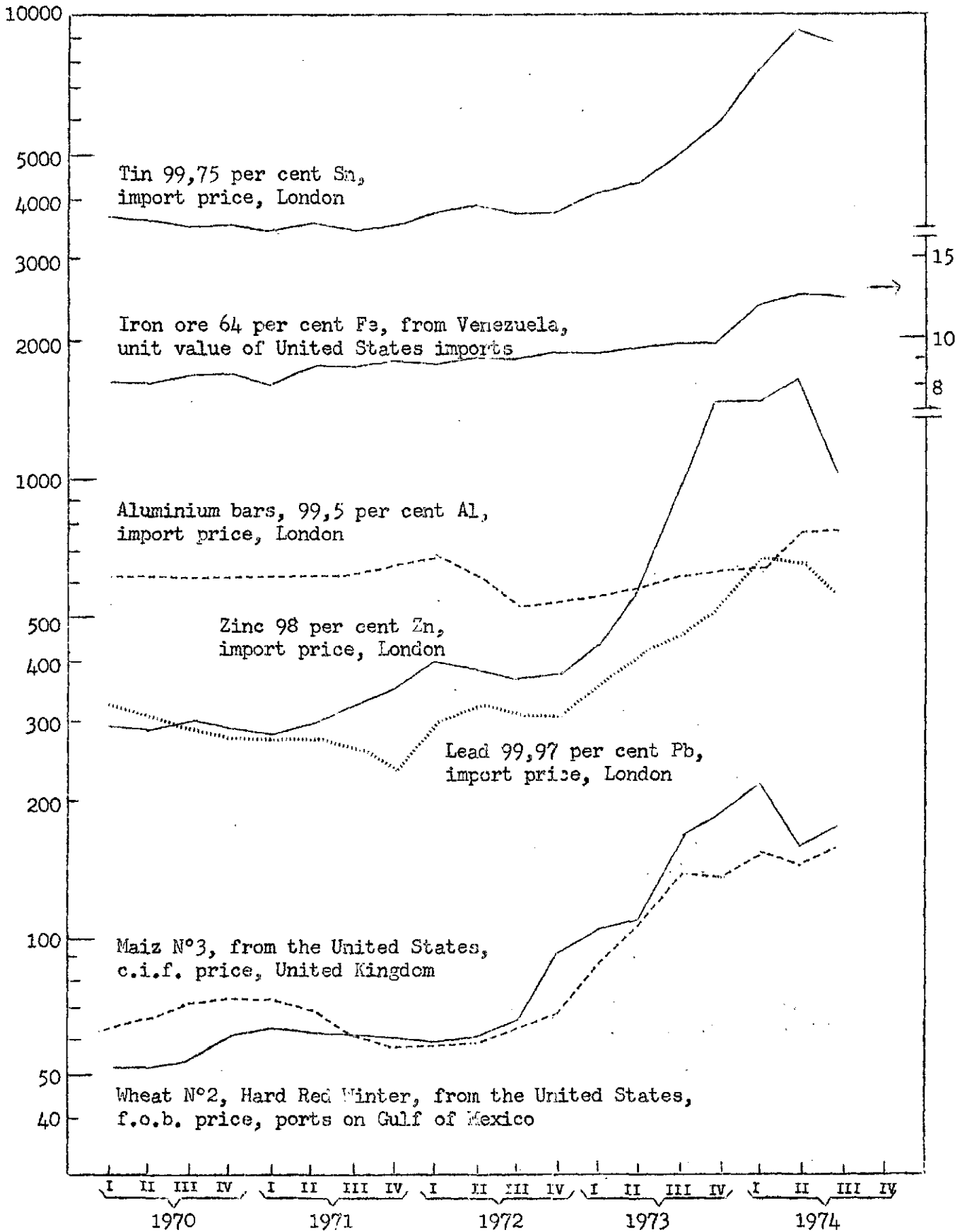
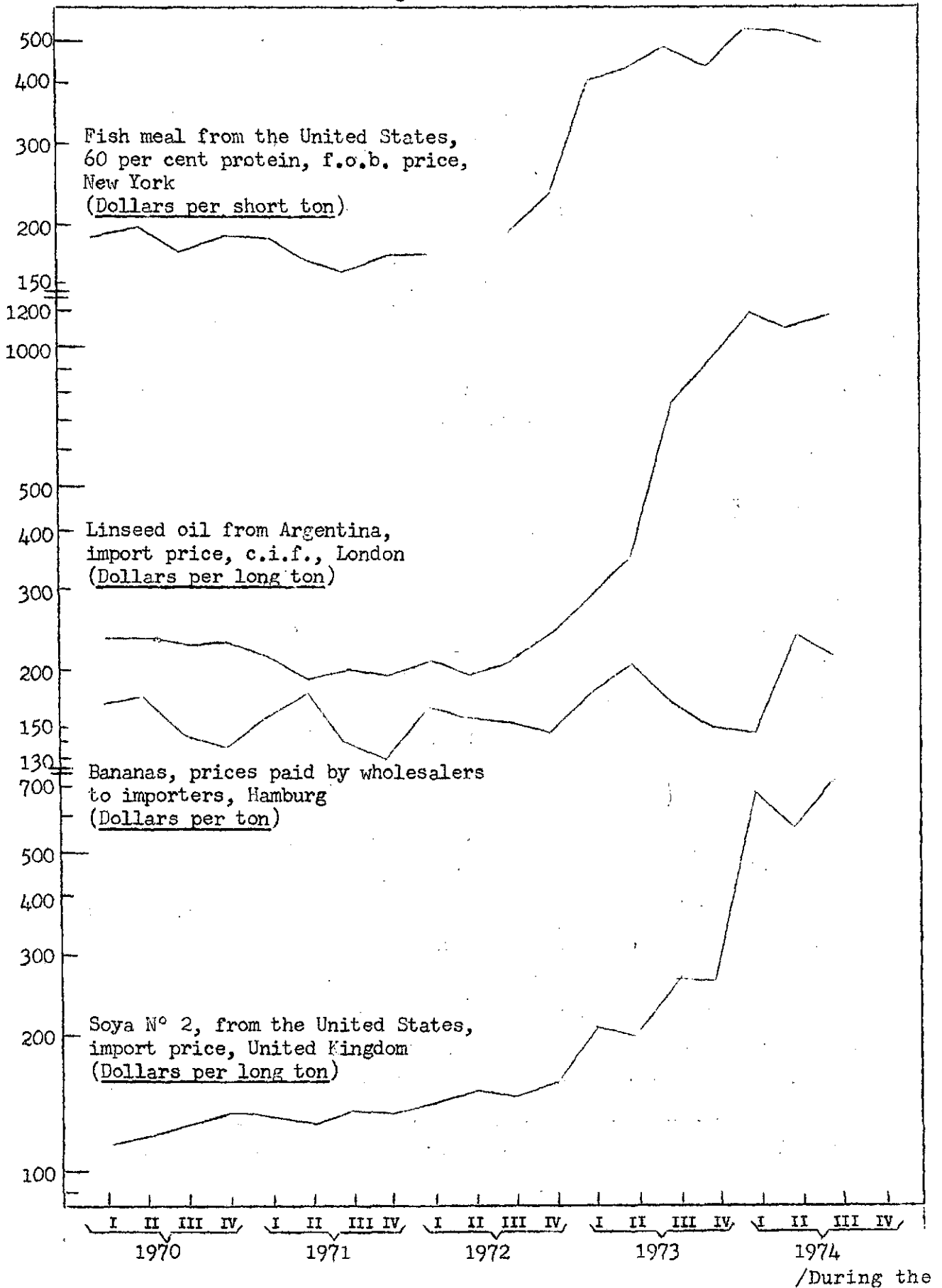


Figure 4
PRICES OF PRIMARY COMMODITIES
Semi-logarithmic scale



During the later months of 1973 the general scene in world commodity markets was over-shadowed by a new factor: the "petroleum crisis", as it is called, which for a short time implied the application of restrictions (for pre-eminently political reasons) to supplies for certain developed countries, but which basically consisted in the decision of the producer countries grouped in the Organization of Petroleum Exporting Countries (OPEC) to raise the reference prices of petroleum considerably. These reference prices serve as the basis for determining taxation, royalties and the participation of governments in the profits of the petroleum companies, and therefore influence the level of prices of petroleum products in the importer countries. On the other hand, the upsurge in petroleum prices served to correct the unfavourable trend which had persisted from 1958 until 1971, with only slight fluctuations in the latter year and in 1972. But the scale of the price increases fixed by the exporter countries in the last two months of 1973 complicated the situation on the commodity markets, which felt the effects of increases in the cost of power, transport and other inputs.

In point of fact, in the case of CIF quotations for some products, part of the increase reflected higher maritime freight charges. The decision adopted by the petroleum exporting countries however, also encouraged other developing countries exporting different commodities to consider the possibility of taking concerted action that would enable them to exert some influence on the export prices of certain commodities whose position had not appreciably improved during the overall boom. Those particularly concerned were the exporters of bauxite, bananas and iron ore, and, up to a point, coffee exporters as well. The results of their endeavours will be discussed later. For the moment, the point to be stressed is that the boom in the markets for certain products continued throughout the first half and even during the third quarter of 1974, although in the latter period quotations for some commodities had already fallen in relation to the earlier months. The average however, remained higher than in the preceding year. To make an accurate assessment of what the

/increases meant

increases meant for the exporter countries, price trends for each individual commodity must be studied, but use can also be made of the overall evaluation afforded by an index including the most important of Latin America's export products, with the exception of petroleum ^{1/} (see table 1).

In terms of dollars at current prices, world quotations for Latin American products certainly reached distinctly high levels in a relatively short space of time. The significance of these increases is less, however, if other factors are taken into account. One of them has already been mentioned: in every case in which quotations are based on the CIF price in the importer country, part of the price increase reflects the rise in transport costs. But the most important of the factors referred to is the purchasing power of the currency on which quotations are based. In 1970-1974, the purchasing power of the dollar decreased as a result of the inflationary process in the United States and in all the other developed countries, as well as because of the changes that took place in dollar quotations in relation to other currencies. From the point of view of most of the Latin American countries, a suitable index for measuring the purchasing power of the dollar might be the unit value index of the total United States exports, or one including only exports of manufactures. In 1973-1974 the first of these indexes showed higher increases than the second, owing to the importance of cereals and other agricultural foods in the United States' exports. Over the long term, however, the differences between the two indexes have been relatively small. The unit value index of total exports would seem to be of greater significance for the Latin American countries which import cereals and other foods from the temperate zone. Lastly, the purchasing power of the dollar on other markets can be measured by using the index of the devaluation of the dollar in relation to other currencies. In table 2 the variations recently shown by these different indexes are presented.

^{1/} A commodity-by-commodity analysis of price trends and market conditions will be included later.

Table 1

LATIN AMERICA: INDEXES OF QUOTATIONS FOR
STAPLE EXPORT PRODUCTS

(Base: 1970=100, in dollars at current prices)

	1971	1972	1973	1973	1974		
				Fourth quarter	First quarter	Second quarter	Third quarter
I. Food and beverages	100	121	162	172	227	260	297
1. Tropical zone	97	122	156	164	230	272	319
2. Temperate zone	110	116	182	202	216	218	221
II. Agricultural raw materials	106	123	222	267	326	289	276
III. Metals	90	92	131	151	178	201	151
IV. Total index	98	113	162	182	227	247	254

Source: Data prepared by ECLA on the basis of quotations published in the United Nations Monthly Bulletin of Statistics and other similar documents.

Table 2

VARIATIONS IN SELECTED INDEXES OF THE PURCHASING
POWER OF THE DOLLAR, 1970-1974
(1970=100)

	1971	1972	1973	1973	1974		
				Fourth quarter	First quarter	Second quarter	Third quarter
A. Index of unit value of total United States exports	103	106	124	136	147	152	161
B. Index of unit value of United States exports of manufactures	102	105	113	120	127	132	...
C. Index of devaluation of the dollar in relation to currencies of developed countries	102	108	116	116	113	115	113

Sources: For A. United States Department of Commerce, Survey of Current Business, August 1974;
For B. United Nations, Monthly Bulletin of Statistics, December 1974
For C. United Nations Conference on Trade and Development, (UNCTAD), Monthly Commodity Price Bulletin, October 1974.

As can be seen from the figures appearing in table 2, the purchasing power of the dollar dropped sharply in the United States market in 1973 and the early months of 1974, and declined in other markets as a result of the devaluations which took place at the end of 1971 and the beginning of 1973. Nevertheless, even discounting the effect of the loss of purchasing power of the dollar in the last three years, the average level of quotations for staple commodities in 1973-1974 easily exceeds the figures recorded in the preceding years. Experience shows that upward movements in primary commodity prices are generally short-lived, and are followed by more prolonged periods of decline or of stabilization at low levels, whereas the prices of imported products (particularly manufactures) pursue an uninterrupted upward trend. This is reflected in the familiar deterioration of the terms of trade as between developing countries (most of which are exporters of primary goods) and developed countries (which are the principal markets of origin of the manufactures imported by the former group). It is therefore worthwhile to examine commodity price trends over a longer period than has been considered here.

2. A long-term view of the boom in 1973-1974

The evolution of commodity prices in real terms (that is, in currency with a constant purchasing power) can be determined by deflating current prices, on the basis of an index measuring variations in overall price levels in a given country or group of countries, the index used may be that of the unit value of total exports of manufactures from the developed countries in the aggregate, or again, that of the unit value of total exports from the United States, which constitutes the chief market for the exports and the leading supplier of the imports of most of the Latin American countries. Whichever index is selected, it will involve some degree of arbitrariness, and must therefore be regarded as serving essentially to indicate the direction and approximate magnitude of the changes taking place in overall price levels. It is interesting to note that the two indexes quoted remained closely parallel throughout most of the period 1952-1973 (see table 3). To deflate current prices of Latin American products, however, the index of the unit value of United States exports was used.

/Table 3

Table 3

INDEXES OF PURCHASING POWER OF THE DOLLAR, 1948-1974

(Dollar base: 1953-1955=100)

Year	A	B
	Index of unit value of exports of manufactures from eleven developed countries	Index of unit value of total United States exports
1948	...	98
1949	...	91
1950	...	89
1951	...	102
1952	104	101
1953	100	100
1954	99	99
1955	100	100
1956	104	104
1957	107	107
1958	105	106
1959	104	106
1960	107	107
1961	108	109
1962	108	108
1963	109	108
1964	110	109
1965	113	113
1966	114	116
1967	116	119
1968	116	120
1969	117	124
1970	127	131
1971	133	136
1972	145	140
1973	169	165
1973- IV	179	178
1974- I	182	193
II	202	200
III	...	212

Sources: For A: United Nations, Statistical Yearbook, 1962, 1965, 1969; Monthly Bulletin of Statistics, December 1974.
The following countries are included: Belgium and Luxembourg, Canada, Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom, United States;

For B: United States Department of Commerce, Business Statistics 1971, Survey of Current Business, August 1974.

It is worthwhile to note the size of the increases in these two indexes from 1970 onwards, and particularly in 1973, and to recall that the first blanket increase in the reference prices of petroleum came into force in November 1973, and the second in January 1974; in the latter year they helped to step up an inflationary process which had already gathered considerable speed in the economies of the developed countries.

From another point of view, the acceleration of the inflationary process in the developed countries so seriously eroded the purchasing power of the foreign exchange income of the developing countries, that, as shown in figures 5, 6 and 7, the higher price in dollars at current values quoted for many products in 1973 barely signified the restoration of the purchasing power which those same products had enjoyed during part of the 1950s. The 1973-1974 levels would probably need to be maintained for a period of three to five years, as the case might be, to enable the developing exporter countries to recoup the losses (i.e., the net transfer of resources) which they suffered during the years in which the prices of their products stood at low levels. For illustrative purposes, suffice it to look at free market sugar prices throughout almost the whole of the 1960s, and to note the same situation with slight variations, in the case of products of so much relative importance in Latin American exports as coffee, cocoa, bananas, cotton and wool. The evolution of current prices of bananas - which fluctuated around the same levels between 1948 and 1973 - is perhaps a rather exceptional case, but it throws into clearer relief the disadvantageous position of those products over whose external marketing process the producer countries have little control. Much the same might be said of iron ore, of which the prices in dollars at current values were lower in 1973 than in the two preceding years and in 1954-1965, so that the price in real terms (dollars at constant prices) fell in 1973 to half the corresponding figure for 1954-1958. The slight increase recorded in 1974 did not imply an improvement in terms of dollars at current prices or in purchasing power.

/Figure 5 .

Figure 5
PRICES OF STAPLE LATIN AMERICAN EXPORT PRODUCTS IN DOLLARS AT
CURRENT PRICES AND IN DOLLARS AT CONSTANT PRICES, 1953-1955
Semi-logarithmic scale

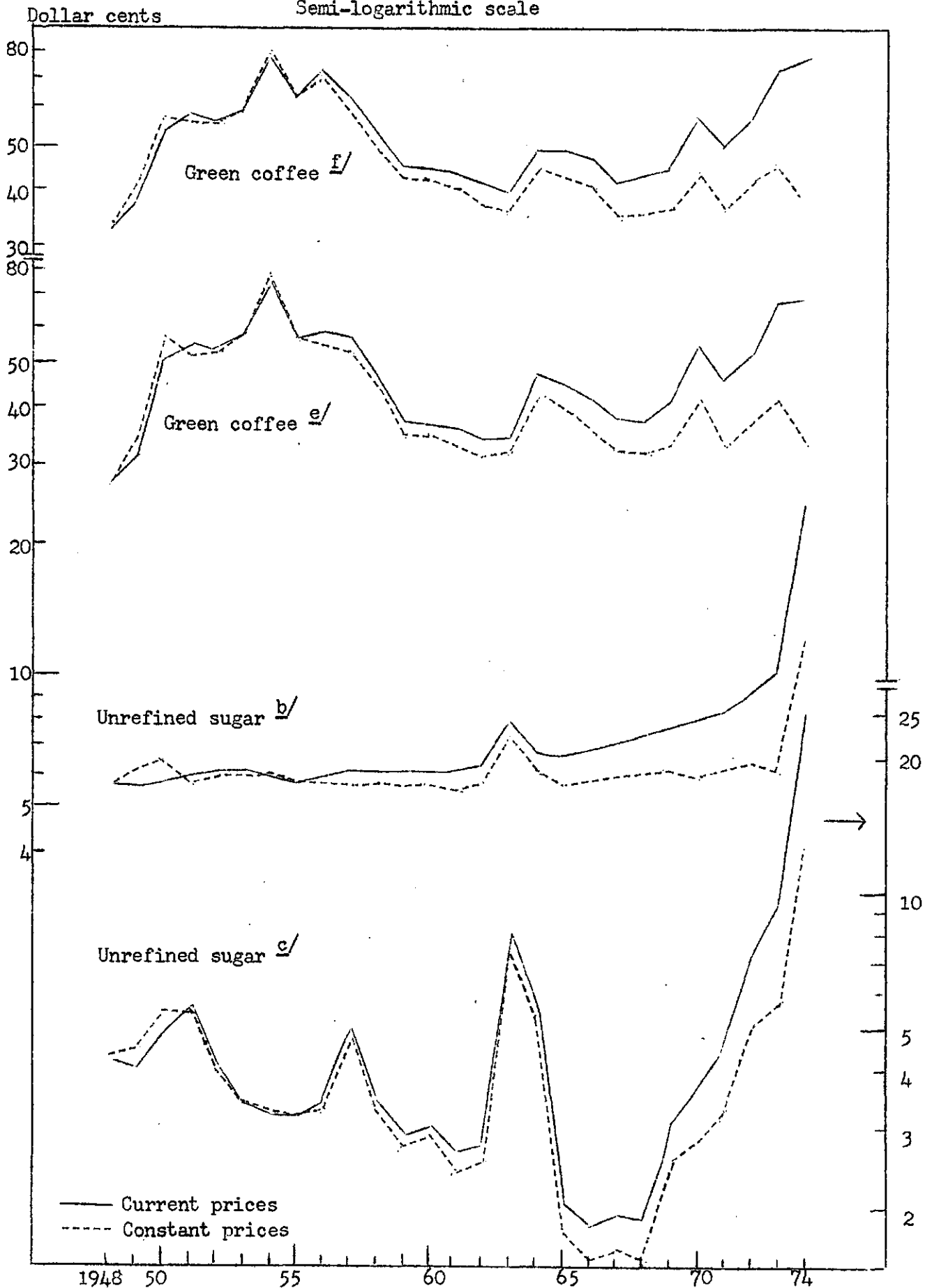
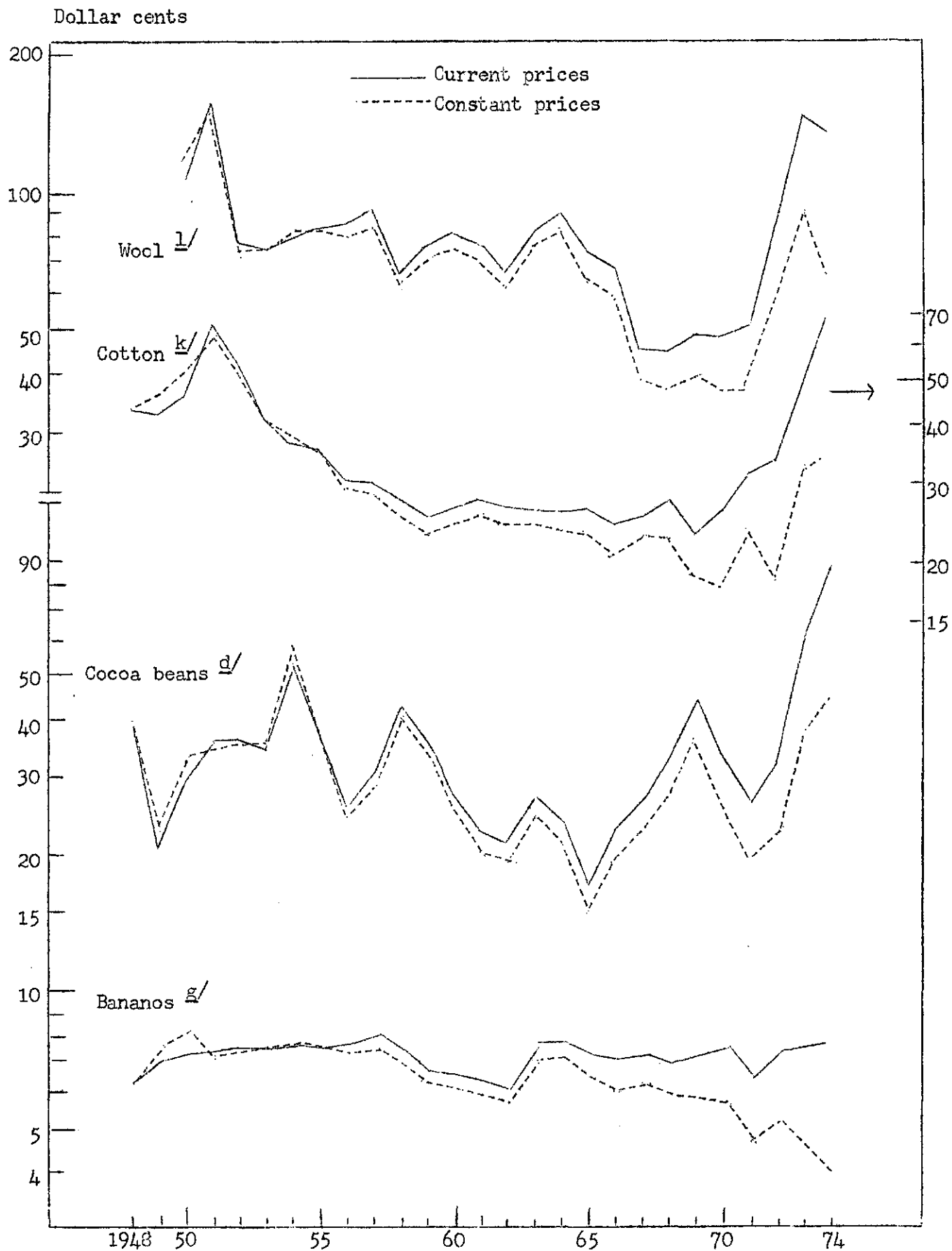


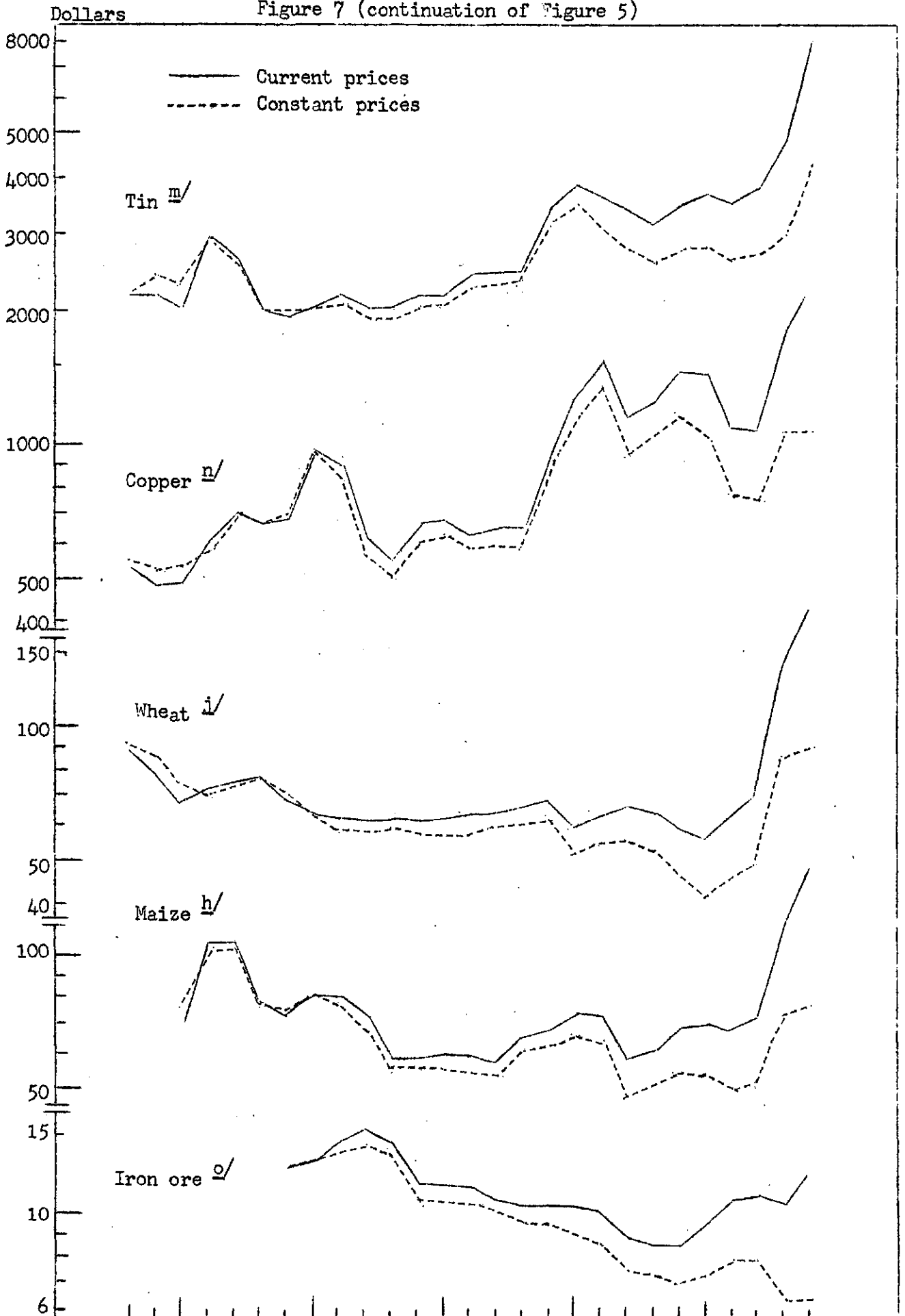
Figure 6 (continuation of Figure 5)



Note: See footnotes to table 4

/Figure 7

Figure 7 (continuation of Figure 5)



Note: See footnotes to table 4

/Table 4

Table 4 presents a comparison between the average prices of selected products (in dollars at constant 1953-1955 prices) in 1973 and 1974 and in earlier years. As regards the products of interest to the largest number of Latin American countries, it should be noted that in 1974 the real prices of coffee and bananas were lower than in 1973, and therefore dropped all the farther below their level in the whole period preceding 1973. Wool prices were also less favourable in 1974 than in 1973 and in the period 1948-1965, while only in the case of tin (the prices of which are regulated by an international agreement) were real prices kept higher in 1974 than in any earlier period.^{2/}

3. Medium-term prospects

The purpose of the foregoing paragraphs was to bring out the point that the boom in world commodity markets in 1973-1974 does not seem so spectacular when the current prices of the products concerned are expressed in terms of constant purchasing power. At most, as has already been suggested, some of the exporter countries may have succeeded in partly recouping the losses of income sustained for long years during the 1960s. The recent favourable combination of circumstances has already begun to veer in a different direction, and the developing exporter countries are asking themselves whether international commodity trade is to go on being characterized by this cyclical recurrence of short spells of rising prices, followed by longer periods when prices are low, or whether, on the contrary, there is some hope that the international community will at last decide to adopt policies designed to mitigate the causes and counteract the effects of the highly prejudicial instability of commodity markets. The end of the 1973-1974 boom is already in sight, and brings the developing exporter countries face to face with the fact that the nature and the depth of the problems of international commodity trade have undergone no essential change; but it also offers them the opportunity of

^{2/} On the other hand, the slump in copper prices in the latter months of 1974 implies that the real price of copper in that year will be lower than in 1965-1970.

Table 4
LATIN AMERICA: PRICES OF STAPLE EXPORT PRODUCTS, IN DOLLARS AT CONSTANT 1953-1955 PRICES
(Averages for five-year and other periods)

Product	1948- 1950	1951- 1955	1956- 1960	1961- 1965	1966- 1970	1971- 1974	1971	1972	1973	1974 _{a/}
Raw sugar <u>b/</u>	4.83	3.93	3.44	3.96	2.03	7.05	3.31	5.19	5.80	13.90 _{a/}
Raw sugar <u>c/</u>	6.32	6.09	5.86	6.31	6.17	8.17	6.28	6.52	6.31	13.57 _{a/}
Cocoa beans <u>d/</u>	32.0	39.4	30.4	20.2	25.8	30.5	19.0	22.2	37.4	43.5
Green coffee <u>e/</u>	39.8	60.2	44.8	35.7	34.6	35.8	32.9	36.4	41.0	32.9
Green coffee <u>f/</u>	44.7	63.8	53.0	40.4	38.2	39.7	36.3	40.5	44.6	37.5
Bananas <u>g/</u>	7.4	7.4	6.8	6.4	5.9	4.6	4.7	5.2	4.6	4.0 _{a/}
Maize <u>h/</u>	77.1 _{a/1/}	88.1	62.3	58.6	53.5	62.4	49.0	51.1	72.9	76.4 _{a/}
Wheat <u>i/</u>	84.4	71.2	58.4	58.0	50.1	66.9	45.4	49.9	84.5	87.5 _{a/}
Cotton <u>k/</u>	48.0	46.6	26.4	24.4	20.4	26.8	23.8	18.1	31.8	33.6 _{a/}
Wool <u>l/</u>	117.0 _{a/1/}	93.0	74.0	71.0	42.0	63.0	37.0	59.0	89.0	67.0 _{a/}
Tin <u>m/</u>	2 313.0	2 321.0	2 007.0	2 685.0	2 811.0	3 048.0	2 574.0	2 689.0	2 961.0	3 968.0
Copper <u>n/</u>	543.0	725.0	640.0	761.0	1 114.0	911.2	795.0	765.0	1 094.0	991.0
Iron ore <u>o/</u>	...	12.7 _{b/2/}	12.6	9.6	7.3	7.0	7.7	7.7	6.2	6.3 _{a/}

Source: As for table 1.

a/ Averages represent quotations for less than 12 months.

b/ For 1948-1960, quotations represent prices in New York world contract No 4, FAS Cuba; as from 1961 "world" price, International Sugar Council, daily quotations, FOB and unloaded Caribbean ports (dollar cents per pound).

c/ For 1948-1960, quotations represent CIF import prices, New York, raw sugar, centrifugal 96°, in sacks; as for 1961, domestic price in United States, including import duty in New York; raw sugar, centrifugal 96° (dollar cents per pound).

d/ United States, domestic/import price, ex warehouse New York, price for immediate delivery, Bahia cocoa (dollar cents per pound).

e/ United States, domestic/import price, ex dock New York, price for immediate delivery, in bulk, Brazilian Santos No 4; Colombian Manizales (dollar cents per pound).

f/ United States, domestic/import price, ex dock New York, price for immediate delivery, in bulk, Colombian Manizales (dollar cents per pound).

g/ From 1948 to November 1961, Central American bananas, importer to distributor, FOB port of entry, in 100 lb. consignments. As from December 1961, first-class green stems from Central America and Ecuador, importer to distributor or processor, FOB port of entry; up to 1962, in 100 lb. consignments; as from 1963, 40 lb. crates (dollar cents per pound).

h/ Up to 1969, yellow, La Plata, in bags, CIF Liverpool and London; from 1970 onwards, CIF Rotterdam, for delivery within 30 to 60 days (dollars per ton).

i/ Corresponding to the year 1950 only.

j/ Wheat No 2, Hard Red Winter, from United States, for export, FOB prices ports on Gulf of Mexico (dollars per ton).

k/ United Kingdom, domestic/import price, CIF Liverpool; Brazilian São Paulo, Type 5 (dollar cents per pound).

l/ United States, import price, in warehouse, Boston; clean wool base, Buenos Aires 5/6's (40/36's) (dollar cents per pound).

m/ United Kingdom, London Metal Exchange quotations for tin, standard, minimum purity 99.75 per cent (dollars per ton).

n/ United Kingdom, London Metal Exchange quotations for electrolytic copper, domestic price (dollars per ton).

o/ Sweden, domestic/CIF import price Rotterdam; Kiruna D, 60 per cent (dollars per ton).

p/ Average for 1954-1955.

undertaking concerted action with respect to certain commodities whose production and trade characteristics lend themselves to action of this type. In other words, it is to be hoped that the developing countries will not waste the experience of the recent conjuncture, and will take the necessary steps to change the conditions in which they have participated in world commodity trade, so that in the future their role in it may be more active.

Such concerted action - with the co-operation of the developed countries whenever possible, or simply with the participation of developing countries having an interest in a particular product or group of products - is urgently needed in view of the rapid deterioration observable in the situation of some commodities, and given the current forecasts of the behaviour of the developed countries' economies over the next few years. Their growth rate is expected to be lower than in the two preceding years, and even to fall short of the annual average reached in the 1960s. Admittedly, these reduced growth rates were already being anticipated long before the decision to boost petroleum reference prices was adopted, so that the increase in these must be regarded only as an additional - although in some cases very important - factor in the economic contraction which is affecting almost all the developed countries in varying degrees. Alongside the decline in growth rates, the high rates of inflation recorded in the recent period are considered likely to persist, with the result that the developed countries will be faced with a difficult choice of policies - often conflicting - to tackle the contraction, on the one hand, and to control inflation, on the other. The upshot is that the developing exporter countries - and in particular those which do not export petroleum - are confronted with a progressive contraction of external demand for their products, with the consequent downward pressure on the prices of the goods concerned; and at the same time, they continue to import inflation from the developed economies through the higher prices they have to pay for imports from those countries.

This is the situation reflected in the projections of price trends, in terms of dollars at current-values and of dollars at constant

/1967-1969

1967-1969 values, which appear in figures 8 and 9.^{3/} It should be noted that although in dollars at current values the price indexes estimated for the three groups of products and the total index for the period 1975-1980 maintain in general a rising trend, in dollars at constant prices (that is, in terms of purchasing power) they decline rapidly until their levels resemble or drop below those recorded in the 1960s.

4. Measures of international commodity trade policy:
the International Development Strategy (IDS) and
the General Assembly Programme of Action

In paragraphs 21 to 38 of General Assembly resolution 2626 (XIV) by virtue of which the International Development Strategy was adopted for the 1970s, a set of international trade policy measures is listed, including some directly relating to commodity trade. No significant headway has been made in the implementation of these measures individually or jointly - as indicated in the resolution - by the countries called upon to put them into effect. In practice, albeit general preference systems in favour of exports of manufactures and semimanufactures are being applied by most of the developed countries (with the exception of the United States and Canada),^{4/} in other fields there has been little sign of the collective determination which would enable measures of trade policy to be adopted and implemented, as the governments declared they were willing to do (in IDS paragraph 19). As regards commodities, the negotiation of a new international agreement (on cocoa) was offset by the virtual expiry of the wheat, coffee, and sugar agreements, since their operational clauses were not renewed and they survived only as administrative mechanisms for the organization of consultations and compilation of statistics.

^{3/} The price series and the projections of trends presented in the figures indicated were prepared by the International Bank for Reconstruction and Development (IBRD), Commodities and Export Projection Division.

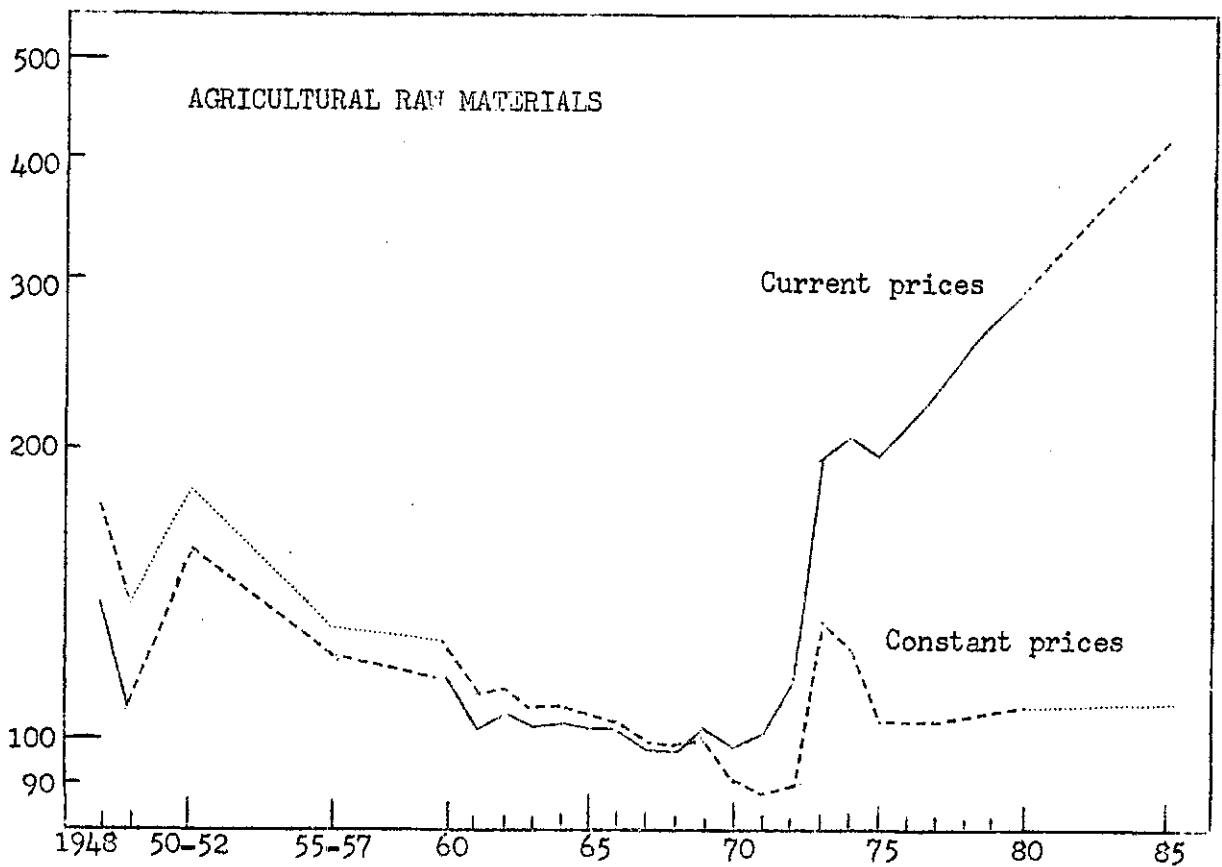
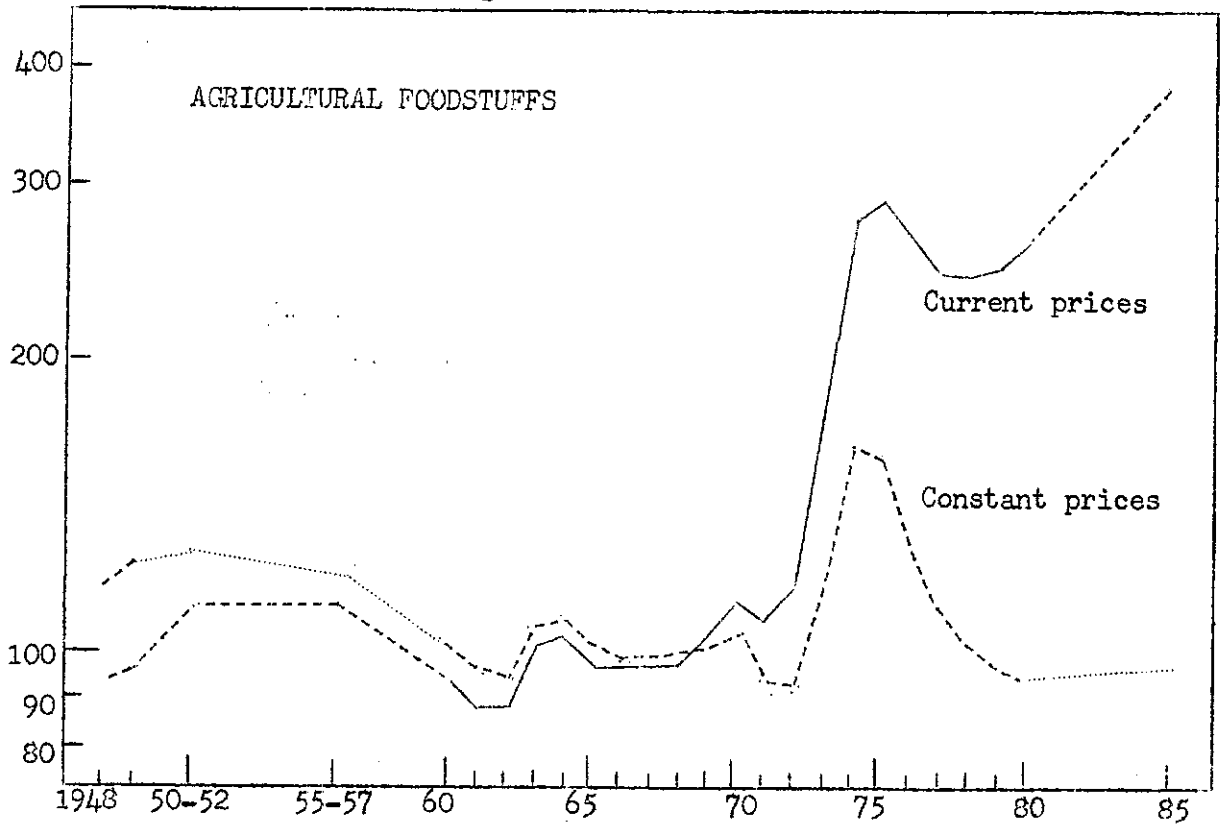
^{4/} Canada's generalized system of preferences came into force on 1 July 1974, while at the end of December in the same year the United States Congress passed the law under which the United States' preferential system can be brought into operation in the early months of 1975.

Figure 8

INDEXES OF PRICES OF AGRICULTURAL FOODSTUFFS AND
AGRICULTURAL RAW MATERIALS

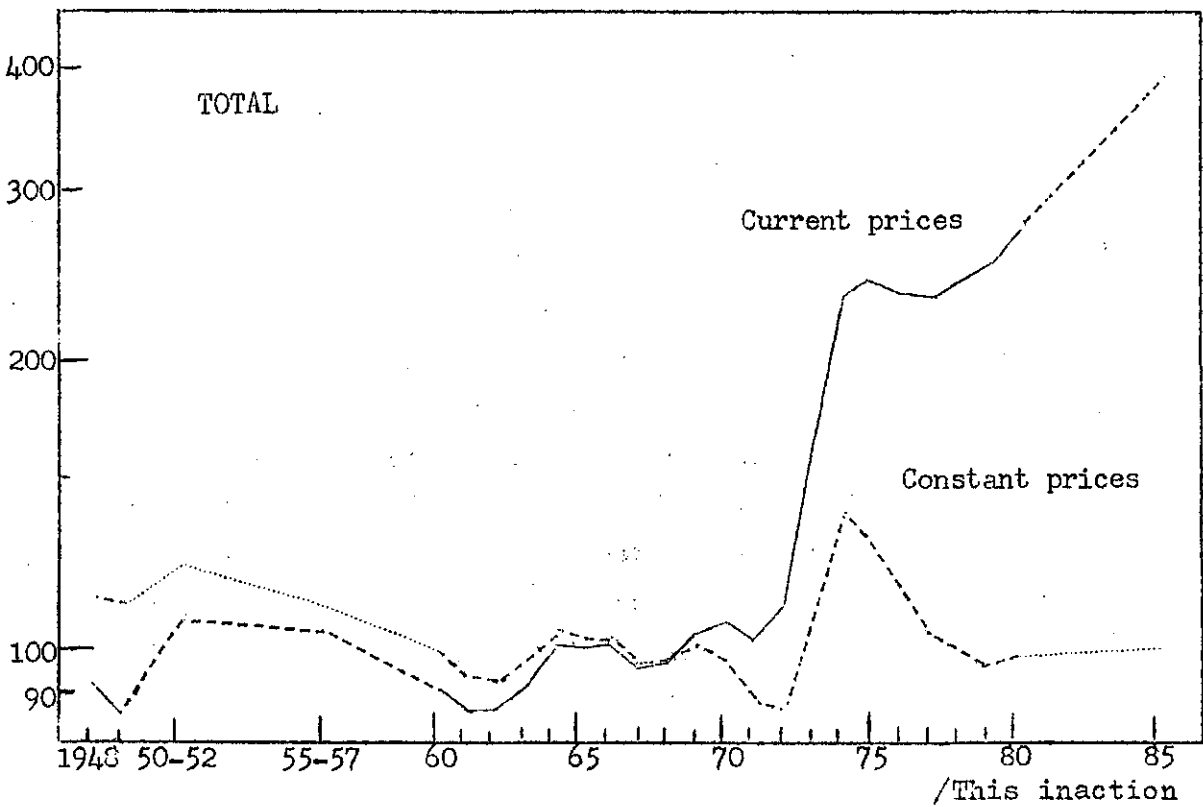
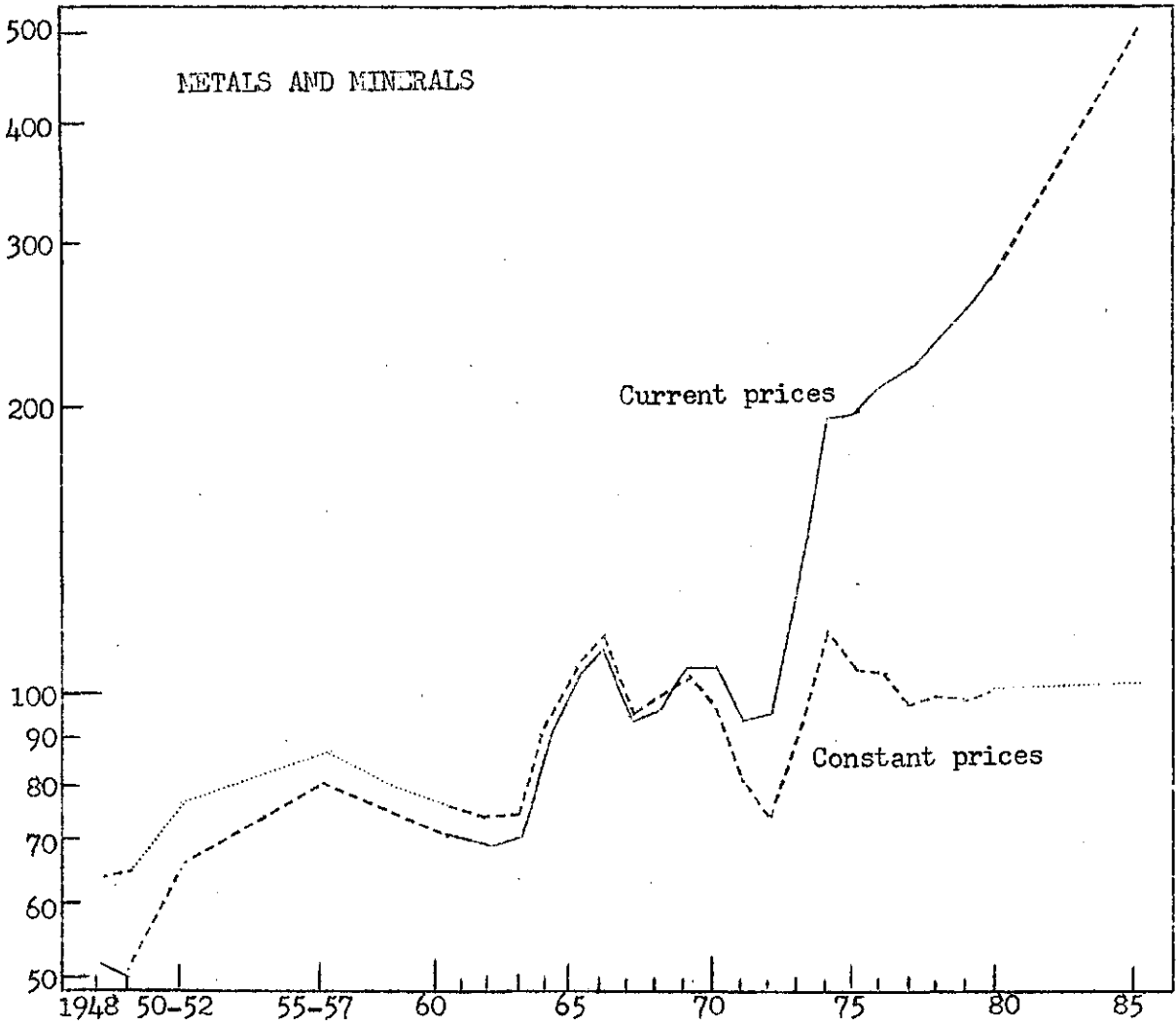
(Index 1967-1969 = 100)

Semi-logarithmic scale



/Figure 9

Figure 9
INDEXES OF PRICES OF METALS AND MINERALS, AND TOAL
(Index 1967-1969 = 100)



This inaction might be partly explained as resulting from the decision adopted at the beginning of 1972 by the major trade areas (the United States, the European Economic Community (EEC) and Japan) to organize a new series of trade negotiations with the participation of all countries (whether or not Contracting Parties to the General Agreement on Tariffs and Trade (GATT)). The intention was not only to make further progress in the liberalization of tariffs for manufactures, but also to negotiate the reduction or elimination of non-tariff restrictions and - for the first time - to include agricultural products. Following up this line of thought, it could be added that the problems arising in connexion with the reform of the international monetary system likewise helped to divert the attention that might have been given to the grave problems of the developing countries. They at last became the object of consideration when, owing to a variety of circumstances, the prices of certain products began to rise, a process which affected the wheat market first (where a major share of exports came from developed countries), and which spread to other products in the course of 1973, culminating in the decision of the petroleum exporter countries to raise petroleum reference prices considerably. The final outcome was that a special session of the General Assembly was convened to examine world commodity trade problems.

The Programme of Action for the establishment of a new international economic order adopted at the special session (April and May 1974) devotes considerable attention to the problems of trade in raw materials and foods. For the most part, however, the recommendations for action in this field merely ratify and expand those included in the International Development Strategy, which in their turn are a condensation of the proposals formulated in the course of a long period of discussion in UNCTAD and in the Economic and Social Council. In other words, from the conceptual standpoint the Programme of Action does not make many new contributions to the body of proposals and recommendations on commodity trade problems; but it does have a great value as a coherent and integrated set of tasks to be performed, for the benefit of the developing countries, in areas as trade, the monetary system, industrial development, the transfer of technology, etc.

/In the

In the sphere of international commodity trade, however, it is evident that the recommendations of the International Development Strategy and the Programme of Action will not be translated into practical moves or specific policy decisions unless a new approach to the problems and their solutions is essayed. In brief, this new way of handling them, would consist essentially, though not exclusively, in shelving the "commodity-by-commodity" treatment on which all consultations and negotiations have been based during the past twenty years, and adopting instead a multiple approach, both because it covers several products simultaneously, and because it implies the integration of various types of measures.

In the Final Act of the first session of UNCTAD, recommendation A.II.1, consideration had already been given to the desirability of adopting this multiple approach through the negotiation of agreements on groups of products; but in practice the commodity-by-commodity treatment continued to prevail both in the organization and conduct of intergovernmental consultations and during the phase of negotiation of agreements. The gestation of these agreements, moreover, has always been a very slow and difficult process (the cocoa negotiations lasted for about 16 years), not so much because of the complexity of the technical problems that have to be solved as because of the delays in arriving at a consensus on key aspects of the operation of the agreement (distribution of quotas, pricing, regulations in respect of stocks and production targets). The latest experience of the commodity-by-commodity approach was a series of intensive consultations on 15 primary commodities organized by UNCTAD with the co-operation of FAO, which never got as far as passing the stage of problem identification and proposals for possible lines of international action, and entering on the stage of negotiations. This is yet another example of the attitude towards these problems which has prevailed in certain sectors of the international community: an attitude which has been

/characterized by

characterized by requests that new studies be prepared and committees or groups of experts be set up, and by the everlasting postponement of substantive decisions, pending new reports on research.

This same attitude was recently displayed in the consideration of the proposals prepared by the Secretary-General of UNCTAD with respect to the adoption of an integrated programme for commodities.^{5/} The key features of these proposals include:

- (i) a resolute effort on the part of all the countries concerned with trade in a certain product or group of products to move on from the stage of consultation to the stage of negotiation;
- (ii) incorporation of new principles and operational patterns in international commodity agreements or arrangements (in addition to those traditionally included), such as linkage between export prices and an index of import prices; co-operative action on the part of producer countries; more widespread use of buffer stocks (or stabilization reserves); compensatory payments to exporters; and other complementary measures.

The integrated character of the programme would lie, in the first place, in that it would be prepared and supervised by a central organ (which would establish directives, determine time schedules and monitor implementation), and secondly, in that "action prepared for individual commodities would be more multidimensional than in the past, i.e., it would cover, where appropriate, a range of complementary measures relating to such aspects as marketing, promotion, processing, diversification and access to markets, as well as pricing policy".^{6/}

^{5/} See resolution 124 (XIV) adopted by the Trade and Development Board in relation to this proposal, in "Report of the Trade and Development Board on the first part of its fourteenth session", TD/B/528, 24 September 1974. The proposition of the Secretary-General of UNCTAD is presented in "An overall integrated programme for commodities", TD/B/498, 28 August 1974.

^{6/} "An overall integrated programme for commodities", op.cit., p. 7.

5. Background information on national or international commodity policies

It is well known that virtually all developed countries consider the support of agricultural prices and incomes of their domestic producers an accepted and necessary policy to assist what is considered an under-privileged sector of their respective economies. This policy emanated from period when agricultural surpluses were building up and prices fell accordingly. A number of techniques were, and continue to be, used by Western Europe and the United States, ranging from guaranteed income levels, to price and income parities, buffer stocks, production controls, reduction of output (for example, by leaving land to lie fallow), deficiency payments and others. Thus the manipulation of agricultural prices is, and has long been, an established principle in the highly developed market economies of Western Europe and the United States. It is likewise a fact that while the administration of these policies is often intricate and complex in its technical aspects, the problem is considered of such magnitude that a great deal of ingenuity and effort is being applied to overcoming the technical and administrative obstacles. This includes, where needed, the use of financial resources to achieve the objectives sought.

While domestic policies admittedly operate within a framework difficult to achieve at an international level, the issue could be regarded from three different angles: (a) the tendency of national experience to show that, in general, the necessary know-how can be mustered to overcome technical difficulties inherent in international commodity marketing arrangements; (b) the need for financial resources to operate an international scheme and the presence of political will in the different countries to make the necessary commitments; and (c) the need for reconciliation of possible conflicts between national farm support policies with the extension of similar policies to an international level.

Developing countries also have taken measures to improve the position of their agricultural producers, in particular as regards export earnings. Agricultural marketing boards, although originally used in developed countries, became increasingly accepted in the

/developing countries

developing countries of Africa. The "caisses de stabilization" which operated in the former French territories, stabilized prices by accumulating reserve funds during periods of high export prices and drawing from them when prices were low. Such buffer funds, as well as other techniques including quantity regulation by fixed price and deficiency payment schemes, are widely used in Africa and to a certain extent in Asia. In Latin America, buffer stocks are mainly used to stabilize internal prices, but the evidence seems to suggest that marketing boards for exports have not found the same widespread acceptance as in other parts of the world.

As to regional arrangements, the Common Agricultural Policy of the European Economic Community, while promoting the agriculture of its member countries, does not resolve the problem of access to this market by outside producers, particularly in Latin America. The position of Latin America is, in this respect, peculiarly unfavourable, since African countries associated to the EEC do have preferential access to that market. Furthermore, the final stage has been reached in negotiations to expand coverage of the association to include 44 countries of Africa, the Caribbean and the Pacific.

The EEC arrangements with some developing countries are significant because they provide examples of multilaterally negotiated regional agreements of which commodity arrangements - including preferential access to markets, price support schemes and stabilization funds - form an integral part.

Developing countries of the British Commonwealth enjoy a special trade relationship which, although not as explicit or widespread, with Britain's entry into the EEC may provide alternative commercial linkages. In this respect Latin America is alone among the major developing regions, in that it has no explicit or implicit preferential trade arrangements with developed countries, individually or as a group, for commodities or for that matter other products, except of course under the generalized preferences (GSP) accorded to all developing countries.

/International commodity

International commodity market organization is one of the major economic questions on which a systematic and institutionalized agreement has eluded policy-makers in developed and developing countries. Unlike the other two institutions envisaged by Lord Keynes, which became the International Monetary Fund and the International Bank for Reconstruction and Development, a general council for commodity controls did not materialize.^{7/} Under such a council a series of individual commodity marketing arrangements were contemplated, with price stabilization to be achieved largely through international buffer stocks.

The French proposals made during the 1960s, and known as the Pisani-Daumgartner plan, recommended (a) market organization for temperate-zone agricultural products; (b) the use of surpluses to accelerate development, to combat hunger, and as means for additional investment in developing countries; and (c) market organization for non-agricultural and tropical agricultural commodities. These proposals reflected a dissatisfaction with the operation of the world market which had become divorced from national markets for the same commodities. The proposals put forward in the United States by Henry A. Wallace for an "Ever Normal Granary" and by Charles F. Brannan in favour of income support for farmers, provide examples of techniques whose application could be explored at the international level. UNCTAD has suggested specific intergovernmental measures that could be adopted internationally to reduce excessive short-term instability and to strengthen long-term trends in commodity markets. To achieve these goals, several techniques have been recommended, including international buffer stocks, export quotas, multilateral contracts, foreign trade levies, and others.

Despite intense activity at the international level since 1945, results have been disappointing as regards the interests of developing countries, and of Latin America in particular. Five commodity

^{7/} The Keynes memorandum on "The international control of raw materials", dated April 1942, was recently found in the archives of the United Kingdom Treasury and has been reprinted in the Journal of International Economics, Vol.4, No 3, August 1974.

agreements have been concluded under United Nations auspices, on wheat, tin, sugar, coffee and cocoa; but, except in the case of tin, the non-participation of major producers and/or consumers have reduced their effectiveness. It should be borne in mind that the early agreements after the First World War were initiated by metropolitan countries and included essentially producers. Gradually, governments became more closely identified with these schemes and consumers' or importers' interest were more directly involved. The Havana Conference of 1947 concluded that intergovernmental agreements were preferable to producer-cartel arrangements and that the co-operation of consumer interests in importing countries was desirable. However, the need to reach consensus among a much larger number of countries increased the complexities of subsequent negotiations, which - in part - may account for the limited progress achieved.

In this connexion, new techniques for commodity stabilization have been explored, such as those advanced by UNCTAD for a multi-commodity stabilization operation, including a series of buffer stocks, supported by a central fund.

Much literature has been devoted by writers in developed countries to discussion of the relationship between export income and economic development. While opinions may differ on the extent of the causal relationship, there is little doubt that commodity agreements reduce fluctuations both in prices and in export receipts. Others feel that agreements provide advantages of an extra-economic nature, since the perfect competitive international market does not exist in real life. It is suggested that instead of trying to influence the markets directly, developing countries should place more emphasis on pooling their exports and strengthening their bargaining power. The problem of access to developed markets is also adduced as an argument in favour of arriving at an internationally-agreed marketing scheme, including an international insurance fund financed mainly by importing countries.

/Following the

Following the 1973 energy crisis and rising commodity prices, a number of new proposals have been put forward by developed countries. For example, a draft paper by the EEC Commission was circulated in Geneva, suggesting international stockpiling agreements to make world prices of grains, dairy produce, sugar and rice less volatile. In the United States the private but influential Committee for Economic Development called for a revision of United States agricultural policy to include government-controlled stockpiles of key foodstuffs. These stockpiles would be used in times of shortage to stabilize food prices, meet trade obligations, and assist in providing emergency food needs of poor countries. Oil-producing nations, in turn, are proposing to link the prices of raw materials produced by developing countries to those of the manufactured goods those countries import.

The need for a global resources management to guarantee their rational and equitable distribution was recommended by an UNCTAD panel, and the Secretary-General of UNCTAD stressed the convergence of interests of producer and consumer nations at this critical juncture. Consumer countries have become more concerned with the need for assured supplies of essential foods and raw materials, and for a more orderly price situation. Thus the stage is set for new and imaginative approaches, which together with the political will - notably lacking in the past - may clear the way for new breakthroughs in the field of international commodity marketing.

6. Priority aspects of international action
regarding commodities

Under the terms of Trade and Development Board resolution 124(XIV), the governments requested the Secretary-General of UNCTAD to present more detailed proposals for the integrated programme for commodities, including suggestions as to the techniques that might be applied to specific commodities or groups of commodities and their feasibility and financial implications, so that the Committee on Commodities and the Trade and Development Board can discuss them at their meetings in 1975.

/The production

The production and commodity trade policies applied by most of the developed countries, as briefly reviewed in the foregoing section, together with the steps taken to adopt internationally the techniques and regulations successfully tried out at the national level, would appear, in the light of the present status with regard to relations between developed and developing countries, to warrant a more optimistic view of the possibilities that the international community may decide to undertake concerted action which will respect the aspirations of the developing countries in the field of trade and development financing. In the commodity trade sector, which for the majority of the developing countries is still the most vulnerable, the Latin American countries have generally supported the initiatives and proposals emanating from competent international agencies such as UNCTAD or other members of the United Nations system (or have participated directly in their formulation); and this same attitude was displayed in the preliminary discussion of the proposal regarding an integrated programme for commodities put forward by the Secretary-General of UNCTAD at the meetings of the Trade and Development Board in September 1973. Both this integrated programme and the General Assembly Programme of Action constitute a body of measures which have been the subject of discussion in international agencies for many long years, for which reason it would seem unnecessary to analyse them in detail on the present occasion. Nevertheless, brief reference should be made to two of these measures, because they have aroused the greatest interest in recent discussions and because they represent, up to a point, progress in respect of the instruments that might be used for seeking solutions to specific commodity trade problems of the developing countries. They are the formation of "producers' associations" and the "indexation of prices".

"Producers' associations" (which in the General Assembly Programme of Action it was agreed to encourage) may be considered a special case, or a form of international commodity arrangement, differing from traditional agreements in the significant respect that the countries importing the product in question do not participate. It should be

/noted that

noted that in the recommendation which may be considered the charter of international commodity agreements - recommendation A.II.1 of the Final Act of the first session of UNCTAD (adopted unanimously) - , it is stated that such agreements "should take due account of the interests of exporting and importing countries", but it is not expressly stipulated that the latter must officially participate in arrangements of this kind. In effect, some of the leading world importers of commodities have refused to participate in certain agreements which are now, or were formerly in force. The participation of importer countries certainly makes it easier in many cases, or possible in others, to monitor or officially control the observance of specific regulations governing trade in a particular commodity; but if the developing countries have to choose between not having an agreement on a given product because the leading importer countries will not accede to it, or having an agreement based on the consensus of the principal producer countries, they would obviously have to favour the second option, granted that the production and marketing characteristics of the commodity concerned did not make it unadvisable. Nothing would seem to justify the presumption that "producers' associations" would become abusive concentrations of power, since the interests of the producer countries as exporters set limits which they could not overstep without damage to themselves. Nor does it appear reasonable to assume that all producers' associations would be faithful copies - in their organization and in their action - of the model afforded by the Organization of Petroleum Exporting Countries (OPEC). Moreover, the experience of OPEC itself and of groups of producer countries in various regions which have participated in some of the traditional commodity agreements, demonstrates that identity of objectives does not preclude internal differences of opinion in the quest for maximum grounds of common interest.

/Some of

Some of the developed countries have adopted an openly hostile attitude to the formation of producers' associations among the developing countries.^{8/} The alternative that they might offer to the countries of the Third World would be a more positive approach in the negotiation of commodity agreements of the traditional type and in the financing of buffer stocks.

"Indexation" relates to the establishment of a link between price movements of imported goods (or of a selected group of them) and the prices of an export commodity or group of commodities, in such a way as to keep the purchasing power of the export product or products constant. A study prepared by the UNCTAD secretariat analyses in detail the indexation procedures used at the national level in various countries and the technical aspects of the application of an indexation formula at the international level.^{9/} In the opinion of the UNCTAD secretariat, "the study (on indexation) was a first step only, but on the basis of this first step, the Secretary-General's finding was that indexation was technically feasible, capable of gradual introduction and operation by various mechanisms, and potentially an effective antidote to the harm done by international inflation. Whilst not the complete answer to the problem of commodity instability, it would be a far-sighted advance in the crucial area of pricing policy".^{10/}

As in the case of other commodity trade questions, the preliminary discussion on indexation in the Trade and Development Board revealed that a certain number of developed countries consider the application of this principle impracticable or undesirable. The great majority of the developing countries, on their side, recognize that such a system affords them a defence against the constant deterioration of the terms of trade.

^{8/} The most drastic opposition seems to be that reflected in the 1974 Trade Act passed by the United States Congress at the end of last December, inasmuch as it establishes that countries members of producers' associations will be excluded from the United States' general system of preferences when it enters into force.

^{9/} "The indexation of prices. Study by the UNCTAD secretariat", TD/B/503, Sup.1, 30 July 1974.

^{10/} "Report of the Trade and Development Board on the first part of its fourteenth session", op.cit. p. 37.

B. EXPORT OF MANUFACTURES AND THE GENERALIZED
SYSTEM OF PREFERENCES

1. Export of manufactures 11/

The exceptionally high growth of exports of manufactures of many Latin American countries during 1973 will be easily surpassed in 1974, according to estimates based on data for six to seven months trade and on the complementarity agreements or bilateral agreements reached on export programmes. This unprecedented performance of exports of manufactures was translated into an annual growth rate of 48 per cent during the early years of the 1970s, for the nineteen countries of Latin America taken together (excluding Cuba) and the four English-speaking countries of the Caribbean. This is an even more significant indicator if account is taken of the dynamic rate which was maintained during the previous decade (18 per cent per year), which saw the launching of a systematic promotion of exports of non-traditional manufactures and the effective beginning of the trade flow based on these products. (See table 5.)

11/ As defined by the Standard International Trade Classification Sections 5, 6, 7 and 8 (with the exception of Division 68). This definition does not cover all exports of manufactures, for it does not include some of the traditional exports, marketed in large quantities outside Latin America, which, at current prices, have been increasing in value at an annual rate of approximately 12.5 per cent since 1965. The exports of manufactures excluded from the definition used here amounted in 1965 to 54 per cent of those covered, whereas at present they represent only 13 per cent. From this stems the desirability, for the present diagnosis of the Latin American external sector, of adopting this limited definition compared with the wider one used in Chapter IV, Part One, which deals with industrial development, since it forestalls the minimization of the effect of exports of manufactures promoted by national policies and by complementarity agreements between countries or transnational enterprises. To put it differently, the relative reduction in the exports of traditional manufactures would have blurred the facts presented in the text.

Table 5

LATIN AMERICA: EXPORT OF MANUFACTURES AND SEMI-MANUFACTURES

(Percentages of current values)

	1. Annual growth rates				2. Selected ratios expressed as percentages of exports of manufactures			
	1960- 1970	1970- 1973	1973- 1974	1970- 1974	1960	1970	1973	1974
<u>Exports of manufactures</u>								
Argentina, Brazil, and Mexico	...	42	86	51				
Andean Group	...	44	56	46				
Latin America (23 countries)	18	42	71	48				
<u>Total Exports</u>								
Argentina, Brazil, and Mexico	6.7	27	28	27				
Latin America (23 countries)	5.8	18	67	29				
<u>Exports of manufactures as a percentage of total exports</u>								
Argentina, Brazil, and Mexico					...	17	24	34
Latin America (23 countries)					2.95	9	15	15
<u>Exports of manufactures</u>								
Argentine, Brazilian, and Mexican exports as percentage								
Latin American exports(23 countries)					...	71	73	78

Source: ECLA, on the basis of official foreign trade statistics.

/Although total

Although total Latin American exports also showed exceptionally high increases during 1973 and 1974, it would appear that during the past year the total volume of trade levelled off at a time when the prices of some raw materials and petroleum were rising. In any event, the rate of growth in 1970-1974 was appreciably lower than that of exports of manufactures. In this context, the growing exports of manufactures would have offset the drop in the real volume of trade and maintained its dynamic performance. Their share of total exports tripled over the period 1960-1970, and this figure almost doubled in the three following years, and it is thought that it will continue to increase during 1974, in spite of the effect, mentioned earlier, of higher prices for many of the primary commodities exported by the region. Thus, the growing exports of manufactures are making a special contribution to the accumulation of foreign resources, and they seem indispensable, in respect of both the balance of payments and the level of domestic economic activity.

During the 1960s the performance of exports of manufactures to Latin America itself was more dynamic than that of total exports; they grew by 28 per cent per year, amounting to approximately 46 per cent of the total. On the other hand, in the early years of the 1970s a relative downturn in the growth of intra-zonal trade was observed, particularly between the member countries of LAFTA, and there was an increase in the exports of manufactures to the rest of the world by the three large countries. However, it is believed that the exceptional expansion of exports of manufactures during 1973 and 1974 went hand in hand with a strengthening of intra-zonal trade, part of it due to the various complementarity or bilateral agreements reached, and the internal decisions taken by transnational enterprises. This situation is the result of the different performances of the countries, explained by their size, and the diversification of their economies. The medium-sized and smaller countries make a smaller contribution to Latin America's exports of manufactures, but the majority of these are exported within the region itself, particularly those exported by the Central American and Caribbean countries.

/On the

On the other hand, the larger countries improved their competitive strength in other markets, channelling large portions of their exports of manufactures to these markets, and reducing the intra-zonal trade coefficient owing to their relatively high share of Latin American foreign trade. The possibilities of growth of intra-zonal trade should not, therefore, be under-estimated, particularly if one bears in mind that the present world economic situation would lead one to expect the introduction of import restrictions by the industrialized countries, for the levels of exports of manufactures are beginning to play a major role in the maintenance of the levels of economic activity in the countries of the region.

In this respect, special mention should be made of the growing importance of intra-zonal exports of manufactures, the demand for which has high income-elasticity, and they include goods which are normally imported from developed countries. As is shown in another part of this diagnosis of the external sector 12/ the structure of intra-zonal trade tends to be similar to that of extra-zonal imports, and is gradually taking a form different from that of exports to the rest of the world. This would appear to be indicative of a regional import substitution process, conducive to the broadening of the bases of co-operation and integration programmes between the countries of Latin America in the manufacturing sector. This probably marks the beginning of the break with the traditional lack of symmetry in the Latin American external sector which is responsible for its chronic strangulation. In other words, import substitution and the export of manufactures do not constitute elements which run counter to the development process in Latin America, nor alternative policies to this process, but rather complementary objectives.

This evolution of exports of manufactures in Latin America is strongly influenced by the performance of the three large countries - Argentina, Brazil and Mexico - which, from year to year, increase their share of total trade. Their marked relative importance is even growing, since in these three countries the proportion of exports of manufactures in the export total is increasing, and is considerably higher than that of Latin America as a whole.

12/ See Section C of this chapter, "Imports and development".

/Similarly, the

Similarly, the expansion of exports of manufactures in these countries taken as a group or individually is probably the underlying cause of the increase in the value of total exports. Furthermore, although the three larger countries are those maintaining the high rate of growth of exports of manufactures, the phenomenon is rather widespread in all the countries of the region, particularly among the countries of the Andean Group, which during the period 1970-1974 recorded an annual rate of growth very close to the overall figure. The fact that the large countries have the largest share in the export of manufactures, which is explained by their size and the diversification of their economies, should not make us underestimate the relatively lower rates of growth of the remaining twenty countries of Latin America, since they represent singular advances in the development process of these nations, and in the integration of the sub-regional economies.

2. The Generalized System of Preferences (GSP)

With the entry into force of the Canadian scheme in July 1974 and the possible introduction of the United States scheme in 1975 as programmed, the Generalized System of Preferences will be in force in almost all the developed countries. This is taking place at a time when the new world economic situation is placing greater stress on the need to maintain a satisfactory rate of growth in developing country exports. Undoubtedly, the demand outlook for the manufactured products of the major countries granting general preferences will not be very favourable should the contraction of their economies become more acute and this could weaken the effectiveness of the System. It, therefore, seems that urgent steps must be taken not only to improve the substantive aspect of the schemes connected with the Generalized System of Preferences but also to adopt various complementary measures to promote the exports of manufactures and semi-manufactures of the countries benefiting from the schemes. Furthermore, there are other factors which have produced and will continue to produce a real and potential erosion of the advantage offered by the GSP; among them are the expansion of the European Economic Community (EEC), the creation of the Free-Trade area between the EEC and the European Free-Trade Association (EFTA), the intensification of the special relations of the EEC with the Associated countries and those

/of the

of the Mediterranean Basin, as well as the multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT). To prevent these factors from weakening the positive effects of the GSP, the losses arising in respect of benefits should be compensated through the improvement of the scheme, without prejudice to other compensatory measures.

Furthermore, since more than three years have passed since the introduction of the preference schemes in several countries, experience acquired points to some of the aspects of those schemes which could be improved. First, mention has been made on several occasions of a serious limitation to the present GSP schemes, namely, the fact that processed agricultural products are only included in very limited amount - Chapters 1 to 24 of the Brussels Tariff Nomenclature (BTN).

Experience in recent years has also shown that for the majority of the products included in the GSP, this has not provoked any major problem in the markets of the countries granting preferences, and that there is, in reality, no need to set as restrictive a ceiling on imports as that contemplated in the schemes of the EEC and Japan.^{13/}

The substitution of the new general safeguard clause for the present system of quotas also has its disadvantages, which could be of less consequence if the countries granting preferences were to guarantee a minimum import ceiling to the beneficiary countries before those countries could have recourse to the enforcement of the safeguard clause. This minimum ceiling could be determined annually, automatically and in accordance with pre-established formulas (for example, the same which has been used to fix quotas so far). On the other hand, it would also be necessary - as set out in the proposal for the forthcoming multilateral trade negotiations - to modify the pertinent GATT articles to establish a more prudent set of rules for using the safeguard clauses

^{13/} The Government of Japan stated that since 1973 it has been applying a flexible criterion in respect of global quotas. The EEC, for its part, has not suspended the preferential tariffs for the majority of non-sensitive products and has applied de facto a flexible rule.

Results in recent years point towards another important aspect, namely, that the use of the GSP is limited to a small number of countries mainly due to the limited cover given to agricultural products, which are those of greatest importance to a large number of developing countries, particularly the relatively least developed ones. These suffer disadvantages in their systems of production and marketing of goods, and have less experience and potential in the economic, technical, and financial fields as a result of which they are not able to make appropriate use of the passive advantages provided by the preferences; to do so they need active complementary measures. In the absence of such measures, the ceilings established for individual beneficiaries, which aim at the equitable distribution of the benefits between the developing countries have not made any effective contribution to improving the lot of the relatively less developed countries, and on the other hand, have constituted one of the constraints which have had the most powerful neutralizing effect on a sizable part of the global quotas.

The GSP of the United States apparently lays down more flexible criteria on the ceiling for each beneficiary country than the principal schemes in force. (See table 6.)^{14/}

As is known, in the United States scheme a ceiling is established on which basis imports originating in each of the beneficiary countries cannot exceed 50 per cent of the total imports from all other sources; for their part, the EEC and Japan begin by establishing a ceiling for the total of imports from those developing countries enjoying preferential treatment, and also indicate a maximum figure for imports

^{14/} The reference of the Generalized System of Preferences of the United States are based on the Trade Bill which the Congress of this country debated during 1974. At the end of December Congress voted this Law (one of the articles of which refers to the Generalized System of Preferences) but an official text is not yet available, as a result nothing is known of the nature and scope of the amendments introduced in the original Bill. Therefore, the observations made here are only valid to the extent that the final approved text tallies, in the main, with the original Bill.

Table 6

THE GENERALIZED SYSTEM OF PREFERENCES - THE SCHEMES OF THE PRINCIPAL COUNTRIES COMPARED

EEC		United Kingdom <u>a/</u>	United States <u>b/</u>	Japan	Scandinavian countries	Remarks on the most suitable system for the developing countries	
1. Non-agricultural products (Chapters 25 to 99 of the BTN)							
Margin of preferences	Average tariff applied to MFN <u>g/</u>	9.8 - 9.9 (w.a.) 9.1 (a.a.)	-	7.2 (w.a.) - 10.7 (a.a.)	6.6 (w.a.) - 11.1 (a.a.)	-	The higher margin of preference is in principle preferable
	Average tariff applied under GSP	Zero	Zero (with the exception of 5 products)	Zero	Zero (with the exception 48 products subject to a preferential tariff of 50% of the MFN tariff)	Zero	
	Average margin of preference <u>d/</u>	9.8 - 9.9 (w.a.) 9.1 (a.a.)	-	7.2 (w.a.) - 10.7 (a.a.)	Less than 6.6 (w.a.) 11.1 (a.a.) for the 48 products exempt from the 50% only	-	
Preferential quota (ceiling for preferences) for beneficiary countries as a whole		Basis quota (value of imports from beneficiary countries in the base year) plus the supplementary quota (5% of the value of imports from non beneficiary countries in the year before last)	None (instead the use of safeguard clauses is planned)	None (instead the use of safeguard clauses is planned)	Basis quota (value of imports from the beneficiary countries, in the base year) plus the supplementary quota (10% of the value of imports from non-beneficiary countries in the year before the last)	None (instead the use of safeguard clauses is planned)	The application of a safeguard clause is preferable to fixing a ceiling for preferences, provided that the safeguard clause is not applied unilaterally to the detriment of the beneficiary countries
Preferential quota (ceiling for preferences) for each one of the beneficiary countries		50% of the global quota for the majority of products; 20 to 30% of the global quota for the remainder	None	(50% of total imports or 25 million dollars which ever is less)	50% of the global quota	None	If no ceiling exists for the countries as a whole (a situation which as we have seen is preferable) the ceiling fixed as a proportion of global imports could prove more flexible than the application of a fixed figure, provided that the quota applies to aggregate groups of goods and not to detailed tariff series. If there is a ceiling for the countries as a whole it is also preferable that a ceiling per country be applied so that benefits would not be totally absorbed by a small number of countries (but the application of a country ceiling must be sufficiently flexible).
Products included <u>f/</u>		All except 48 products (in addition several textile products are excluded for the majority of developing countries <u>a/</u>)	All except 112 products	There is to be a positive list (the majority of textile products and other sensitive products are to be excluded from this list)	All except 10 products	All except between 25 and 63 products (depending on the countries granting the preferences)	
2. Agricultural products (Chapters 1 to 24 of the BTN)							
Margin of preferences	Average tariff applied to MFN <u>h/</u>	Between 7.7 - 19.1 (w.a.) Between 7.8 - 9.7 (a.a.)	-	5.2 (w.a.) 9.1 (a.a.)	Between 7.8 and 10.2 (w.a.) Between 19.7 and 20.1 (a.a.)	-	
	Average tariff applied under GSP	Between 20 and 100% of the MFN tariff)	Zero (with the exception of 6 products)	Zero	(Between 20 and 100% of the MFN tariff)	Zero for the majority of products	
	Average margin of preference <u>i/</u>	Between 20 and 100% of 7.7 - 19.1 (w.a.) 7.8 - 9.7 (a.a.)	-	5.2 (w.a.) 9.1 (a.a.)	Between 20 and 100% of 7.7-10.2 (w.a.) 19.7-20.1 (a.a.)	-	
Preferential quota (ceiling for preferences) for beneficiary countries as a whole		Safeguard clauses	Safeguard clauses	Safeguard clauses	Safeguard clauses	Safeguard clauses	
Preferential quota (ceiling for preferences) for each one of the beneficiary countries		Safeguard clauses	Safeguard clauses	(50% of total imports or 25 million dollars) <u>j/</u>	Safeguard clauses	Safeguard clauses	
Products included <u>k/</u>		50 products	68 products	Approximately 80 products	72 products	Between 11 and 52 products (depending on the countries granting preferences)	

Source: ECLA, on the basis of the GSP established by each of the countries indicated.

a/ This scheme was in force up to the end of 1973; b/ In accordance with the project under review; g/, d/, h/ and i/ w.a. refers to the weighted average and a.a. to the arithmetical average; whenever two figures are given, the lesser figure corresponds to the underestimated averages and the higher figure to the overestimated averages; g/, j/ This is not a quota as such, but the so-called "formula of competitive necessity", that is to say, preferential treatment will not be given to the product of a country if this country has supplied amounts of this product valued at more than 25 million dollars or more than 50% of the total imports of the United States in the last year for which complete data are available. Furthermore, according to the senators' version on the Trade Bill the figure of 25 million dollars will be increased by a rate equivalent to the rate of growth of the GNP calculated on the basis of dollars at current prices; f/ and k/ The numbers of the products refer to the four-digit series of the BTN; g/ The preferences are not applied to textile products of some importance from developing countries which have not signed the long-term cotton textiles international trade agreement.

/from each

from each one of those countries, which cannot exceed 50 per cent of the overall quota set for all of them. The United States establishes an optional ceiling of 25 million dollars for each one of the beneficiary countries; the Community quota of the EEC, established for the beneficiary countries as a whole, falls below this 25 million dollar figure, except for two products. The result is that in the case of the percentage ceiling as well as in that of absolute values, the United States system - when it comes into force - will perhaps be less restrictive for the developing countries benefiting from the Generalized System of Preferences.^{15/}

In addition to those aspects mentioned which the GSP schemes must put right, mention should be made of other necessary improvements, such as the adoption of more flexible standards in respect of origin (rule of collective origin, which takes account of the value added not only in one country, but also in the developing countries as a whole, or in those which form part of a regional economic integration scheme), the simplification of Administrative procedures (including the harmonization of administrative schemes and rules of the various countries granting preferences so as to facilitate the use of these rules by enterprises in the developing countries, etc.).

According to a study carried out by the UNCTAD secretariat,^{16/} the value of imported products included in the EEC (expanded), the United States and Japanese schemes, taken together, would amount to approximately 3,255 million dollars in 1970 (of which 3,025 million would correspond to products under chapters 25 to 29 of the BTN). Of this figure, 1,078 million dollars correspond to the EEC, 771 million to Japan and 1,407 million to the United States. The total figure

^{15/} As is known, in the EEC scheme there are three groups of products: sensitive products, semi-sensitive products and non-sensitive products. For the sensitive products there is an annual Community quota up to which ceiling the preferences apply to all the beneficiary countries; each one of these countries is separately subject to a limit which ranges between 20 and 30 per cent of the overall quota.

^{16/} UNCTAD, The generalized system of preferences and the multilateral trade negotiations (TD/B/C.5/26), March 1974.

for imports covered by the GSP of the three countries - according to this very study - represents 9.5 per cent of the overall imports of those countries from the developing countries (5.4 per cent for the EEC, 11.4 for Japan and 17.9 per cent for the United States), and 22.4 per cent of imports subject to customs duties. These figures provide an indication of the size of the major benefits which the developing countries would have received if the United States had introduced its system of preferences for the same period in which the EEC and Japan did so, that is, in mid-1971. (See table 7.)

In any event, the magnitude of the value of imported products included in the GSP schemes is rather high compared with the imports of manufactures and semi-manufactures, or non-traditional products by the developed countries from the developing countries, and, therefore, the possible loss of the margin of preferences for those products could have considerable consequences. Furthermore, as the UNCTAD study referred to states, the fact that only 22.4 per cent of the products subject to customs duties are covered by the GSP schemes means that the possibility of expanding these schemes to include new products is even greater particularly in respect of the products included in chapters 1 to 24 of the BTN, which are of interest to Latin American countries in particular.

3. The Generalized System of Preferences of the EEC

On the basis of preliminary calculations, Latin American exports included in the GSP probably represent no more than 3 or 4 per cent of the total exports of Latin America to the EEC; however, the figure would probably be in the region of 30 per cent if non-traditional products only are taken into account, that is to say, manufactures and semi-manufactures, but excluding processed foodstuffs. Furthermore, 40 per cent of the export products included in the scheme are subject to certain restrictions, such as overall quotas, quotas per beneficiary country, etc. (See table 8.)

Table 7

EUROPEAN ECONOMIC COMMUNITY, UNITED STATES AND JAPAN: SELECTED INDICATORS RELATED TO THE GENERALIZED SYSTEM OF PREFERENCES

(Millions of dollars at current prices)

	EEC expanded a/	United Kingdom b/	United States c/	Japan d/
Total imports	116 524	21 728	45 476	18 881
Imports from the developing countries e/	19 821	4 886	12 401	6 754
Imports from countries having special relations:				
EEC associate countries f/	2 239			
"Associable" countries g/	1 867			
British Commonwealth developing countries		2 317		
Imports of products subject to customs duties, from developing countries:				
Agricultural products h/	4 517	960	1 890	509
Non-agricultural products i/	1 515	638	6 537	3 437
Total	6 032	1 598	8 427	3 946
Imports of products covered by the GSP, from developing countries:				
Agricultural products	86	58	95	22
Non-agricultural products	992	423	1 110	749
Total	1 078	481	1 205	771
Of this total:				
Imports from countries having special relations:				
EEC associate countries	46			
"Associable" countries	36			
British Commonwealth developing countries		367		
Imports from Latin America:				
Total imports	4 395	768	5 310	(1 400) ^{k/}
Imports of products included in the GSP	176 ^{l/}	43	753 (449) ^{l/}	(53) ^{m/}

Source: UNCTAD, The Generalized System of Preferences and the Multilateral Trade Negotiations (TD/B/C.5/26) and Operation and effects of the general preferences granted by the United Kingdom (TD/B/C.5/7); House of Representatives (U.S.), Hearings before the Subcommittee of the Interamerican Affairs of the Committee on Foreign Affairs, 93 Congress, 1st period of sessions.

a/ Under the EEC 1973 scheme, on the basis of data on 1970 imports.

b/ Under the United Kingdom scheme in force up to end of 1973, on the basis of data on 1970 imports.

c/ Under the scheme proposed in the draft Trade Bill, on the basis of import figures for 1971.

d/ Under the Japanese 1973 scheme, on the basis of data on 1970 imports.

e/ 97 developing countries, with the exception of the United States column which refers to beneficiary countries.

f/ The countries associated under the Yaoundé and Arusha agreements.

g/ The British Commonwealth countries of Africa and the Caribbean with the exception of Kenya, Uganda, Tanzania and Mauritius.

h/ Chapters 1 to 24 of the BTN

i/ Chapters 25 to 99 of the BTN.

j/ ECLA provisional estimate; excludes imports of Denmark and Ireland.

k/ Figure for 1972.

l/ Imports subject to preferential treatment calculated on the basis of "the formula of competitive necessity".

m/ ECLA provisional estimate for 1972.

Table 8

EUROPEAN ECONOMIC COMMUNITY: SELECTED INDICATORS RELATED TO IMPORTS FROM
LATIN AMERICA UNDER THE GSP, 1970

(Millions of dollars CIF)

	EEC imports				
	Argentina	Brazil	Mexico	Argentina, Brazil and Mexico	Latin America
(1) Total imports	799.5	857.2	121.1	1 777.8	3 551.0
(2) Imports of traditional primary commodities a/	660.3	725.8	86.3	1 472.5	3 095.8
(3) Imports of non-traditional products [= (1) - (2)]	139.1	131.4	34.8	305.3	455.2
(4) Manufactures and semi- manufactures b/	32.9	71.9	25.7	130.4	180.0
(5) Principal processed food products c/	39.4	12.3	3.8	55.5	74.4
(6) Total imports of products included in the 1972 GSP	13.7	53.9	25.5	92.5	(130.0) d/
a) Sensitive products	5.1	26.7	6.5	38.4	-
b) Semi-sensitive products	0.3	3.9	3.3	7.5	-
c) Non-sensitive products	7.6	23.4	15.8	46.7	-
Percentage of imports of products included in the GSP with respect to:					
Total imports (6)/(1)	1.6	6.3	21.2	5.2	(3.7) d/
Imports of non-traditional products	9.4	41.1	73.4	30.3	(29.2) d/
Imports of manufactures and semi-manufactures	39.8	75.0	93.3	70.9	(73.8) d/

Source: OCDE, Statistics of Foreign Trade; UNGTAD, Operation and Effects of the Generalized Preferences
Granted by the European Economic Community (TE/B/C.5/3).

a/ Products corresponding to groups and chapters 011, 041, 044, 051, 061, 071, 072, 08, 12, 21, 221, 263, 281, 283, 331, 42 and 68 of the SITC.

b/ Products included in the sections 5 to 8 of the SITC excluding Division 68.

c/ Products corresponding to groups 012, 013, 031, 032, 054, 055, 291 and 292 of SITC.

d/ Highly tentative estimate.

It is still not easy to evaluate the true magnitude of the effects of the GSP of the European Economic Community on Latin American exports.^{17/} Nevertheless, available information shows that there were appreciable increases in exports included in the GSP by the more industrialized countries of the region. For example, there were major increases in the issue of certificates of origin for exports with general preferences (in the majority consigned to EEC markets) in Argentina: the value covered by the certificates more than doubled between the second half of 1971 - when the EEC scheme came into force - and the second half of 1972, and continued to increase, although at a slower rate.

A high percentage of Latin American exports included in the EEC scheme fall into the category of sensitive or semi-sensitive products subject to quota systems. Products for which the majority of the Latin American countries have greater possibilities of exporting towards the European market are to be found among them, but - because of the quota mechanism - preferential treatment for them was suspended some time before the end of the year in question: for example, bovine hides from Argentina, Brazil and Uruguay, some cotton textiles from Colombia, a certain type of sawn wood from Brazil, lead oxide from Mexico; in addition to various other products for which preferential treatment to all beneficiary countries was suspended on several occasions.

Among the non-sensitive products, for which the preferential system is more flexible, the greatest increase in EEC imports from Argentina, Brazil and Mexico between 1970 and 1972 occurred in respect of the following groups of products: essential oils (especially from Brazil), skins and hides (excluding bovine and equine hides and skins), leather articles, fur skins and articles of wood (especially from Brazil), electrical machines and appliances, parts for transport

^{17/} Because, among other reasons, detailed statistical data on external trade with the EEC based the harmonized nomenclature for foreign trade statistics (NIMEXE) are only available for 1972, the only year completed since the GSP of the EEC came into force in mid-1971.

equipment, etc. Although at the same time a drop can be seen in the imports of some other products, it can be affirmed that there was a considerable increase in preferential imports by the EEC from Latin America in respect of non-sensitive products.

The following events should be highlighted in connexion with the assessment of the use made of the GSP by the Latin American countries. The granting of preferences to products of agricultural origin (chapters 1 to 24 of the BTN) is rather limited, both in respect of a number of products of this group included in the EEC system and the margin of preference granted to each one. This is due to the organization of the agricultural markets (common agricultural policy) and the need to maintain a higher preferential margin in favour of the associated countries. This feature of the GSP of the Community limits in particular the possibilities of Latin American exports of manufactures and semi-manufactures, since processed agricultural products, constitute one of the most important items of Latin American exports of manufactures.

Even with the preferences granted by the GSP, the developing countries not associated with the EEC - as is the case with the Latin American countries - will find themselves in a better position in this market only vis-à-vis the United States and Japan as suppliers of manufactures, when the expansion of the Free Trade Area agreed upon between the Community and the present members of EFTA 18/ is finalized and further advances are made in the special relations with the Mediterranean countries which are strong competitors with Latin America in the field of manufactures. The existence of special preferences granted to associated countries is a further limitation to the advantages of the EEC Generalized System of Preferences for a large number of Latin American countries, precisely because the GSP excludes a large number of products included under chapters 1 to 24 of the BTN, as well as other products of interest to Latin America, among them base metals up to the lingot stage.

18/ Austria, Finland, Island, Norway, Portugal, Sweden and Switzerland.

The EEC introduced some improvements in the 1975 GSP which were translated basically into the increase in the number of processed agricultural products, the conversion of an appreciable number of sensitive products into semi-sensitive products, and the widening of the preferential margin of products under chapters 1 to 24 of the BTN. It should be noted that the inclusion of new agricultural products is basically in line with the demands made by the Asian countries of the British Commonwealth which were not associated with the EEC, although they also include some products of interest to Latin America. Moreover, there still remain among the various sensitive products of interest to Latin America, bovine hides and skins, leather travel articles, sports gloves, certain electronic appliances, diodes and transistors, etc. It is worth repeating that the EEC did not consider it possible to include, in preparing the 1975 scheme, the list of products submitted by the Latin American countries in 1974. No improvement whatever has been seen in the textile products sector. It is also important to point out that the basic quota continues to be calculated on the basis of four-year old information (1971), and that the increase in the supplementary quota is still insufficient, for a large part is absorbed by monetary inflation. In sum, although some progress has been made, it seems to have been rather limited, particularly if the erosion both real and potential, of benefits granted by the EEC's GSP to the generalization of its special relations with a large number of countries is taken into account.

4. The EEC's special trade preferences

Whereas the Generalized System of Preferences of the EEC applies to all the developing countries, the special trade preferences granted by the EEC apply only to its associates and to certain countries with which it has entered into trade agreements with a view to the eventual creation of a Free-Trade Area; therefore, these preferences mean possible distortions in the conditions under which the different

/groups of

groups of the developing countries compete. The developing countries which will be associated with the EEC and would enjoy these preferences number approximately fifty. They already make up a high proportion of the total of developing countries, and comprise with the EEC a very large economic block. The group includes the countries which have signed the Yaoundé and Arusha Agreements, those of the British Commonwealth, five African countries which belong to neither of those groups, and six Mediterranean countries which have become associate members under separate agreements (Cyprus, Greece, Malta, Morocco, Tunisia, and Turkey). In addition to those countries, the EEC has entered into agreements with a view to the eventual creation of a free-trade area with four more countries of the African-Mediterranean zone (Egypt, Spain, Israel and the Lebanon), as well as with the seven EFTA countries.

The GSP offers limited benefits so far, given that the preferences apply only to the value of imports from the developed countries in a base year, plus a small percentage of the CIF value of EEC imports from other sources, and, in addition, certain sensitive products are subject to separate quotas per country. On the other hand, the special preferences allow the unlimited entry of almost all the products subject to these preferences. The EEC is not obliged to extend these special preferences to all countries to which they grant most-favoured-nation treatment, for the corresponding lowering of tariffs is being carried out as a stage of the process of the formation of a free-trade area, and is therefore covered by the clauses of article XXIV of GATT on customs unions and free-trade areas. However, a considerable number of GATT members are not in agreement with this EEC declaration.

So far, the EEC agreements with the beneficiaries of the special preferences have made provision for the granting of reverse preferences by these countries. However, it is possible that a change will be introduced in the new agreement that the Community is negotiating with its former and new associates, and that the reverse preferences will not continue to be obligatory but rather voluntary.

/If this

If this does not happen to be the case, the countries which will have the obligation of granting reverse preferences to the Community will not be beneficiaries under the United States Generalized System of Preferences. On the other hand, of the EEC associate developing countries do not have this obligation, it is possible to make a case to the effect that a pre-requisite for the constitution of a free-trade area is missing and therefore the preferences that the Community is granting to associates would have to be extended to all the countries to which they grant most-favoured-nation treatment.

On the other hand, it is hoped that the new Convention will make provision for the entry of the main exports of EEC associate countries free of duty and non-tariff restrictions, and for more favourable treatment to be given to basic and processed agricultural products which are similar to or compete with those of the Community, since they have so far been subject to less favourable treatment under the different special preferential systems, having been covered by the rules of the Common Agricultural Policy.

In order to be able to appreciate the significance of the special preferential systems for Latin America, one must bear in mind the patterns of trade relations between Latin America and the EEC, and between the latter and its associates, these are examined further on. In that context it is stated that in the years 1970-1972 the EEC absorbed an annual average of 27 per cent of the total exports of Latin America, but the latter does not have the same importance as on EEC market, given that in the same period the region did not absorb more than 7 per cent of the exports of the Community (excluding intra-Community exports). In the same period Latin America bought 11 per cent of its imports from the United States. Another pertinent factor is the fact that the EEC market absorbs from the countries which were signatories to the Yaoundé Convention, and from its Mediterranean associates (Cyprus, Greece, Malta, Morocco, Tunisia and Turkey) a much higher percentage of its exports than the percentage given for Latin America. In the case of the former it amounts to almost 75 per cent.

/In mid-1973,

In mid-1973, the ECLA secretariat undertook a study of the Agreements signed by the EEC with the countries signatory to the Arusha Convention and the Second Yaoundé Convention, and with Greece, Turkey, Morocco, Tunisia, Malta, Spain and Israel, under which the Community had granted special trade preferences which were not extendable to other countries under the most-favoured-nation clause. Later on, other Mediterranean countries signed similar agreements with the Community (Cyprus and Lebanon) and it is hoped that in a near future others will be added to this group. Some of the conclusions reached in this study are still valid and are summarized below.

(a) The products of importance in Latin American exports which are not subject to special preferences granted to a group or more of the countries linked with the EEC are very few;

(b) The intensification of the tariff and non-tariff advantages that the EEC is extending to the associate countries and the considerable expansion of the number of beneficiary countries, as well as the creation of new mechanisms to promote imports from such associate countries constitute a threat to the Latin American exporting countries or a danger-greater than those they have had to face so far in the EEC market;

(c) On the positive side it has been seen that so far Latin America has succeeded in maintaining the level of its sales of certain products in the EEC markets in spite of the competition of the Mediterranean and African countries, which have the advantages of geographical proximity and preferential treatment. This is so, for example, in the case of beef, wheat, fish, corn, other cereals and bananas. However, in the case of products such as oranges, other fresh fruit, fruit juices, nuts, fixed vegetable oils, and raw cotton, Latin America is facing rather stiff competition from the countries which enjoy special preferences from the EEC.

(d) The special preferences granted by the Community to the associate countries and to the developed countries of EFTA with which they form a free-trade area, are weakening the effects of the preferences that the EEC is granting to all developing countries

/under the

under the Generalized System of Preferences. The two Systems, in general, cover the same products (even in the case of the products included under chapters 1 to 24 of the BTN) and whereas the GSP applies only to a given volume of imports of a given product, the special preferences allow, in the majority of cases, unlimited imports.

5. The Generalized System of Preferences of Japan

Preliminary estimates based on official statistics show that Japanese imports of Latin American products under the GSP preferential treatment represent approximately 4 per cent of the total imports of this country from the region in 1972, the second year in which the System was in operation. This percentage is similar to that of Japanese imports under preferential treatment from all the developing countries, compared with its total imports from those countries. However, it ought to be stressed that if the global quota system and individual quota system did not exist, imports under preferential treatment from the developing countries would have been approximately three times higher. Preferential treatment was suspended when the quotas were filled for eighty products in the 1972 fiscal year. In view of this decision taken by the Japanese Government, in June 1973, not to suspend preferential treatment even when the value of imports exceeds the pre-established global quota, with respect to products whose imports do not affect national industry, seems to be of some importance.^{19/}

As regards imports from Latin America, effected under preferential treatment, it should be pointed out, first of all, that the number of products imported under the GSP benefits are still very limited, and that an appreciable part of them is made up of raw materials, particularly non-ferrous metals (such as silver and aluminium, for example), although several non-traditional products also benefit from preferential treatment, for example automobile parts, and precious

^{19/} This flexible rule applies to 110 groups of products of the 109 classified groups of products for the purposes of fixing the maximum limits. (UNCTAD, Operation and effects of the Generalized System of Preferences: Japanese scheme, TD/B/C.5/17/Add.9.)

and semi-precious stones. Among the Latin American products for which preferential treatment was suspended in 1972 those worthy of mention are hides and leather articles (Argentina and Colombia), skins (Argentina), woods (Brazil), silk yarn (Brazil), yarn and fabrics of romic (Brazil), hats (Ecuador), iron and nickel alloys (Brazil), parts for electronic calculators (Argentina), cables (Argentina), wagons other than railway wagons (Mexico), etc. The quotas established for these products were in general very small.

Furthermore, for a large number of products the quotas were far from filled, and a few countries were able to take considerable advantage of Japan's GSP, among others, South Korea, Spain and India. The imports, covered by preferential treatment, from the first of these countries compared with total imports from both countries are estimated at approximately 20 per cent.

It ought to be pointed out that under the origin criterion established by the Japanese GSP, materials or parts for many finished products, with the exception of textile products, imported from Japan are considered materials or parts originating in the countries benefiting from the preferences.^{20/} It could be assumed that a significant part of Japanese imports under preferential treatment from some Asian countries is made up of products processed under sub-contract arrangements.

In sum, although there has been some progress in the use made of the GSP by Latin America, the value of Japanese imports from the region is still rather small. If Latin American countries are to derive greater benefit from the scheme, a substantial improvement in the GSP and the adoption of active complementary promotion measures will prove indispensable. Among such measures, mention should be made of the dissemination of information on the Japanese market.

^{20/} See for example, UNCTAD, The generalized system of preferences: further improvement and harmonization in the rules of origin (TD/B/C.5/WG(V)2), September 1974.

6. The General System of Preferences of
the United States 21/

The General System of Preferences of the United States has not yet come into effect, although Congress and the President have finally approved the "Trade Act of 1974" which embraces it. Title V of this Act would allow developing countries duty-free treatment, over a ten-year period, for a broad range of manufactured and semi-manufactured products and for a selected list of agricultural and primary products which are at present regulated only by tariffs. A positive list of such eligible products is to be drawn up through joint efforts of the President and the US Tariff Commission and the President would thereafter have a margin for limiting or improving the scope of the scheme.

The inclusion of articles in the positive list would be subject to (a) a number of conditions and limitations stemming from rules of origin criteria; (b) whether the product in question is subject to public assistance measures for the benefit of the corresponding national industry; (c) whether the product has proved to be highly competitive in United States' markets (the critical mass being either US annual imports of 25,000,000 dollars or more, or 50 per cent of the US import market); and (d) the "import sensitivity" of the article due either to its inclusion in some international agreement, its relation to the country's protective agricultural policy, its subjection to some escape clause of GATT, or possible prejudicial effects on a US industry. Products affected by considerations in points (b) to (d) would not be granted preferences. Concerning point (a) - rules of origin - it is stipulated that "the sum of the cost or value of materials produced in the beneficiary developing country plus the direct costs of processing carried out in the beneficiary country shall equal or exceed a prescribed percentage of the appraised value of the

21/ Since an official copy of the Trade Act is not yet available, this study is based on the provisions contained in the Trade Reform Act of 1973 which has now become the Trade Act of 1974.

article at the time of its entry into the customs territory of the United States". Concerning the prescribed percentage, it is stated that this shall be "that percentage not less than 35 per cent and not more than 50 per cent of the appraised value, prescribed by the Secretary of the Treasury by regulations".22/

The designation of beneficiary developing countries likewise is subject to a number of limitations. The President must take into account: (a) the expressed desire of a country to be designated; (b) the economic development level of such a country; (c) whether other major developed countries are extending similar preferences and (d) whether the country has nationalized US citizens' property without adequate compensation. The President cannot designate any country a beneficiary developing country if its products are not receiving most-favoured-nation treatment from the US or if it is granting reverse preferences to another developed country.

There have been several attempts to evaluate beforehand the effects which the proposed system could have for the United States and the developing countries, and within this group, the Latin American and Caribbean region in particular, culminating in recommendations for liberalization and improvement of the scheme. These attempts were based on preliminary lists of products (some agricultural, but mostly non-agricultural) likely to be included in the scheme.

It is generally agreed that the overall impact on United States balances of trade and payments would not constitute any serious threat to the economy. A United States Tariff Commission report, with projections to 1980, concluded that "...in the aggregate, preferences granted by the United States to the developing countries will have a rather small impact on the United States economy".23/ Imports of the sample 160 commodities studied accounted for 4.4 per cent of the

22/ United States Government, the Trade Reform Act of 1973, Hearings before the Committee on Finance, United States Senate, Part I. p. 152-153.

23/ United States Tariff Commission, Probable effects of tariff Preferences for Developing Countries, Washington, 1972, p.81-A.

United States consumption in 1967, would account for 5.6 per cent in 1980 without preferences and with preferences 6.0 per cent. According to another US Government source, dutiable imports in 1970 and 1971 of products that would have been eligible for preferences, had the GSP been in effect amounted to only 0.115 per cent of GNP. These products accounted for only 14 per cent of dutiable imports (5 per cent for BTN 1-24 and 16 per cent for BTN 25-99) and 10 per cent of total imports from beneficiary countries.^{24/} The same source provides a relevant comparison between Japan, the EEC and the United States, of "duty-free plus GSP eligible imports as per cent of total imports from beneficiaries", showing for Japan (46 per cent), the EEC (75 per cent) and the United States (42 per cent). The estimated increased trade impact of the GSP as a percentage of GNP was also measured. This was higher for the United States than for Japan or the Community but it was still very negligible for the United States (0.0208 per cent). The estimated net negative effect on the United States trade balance was only 51 million dollars, whereas total US imports from all sources amounted to 45,476 million. All of these data give the impression that whereas implementation of the GSP might conceivably create new competitive situations for some individual industries in the United States the effect on the economy as a whole will pass practically unnoticed. Moreover there is ample room for the United States to catch up with other developed countries in liberalizing trade for imports of the developing areas, particularly for closing the 42 per cent-75 per cent gap between the United States and the EEC mentioned above.

In attempting to estimate the effects of the GSP on future trade of the Latin American and Caribbean region it is necessary not only to know the composition and direction of its exports in recent years but also to have information concerning products of

^{24/} United States House of Representatives, Hearings before the Subcommittee on Inter-American Affairs, June 25 and 26, 1973. (Statement of Ambassador Harald B. Malmgren, pp. 55-56.)

potential export interest which might be traded under improved market access conditions. The preparation of this type of information requires very extensive field research and consequently the most recent consolidated list of present and potential export products from Latin America to the United States is one prepared in 1969 for a meeting of CECLA,^{25/} covering almost 2,000 items, about 10 per cent of which correspond to BTN 1-24, and the remainder to BTN 25-99. A sample covering 85 per cent of the United States' imports from 20 Latin American countries in 1972 shows that 47 per cent of actual imports corresponded to BTN 25-99. A comparison of this list which identifies products by SITC, BTN and TSUS with one annexed to an UNCTAD document ^{26/} showing by BTN and TSUS, which products would be subject to United States GSP reveals the following: in the case of BTN 1-24 where it is generally considered that the preferences will have little importance, it was found that about 22 per cent of the TSUS five-digit items would be subject to preferences. In the case of BTN 25-99 about 86 per cent of the items would be subject to preferences. A further group of products in the list enters duty-free.

Efforts have been made to estimate what portion of Latin America's exports to the United States would have been subject to preferences had the system been in effect in 1971. However, they do not take into account potential new exports resulting from the system. According to figures covering about 80 per cent of such exports prepared by the Overseas Development Council,^{27/} items eligible for preferences would have accounted for only 7 per cent of all dutiable items, 4 per cent corresponding to manufactures and semi-manufactures and 3 per cent to other products. The import value of items eligible for preferences was 4.8 per cent of the total value of 80 per cent sample of US imports from

^{25/} CECLA, VI E/2 Add.3/Rev.1, April 1969. "Derechos Aduaneros y restricciones cuantitativas aplicadas por los Estados Unidos a productos de especial interés para los países latinoamericanos."

^{26/} UNCTAD, Efectos del esquema de preferencias generalizadas propuesto por los Estados Unidos de América, TD/B/C.5/20 of 19 February 1974, Annex I.

^{27/} See Comercio Exterior, August 1973, p. 787. "Las preferencias arancelarias de Estados Unidos a América Latina y las negociaciones multilaterales" by Guy Erb. (Note: The same figures were provided in Mr. Erb's statement at the Hearings before the Subcommittee on Inter-American affairs on June 25 and 26, 1973.)

Latin American and Caribbean countries, but one third of total sample value enters duty-free. According to the same source, about three-quarters of the estimated trade eligible for preferences bore duties of 10 per cent or below; thus the margin of the preferences, as well as the fiscal impact for the United States is low. About 60 per cent of the import value of items that would have been subject to preferences corresponded to Mexican exports and only 10 per cent to Brazilian. A more significant relationship is probably that of value of imports of products eligible for preferences and the value of total dutiable imports as shown in table 9.

When comparing the value of products eligible for preferences with the value of total imports, it is necessary to take into account the degree of liberalization (duty-free) that already exists for the imports coming from each individual country or group of countries.

Controversy concerning the proposed GSP has been centered mainly on clauses relating to how beneficiary countries should be designated and how eligible products should be determined. The main suggestions that could be made, taking into account the results of analysis made in UNCTAD and CECLA documents and the views expressed by witnesses from within the United States appearing at Hearings before the US House of Representatives Subcommittee on Inter-American affairs would be to (a) eliminate or at least modify the competitive need formula with its 50 per cent - 25 million dollars limit; (b) interpretation of rules of origin criteria which are still somewhat ambiguous; (c) avoid withdrawal of preferences when a national industry is seeking relief; (d) provide for the preparation of negative, instead of positive, list of products, in order to include more exports of developing countries in the system; (e) eliminate the clause permitting the President to deny preferences to a country which has nationalized a US industry without adequate compensation, and (f) eliminate textiles from the list of sensitive products not subject to preferences in view of the fact that imports of these into the United States would already be protected by the International Textile Agreement.

Table 9

UNITED STATES IMPORTS PRINCIPALLY SUPPLIED BY SELECTED
COUNTRIES AND INTEGRATION GROUPINGS, 1971

(Millions of dollars)

	Argentina	Brazil	Mexico	Central American Common Market	Andean Group	Caribbean Common Market <u>a/</u>
1. Items eligible for preferences	6	23	120	5	31	2
2. Total imports of which:	113	662	780	141	1 496	234
Dutiable	98	221	622	18	1 124	143
Duty-free	15	441	158	123	372	141
Items eligible for preferences as percentage of dutiable items	6.1	10.4	19.3	27.8	2.7	1.4
Duty-free imports as percentage of total imports	13.3	66.6	20.0	87.2	24.9	49.6

Source: Figures extracted from "Hearings before the Subcommittee on Inter-American Affairs of the Committee on Foreign Affairs", House of Representatives, United States Government, Washington, 25-26 June 1973, p. 23.

a/ Barbados, Guyana, Jamaica, Trinidad and Tobago.

C. IMPORTS AND DEVELOPMENT 28/

1. Overall trend of imports

During the 1950s and the first half of the 1960s, for every 1 per cent increase in Latin America's gross product there was a rise of 0.4 per cent in regional imports. As from the mid-1960s, however, the ratio changed substantially. Between 1965 and 1973 the average ratio of the annual rate of growth of imports to that of the product was 1.3, i.e., if the product grew by 6 per cent annually, imports went up by 7.8 per cent.

In some countries the growth rate of imports was even faster in relation to that of the product. In the period 1965-1973 the ratio, or elasticity of imports, was nearly 2 in Brazil and 1.8 in Chile, and between 1965 and 1971 it was 1.8 in Argentina, but subsequently declined. In Ecuador, Mexico and Venezuela these elasticities were between 1.2 and 1.5.29/

It is interesting to note two cases which present a different trend from those indicated above, associated with an intensification of import substitution.

The first is Peru, where the elasticity of imports with respect to the product was nearly 2 between 1959 and 1967 as the result of a liberal import policy. In the last few years, however, an all-important role has been assigned to industrialization and import substitution within the context of the Andean sub-region, which brought the elasticity coefficient of imports in relation to the product down to 1. The second case is that of the countries of the Central American

28/ In the ECLA Survey, under the provisional title "Economic integration and import substitution in Latin America" (in course of preparation), a fuller and more detailed analysis is presented of the characteristics of the import substitution process in the various countries and in sectors of industry linked to Latin American economic integration.

29/ In Part One, Chapter II, "Economic trends: global aspects", the main variables were calculated at 1970 prices, while in this section the series calculated at 1960 prices have been used. Although the figures are different, the conclusions presented are none the less valid.

Common Market which from 1961 to 1973 underwent a process of import substitution at the regional level, supplemented by a sharp increase in intra-area trade. As a result, during this period the elasticity of imports was 3.1 for intra-area trade and 1.2 for trade with countries outside the area. Accordingly, the growth of intra-area trade was three times that of the product, while extra-regional trade grew at a slightly higher rate than the product. In the Central American Common Market the import substitution process was also observed to be fairly intensive up to the last few years of the 1960s, i.e., during the period when the Common Market made its most vigorous progress. From 1969 to 1973 the difficulties encountered in integration caused imports from outside the area to increase once again.

The acceleration of Latin American imports in recent years, in the region as a whole and particularly the largest countries, is accounted for by a number of factors.

As is well known, the economic policies of many Latin American countries have changed in the last few years. Restrictions on imports from the rest of the world were relaxed in the mid-1960s, in view of the greater availability of foreign exchange resulting from the acceleration of exports, especially since 1969. This more open policy was also influenced by the desire to make industry more competitive, and by the bigger flow of external financing.

This led to an increased import coefficient in the supply of demand from many sectors, particularly the chemical and engineering industries, in several countries of the region, especially those at a relatively more advanced stage of development which carry most weight in the performance of Latin America as a whole. The same situation was observed in some medium-sized countries, however, partly owing to the policies of several Latin American countries in connexion with exports of manufactures which demand a higher level of competition and greater specialization in industrial production. A number of countries encourage and facilitate imports of a considerable quantity of machinery or complete plants with a view to establishing export

/industries. This

industries. This involves a more liberal foreign trade policy, under which some of the substitutions that might have been effected in the more backward sectors of industry may not take place.

Thus far the high elasticity of the growth of imports in relation to the product reflects a phenomenon which at least in part represents the transition from a more closed economy to a more outward-looking economy. Once this more open economy is achieved the growth rate of imports may not continue so high (nearly twice that of the product) as has occurred in Argentina, Brazil and Chile since 1965. But there are other reasons for this high elasticity which bear no relation to the temporary trend in a period of transition, but rather to factors with a more lasting influence, such as those referred to below.

First, if the import coefficient of the goods produced by each sector remained constant in relation to the demand for those goods, the total average import coefficient in relation to the gross domestic product would increase in the course of time. This is due to changes in the composition of demand at different income levels. As per capita income rises, the demand for goods which include a larger proportion of imports increases more rapidly, while the demand for goods with a lower proportion of imports increases more slowly than before. Therefore, if the import coefficient of goods from each sector were frozen and the per capita product were to increase, the import elasticity in relation to the product would be more than 1. What is more, the elasticity itself is not only more than 1 but it rises as the growth rate of the product accelerates, owing to the same phenomenon of change in the structure of demand referred to above.

In other words, the first important reason for the vigorous and steady growth of imports is the increase in per capita income, which alters the structure of demand and orients it towards a more dynamic growth of goods with a higher import content. The middle and high-income sectors absorb a relatively large proportion of real demand. As they gradually satisfy their simpler needs with local products, they prefer to use the increase in their incomes to purchase

/more complex

more complex and sophisticated goods, which have a higher extra-regional import content than the former and whose production requires the purchase of inputs and capital goods abroad. It must also be remembered that technological innovations are obtained mainly from the industrialized countries. Accordingly, imports grow more rapidly than the product and the overall coefficient increases even though the import coefficient of each type of good is kept constant. If the total import coefficient remains constant over a specific period, it would be because in some types of goods a process of import substitution is taking place which compensates for the effect of this change in the structure of demand.

Secondly, intra-regional trade has promoted an increase in exports with favourable effects for the countries concerned, since it represents a factor of expansion. But the increase in intra-regional exports at the same time means an increase in the imports of each country and of the region as a whole. Thus, from 1961 to 1973, both in the Central American Common Market and in LAFTA the rate of growth of imports from the sub-region concerned was appreciably higher than that of imports from the rest of the world.

2. Structure of imports

Concurrently with the increase in the import coefficient in several countries and the rapid growth of total imports, the trend has been towards a structure of imports in which goods produced with advanced technology by the more highly industrialized sectors predominate. Import substitution in Latin America began with the production of the simpler types of goods, postponing that of other required to manufacture them. Generally speaking, there was least substitution in respect of capital goods for the production of manufactures; instead, steps were taken to facilitate such imports so as to use them in starting to produce durable and non-durable consumer goods and the simpler intermediate goods. Substitution in respect of some imports gave rise to the need to import new products the growth of demand for which cancelled out the effect of such substitution. This sequence of events

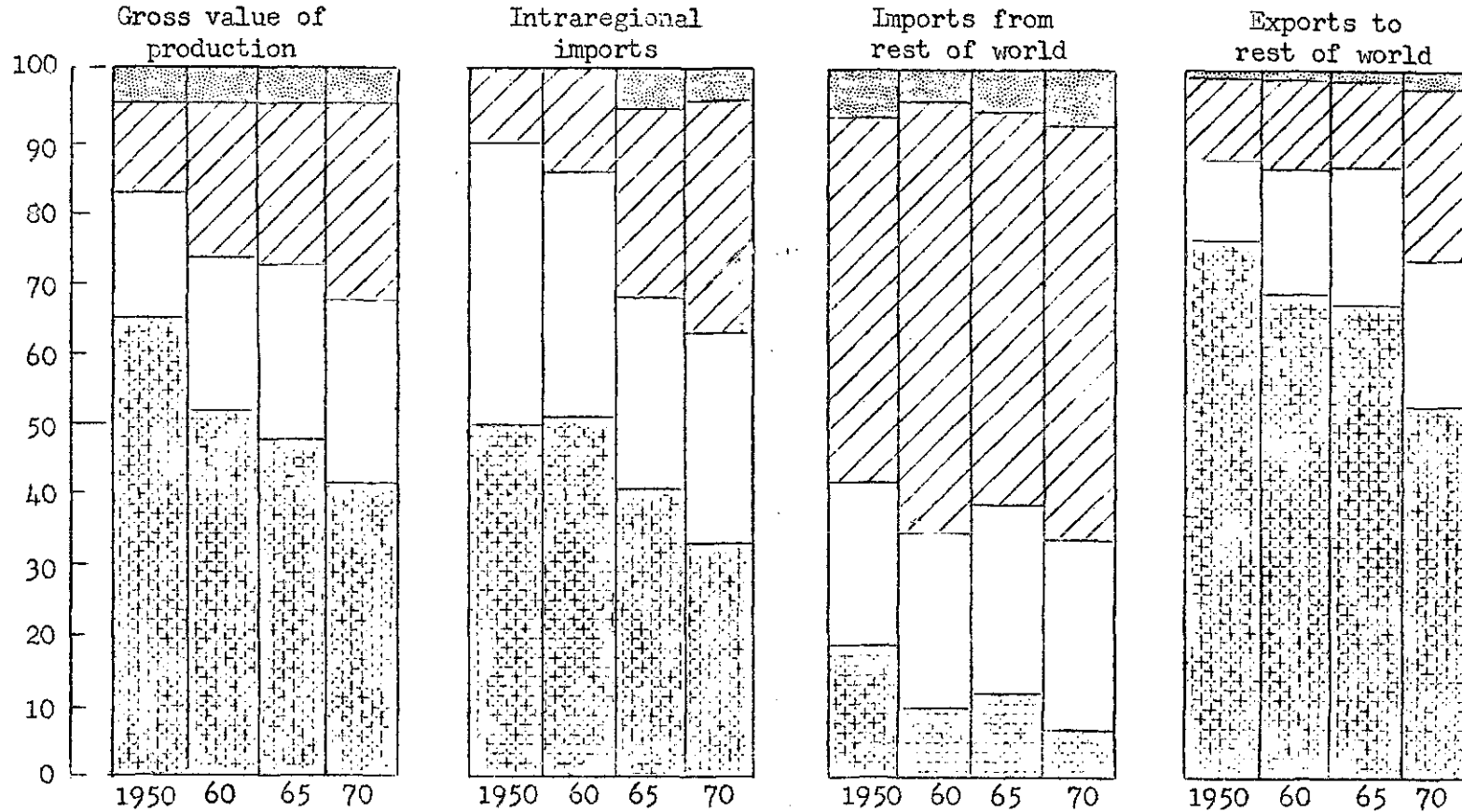
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


was not entirely inevitable. It is logical, on the one hand, that at first the production of final consumer goods should create a demand for intermediate and capital goods, and later this demand should begin to be satisfied with the production of those goods; but there is no reason for going so far in the substitution of all consumer goods before starting on intermediate and capital goods. The sequence of this substitution process leads to the asymmetry of foreign trade - i.e., the different structure of Latin American imports from that of exports - mentioned in another section of this report, which distinguishes the region from the more mature economies where, without prejudice to the various countries' specialization in certain goods or groups of goods, the structure of both imports and exports is diversified. This sequence in the import substitution process and the consequent asymmetrical structure of foreign trade are among the main reasons for the systematic trend towards a trade deficit, the external bottleneck and the consequent limitation on growth imposed by foreign trade. Although in the last few years the favourable trend of Latin American exports of primary and manufactured products has temporarily offset these negative factors, they may arise in the near future if, owing to less favourable world market conditions, exports cannot maintain their recent accelerated rate of growth.

The developments referred to in the previous paragraph are reflected in the increasing share of chemicals, metal manufactures and machinery in total imports of goods: from 53 per cent in 1950 it rose to 63 per cent in 1960, and to over 65 per cent in 1970 (see figure 10) and an estimated 68 per cent in the years 1972-1973. Although there has been some import substitution in respect of these goods, the fact that they are essential clearly exerts pressure to increase their share in total imports. A preliminary projection of import needs in 1985 indicates that with a growth rate of slightly over 7 1/2 per cent for the gross domestic product of Latin America as a whole, metal manufactures, machinery and chemical products would represent 62 per cent of total imports of goods - or a proportion similar to that of 1960 - in spite of the projection being based on

Figure 10

LATIN AMERICA : COMPARISON OF INDUSTRIAL EXPORT AND IMPORT STRUCTURES
(Percentages)



-  Miscellaneous industries (ISIC, Rev.1, 28 and 39)
-  Metal-transforming industries (ISIC, Rev.1, 34 to 38)
-  Intermediate industries (ISIC, Rev.1, 27 and 30 to 33)
-  Traditional industries (ISIC, Rev.1, 20 to 26, and 29)

Source: ECLA, on the basis of official data

/the presumed

the presumed existence of a policy of trade and industrial co-operation among the Latin American countries which would permit a far more dynamic and efficient substitution in respect of imports from the rest of the world within the context of the total Latin American market - i.e., with a sharp parallel increase in intra-regional trade - than could be the case if each country continues to push forward its industrial process without intense co-operation with the rest and, therefore, without reaping the benefits of the size of the regional market.

The structure of imports is sensitive to the balance of payments position created by exports and other factors conditioning the capacity to import. In view of the large share of capital and intermediate goods in total imports (a considerable proportion of the machinery and equipment is intended for investment purposes, and chemicals make up a major part of the intermediate goods), any reduction in the capacity to import raises the dilemma of having to restrict imports of some of these essential components, or still further limiting imports of consumer goods, which are usually already reduced to a minimum. A reduction in purchases of investment goods would jeopardize the economy's growth capacity or the possibility of replacing equipment; a reduction in purchases of inputs would immediately affect the level of industrial activity. With a healthy balance of payments position the situation is reversed, as has occurred in recent years.

This sensitivity of imports of goods of the more backward sectors in the import substitution process is evident if it is looked at by branch of industry, from the standpoint of both imports and production.

During the 1950s the structure of imports underwent fairly radical changes, whereas in the next decade the variation was appreciably less. In the 1950s there was a significant reduction in the percentage share of traditional goods, particularly food and textiles, as a result of import substitution. At the same time a sharp increase was noted in the share of the metal manufactures and machinery industries especially the transport equipment sector, despite the fact that import

/substitution had

substitution had already been initiated in these items. In the 1960s the share of traditional manufactures declined to a very small proportion, around 9 per cent of total imports (see figure 10). Imports of intermediate goods, particularly chemicals, increased in both absolute and relative terms. Those of metal manufactures and machinery fell slightly in the middle of the 1960s, which may be ascribed to import substitution in the motor-vehicle sector and which was partly offset by the corresponding increase in imports of electrical and non-electrical machinery. In those years, too, there was a slight economic recession in some countries, which was partly responsible for the reduction in imports of investment goods.

The rigidity of the structure of imports is only being overcome in the area of intra-regional trade, largely through the integration processes and their indirect effects. The structure of intra-regional imports is becoming more and more like the structure of imports from outside the region and increasingly different from that of exports to the rest of the world. While at the end of the 1960s primary products accounted for not more than one-third of total regional trade - compared with 60 per cent at the beginning of the decade - the share of metal manufactures and machinery had risen from 5 to 22 per cent over the same period.

Intra-regional trade is still limited in volume. Trade in metal manufactures and machinery amounts to not more than 6 per cent of total imports of these goods, and trade in intermediate goods to 12 per cent, while in traditional goods, despite the fact that production has increased less rapidly than that of metal manufactures and machinery, intra-regional trade accounts for a considerable proportion (36 per cent) of total imports of these goods.

3. Asymmetry of foreign trade as a sign of
immature development

The structure of imports and that of exports of the Latin American countries, even those at a relatively more advanced stage of development, show a marked asymmetry (see figure 10). The two structures are very different, and at the same time decidedly different from those of the mature developed economies. Each Latin American country exports some primary products on competitive terms; this indicates an availability of natural resources which is a positive fact of indubitable importance, as revealed by recent development in connexion with petroleum. The countries of the region have also made successful progress in the export of semi-processed primary products. Only the more advanced countries of the region have forged ahead in the export of manufactured goods produced by light industry (durable and non-durable consumer goods) and made some small headway in connexion with industrial machinery and equipment. Not until 1973 did Argentina and Brazil reach a significant level of exports of the latter type of goods, mainly to other Latin American countries.

The imports of primary or traditional products which are still made generally supply the lack of certain natural resources and it is difficult to reduce them. Substantial purchases are made of fuels, some unworked or semi-processed metal products, and food (wheat, meat, etc.). As mentioned above, imports of goods produced by light industry have been disappearing in the largest countries and decreasing in the rest owing to import substitution, while purchases of chemicals, metal manufactures and machinery have gradually increased.

The growing predominance of imports of essential goods involving a high level of technology explains why, in spite of the great strides made in import substitution and industrialization, the external vulnerability of the Latin American countries has not decreased, neither have the balance of payments difficulties they face in the course of their development. The external sector problems have changed in nature, but their potential seriousness has not diminished. When the purchasing power of exports declines or imports of essential

/raw materials

raw materials increase in price, it becomes necessary to sacrifice essential imports to the detriment of the level of economic activity and, particularly, the rate of capital formation and growth.

The import elasticity in relation to the product for Latin America as a whole - which in the period 1965-1973 was 1.3, when the rate of growth of the product was 6.2 per cent annually - is expected to increase in the next 10 years, according to preliminary estimates, if circumstances and trends similar to those observed recently continue to prevail. In the period 1975-1985, assuming an annual growth rate of 6.9 per cent for the product, the import elasticity in relation to the product would be 1.6.

This asymmetry in foreign trade, which reflects uneven internal development, is the main source of the chronic external bottleneck: goods in which world trade is increasing more slowly are exported, while other goods with a high product-elasticity of demand are imported.

The recent increases in the prices of raw materials imported by certain Latin American countries, particularly petroleum, have already created some balance of payments difficulties.

A decline which might feasibly take place in primary products that constitute a large proportion of the exports of many Latin American countries, and a possible slowing down of the growth rate of exports of manufactures, in addition to rising import prices - all of which developments are linked to the uncertain prospects of the world economy and with world-wide inflation - are a source of legitimate concern regarding the future trend of the capacity to import of the Latin American countries and its effect on economic development.

D. MARITIME TRANSPORT

1. World shipping

During the first four years of the Second Development Decade, the world merchant fleet grew by 37 per cent, to a total of 311.3 million gross registered tons (see table 10). The trend toward fleet specialization that was evident in earlier years continued. Oil tankers retained their dominant position, rising 4 per cent to 42 per cent of the world total tonnage, and bulk carriers were up 5 per cent to 25 per cent of the total. Unitized cargo (container and LASH) vessels increased their relative share from less than 1 per cent to 2 per cent.^{30/}

The apparent continuation of the trend toward specialization was due in part to a slight decrease in the absolute tonnage of general cargo ships at a time when the tonnage of all other types of ships was increasing. The specialized vessels were making inroads into the dry cargo trades traditionally served by general cargo ships, so that fewer new ships of the latter type were needed. In addition, older vessels were being scrapped at a relatively rapid rate.^{31/} Consequently, general cargo ships lost 10 per cent of their share of world tonnage, which left them with 22 per cent.

Judging from statistics about ships on order, it is likely that, in the immediate future, tankers and bulk carriers will continue to dominate world tonnage. Taken together, these two types of ships accounted for 56 per cent of the number of vessels and 92 per cent of the tonnage on order as of 31 July 1974 (see table 11). The tendency toward specialization is apparent in that orders for combined (dry bulk and petroleum) carriers, which in a sense are less specialized than either individual type, have been falling.

^{30/} Lloyd's Register of Shipping, Statistical Tables, 1970 and 1974.

^{31/} OECD, Maritime Transport 1973, p. 67.

Table 10

DISTRIBUTION OF WORLD FLEET BY GEOGRAPHICAL AREAS AND TYPES OF SHIPS, 1 JULY 1974 ^{a/}

	Total tonnage (thousands of GRT)	Tankers (thousands of GRT)	Per- cent- age	Bulk carriers (thousands of GRT) ^{b/}	Per- cent- age	Container and LASH ships (thousands of GRT)	Per- cent- age	General cargo (thousands of GRT)	Per- cent- age	Other ships ^{c/} (thousands of GRT)	Per- cent- age
World total	311 323	129 491	42	79 438	25	6 958	2	68 674	22	26 762	9
North America ^{d/}	16 889	5 147	30	3 371	20	2 389	14	4 198	25	1 784	11
Japan	38 708	16 012	41	12 595	33	1 026	3	5 443	14	3 632	9
Western Europe	136 355	58 274	43	36 374	27	3 014	2	28 733	21	9 960	7
Liboria, Panama and Bermuda	67 478	39 253	58	19 591	29	227	-	7 145	11	1 262	2
Central and Eastern Europe	5 215	650	12	1 518	29	-	-	2 292	44	755	15
USSR	18 176	3 658	20	520	3	48	-	6 854	38	7 096	39
Latin American ^{e/}	6 993	2 414	35	869	12	1	-	3 021	43	688	10
Africa	3 403	482	14	409	12	-	-	2 261	67	251	7
Asia ^{f/}	14 200	3 032	21	3 494	25	170	1	6 672	47	832	6
China (mainland), North Korea and North Viet-Nam ^{g/}	1 940	286	15	194	10	-	-	1 357	70	103	5
South Africa	535	27	5	41	8	-	-	292	54	175	33
Australia and New Zealand	1 332	255	19	442	33	83	6	338	26	214	16
Oceania	99	1	1	20	20	-	-	68	69	10	10

Source: Lloyd's Register of Shipping, Statistical Tables, 1974.

^{a/} Ships of 100 gross registered tons and over.

^{b/} Ships of 6 000 gross registered tons and over, including bulk/oil carriers

^{c/} Includes liquefied gas carriers, chemical tankers, miscellaneous tankers, miscellaneous cargo ships, vehicle carriers, livestock carriers, fish factories and carriers, fishing vessels passenger liners, ferries and other passenger vessels, supply ships and tenders, tugs, dredgers, cable ships, icebreakers, research ships and miscellaneous vessels.

^{d/} Includes United States Reserve Fleet, estimated at 2 million GRT, and the Great Lakes fleets of United States (1.66 million GRT) and Canada (1.53 million GRT).

^{e/} Includes 153 202 GRT registered in the Bahamas.

^{f/} Includes 269 945 GRT registered in Hong Kong.

^{g/} Records of ships registered in the people's Republic of China are not complete.

Table 11

WORLD SHIPS ON ORDER, 31 JULY 1974 a/

(Number of ships and thousands of deadweight tons)

	Total	Dry cargo	Container ships	Tankers	Combined carriers b/	Bulk carriers
World						
Number of ships c/	4 047	1 074	163	1 649	75	618
Tons deadweight	265 779.2	8 271.9	3 010.4	218 020.4	9 425.0	27 051.6
Latin America						
Argentina						
Number of ships	47	29	10	4	-	4
Tons deadweight	804.7	368.7	210.0	126.0	-	100.0
Brazil						
Number of ships	60	34	-	13	5	8
Tons deadweight	2 824.0	259.3	-	1 604.7	665.0	295.0
Chile						
Number of ships	6	4	-	-	-	2
Tons deadweight	114.6	61.6	-	-	-	53.0
Colombia						
Number of ships	3	3	-	-	-	-
Tons deadweight	48.0	48.0	-	-	-	-
Cuba						
Number of ships	17	12	-	4	-	1
Tons deadweight	231.3	172.8	-	31.9	-	26.6
Ecuador						
Number of ships	2	-	-	2	-	-
Tons deadweight	71.8	-	-	71.8	-	-
Mexico						
Number of ships	2	-	-	2	-	-
Tons deadweight	43.0	-	-	43.0	-	-
Peru						
Number of ships	16	1	-	3	1	11
Tons deadweight	534.8	11.0	-	90.0	150.0	283.8
Venezuela						
Number of ships	2	-	-	2	-	-
Tons deadweight	292.1	-	-	292.1	-	-
Total number of ships	155	83	10	30	6	26
Total tonnage	4 964.3	921.4	210.0	2 259.5	815.0	758.4
Percentage of world tonnage	1.9	11.1	7.0	1.0	8.6	2.8

Source: Fairplay International shipping Journal, Quarterly Supplement N° 40, 22 August 1974.

a/ Ships of 1 000 gross registered tons and over.

b/ Ore/oil and ore/bulk/oil carriers.

c/ Includes 2 dry cargo and 13 tanker vessels for which no deadweight available.

Specialization is increasingly evident even within the tanker category. Although all tankers on order of over 150,000 dwt are crude carriers, a large percentage of those under 150,000 dwt is composed of specialized carriers such as chemical tankers, liquefied gas carriers, products tankers, wine tankers, and the like. While usually fairly small as tankers go - for example, many products tankers are in the range 30,000 to 36,000 dwt - they are particularly suited to what they carry or to the routes they serve. Orders for tankers over 150,000 dwt increased in number by 76 per cent over the period mid-1971 to mid-1974, while orders for those of less than 150,000 dwt increased by 119 per cent in the same period. In mid-1971 there were 64 per cent more smaller tankers than larger tankers on order; by mid-1974 the ratio had increased to two to one.^{32/}

The recent petroleum crisis has had a great impact both on the existing world fleet and on order for new vessels. The sharp rise in the price of bunkers has caused many operators to reduce the speed of their ships to save fuel, thereby cutting the effective capacity of the existing fleet by a small but not insignificant amount. Though order for new tankers continue to be made, they have not been as numerous as expected from past experience and pre-crisis projections of demand.^{33/}

The effect of the crisis on ships other than tankers is not known with certainty. During the worst period the scarcity of bunkers caused considerable disruption of liner services. The crisis is still being named as a reason for service deficiencies, and to the extent that slow sailing has been instituted to offset rising bunker prices this reason may be valid. However, liner conferences are usually quick to pass cost increases on to shippers, so it may be that the crisis is now sometimes used as an excuse for problems whose real nature is quite different.

^{32/} Quarterly supplements to Fairplay International Shipping Journal, No 28 (26 August 1971) and No 40 (22 August 1974).

^{33/} OECD, op. cit., p. 67.

2. Development of Latin America's merchant fleet

Within the context of world shipping, the position of the Latin American region as a whole has not improved during the Second Development Decade. Between mid-1970 and mid-1974 the region's share of the world fleet contracted from 2.5 per cent to 2.2 per cent, according to Lloyd's Statistical Tables. As of 31 December 1973, Latin America's merchant fleet was composed of 776 ships of 1,000 grt and over, with a total of 5.6 million grt,^{34/} which represents an increase of 800,000 grt since 31 December 1971 (see table 12).

General cargo ships continue to dominate in the region. Although they were down by 6 per cent in the four-year period, they still accounted for 43 per cent of Latin America's total tonnage compared with 22 per cent for the world as a whole, if Lloyd's Statistical Tables are taken as a basis. Based on IEMMI's statistics, general cargo vessels in Latin America make up 53 per cent of the ocean-going fleet.

Latin America increased its oil tanker capacity by 24 per cent in the period 1970 to 1974, and by mid-1974 tankers accounted for 35 per cent of the total regional fleet. The region's share of the world oil tanker fleet amounted to just 1.9 per cent in mid-1974.

Bulk and combined carrier tonnage in Latin America rose in absolute terms, but fell off marginally from its already low world position of a fraction less than 1 per cent.

There are only one or two fully cellular container vessels operated by any Latin American country, and none are on order. However, a number of cargo vessels of recent construction are fitted to carry containers as part of their load, and more are on order. Included among them are 10 vessels ordered by Argentina whose characteristics cause them to be classified primarily as container ships, even though they are also equipped to handle non-containerized cargo at the same time.

^{34/} According to statistics compiled by the Instituto de Estudios de la Marina Mercante Iberoamericana (IEMMI), which have a somewhat different basis from Lloyd's.

Table 12

LATIN AMERICA: MERCHANT FLEET, 31 DECEMBER 1973^{a/}

Country	Ocean-going fleet				Coastal fleet				Inland waterway fleet				Total fleet	
	Tankers ^{b/}		Other vessels		Tankers ^{b/}		Other vessels		Tankers ^{b/}		Other vessels		No	GRT
	No	GRT	No	GRT	No	GRT	No	GRT	No	GRT	No	GRT		
Argentina	(1)	10 940 ^{g/}	(60)	486 458	(33)	430 283 ^{d/}	(39)	154 554	(27)	81 279 ^{e/}	(38)	90 291	(198)	1 253 805
Brazil	(13)	535 840	(92)	900 221	(29)	228 236 ^{f/}	(75)	274 985 ^{g/}	(10)	16 947 ^{h/}	(4)	5 409	(223)	1 961 638
Colombia/Ecuador	(3)	59 912	(36)	237 761	(7)	11 758	(11)	21 941	-	-	-	-	(57)	331 372
Cuba	-	-	(58)	321 866	(6)	50 221	(9)	21 373	-	-	-	-	(73)	393 460
Chile	(1)	35 048	(24)	239 776	(6)	64 571 ^{i/}	(17)	48 841 ^{j/}	-	-	-	-	(48)	388 236
El Salvador	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guatemala	-	-	(4)	7 972	-	-	-	-	-	-	-	-	(4)	7 972
Mexico	(20)	224 578 ^{k/}	(18)	127 055	(3)	20 374 ^{l/}	(8)	25 174	-	-	-	-	(49)	397 181
Nicaragua	-	-	(5)	12 149	-	-	-	-	-	-	-	-	(5)	12 149
Paraguay	-	-	-	-	-	-	-	-	(5)	5 827	(12)	13 417	(17)	19 244
Peru	(3)	21 007	(28)	226 961	(5)	46 631	(2)	13 808	-	-	(2)	3 430	(40)	311 837
Dominican Republic	-	-	(1)	1 076	-	-	-	-	-	-	-	-	(1)	1 076
Uruguay	(6)	110 094	(6)	29 574	(1)	1 032	(2)	2 992	(1)	2 127	(1)	1 622	(17)	147 442
Venezuela	(3)	66 300	(17)	85 036	(13)	227 526	(11)	29 561	-	-	-	-	(44)	408 423
Total 1973	(50)	1 063 719 [%]	(349)	2 675 905 [%]	(103)	1 080 632 [%]	(174)	593 229 [%]	11 (43)	106 180 [%]	2 (57)	114 169 [%]	2 (776)	5 633 834
Total 1971	(44)	791 998	(312)	2 269 513	(98)	1 001 896	(165)	550 090	11 (43)	106 315	2 (56)	113 529	2 (718)	4 833 941

Source: IEMMI Yearbook, 1974.

a/ Ships of 1 000 GRT and over.

b/ Including gas tankers.

c/ Gas tanker.

d/ Includes one gas tanker of 5 102 GRT.

e/ Includes one gas tanker of 1 027 GRT and two tank barges each of 1 522 GRT.

f/ Includes four gas tankers totalling 13 041 GRT.

g/ Includes one cargo barge of 6 585 GRT.

h/ Includes one tank barge of 3 399 GRT.

i/ Includes one gas tanker of 2 664 GRT.

j/ Includes three cargo barges each of 4 653 GRT.

k/ Includes two gas tankers totalling 10 833 GRT.

l/ Includes one gas barge of 1 828 GRT.

Growth of the Latin American fleet has continued to favour ocean-going ships as opposed to coastal or river vessels (see table 13). The most dramatic increase has been experienced by tankers, which were up by more than a third between 1971 and 1973. Tonnage of other ocean-going vessels increased by 19 per cent. For coastal vessels the increase has been slight, while for vessels used on inland waterways there has been virtually no change. A continuation is thus evident in the tendency noted in the period 1970-1972 for the region to try to expand its participation in its own international trade. However, as mentioned above, these efforts have not been sufficient to keep pace with the world-wide growth in merchant tonnage.

The tendency toward state ownership of ocean-going merchant fleets continues unabated. During the period 1971 to 1973 state-owned tonnage grew by 29 per cent, while tonnage in private hands grew by only 11 per cent. The countries having the strongest policies in favour of state ownership are among those whose fleets are growing most rapidly. These same countries also are among those most forcefully promoting the reservation of cargo for ships flying their national flags.

Within Latin America there is considerable disparity in the growth of the individual countries' ocean-going fleets. The fleets of Argentina, Colombia, Ecuador, Peru and Venezuela, which grew at a combined rate of 41 per cent during the period 1971-1973, accounted for nearly 90 per cent of all the growth recorded in the region. Brazil alone increased its tonnage by 44 per cent, and by the end of 1973 operated 38 per cent of the regional total compared with 33 per cent two years earlier. This dominance is likely to continue, since by mid-1974 Brazil was responsible for fully 51 per cent of the total tonnage on order by the region.

Table 13

LATIN AMERICA: OCEAN-GOING MERCHANT FLEET, 31 DECEMBER 1973 a/

(Tons and units)

Country	Passenger vessels		Cargo ships of 18 knots and more		Cargo ships of less than 18 knots		Refrigerated ships		Bulk carriers		Combined carriers		Tankers (including gas tankers)		Total	
	Nº	GRT	Nº	GRT	Nº	GRT	Nº	GRT	Nº	GRT	Nº	GRT	Nº	GRT	Nº	GRT
Argentina	(2)	23 996	(9)	79 981	(37)	277 580	(6)	19 862	(6)	85 039 ^{b/}	-	-	(1)	10 940 ^{g/}	(61)	497 398
Brazil	-	-	(28)	294 591	(45)	286 471	(5)	22 298	(12)	176 581	(2)	120 280	(13)	535 840	(105)	1 436 061
Colombia/Ecuador	-	-	(11)	119 997	(23)	104 514	(2)	13 250	-	-	-	-	(3)	59 912	(39)	297 673
Cuba	-	-	(3)	32 916	(30)	228 866	(7)	24 857	(18)	35 227 ^{d/}	-	-	-	-	(58)	321 866
Chile	-	-	(4)	43 500	(14)	117 970	(1)	1 754	(4)	39 404	(1)	37 148	(1)	35 048	(25)	274 824
El Salvador	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guatemala	-	-	-	-	(4)	7 972	-	-	-	-	-	-	-	-	(4)	7 972
Mexico	-	-	(2)	25 222	(13)	64 419	-	-	(3)	37 414	-	-	(20)	224 578 ^{e/}	(38)	351 633
Nicaragua	-	-	-	-	(5)	12 149	-	-	-	-	-	-	-	-	(5)	12 149
Paraguay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Peru	-	-	(2)	20 432	(22)	155 866	-	-	(4)	50 669	-	-	-	21 007	(31)	247 968
Dominican Republic	-	-	-	-	-	-	(1)	1 076	-	-	-	-	-	-	(1)	1 076
Uruguay	-	-	-	-	(5)	26 262	(1)	3 312	-	-	-	-	(6)	110 094	(12)	139 668
Venezuela	-	-	(4)	43 682	(13)	41 354	-	-	-	-	-	-	(3)	66 300	(20)	151 336
Total 1973	(2)	23 996	(63)	660 321	(211)	1 323 423	(23)	86 409	(47)	424 328	(3)	157 428	(50)	1 063 719	(399)	3 739 624
Total 1963	(10)	122 749	(2)	13 788	(183)	955 199	(2)	6 429	(7)	46 558	-	-	(23)	377 669	(227)	1 522 392

Sources: IEMMI Yearbook, 1974.

a/ Ships of 1 000 GRT and over.

b/ Includes two livestock-carriers totalling 23 061 GRT.

c/ Gas tanker.

d/ Includes 16 factory ships totalling 29 629 GRT and two livestock-carriers totalling 5 598 GRT.

e/ Includes two gas tankers totalling 10 833 GRT.

Argentina, holding second place in regional tonnage, saw its share reduced from 15 per cent to 13 per cent of the ocean-going fleet, owing to a growth in tonnage of only 11 per cent from 1971 to 1973. In mid-1974 it was responsible for 16 per cent of the total tonnage on order by Latin America. Among these orders are 10 vessels classified as container ships, in which category Argentina ranks fifth in the world in terms of tons ordered. It ranks eighth in orders for general cargo ships, all of which are of one of three standard designs that can be adapted easily to handle containers or bulk cargo as well as general cargo.

As shown in table 11, general cargo ships for Latin America represented 11 per cent of the world tonnage on order for this type of vessels as of 31 July 1974. It should be noted, however, that many of these orders placed by Latin American countries are for vessels of standard design such as the "Freedom" or the "SD.14" that can easily accommodate containers or bulk cargo as well as bale cargo.

During 1973, shipyards in Argentina, Brazil and Peru together captured 52 per cent of Latin America's orders for new ships.^{35/} In mid-1974 Brazil and Peru each had on order more tonnage than it then had active, the majority probably destined for ocean-going service and practically all ordered from their own national shipyards. At the same time, Argentina had on order a tonnage second only to that of Brazil, also destined in large part for ocean-going service and much of it ordered from Argentine yards. Venezuela continues with plans to expand its fleet, and has decided to reactivate its shipbuilding industry so that much of the construction can be done locally.

^{35/} IEMMI, Anuario 1974, p. 13.

3. Freight rates

Freight rates in the charter markets have been volatile over the 1970 to 1974 period. Table 14 shows the evolution from 1960 to mid-1974 of rates for dry cargo time charters of less than one year and for voyage charters. Time charter rates fluctuated somewhat in the 1960s but increased steadily starting in 1972. For the voyage charter index, which is based on a sample of freight rates paid for selected bulk commodities on major trading routes, the series reflects both fluctuation during the last 15 years and a sharp tendency to rise in 1972-1974, and by early 1974 it had doubled its level of a year before. The volatility of charter rates can be appreciated in table 15, which shows the extreme changes between the highest and lowest voyage charter rates for each year between 1970 and 1973 for products and routes of special interest to Latin America.

Liner freight rates also have risen steadily between 1970 and 1974. In the case of the liner trades, of course, there is no question of free market forces determining rates. One of the basic reasons for the existence of liner conferences is to ensure that rates are tightly controlled. It has long been felt by the developing countries that liner rates are set too high and should be reduced, but no generally successful means of achieving reductions has yet been found. The immediate future holds little prospect that this situation will change, considering the rapid rises in costs that are affecting all countries.

While it may not be possible to keep rates from going up, it would be highly desirable if any increases could be shown to be justified by some specific increment in costs. In this respect, it is suggested that all liner rates be presented in conference tariffs as the sum of three components: (i) loading in port of origin, (ii) sea navigation, and (iii) discharging in port of destination. Increases in any portion then could be tied more easily to the economic conditions governing that portion. Thus a 10 per cent increase in navigation cost should not elicit a 10 per cent increase in the total freight rate, but only in the portion related to navigation. Structured rates of this sort could also give countries a chance to see their port improvements reflected in real reductions in the port cost portion of the rate, thereby providing them with more incentive to invest in improvements.

/Table 14

Table 14
INDEXES OF DRY CARGO CHARTER RATES

	Time charters for less than one year	Voyage Charters
	<u>July 1965 - June 1966 = 100</u>	<u>July 1965 - June 1966 = 100</u>
1962	65	80
1963	79	91
1964	88	91
1965	99	101
1966	89	88
1967	89	94
1968	93	92
1969	90	85
1970	131	119
1971	104	81
	<u>1971 = 100 ^{a/}</u>	
March 1972	98.4	66
June 1972	96.9	69
September 1972	105.3	77
December 1972	134.1	94
1972	104.7	75
March 1973	177.4	121
June 1973	211.0	149
September 1973	269.3	183
December 1973	305.2	241
1973	230.1	162
March 1974	313.1	245
June 1974	277.8	226
August 1974	287.2	204

Source: Norwegian Shipping News, vol. 30, N° 170 (20 September 1974).

^{a/} The new time charter index, which is not comparable with the previous index, was initiated in January 1972.

Table 15

LATIN AMERICA: VOYAGE CHARTER RATE COMPARISONS IN LEADING TRADES, 1970-1973

(Dollars per ton)

Trading route	Highest rate in				Lowest rate in			
	1970	1971	1972	1973	1970	1971	1972	1973
<u>Grain</u>								
River Plate to Antwerp-Hamburg range	15.75	9.25	10.70	26.26	8.15	5.00	5.77	12.29
River Plate to Japan	22.00	13.00	15.49	31.87	13.25	7.00	6.22	17.12
River Plate to West Italy	13.50	9.75	8.92	-	8.50	4.50	5.40	-
River Plate to India	-	-	16.90	34.00	-	-	15.50	16.50
<u>Coal</u>								
Hampton Roads to Rio de Janeiro	12.25	4.20	-	-	5.00	2.70	-	-
<u>Sugar</u>								
Brazil to United States	11.50	7.75	-	-	6.90	6.00	-	-
Santos to China	-	-	20.0	38.00	-	-	12.25	23.50
<u>Iron</u>								
Brazil to Japan	13.50	8.75	5.65	18.50	8.00	2.55	3.90	5.50
Chile to Japan	14.00	8.25	6.90	18.80	10.30	3.10	3.25	9.65
Peru to Japan	-	6.75	6.25	17.05	-	2.80	3.50	15.25
<u>Fertilizers</u>								
United States (Gulf of Mexico) to Brazil	11.10	7.60	-	-	7.85	5.45	-	-

Source: Institute of Shipping Economics, Bremen, Shipping Statistics, 16.2 (February 1972), pp. 40-41; 17.2 (February 1973), pp. 40-41 and 18.2 (February 1974), pp. 32-33.

4. Ocean shipping and Latin America's balance of payments

According to available data for 1972, the region had a total deficit, including marine insurance of 1,300 million dollars, which can be compared with the balance of payments deficit for transport in 1970 of 850 million dollars (see table 16). Quality of data for individual countries continues to be extremely poor, but it is probable that the regional totals reflect the magnitude of the deficit in the two years.

The tendency toward an ever-increasing deficit in items related to maritime transport in the balance of payments is a clear indication of the failure to reach the objectives of the International Development Strategy during the first two years of the Second Development Decade. This tendency will probably be even more apparent in 1973 and 1974 due to increases in freight rates and other maritime transport costs. The situation weighs heavily on the smaller countries whose fleets are least adequate for their transport needs. While it would be extremely desirable to be able to relate changes in balance of payments transport credits and debits to changes in the proportion of each country's trade transported in its own ships, the present lack of information makes this impossible.

5. Latin American ocean shipping policies

The situation in regard to ocean shipping policies among the countries of Latin America has changed little in the past two years. Those countries particularly active in fomenting the growth of their national merchant fleets during the period 1970-1972 continue their efforts. Others have introduced legislation to reserve for the first time a substantial portion of their international trade for their own shipping companies, or have strengthened regulations to this effect.

Table 16

LATIN AMERICA: MARITIME TRANSPORT IN THE BALANCE OF PAYMENTS, 1972

(Millions of dollars)

Country	Freight		Insurance Debits	Other transport items				Balance
	Credits a/	Debits b/		Passenger Credits	Fares Debits	Port and harbour charges		
			Credits			Debits		
Argentina	29.1a/	99.9a/		20.6	48.9	58.6	79.0	-118.9
Bolivia		26.3	2.8	0.7	2.9	2.0	3.1	-32.4
Brazil	116.0	195.0	-	3.2	47.0	63.0	243.0	-302.8
Colombia	49.0	79.0				56.0d/	114.0d/	-88.0
Costa Rica	7.3	28.0	2.2	4.3	4.0	7.5	11.5	-26.6
Chile	18.0a/	84.0a/				76.0d/	40.0d/	-30.0
Ecuador		51.0	3.9	6.4	9.3			-57.8
El Salvador		28.8			7.3	8.6		-27.5
Guatemala	0.5	36.6	2.6		10.4	10.3		-38.8
Haiti		10.6	0.5		3.7	0.5		-14.3
Honduras	1.0	18.4	1.1	0.5	1.0	5.0	0.5	-14.5
Mexico	24.0f/	98.0f/				79.0d/	76.0d/	-71.0
Nicaragua	5.5	15.3	1.0	1.6	3.4	2.9	5.5	-15.2
Panama	0.1	41.2				60.7	17.2	-2.4
Paraguay	1.0	7.8	1.1		2.4	0.2		-10.1
Peru	23.0	71.0	19.0	2.2	33.0	31.0	34.0	-100.8
Dominican Republic	6.1	35.1	6.8			5.8d/	9.0d/	-39.0
Uruguay	3.4	30.8				5.5	11.0	-32.9
Venezuela	16.0	258.0			59.0	40.0		-261.0
Subtotal	300.0	1 214.2	41.0	39.5	232.3	512.6	643.8	-1 279.2
Guyana	0.9				4.9	2.8		-1.2
Jamaica	4.9	76.3	6.1	11.4	7.7	16.4	11.6	-69.0
Trinidad and Tobago				10.4	8.0	63.0	23.7	+41.7
Total	305.8	1 290.5	47.1	61.3	252.9	594.8	679.1	-1 307.7

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 25, December 1973, except as indicated below.

a/ Freights paid to national flag ships for transport of exports and for transport between third countries

b/ Freights paid to foreign ships for transport of imports.

c/ According to information supplied by the Instituto de Estudios de la Marina Mercante Iberoamericana (IEMMI), Buenos Aires.

d/ Includes passenger fares.

e/ Estimated by the ECLA/OAS Transport Programme on the basis of data for 1971 supplied by the Office of the Under-Secretary for Transport of Chile.

f/ Estimated by the ECLA/OAS Transport Programme on the basis of data for 1970 obtained from LAFTA, Evolución del Transporte Marítimo (ALALC/SE/PA/36), junio 1973.

/To take

To take advantage of their legislative efforts, a number of nations are engaged in active programmes to expand their fleets. Argentina, for example, in the period 1974-1979 intends to add more than half a million dwt to its fleet, all built in its own shipyards. Brazil in the same period plans the construction in domestic yards of 4 million dwt, of which over a million will be VLCCs (very large crude carriers). Cuba's programme includes purchases of fishing vessels from Peru and may include general and bulk cargo vessels from Argentina. Venezuela, which has introduced an initial cargo reservation of 10 per cent (to rise ultimately to 50 per cent) of its bulk imports and exports, is embarking on an ambitious scheme to revive its dormant shipbuilding industry and construct a major fleet of ships.

Internationally, the region has been active in the preparation of a Code of Conduct for Liner Conferences. For some time the developing countries have been unhappy with the liner conference system, in particular with the conferences' arbitrary powers to set freight rates and conditions of shipment. The idea of some form of legal limitations on the system gathered support in various quarters of the world for a period of years, culminating in the convening under the auspices of UNCTAD of a Conference of Plenipotentiaries on a Code of Conduct for Liner Conferences. The Conference was held in two sessions, November-December 1973 and March-April 1974. At the end of the second session the Conference adopted a Convention aimed at ensuring a balance of interests between suppliers and users of liner shipping services by specifying legally binding, internationally enforceable rules. The Code covers such aspects as conference membership, relations among member lines, relations with shippers, criteria for determination of and for general increases in freight rates, cargo sharing, settlement of disputes within national jurisdictions, and international mandatory conciliation. To a large extent, the Code translates the more abstract provisions in paragraph 53 of the IDS into specific rules and regulations. The Convention on this Code, which is now open for signature by all States, will take effect six months after ratification or accession by not less than 25 States whose combined tonnage of general cargo and fully cellular container ships amounts to at least 25 per cent of the world total.

/It appears

It appears that some Latin American countries have less for early implementation of the Code than is the case in other regions, owing to the success of their national shipping lines in achieving full membership in conferences. Indeed, a few countries of the region have been able to dictate effectively the terms on which they will participate in conference freight pools. However, the countries that are not in a strong bargaining position in relation to the liner conferences that serve them should find the Code beneficial.

Latin American countries have been working successfully in close co-operation and with the technical assistance of ECLA and OAS transport experts on preparatory studies for a Convention on International Intermodal Transport. A previous draft International Convention on the Combined Transport of Goods (the so-called TCM Convention), prepared for the UN/IMCO Conference on International Container Traffic held in Geneva in November 1972, generally reflected the European point of view on the subject, while not taking sufficiently into account the interests of the developing nations. The Latin American countries objected to its adoption on the grounds that a careful study of its implications was required. With support from the entire Group of 77, an Intergovernmental Preparatory Group was established to study and eventually to draft an International Convention on Multimodal Transport. The objective of the proposed Convention is to regulate and unify the practices and rules under which international multimodal transport is conducted. Of particular concern are rules pertaining to the activities of multimodal transport operators, institutional aspects, the legal status of multimodal transport documents and documentary procedures, insurance and liability problems, and customs procedures.

At the request of the Latin American Group in Geneva, a meeting of specialists in different fields related to international trade was held in Santiago, Chile, on the subject of intermodal transport. At a meeting of the Council on Physical Integration of the Board of the Cartagena Agreement, the main guidelines for a Convention on International Intermodal Transport were considered. Finally, also at the request of the Latin American Group in Geneva, the first Latin American Regional

/Preparatory Meeting

Preparatory Meeting for a Convention on International Intermodal Transport was held at Mar del Plata, Argentina. Co-ordinated regional activities will continue in this field, including those under the auspices of the OAS.

Within Latin America, LAFTA is making slow progress on a region-wide shipping policy. Following a delay of eight years, in mid-1974 the LAFTA Water-Borne Transport Convention entered into force when Colombia deposited its instrument of ratification after Mexico (1967), Chile (1968), Ecuador (1969), and Paraguay (1970). Although this Convention is considered important for the establishment of an integrated transport policy among the signatories of the Treaty of Montevideo, its implementation is still pending, mainly owing to lack of agreement on regulations related to the distribution of cargo shares.

In the meantime, bilateral conventions have been flourishing within Latin America. Even as LAFTA has been working to obtain ratification and implementation of the Water-Borne Transport Convention, which is essentially a multilateral agreement, some countries have been fostering the growth of their fleets through bilateral ties that bind the participants to ship most or all of their trade with one another via their national flag lines.

6. Latin American transport policies and the International Development Strategy

The International Development Strategy concentrates exclusively on maritime transport and is restricted almost entirely to relations between the developing and the industrialized countries. Recent world events have pointed up the importance to Latin America of increasing its economic independence and strengthening its own intra-regional relations so that it may be more insulated from extra-regional economic problems over which it has little influence. For this reason the mid-term review of the IDS is an appropriate occasion to consider modifications or amplification of the Strategy so as to give more importance to reinforcing regional ties. Such changes were contemplated

/by the

by the Economic and Social Council in resolution 1911 (LVII), which noted that "the Strategy should be adapted on a continuing basis to new requirements and changing circumstances.^{36/}

Over the last decades intra-regional trade within Latin America has increased significantly and now forms an important part of total trade, especially of manufactured goods. While the major part of this intra-regional trade still moves by sea transport, it is becoming evident that land transport offers important opportunities for improving the quality and reducing the cost of transport services within Latin America. In addition, increased use of existing international highway and railway infrastructure would serve to strengthen social and cultural ties in ways that cannot be matched by sea transport. The establishment of more efficient land transport services, however, requires effective bilateral and multilateral agreements to permit easy passage of national frontiers by vehicles and cargo while safeguarding the interests of exporters, importers, national transport companies, and others. It would be useful to take into account explicitly in the International Development Strategy this challenge to the developing countries.

Another way in which the treatment of transport in the IDS might well be broadened would be to recognize that international transport does not begin and end in the hold of a ship and that the sea leg of international transport is but one link in a much longer chain. In addition, there are other services intimately related to international transport, such as freight forwarding, insurance, banking, warehousing, and the like, that are of interest to the developing countries and significantly affect their balance of payments. The Latin American countries have had an opportunity to appreciate the importance of these transport related services during their preparation for negotiations at the world level of an International Intermodal Transport Convention. These countries are now aware that institutional arrangements elaborated by the developed nations in response to their own needs may not be similarly adequate for the developing countries. Recognition of this fact could be incorporated into a revision of the IDS.

^{36/} E/RES/1911 (LVII), p. 2.

Closely related to the institutional aspects of international trade and transport are the efforts now under way in many parts of the world to simplify and standardize trade documents and procedures that are presently complex and costly, hinder the growth of trade, and unnecessarily add to the cost of international transport. This area of trade and transport facilitation is especially appropriate for action at the international level and for increased co-operation within Latin America, because all participants obtain positive benefits from the introduction of simpler documents and procedures. The incorporation of this objective into the IDS would be useful.

Latin America is ill-equipped institutionally to deal properly with problems related to establishing new international land transport services, assuring adequate participation in transport-related services, and simplifying trade and transport documentation and procedures. These problems are currently being examined by multiple forums in the region with insufficient co-ordination among them. As a consequence, efforts are duplicated while positive results are few. One possible course of action would be for each forum to specialize in those aspects for which it is best prepared and where it can directly implement its decisions. Adequate co-ordination could then be entrusted to a regional organization with a permanent secretariat and the resources required for keeping each forum informed of the activities of the others.

Among the specialized forums whose activities should be strengthened are the regional organizations of transport enterprises such as the Latin American Association of Railroads (ALAF), the Latin American Shipowners' Association (ALAMAR), the Latin American Highway Transport Association (ALATAC), and the Latin American Civil Aviation Council (CLAC). Each of these organizations should make a far more effective contribution to the establishment of efficient regional and interregional transport services than they do at present.

E. INSURANCE AND TOURISM

1. Insurance

(a) Regional co-operation in the field of insurance

In the last few years there has been increasing awareness in Latin America of the importance of the insurance industry for the national economies because of its contribution to the increase in inflows and reduction in outflows of hard currency. At the same time it has been recognized that the industry's objectives can be more easily attained through regional co-operation in support of the efforts of the individual countries'. An example of the regional approach is the meeting of Latin American insurance superintendents held in Santiago, under the sponsorship of ECLA and UNCTAD and financed by the UNDP, to discuss co-operation in settling insurance problems and the improvement of the position of national companies in the insurance market. A resolution adopted at this meeting recommends the establishment of an Association of Insurance Superintendents in Latin America to serve as a forum for examining problems of mutual interest.

The six countries of the Andean sub-region have realized that they have sufficient capacity and administrative knowledge to administer the major part of their insurance activities. For this reason they have prohibited the entry of new foreign investment for this purpose, or any increase in the capital of foreign companies already engaged in this activity, which should help to reduce the share of such companies in the market as it expands. They also recognize that the sub-regional insurance market is large enough (365 million dollars' worth of premiums in 1970) for them to handle their own reinsurance, 35 per cent of which was in foreign hands in 1970.

The Latin American Reinsurance Pool provides another example of regional co-operation. It is composed of companies in Bolivia, Colombia, Nicaragua, Panama and Paraguay, and has been working actively to facilitate insurance of local products, which in turn stimulates trade in the area.

/Insurance companies

Insurance companies in Argentina, Bolivia, Brazil, Chile and Colombia have agreed to offer one another automatically the option of reinsuring their fire insurance policies with a value of 100,000 to 250,000 dollars per policy.

(b) Size and structure of the insurance market

The regional insurance market is characterized in general by its coverage of the traditional types of insurance, such as fire, automobile and life insurance. Table 17 shows the distribution of policies in nine countries.

Table 17

Country	Fire	Auto- mobile	Life	Other
	Percentages			
Argentina	18	45	8	29
Bolivia	20	33	18	29
Colombia	20	14	30	36
Ecuador	← 59	→		41
Mexico	24	21	33	22
Paraguay	← 70	→		30
Peru	18	15	16	51
Dominican Republic	20	35	30	15
Venezuela	21		30	49

In 1972 the value of insurance premiums in Brazil - which has the largest domestic market in the region - amounted to 509 million dollars, in Argentina to 430 million, in Mexico to 367 million, and in Venezuela to 216 million dollars. In order to expand the market faster than its natural growth, some countries are beginning to offer coverage in non-conventional spheres. An example of this type of activity in Brazil is insurance against the faulty operation of industrial equipment, loss of future agricultural production, and

/loss of

loss of export credit. In any case, the region's conventional market continues to have good prospects of growth, as shown in Nicaragua in 1973 where only 10 per cent of the damage caused by the earthquake, valued at 1,000 million dollars, was covered by insurance.

(c) Problems faced by the national insurance industry

The three most important problems faced by Latin America's insurance industry are its high operating costs, its dependence on foreign reinsurance companies, and inflation.

(i) High operating costs. An estimated 50 per cent of the value of premiums collected is used to cover operating costs, mainly in connexion with sales, sales promotion, and general management of the companies. This figure is excessively high compared with other types of enterprises and partly accounts for the fact that premiums are as a rule higher than in countries where the insurance industry is more efficient. The high value of premiums is one of the factors that limits the size of the market.

(ii) Dependence on foreign reinsurance companies. Although the national companies have succeeded in capturing an appreciable part of the insurance market, especially in the major countries of the region, the reinsurance market continues to be dominated by foreign companies. The most important reasons for this are:

- Concentration on high-risk commercial and industrial insurance, with little compensating activity in areas with normal risks; and
- Distribution of the domestic markets among many small companies which are linked in some form or other with foreign reinsurance companies.

(iii) Inflation. The high rates of inflation prevailing in most countries of the region prevent the premiums, which are calculated at the time the policy is taken out, from maintaining their level in relation to the damage caused at a later date. This causes instability in the market.

2. Tourism

Before the start of the Second Development Decade, the Latin American Governments had given very little encouragement to tourism. Nearly all the development of this industry took place more or less spontaneously thanks to the action of the private sector, without any co-ordinated planning or proper statistical bases to support it. It was not until the end of the 1960s that there was official recognition of the importance of this industry in producing foreign exchange and employment and, consequently of the need to organize and plan tourism within the context of national policy.

During the first few years of the Second Development Decade the implementation of tourism policies has made considerable progress. Nearly all the Latin American countries have prepared national tourism plans, and the rest propose to do so shortly. By means of technical assistance, many countries have prepared important projects for the restoration of colonial and pre-Hispanic centres. With funds from international and private financing agencies, important tourism infrastructure works have been completed, including the construction of hotels, while a start is about to be made on others. Moreover, nearly all the countries in the region have simplified the documentation required for tourists, especially in the case of intra-regional tourism.

From the experience gained in the early years of the Second Development Decade it is possible to appreciate the possibilities of increasing the tourist flow towards Latin America by means of sub-regional co-operation, especially through tourism circuits with the participation of several countries at a time.

The Andean countries prepared a study entitled Bases para un programa de desarrollo e integración turísticas, with the participation of experts from the Organization of American States (OAS), which describes different Andean circuits and suggests projects and necessary measures for making them more accessible to tourists both from the sub-region and from other parts of the world. The implementation of this programme calls for close collaboration among the countries of the sub-region.

The Central American Bank for Economic Integration, with the help of a firm of consultants in Spain, prepared a study entitled Programa promocional y financiero de turismo en los países del mercado común centroamericano, which suggests important tourism infrastructure projects with a view to the establishment of tourism circuits in the countries of the sub-region.

A committee of representatives of Argentina, Brazil, Paraguay and Uruguay, with the advisory assistance of ECLA and UNESCO, has prepared a project for the establishment of a Cultural Tourism Circuit in the Misiones Jesuitas region, the execution of which requires the collaboration of the four countries of the sub-region.

The Caribbean Tourism Centre, with headquarters in Barbados, was set up in 1974 to investigate various aspects of tourism in the sub-region and to suggest measures to the participating countries that would make for a more effective contribution of tourism to the national economies.

In each sub-region there is a Council of National Directors of Tourism whose task it is to step up sub-regional co-ordination in questions connected with tourism. However, these Councils do not have the proper structure to carry out their task efficiently; in particular, they have no executive secretariat to implement the Councils' decisions. Such executive machinery is essential in order to formulate a consistent tourism policy at the sub-regional level; to determine the technical assistance required in implementing the policy; and to negotiate this assistance on behalf of the governments concerned. In tourism, sub-regional co-operation has a strong multiplier effect which is beneficial to the participating countries.

In addition to the above-mentioned co-operation measures in the sub-regional sphere, several other important measures would have to be adopted at the national, sub-regional and regional level in order to fulfill the objectives of the International Development Strategy;

(a) To support the action in progress for the early establishment of the World Tourism Organization (WTO) and its Regional Tourism Commission for the Americas;

/(b) To

(b) To observe and evaluate on a continuing basis the tourism trends of the principal markets in order to adopt suitable planning and promotion measures. An essential point is to establish a common system of tourism statistics which would include information on prices of tourism supply in the region;

(c) To study, jointly with the Latin American Civil Aviation Council (CLAC), the measures necessary to reduce the cost of air transport to Latin America and within the region, including the extension of the use of charter flights and closer collaboration between regional air lines;

(d) To enable national and sub-regional tourist agencies to employ and keep specialists on their permanent staff;

(e) To continue to simplify the entry and departure formalities of tourists, especially on the frontiers, and to establish direct flights between tourist centres, both of which are essential measures for the establishment of tourism circuits.

Chapter III

ECONOMIC RELATIONS WITH VARIOUS AREAS

A. THE EUROPEAN ECONOMIC COMMUNITY

1. Introduction

In recent years, the European Economic Community has made great strides in economic integration. In addition to the internal arrangements, specially in respect of the common agricultural policy, that were required for the entry of Denmark, Ireland and the United Kingdom, the creation of a free trade area was begun with the participation of the EFTA countries, the bases of an association agreement with developing countries in Africa, the Caribbean and the Pacific were established, and progress was made in negotiations with the Mediterranean countries in the general context of the EEC's policy towards the countries of the Mediterranean basin.

The Community also established more advanced targets for integration, including the creation of a monetary union whose first phase began in April 1972 - although a number of serious difficulties arose which prevented the targets being achieved. Even though the upheaval of the international monetary situation affected the progress of integration, it also helped to sharpen the member countries' awareness of the need to increase economic and financial co-operation. Similarly, recent developments in the field of energy affected the European countries in varying degree and led to the establishment of a basis for a common energy policy.

The European Community has thus now become an economic unit of considerable magnitude, not only because of the advanced stage of economic integration that it has achieved and the consolidation of its enlargement but also because of the creation of a wide area around the Community which receives special, preferential treatment.

The policies pursued by the EEC, which cover practically every economic and social sector, have acquired new meaning for the Third

/World countries

World countries in the changing world situation. Particularly, important to Latin America is the common agricultural policy, to which reference will be made below.

Recent years have revealed a greater readiness on the part of the Community to seek solutions to the problems facing the developing country, as was demonstrated in the principles adopted on 30 April 1974 within the framework of the global policy of co-operation for the development of the Community.

By and large, the Community enjoyed a considerable economic boom between the beginning of 1972 and the middle of 1973.

However, as a result of the measures introduced to control the economic growth rate at the end of that period and of the increasing inflation and labour problems of some of the countries, the rate of economic expansion began to decline from the middle of 1973, hastened by the energy crisis. In 1974, most of the countries of the European Community were suffering from high rates of inflation, balance-of-payments difficulties and assorted signs of economic stagnation, including unemployment.

2. Trend of global trade

In the early years of the 1970s, trade between Latin America and the European Community fluctuated greatly. Latin America's positive balance of mutual trade in the 1960s declined sharply in 1971 and became negative in 1972. Despite a slight surplus in favour of Latin America in 1973 as a result of the increase in the price of basic products, the volume of trade confirms the unfavourable trend observed in the course of the previous years.

This is attributable to the fact that, while the EEC's exports to Latin America grew steadily in recent years, its imports from the region remained at more or less the same level, except in 1973. The annual cumulative value of the exports of the countries of the enlarged community to Latin America increased by 13.6 per cent during the period 1967-1972, while that of its imports from the region rose by 6.1 per cent. The latter figure appears even smaller if compared with the

/increase in

increase in the EEC's total imports (14.9 per cent annually) or with that of its imports from the developing countries as a whole (10.9 per cent).^{1/}

As a result of this trend, Latin America's share in the market of the Community has been declining rapidly. The region's share in the total imports of the enlarged Community dropped from between 4 and 6 per cent in the 1960s to 3.8 per cent in 1970, 3.3 per cent in 1971 and 3.1 per cent in 1972 and 1973.^{2/} The region's share in the Community's extra-area trade is shown in table 1.

The levelling off of the EEC's imports from Latin America in the first three years of the 1970s affected a number of the region's traditional export products: wheat, maize, animal fodder (especially fishmeal), untanned leather and hides, wool, cotton, vegetable oils, metaliferous ores, non-ferrous metals, etc. In 1972, by contrast, there was a sharp increase in imports of certain foods such as beef, sugar and coffee, but this was not enough to modify the general tendency towards stagnation.

^{1/} This is part of the long-term pattern. In the period 1963-1972, the annual cumulative value of the enlarged community's exports to Latin America went up by 10.3 per cent, and its imports by 5.0 per cent. The same trend was apparent in trade between the original member countries of the European Community and Latin America: the annual increase in the value of their exports to Latin America was 10.8 per cent while that of their imports from Latin America was 6.4 per cent. The total imports of the enlarged and of the original Community (six countries) rose by 11.8 per cent and 12.8 per cent respectively.

^{2/} This is mainly attributable to two factors: an increase in the Community's self-sufficiency (the share of the Community's intra-area trade in its total trade rose from 46 per cent in 1968 to 52 per cent in 1973), and Latin America's smaller and smaller share of extra-area exports to the Community. The share of Latin America in the Community's total extra-area imports dropped from 7.7 per cent in 1968-1969 to 6.6 per cent in 1972-1973.

Table 1

EUROPEAN ECONOMIC COMMUNITY: a/ SHARE OF LATIN
AMERICA b/ IN EXTRA-REGIONAL TRADE
(Millions of dollars)

Year	Imports			Exports		
	Extra- regional total	From Latin America	Per- cen- tage	Extra- regional total	To Latin America	Per- cen- tage
1965-1969	44 486	3 650	8.2	41 202	2 591	6.3
1970	59 646	4 456	7.5	56 212	3 575	6.4
1971	64 360	4 341	6.7	63 560	4 098	6.5
1972	73 913	4 872	6.6	74 422	4 741	6.4
1973	105 386	6 919	6.6	100 690	5 652	5.6

Source: IMF, Direction of Trade.

a/ Nine countries.

b/ The figures given in this table and quoted in this part of the text refer to the 20 Latin American republics.

/Latin America's

Latin America's share in the Community's imports of 18 basic products that make up about 80 per cent of the region's total exports to the EEC dropped from 13.2 per cent in 1965 to 11.7 per cent in 1970 and 9.2 per cent in 1972. In respect of the same products, the share of countries enjoying special relations with the Community rose from 13.8 per cent in 1965 to 17.3 per cent in 1970 and then levelled off at 15.0 per cent in 1971 and 1972.^{3/}

There has been a considerable increase in Latin America's exports of manufactures and semi-manufactures to the Community, although in terms of value they are still fairly low.

3. Trade policies of the European Economic Community

Broadly speaking, the application of the Generalized System of Preferences in recent years has made possible a gradual improvement in the access of Latin American manufactured and semi-manufactured products to the EEC market. Apart from that, there has been no significant improvement in the situation of the developing countries not associated with the Community. As far as some products are concerned, there has even been a slight deterioration, mainly because of the protectionist nature of the common agricultural policy (for temperate-zone agricultural products), the enlargement of the Community and its increasing association with a large number of existing and potential competitors of Latin America (mainly as regards primary products), the intensification of special relations with the Mediterranean countries and the establishment of a free trade area with EFTA countries (principally as regards industrial products).

^{3/} Including the associated countries, those that are now associable and the Mediterranean countries. The share of the associated countries rose from 4.0 per cent in 1965 to 4.7 per cent in 1970, but dropped to 3.6 per cent and 3.4 per cent in 1971 and 1972. The countries that are going to be associated with the Community increased their share from 3.2 per cent in 1965 to 5.6 per cent in 1970 and 5.2 per cent in 1971 and 1972.

4. Common Agricultural Policy

One of the fundamental instruments of the common agricultural policy is still the fixing of prices at the level of the least efficient producers of the Community. This measure has tended to slow down improvements in productivity by preventing any significant change from occurring in the number of marginal producers and has also guaranteed profits for the more efficient producers. The exports of countries producing primary products are adversely affected by this policy and would increase if other methods were used to stimulate production in the Community. If the increase in the EEC's agricultural production and its distribution were based on rational and efficient criteria and instruments, its greater output would not have an adverse effect on the exports of countries such as those of Latin America. As far as food is concerned, the serious world-wide food shortage means that there is a potential excess of demand over supply. However, the fact that vast sectors of the population and highly populated countries do not have sufficient purchasing power to acquire such foodstuffs means that real demand is much lower than potential demand. In this way, there have in the past been times when supply has been in excess of real demand, resulting in the accumulation of large stocks and a decline in prices. The promotion of production in areas that are less suitable for agriculture, such as some of the EEC countries, would be highly desirable if it went together with measures designed to turn more potential demand into real demand; for example, improving the standard of living of the segment of the population with very little purchasing power, or allocating a large proportion of such increases in production to programmes of assistance to social sectors which do not have the necessary purchasing power. By contrast, increasing the EEC's production by maintaining the existence of marginal producers without at the same time promoting demand may help cause an imbalance between supply and effective demand by depressing prices and reducing the earnings of such exporting countries as those of Latin America which finance a large part of their balance of payments (and, thus, of their

(economic development)

economic development) out of the foreign currency they receive from the sale of their primary products.

The reform of the Community's common agricultural policy that may take place in the near future, unless the new international situation spoils the chances of such a reform, would remove these causes of concern for Latin American countries, provided it were based on criteria and instruments designed to promote the efficient and rational production and distribution of agricultural products and provided it made it possible to reconcile an increase in the production of Europe with the interests of the developing countries exporting the same products.

5. Recent developments in the meat trade

At the beginning of 1974, the EEC adopted a series of measures intended to reduce meat imports. The beginning of July marked the total suspension of imports of every kind of meat for a period originally intended to be six months but subsequently extended indefinitely.

This decision affected the meat exports of five Latin American countries (Argentina, Brazil, Colombia, Paraguay and Uruguay). As a result, their exports to the Community are estimated to have dropped by 500 million dollars in the second half of 1974, not counting the effect of earlier measures that affected exports during the first half of the year.^{4/}

^{4/} This represents a preliminary estimate based on the average volume of exports of Latin American countries to the EEC in normal years (1970-1972) and the average price of beef during the period between January 1973 and June 1974. According to this estimate, the volume of exports in the second half of 1974 is approximately the same as the volume projected by the Agricultural Department of the United States in respect of the exports of Latin American countries (Foreign Agriculture, 20 May 1974). In addition, as a result of the restrictive measures introduced during the first half of 1974 by the EEC, the beef exports of Latin American countries during this period were very low compared with previous periods: the volume of Argentina's exports to the EEC in the first half of 1974 was half that of the same period in 1973; in the case of Uruguay, the volume exported was about 75 per cent lower than the year before.

Quite apart from the very large reduction in exports, the Latin American countries have cause for concern in the procedure employed on this occasion by the EEC, since the measure was adopted unilaterally and without prior consultation of the exporting countries affected. The balance-of-payments and inflation problems that both the developed and the developing countries will probably face in the coming years make it advisable to try to avoid adopting measures in defense of one group of countries that have serious repercussions on others. The economies of the world are so interdependent that the adoption of unilateral decisions may cause a chain reaction from which they all suffer.

In the recent case of meat, the problem posed arose for a variety of reasons. Some of these had to do with the stock-breeding cycle, that is to say with the time that is needed for a decision to increase or reduce production to take effect. In this case, the effect of the stock-breeding cycle was aggravated by the measures adopted by the EEC to encourage the production of meat, which included the displacement of production of dairy products. In addition, there were the economic difficulties of the EEC countries which had been developing since the end of 1973 and which culminated in the increase in the price of petroleum. These difficulties had various repercussions. On the demand side, meat - and especially beef - has a fairly high income-elasticity and its consumption increases sharply during periods of rapid income growth and gives way to other goods when income drops or when its growth rate declines sharply. On the supply side, the increase in the price of stock-breeding inputs in EEC countries - resulting inter alia from the increase in the cost of fuels -, at a time when the livestock producers were uncertain about future demand for meat, was partly responsible for the reduction in stocks and thus helped to depress the market. The present and potential balance-of-payments problems of EEC countries were influential in their decision to forego imports of this product.

When the drastic measure was adopted by the Community in July, the Governments of Argentina and Uruguay immediately protested, pointing

/out that,

out that, in view of the difficulties that had been developing in the beef market of the EEC towards the end of 1973, they had offered, along with Colombia and Paraguay, to co-operate in the search for solutions and had accordingly, in April 1974, submitted a memorandum to the EEC Commission in which they outlined a realistic formula based on the programming of exports and a degree of price control. In September, eight of the principal exporters of meat to the Community, including five Latin American countries, presented a joint protest to the EEC requesting the simultaneous raising of the ban on imports and the start of negotiations.

In the middle of October, at the request of Australia, an unofficial meeting of exporting and importing countries was held in Washington at which the creation of a meat board was suggested. Within the GATT, the principal beef-exporting countries that were Contracting Parties to the General Agreement held two consultative meetings with the EEC in accordance with article XXII.1, with a view to renewing access to the Community market.

As a result, the EEC Commission has promised to initiate consultations in Brussels with the principal exporting countries in order to establish a stable system of access to the Community market. The foregoing points were taken up again by the CECLA countries during the second part of their fifth meeting at ambassador level with the representatives of the member States and Commission of the European Communities, which took place in Brussels on 6 December 1974.

6. Relations of the EEC with various groups of countries

One of the most important trends in connexion with the EEC is the more extensive and far-reaching nature of its relations with other countries of the world. A wide area is in fact being created in which more than 60 countries gradually improvise their economic ties with the Community, which acts as a central pole. The EEC does support action of a universal nature, such as the GATT negotiations and the global policy of co-operation for development, but, at the same time, recent years have brought a substantial advance in the intensification

/and extension

and extension of its special relations - most of which are discriminatory - with various groups of countries.

Some of the more striking recent developments are described below.

In the first place, there is the Community's new scheme of association with associated and associable countries which will presumably be introduced in the next few months. This is a much more far-reaching system than the previous Yaoundé and Arusha conventions as regards both the number of developing countries involved and the scope and nature of the measures anticipated.

One of the most important new measures contained in this agreement is the machinery for guaranteeing the earnings of associated countries in respect of primary products exported to the EEC. Under this system, the Community will guarantee its associated countries - for a specific number of primary products to be selected from six offered by the EEC and 20 requested by the developing countries of Africa, the Caribbean and the Pacific ^{5/} - the total amount of their export earnings. Thus, it will compensate those countries for any drop in their earnings as a result of lower prices or smaller volumes for which the producing countries are not responsible. The EEC maintains that, when the international prices are higher than those guaranteed, there should be a system of reimbursement. A specific agreement will be signed on sugar that would give the developing countries of Africa, the Caribbean and the Pacific access to the EEC market as well as a guaranteed price.

Discussions are also being held regarding a plan of industrial co-operation intended mainly to facilitate industrial investment in these associated countries. Some of the new conditions of association have particularly favourable implications for the part of the developing world to which they apply. For example, the guaranteed export earnings

^{5/} The products covered by this system are of particular interest to Latin America: coffee, bananas, sugar, cacao, peanuts and products derived from peanuts, tea, sisal, leather and hides, copra and palm nuts, almonds (kernels) and tropical woods. Sugar will be covered by a special arrangement.

on primary products referred to above sanctions one of the fundamental principles to which the developing countries have aspired and which would ensure them more stable revenue and therefore enable them to programme their external sector and economic development more satisfactorily. The disadvantage is that this principle should be applied on a selective basis by a group of developed countries - in this case the EEC countries - to a group of developing countries, as this may have highly unfavourable repercussions on the trade of the other, non-associated developing countries.

If this system is not complemented by measures designed to turn a larger part of potential demand into effective demand and is restricted to a given region (in this case, the countries of Africa, the Caribbean and the Pacific), its application could eventually result, for certain products, in an excess of supply over demand in the world market as a whole, as a result of the increase in production of the countries benefiting from the system. Most of the negative consequences may then have to be borne by the countries not included in the new arrangement. The system could however prove a valuable incentive to production, since the countries benefiting from it would not suffer even in the case of over-production, in which case they would receive compensation for any drop in price provided they sold their products on the EEC market.^{6/}

The application of this system to the primary products exported to the Community by the developing countries of Africa, the Caribbean and the Pacific which compete with those exported by the Latin American countries could result in the gradual replacement of the latter in the EEC market, insofar as the guaranteed payment of the difference between the world price and the price established by the EEC would enable the developing countries of Africa, the Caribbean and the Pacific to withstand any competition. This situation could depress

^{6/} The exact terms of the arrangement have not yet received final approval and their nature and implications are therefore subject to change.

the world prices of such products and modify certain flows of trade, unless, in the forthcoming multilateral negotiations in the GATT, international agreements are reached whereby the earnings of all exporters of such products to any other country can be guaranteed and not just those of countries exporting to the EEC. Finally, to appreciate the situation and its consequences properly, it must be remembered that several of the developing countries of Africa, the Caribbean and the Pacific that are currently negotiating with the enlarged Community were previously linked by a preferential régime to the United Kingdom.

Moreover, there might also be a possible division of the market, one part being reserved for certain countries and the rest for the others. Although it is unlikely that such a sharp division would occur as that which used to exist in the international sugar market, the situation that might arise could hinder the reaching of international agreements on basic products or the adoption of other measures designed to stabilize the export earnings of the developing countries selling these products on the world market.

In the first place, therefore, it is probable that the share of the associated countries in the EEC's imports of products included in the scheme will increase in relation to that of other developing countries. Secondly, a gap could arise between the supply and demand of certain products which would result in a drop in prices, for which the countries not associated have no system of compensation.

In addition, the associated countries also benefit from better access to the Community market than other countries for almost all products. The new association agreement establishes, in principle, total exemption from custom's tariffs and non-tariff barriers except those that are still in force among the member countries of the Community. This principle does not apply to agricultural products that are similar to, or compete with, those produced by the Community. It does, however, mean that the products of associated countries receive more favourable treatment than those of other countries.

/Although these

Although these principles are for the most part the same as were stipulated in the Yaoundé Convention, the important point for developing countries not members of the Association is that the number of countries enjoying these benefits is doubled and the markets from which they benefit has also been enlarged.

Even before their association with the EEC (in 1971 and 1972), the new associated countries together had a larger share of the market of the six original EEC members than the former associated countries, as far as the group of major traditional basic products was concerned, although it is a fact that a substantial proportion of their exports consisted of petroleum.

The association agreement also provides for a large increase in financial assistance to associated countries. The European Community is offering to triple the resources of the European Development Fund, which would then amount in value to over 3,600 million dollars (to be utilized during five of the years during which the agreement is in force); the associated countries maintain that it should be closer to 10,000 million dollars.

Another point that deserves special attention concerns the EEC's relations with the Mediterranean countries. Negotiations have recently been revived with these countries within the context of the global Mediterranean policy. The enlarged Community is seeking to establish a network of special relations with a dozen countries at an intermediate level of industrial development - much the same as that of some Latin American countries. Under this global approach, there will in theory be free trade in industrial products and in 80 per cent of agricultural products. Thus, the Latin American countries' relations with the EEC will be less favourable than that of the Mediterranean countries in respect of processed agricultural products and manufactures - a field in which Latin America has been improving its ability to compete on the market of the developed countries. The countries of the Mediterranean basin have increased their exports of manufactures to the EEC enormously in recent years.

7. Consultations and negotiations between Latin America and the EEC

According to the guidelines established at the first three meetings at ambassador level,^{7/} the fourth meeting between the representatives of the member countries of CECLA and those of the member States and Commission of the EEC at ambassador level was held at the end of 1973. The main specific proposals of Latin America were the improvement of the Community's general preference scheme and the creation of a centre for the promotion of Latin American exports to Europe. However, in the end the meeting limited its conclusions to a recommendation that the two subjects should be studied further. In July 1974, the first session of the fifth meeting was held at which the Latin American countries once again expressed their concern about various aspects of the trade policies of the Community, especially as regards imports of beef. Moreover, the Latin American countries members of CECLA submitted a list of products of interest to them for inclusion in the general preference scheme of the Community. The second session of the fifth meeting was held in December 1974; on that occasion the Latin American countries expressed their preoccupation with the further enlargement of the preferential area that would result from the Community's current negotiations.

The EEC and Brazil signed a trade agreement at the end of 1973. The agreement refers essentially to a tariff reduction up to an established quota as part of the general preference scheme for cocoa butter and soluble coffee. The agreement also contains a number of provisions intended to favour exports of bovine meat from Brazil to the EEC, along similar lines to those established for Argentina and Uruguay in their respective agreements with

^{7/} The first of the annual meetings at ambassador level was held in 1971, in accordance with the Declarations of Buenos Aires (adopted by CECLA) and of Brussels.

/the Community.

the Community. The three-year agreement between the latter and Uruguay come into force in August 1974. Three Latin American countries have thus already signed non-discriminatory bilateral agreements with the Community. The EEC's imports from these countries represents 60 per cent of its total imports from Latin America. Exploratory conversations have also been held between the Community and Mexico.

B. THE UNITED STATES

1. Evaluation of mutual trade

The United States continues to be the most important single country market for the exports of the Latin American countries. Its percentage participation in Latin America's total exports to the world has fluctuated between 29.4 and 31.1 per cent over the last four years for which such participation figures are available (1969-1972), declining slightly from 32.8 per cent in 1968 to 31 per cent in 1972.^{8/} The second largest customer of the area was the group of nine countries comprising the European Economic Community, for which the corresponding percentages fluctuated around 27 per cent over the five-year period. The second largest single country customer is the Federal Republic Germany, whose imports from the 24 countries exceeded 2,000 million dollars in 1973, and the third largest Japan, with imports of almost 2,000 million in the same year. Japan's share between 1968 and 1972 fluctuated between 7 and 8 per cent. Over the past ten years the shares taken by the United States and the EEC have been slowly declining whereas that of Japan has been rising. Latin America's share of total world trade between 1968 and 1972 has gradually fallen from 5.4 to 4.4 per cent.

^{8/} United Nations, Yearbook of International Trade Statistics, 1972, 1973, based on figures for the LAFTA and the MCCA.

Although Latin American participation in United States total imports from the world is low (11.9 per cent in 1973, 11.3 per cent in 1972, 11.7 per cent in 1971 and 13.3 per cent in 1970), for some commodity classes - especially those based on national resources - the percentage was, of course, considerably higher.^{9/} In 1973, in the case of food and live animals, beverages and tobacco (sections 0 and 1 of the SITC), the percentage was 35.1. For metalliferous ores and metal scrap it reached 36 per cent and for mineral fuels, lubricants and related materials it was 23.3 per cent. Similar percentages have prevailed for other years of the 1970's for the first two groups. However, in the case of mineral fuels, lubricants and related materials, there has been a marked decline in the percentage of United States world imports constituted by Latin American exports (from 53.1 per cent in 1963 to 23.3 per cent in 1973.)

There was likewise a great decline in Latin America's participation in United States total imports between 1963 and 1971 (from 21.3 to 11.9 per cent) with no real recovery thereafter.^{10/} The same shrinkage was noted for United States imports from all developing market-economy countries, except that in 1973 the recovery for these was better than for Latin America. The corresponding figures were 36.3 per cent in 1963, 25.1 per cent in 1971 and 27.9 per cent in 1973.

The structure of United States imports from Latin America between 1963 and 1973 shows an important shift in favour of manufactured goods and away from primary products. If we compare

^{9/} These and all following figures in this section are based on the D series data compiled by the United Nations International Trade Statistics Centre at Geneva.

^{10/} Despite the more than one third increase in the absolute value of United States imports from Latin America in 1973 over 1972 and a 127 per cent increase between 1963 and 1973.

1973 with 1963 and then 1973 with 1970 to see which commodity groups increased and which decreased their share in United States imports from the world, it can be seen that in both comparisons only two out of 14 categories of manufactures declined - chemicals and non-ferrous metals; the rest increased. In the case of primary goods, only two out of 10 increased their share between 1970 and 1973 (crude fertilizers and minerals, and metalliferous ores and metal scrap). Only three out of ten increased their share between 1963 and 1973 (wheat and other cereals, textile fibres and their waste, and metalliferous ores and metal scrap). Only two in all categories (including both primary products and manufactures) showed a decline in absolute values between 1970 and 1973 (textile fibres and their waste, and crude fertilizers and minerals). The first of these is the only category showing a decline in absolute value between 1963 and 1973.

A comparison for 1963 and 1970-1973 of the percentages of United States exports to the world which have been taken by the Latin American area shows no significant change. The percentage has, with minor fluctuations, remained at about 14. Commodity groups which were above average in this respect in 1963 and 1973 are shown in table 2.

From this brief table it can be seen that Latin America is a very good customer of the United States for certain important classes of goods, such as chemicals, iron and steel products, cloting and footwear. The decline in percentages of United States exports taken by Latin America in the case of three commodity groups reflects in part the increasing industrialization of the area and in addition the greatly increased role of Canada as a customer of the United States.

Table 2

PERCENTAGE OF UNITED STATES EXPORTS TO THE WORLD
TAKEN BY LATIN AMERICA

SITC	Description	Latin America (24 countries)	
		1963	1973
5	Chemicals	20.6	21.0
6 + 8	Manufactured goods	15.3	15.8
65	Textile yarn and fabrics	18.1	13.3
67	Iron and steel products	18.6	26.8
691 to 695 + + 698 + 812	Metal manufactures and plumbing, heating, and lighting fixtures and equipment	21.2	17.0
84	Clothing	25.5	44.2
85	Footwear	35.0	20.8
7	Machinery and transport equipment	17.0	13.8
71	Machinery other than electric	18.4	15.2
73	Transport equipment	16.6	10.6
7321	Passenger motor cars	35.4	9.3
9	Commodities and transactions not classified according to kind	21.2	14.5
0 to 9		14.1	13.3

Source: United Nations Statistical Office, Series D data.

/With respect

With respect to Latin America's trade balance with the United States, it now appears that 1974 is going to be the first year since 1965 that the area will have a favourable balance. This is due to the influence of prices for petroleum exports from Venezuela. If this country was excluded from the analysis, the balance would again be negative and the previous trade deficit would even be accentuated. In 1973, of the 14 Latin American countries engaging in the bulk of Latin America's trade with the United States, only the Dominican Republic, Guatemala and Venezuela had a positive trade balance. In the Caribbean, Trinidad and Tobago had a favourable balance but Barbados and Jamaica did not.

2. Events and trends in the economy of the United States that are relevant to its relations with Latin America

Prospects for Latin America's trade with the United States in the immediate future depend greatly on how this country's economic problems will be handled in 1975. It is now anticipated that recession will limit total United States imports this year and this could mean that even if the Generalized System of Preferences were implemented in time to have some encouraging effects on exports of developing countries these potential results might be offset by a drop in import demand. United States and OECD forecasts have been changing rapidly over the past six months as output has continued to fall in each successive quarter of 1974 and stocks of unsold goods have risen. By December 1974 the growth rate of the economy had shrunk to almost -2 per cent, inflation was close to 13 per cent, and the current account deficit had reached 3,250 million dollars. According to OECD forecasts 11/ the growth rate of the United States economy will continue to be negative in 1975, resulting in -4 per cent for the two years 1974-1975. The rate of inflation is expected to slacken a little by the end of 1975 (10 per cent in the last quarter as compared to 12 1/2 per cent in the same period in 1974), while the current account deficit is

11/ See The Economist, 21 December 1974, p. 79.

forecast as more than double that shown at the end of 1974. The same forecasts envisage that unemployment will reach 8 per cent in 1975, but wage increases of over 10 per cent are likewise anticipated in some sectors.

Whether or not these predictions are fulfilled will depend on United States monetary, fiscal and other economic policies. If these are aimed principally at controlling inflation, then the 10 per cent figure could be lower and the 8 per cent figure for unemployment higher. For the United States a relatively high rate of inflation is a new experience which is so shocking that some policy-makers have been disposed to attempt to correct it at any cost - even though there is grave danger that the remedy might prove worse than the disease. The expansionary measures taken by the Federal Reserve Board early in 1974 to avoid a recession that might result from the oil embargo were reversed in mid-year when fear of further inflation became the dominant influence in a somewhat ambivalent policy-making environment. In recent months, the Administration has been allowing unemployment to rise in the hope that reduced demand may slow down inflation, but there are signs that this policy is likewise about to be reversed.

There is little disagreement concerning the principal causes of the decline in the United States economy - government attempts to reduce inflation, the oil crisis and large-scale crop failures. Where uncertainty arises is in trying to find the correct balance between inflation-curbing policies on the one hand and growth-stimulating ones on the other. The problem is that the two sets of policies are working at cross purposes. If the sizeable income-tax cut recommended and expected by many is introduced in time and if funds are appropriated for pending legislation covering public employment and increases in unemployment insurance, then some recovery in investment and production could be expected to follow, providing there is not a renewal of efforts to stifle inflation at the expense of growth.

Paradoxically, in the second half of 1974 the Government found it necessary to take demand-discouraging measures to lower the inflation rate but until very recently had expected natural forces to bring about

/recovery once

recovery once the rate came down. In reality though, the prospect of lower prices - particularly in a setting of rising wages for the still employed - has never proved to be one of the most effective stimuli to investment.

At the global policy level, important aspects of United States trade policy are set out in The Trade Act of 1974, which includes among its provisions the United States generalized preferences scheme. This legislation has been designed not only to improve access to United States markets for developing countries but also to provide relief and assistance to United States workers and firms that might be prejudiced by the competition of imports and to guard the country against "unfair trade practices". Moreover, it has been modified in such a way that producers and exporters who join together and control international prices of export products will not benefit from the scheme. Thus the act is a double-edged weapon, and there exists the possibility that the negative edge may prove to be much sharper than the positive.^{12/}

3. Current issues and their setting

Most discussions of United States-Latin American relations tend to emphasize the greatly changed world setting in which they evolve, as well as local hemispheric developments over the past decade which demand a new approach to current issues. Although these changes and development have not altered the long-range goals of increasing the volume of hemispheric trade and of diversifying the nature of Latin America's exports in order to dynamize them and lessen vulnerability to price and demand fluctuations, certain short-run aims and some former long-term trade policies have had to be modified on both sides. The following paragraphs attempt to deal with issues in their present setting and subsequently to provide a basis for consideration of future action.^{13/}

^{12/} The United States generalized preferences scheme has been covered in detail in the corresponding section of chapter II.

^{13/} Since there are ECLA projects on the subject of technology and its transfer and on transnational corporations, the implications of these factors for trade and economic relations have not been covered here.

The United States is deeply concerned about problems and situations which either had quite different characteristics or else did not exist a decade ago. As mentioned earlier, the economic situation of the country has been deteriorating, characterized by growing inflation, devaluation of the currency, increasing unemployment, lagging growth, balance-of-payments problems and the prospect of resource depletion and environmental ruin. On the other hand the United States has been making great efforts to increase its trade in all directions, evidence of this being its improved commercial relations with Russia, their reinitiation with China, export drives aimed at EEC and Japanese markets, the decision to put into effect its generalized preferences scheme for all developing countries (realizing that this is necessary if the latter are to buy more from them) and, in the hemispheric context the new determination arising out of the Tlatelolco Conference to improve trade and other economic relations with Latin America. While this Conference for the most part constituted a reiteration of declarations made at earlier meetings at the hemispheric level, some new points of special interest were made, particularly the United States intention of giving special attention to Latin America's needs when implementing its generalized preferences scheme and the decision to establish a mechanism for providing a code of conduct for transnational enterprises operating in the region. On the negative side, however, the last-minute modification of provisions governing the scheme contained in The Trade Act of 1974, to the effect that Latin American and other members of OPEC lose eligibility for preferences, has ignited new resentment against the United States in practically all Latin American countries.

Other important elements of the setting of United States-Latin American relations have not altered so much. The United States is still a world power, which means that it must attempt to maintain an impartial stance vis-a-vis all developing areas despite historic, geographic and economic ties which might otherwise give a "special relationship" bias to hemispheric trade. On the other hand, the United States is still Latin American's best single-country customer and in turn has a very important client in Latin America for several

/groups of

groups of products, particularly iron and steel, chemicals, clothing and shoes. There is therefore mutual need for, and interest in, maintaining and improving this important trade relationship, and the price of maintaining Latin America as a particularly good customer of the United States will be the latter's increased efforts to absorb Latin America's exports.

It is now necessary to examine the issues arising out of the setting described which are of particular interest to Latin America. Some of these have to do with subjects mentioned elsewhere in the document (such as the importance of commodity agreements) and others have been dealt with extensively in documents prepared by ECLA and other bodies in the past (the need for guaranteed access to the United States market, for example) and therefore they will not be covered in any great detail in this section.

Concerning access, a very important issue at the moment is the generalized preferences scheme included in The Trade Act of 1974 recently passed by the United States Congress. This scheme has been described and analyzed elsewhere in this document, where it can be seen that even if it had been made considerably more liberal it would probably have had no significantly prejudicial effects for the United States economy as a whole and only mildly favourable repercussions for products currently exported by Latin America to the United States. For many of the latter it will have no effect at all, due partly to the fact that about 40 per cent of Latin America's exports to the countries are already entering duty-free and partly to the fact that it excludes most agricultural products as well as manufactured goods deemed "sensitive", which make up about 10 per cent of the area's exports to the United States. For products not yet traded its potential significance is greater. This is particularly the case for manufactured products, where the preferences are concentrated and which constitute the export sector where growth could be more dynamic, owing to the nature of the growth of world import demand.

/Apart from

Apart from tariff barriers affecting access to the country's markets, the United States maintains certain non-tariff barriers - on wheat flour, milled wheat products, confectionary sugar, certain cocoa products, milk products, and ice-cream, in addition to those affecting about 20 BTN tariff items covering other types of goods.^{14/} Moreover, in addition to the need for what might be termed "passive measures" for improving Latin America's access to United States markets through removal of tariff and other trade barriers, there is a need for active measures which would expand the country's present efforts to assist the area in export promotion.

Many critical problems are related to the general subject of Latin America's search for guaranteed stability of export growth. These relate to volume, satisfactory prices, diversification of both imports and exports, the need for commodity agreements, and even the possibility of some scheme for guaranteeing export income obtained through the export of primary commodities.

A serious question of concern to Latin America is whether their exports will continue to grow now that the United States is facing economic problems of major proportions. In addition to the possibility of a drop in demand in the United States on purely economic grounds, caused by growing unemployment, certain so-called government restrictions against unfair trade practices - which might in practice have a liberal interpretation in good times - could conceivably be narrowly interpreted when the country is under serious unemployment pressures. For example, how will the reference to discriminatory acts in The Trade Act of 1974 be

^{14/} UNCTAD, "Inventory of Non-tariff barriers, including quantitative restrictions applied in developed market economy countries to products of particular export interest to developing countries", TD/B/C.2/115/Rev.1, 29 April 1974.

interpreted?^{15/} It could for example be understood to include the formation of associations of export producers. It is true that in order to invoke retaliatory measures the unfair practices must have a significant effect on United States production or exports, but in hard times it would not be too difficult to rationalize such an effect into existence.

Another point of concern in connexion with unfair trade practices is that while export subsidies are considered under past and proposed United States legislation (as well as GATT regulations) to constitute an unfair trade practice that could give rise to countervailing duties, in third world countries they have come to be accepted as a necessary and unavoidable tool of export promotion strategy. Here the United States position is of course related to that of the GATT, but there has been considerable criticism of the latter position in recent years - so much so that undoubtedly the question of subsidization of exports by developing countries is one which will give rise to debate in the forthcoming multilateral trade negotiations.

In addition to problems related to Latin America's access to United States markets, stable growth of exports, commodity agreements, possible new restrictions in the United States and north-south verticalization of trade, there is a further element that merits attention. This has to do with the possible conflict between the nature of the United States export drive and the pattern of Latin American import substitution. There have been some indications that United States official export-promotion policy may be directed more and more towards trying to increase greatly sales to developing countries of insurance, brokerage,

^{15/} The reference reads as follows: "(2) engages in discriminatory or other acts or policies which are unjustifiable or unreasonable and which burden or restrict United States commerce ..." (cited from the version of House of Representatives document 10710 presented at the March 1974 hearings before the United States Senate Committee on Finance, p. 117).

financial, technical, and other services, as well as of the capital goods traditionally supplied to them.^{16/} The increasing volume of these services would be given in exchange for a similarly increasing volume of raw materials coming from the developing countries.

On the other hand it can be assumed that Latin America's future import-substitution efforts will include attempts to provide as many of their own services as possible. Moreover, Latin American countries have just as much cause as the United States to be preoccupied with the depletion of their non-renewable natural resources. They will not be very eager to exchange these for renewable services. Nor will they be willing to continue providing the resources at present, or merely inflation-adjusted, prices for an indefinite period but will undoubtedly try to take advantage of the value added by scarcity.

The guidelines for action that might be drawn up on the basis of the analysis of the issues outlined above are the following:

(a) As indicated in the section of this document relating to the United States generalized preferences scheme, broad and generous interpretation and implementation of the scheme will be required in order to avoid damage to trade through the operation of safeguard clauses of The Trade Act of 1974. Broad product coverage is recommendable also, with gradual inclusion of the "sensitive products" to the extent possible given present United States economic difficulties. The strengthening of adjustment assistance to United States industries provided for by Law should increase the possibility of achieving this.

(b) It is hoped that the United States will continue and expand assistance to Latin American countries in export promotion. A good contribution is being made by the country through the

^{16/} See United States Department of State, The Department of State Bulletin. Vol. LXX, No 1814, 1 April 1974, pp. 339-344, "The Reshaping of the World Economy", address by William J. Casey, Under-Secretary for Economic Affairs.

Inter-American Centre for Export Promotion (CIPE) and the United States Department of Commerce has published material of value for Latin American exporters. These efforts are laudable and it is hoped that they will be intensified and diversified.^{17/}

(c) There should be maximum possible co-operation at the hemispheric level, within the context of all developed and developing countries, in working toward viable international commodity agreements that would provide reasonable stability of export income and import supply.

(d) Concerning possibilities of north-south verticalization, it is hoped that Latin American countries will be able to continue to seek maximum multilateralism for their own countries and the world in general and that they will join with the United States in trying to secure the extension to all developing countries of the trade preferences which the EEC gives to the ACP African, Caribbean and Pacific countries and to the Mediterranean countries.

(e) There is still room for the import-substitution process to grow in Latin America, on a selective and efficiency basis, within the context of the whole Latin American market, even in some of the relatively developed countries. This includes substitution of services, an area in which United States competition with Latin America can be very keen right on the area's own doorstep.

Comparative advantage is relative, not absolute, and therefore it matters less that the United States is somewhat more efficient in certain services than that these might have to be paid for by Latin America's turning over non-renewable natural resources. In some cases, of course, the area will desire to continue importing services in the foreseeable future.

^{17/} Perhaps the Netherlands' example in establishing an Institute for Import Promotion could be emulated.

C. JAPAN

1. Evolution of mutual trade

The mutual trade between Latin America and Japan which expanded rapidly and more or less evenly during the 1960s changed entirely in character in the 1970s. There was a tremendous boom in Latin America's imports from Japan, which contrasted with the modest expansion of the region's exports to that country, except in 1973. Latin America's exports to Japan rose from 806 million dollars in 1970 to 2,717 million dollars in 1974, while imports from that country during the same period went up from 856 million to 4,071 million dollars. Moreover, much of the increase in trade with Japan corresponds to 1973-1974 and is mainly a reflection of the higher prices (see table 3).

This trend naturally accentuated Latin America's trade deficit with Japan, which increased from about 371 million dollars in 1971 to about 1,350 million dollars in 1974.

The growth of Japan's exports to Latin America coincides with the general trend of its world exports during this period, but the growth rate of its exports to Latin America was much higher than the average.

The increase in its exports to the region mainly took the form of machinery, whose value went up from 614 million dollars to over 1,500 million dollars.

Table 3

LATIN AMERICA:^{a/} TRADE WITH JAPAN

	Latin American exports to Japan (millions of dollars)	Latin American imports from Japan (millions of dollars)	Percentage share of total Latin American trade		Percentage share of total Japanese trade	
			Exports	Imports	Exports	Imports
1961-1970	491.1	453.0	4.6	4.6	5.1	7.2
1970	806.3	855.3	5.6	6.1	4.9	6.5
1971	791.7	1 162.7	5.6	7.5	5.5	6.0
1972	862.6	1 289.4	5.3	7.3	5.9	5.3
1973	1 483.0	2 048.6	6.6	8.8	6.5	4.5
1974 ^{b/}	2 716.6	4 071.5	7.8	10.9	6.0	5.1

Source: IMF, Direction of Trade, several issues.

^{a/} Excluding Cuba.

^{b/} Preliminary estimates.

/By contrast,

By contrast, the increase in Japan's imports from Latin America was somewhat lower than the average increase in its overall imports - a cumulative annual increase of 9.3 per cent compared with 19.4 per cent. The fastest-growing Japanese imports during the period were of certain foods, petroleum and industrial raw materials, but Latin America failed to maintain its share of the Japanese market in respect of several of these products. The substantial expansion of Latin America's exports to Japan in 1973 did not alter the above trend, since it responded principally to an increase in the price of most of the region's export products; in fact, the volume of exports of several products declined markedly, although, in terms of value, this was offset by the higher prices. Such was the case with sugar, maize, sorghum, cotton, zinc ore, etc. By contrast, the volume of other products, such as coffee, wool, iron and copper ores, refined copper, etc., increased slightly, although much less than their value.

Latin America's share of the Japanese market dropped from 7.15 per cent in 1970 to 5.03 per cent in 1973. The region's main export products include bananas (whose share dropped from 69.2 per cent to 31.4 per cent), cotton (from 44.2 per cent to 31.6 per cent) and copper ore (from 14.1 per cent to 10.3 per cent); the decline in the share of zinc ores, iron ores, non-ferrous metals, coffee, etc., was less marked.

The main reason for the reduction in the share of Latin American bananas in the Japanese market was the exceptional increase in imports from the Philippines in recent years (184 per cent in 1971 and 77 per cent in 1972) as a result of large-scale investment carried out there by United States and Japanese firms in previous years. At the same time, exports from both Cuba and the Central American countries tended to level off. In 1973 there was a definite drop in the region's exports to the Japanese market. As regards cotton, despite the fact that the value of Latin American exports increased in absolute terms, that of exports from other sources (including the Soviet Union and Pakistan where the 1972 harvests benefited from better weather conditions) increased much more.

/The nature

The nature of the region's trade relations with Japan thus changed radically during the present decade; for Japan, Latin America is no longer just a source of supply of raw materials and food but a major market for its exports, particularly of products of special importance for the countries' export promotion strategy, such as machinery. Japan moreover provides a market that takes about 7 per cent of Latin America's exports and supplies a tenth of its imports. Around the middle of the 1960s, the corresponding figures were about 4 per cent and 5 per cent.

The increase in Latin America's trade deficit with Japan, which it proved impossible to avoid despite the favourable conditions prevailing in 1973, means that an efficient method must be found of promoting the region's exports to that country. The situation is similar to that which existed during the last century in respect of the relations between the countries of South East Asia and Japan and which has been largely corrected in recent years by a number of measures designed to promote the exports of those countries, together with intensive financial and technical assistance.

Furthermore, with few exceptions the structure of Latin America's exports to Japan is still characterized by a marked concentration on a small number of traditional primary products and by a failure to expand exports of manufactures to any great extent, for all the efforts made on both sides.

2. Events and trends in the economy of Japan that are relevant to its relations with Latin America

In recent years, Japan's economic activity has evolved along similar lines to that of most industrialized countries. Economic expansion began to accelerate at the beginning of 1972, in which year the net increase of the gross national product was 8.9 per cent. For the first time in Japan's history, industrial production capacity showed signs of having a limit. Rapid growth continued in 1973 but was accompanied by a high rate of inflation: moreover, the growth rate gradually declined towards the end of the year although the net increase

/of the

of the gross national product in 1973 was still 11.0 per cent. From the start of 1974 the economy entered into a phase of complete stagnation. Anti-inflationary policies, combined with the factors already referred to, would seem to have halted economic activity to such an extent that the economic growth rate for that year, according to preliminary estimates, was 0 or even negative, in sharp contrast with the rate of over 10 per cent that it had maintained for more than fifteen years.

This rapid expansion naturally led to a sharp increase in Japan's imports in recent years. The value of its imports rose from 23,471 million dollars in 1972 to 38,314 million dollars in 1973, compared with 19,712 million dollars in 1971 (an increase of 19.0 per cent in 1972 and 63.2 per cent in 1973).

Japan's economy and the structure of its foreign trade have undergone far-reaching changes since the end of the 1960s. For many years Japan has faced chronic balance-of-payments problems.^{18/} However, from 1968 onwards the country's rapid economic growth was no longer accompanied by trade deficit problems and, thanks to the steady increase of exports, the balance of trade began to show increasing surpluses which reached such proportions in 1971 and 1972 that they were considered to be one of the causes of the international monetary crisis.

Japan's trade policy towards the end of the 1960s and in the early 1970s was marked by an appreciable liberalization of imports, as will be seen below.

Under the influence of external and internal factors, which include the adjustment of the international monetary system, the increase in the price of petroleum and industrial raw materials, the problem of environmental pollution and the relative shortage of manpower, the Japanese economy is now undergoing another radical change.

^{18/} The rapid economic growth had to be slowed down on several occasions as it was necessary to increase imports in order to meet domestic demand, and exports were not expanding as fast as imports.

The competitive capacity of Japan's exports on the world market declined rapidly from 1971 onwards owing to the revaluation of the Japanese currency, which in 1973 was about 30 per cent higher than prior to August 1971. The decline in their competitive capacity coincided with the rapid economic growth that started in 1972 and inevitably led to a relative decrease in exports in 1973, compared with a sharp increase in imports, which resulted in a deficit in the balance of trade. The situation became further accentuated at the end of 1973 owing to the increase in the price of petroleum and other products.

Japan's latest phase of economic growth has shown for the first time that its industrial production has a physical limit determined mainly by the slower rate of investment in productive capacity in recent years,^{19/} a relative shortage of manpower, the aggravation of the problem of pollution, and the short supply of certain industrial raw materials from abroad.

As a result, the structural changes in the Japanese economy suggest that it may perhaps not be able to continue expanding as quickly as in the past 20 years and more, and that this will have definite repercussions on its foreign trade. The increase in the country's exports and imports will be considerably less than in previous years.^{20/}

^{19/} Private investment in productive plants has been restricted for several reasons, such as the lack of suitable land. This investment increased at an annual cumulative rate of 10.4 per cent during the last four years (1970-1973), compared with 16.1 per cent in the previous five-year period (1965-1970); moreover, since a substantial part of the investments made in recent years was earmarked for the prevention of industrial pollution, the growth rate of investment that went directly to increasing the country's productive capacity was only 6.6 per cent, a very low figure compared with that of the 1960s (Economic Planning Agency, Economic Survey of Japan 1974, Tokyo, 1974).

^{20/} The structural change in the economy and foreign trade of Japan was the main topic dealt with in the official Economic Survey for Japan for 1974, which considered that the Japanese economy was passing through a historical period of change.

3. Trade policy measures

During the first years of the 1970s, Japan's trade policy was geared to an increased liberalization of imports, in respect of which a number of fairly important measures were adopted; these included the lifting of quantitative restrictions on 87 products between 1970 and 1973; in other words, the number of products subject to quantitative restrictions was reduced from 118 (at the end of 1969) to 31.^{21/}

Japan also reduced customs tariffs unilaterally on a number of occasions during the period, and in 1972 introduced a reduction across the board of 20 per cent. These, combined with the tariff reductions agreed upon in the course of the Kennedy Round negotiations, caused the average level of Japan's customs tariffs to drop from about 17 per cent to 8 per cent.^{22/} Furthermore, the Japanese Government adopted a number of additional measures to facilitate imports, such as the increase in the import quotas of products subject to quantitative restrictions, the elimination of the system of prior deposits for imports, and the simplification of import formalities, etc.

Most of these measures were adopted during the first three years of the 1970s, essentially to counteract the upward trend of the favourable balance of trade which the country had been registering since the end of the 1960s. Several of the measures (for example, the elimination of quantitative restrictions on certain products) were designed to facilitate imports from the United States, with which Japan had its largest favourable trade balance during the period. Consequently, the measures taken by Japan are not necessarily all that the developing countries might desire, although they will undoubtedly have certain positive implications for them, insofar as they are applied equally to all exporting countries.

^{21/} Approximately 3 per cent of total imports consists of 31 products, of which 23 are agricultural and the rest industrial.

^{22/} OCDE, "Japan's Trade Policy", OECD Observer, April 1974.

As regards Latin America, several of its most important export products are still subject to quantitative restrictions, such as beef 23/ and products made from beef and pork (preserved products, etc.), certain fruits and products made from fruit and tomato (orange, juices and purée; preserved pineapple, products made from tomato, etc.), a number of sea products (certain fish, marine algae, etc.) various leather products, etc. By contrast, the only products whose importation was liberalized in recent years of interest to Latin America are coffee, tea, lemon juices, pork and certain products made from pork, such as bacon and ham.

Moreover, in spite of the considerable reduction in the level of tariffs in general, some fairly high tariff duties are still applied to a number of Latin America's traditional export products.24/ In addition, no great improvement has been achieved in tariffs on certain agricultural products, particularly processed foods, nor have these products been included in the Generalized System of Preferences. Finally there was no improvement whatsoever, as far as foreign suppliers were concerned, in the situation of non tariff barriers such as the price stabilization system (meat, soya, sugar, etc.), state trade (wheat and rice), sanitary regulations (meat), etc., which are considered to have a serious effect on imports.

23/ In respect of this product, there is also a non tariff barrier of a sanitary nature. Owing to the problem of foot and mouth disease, imports from Latin America of beef, other than cooked beef, are virtually prohibited.

24/ Inter alia, bananas, roasted coffee, sugar, prepared or preserved fruit, meat extracts and juices, other meat products, etc.

D. THE SOCIALIST COUNTRIES

During the 1960s and the early 1970s, Latin America's exports to the Socialist countries represented between 6 and 7 per cent of the region's total exports. Like its total exports, those to Socialist countries expanded rapidly between 1972 and 1973, when they amounted to 1,500 million dollars in value. The growth of exports of industrialized countries to Socialist countries are much faster than that of the exports of developing countries. Whereas the former rose by about 54 per cent in 1973, the latter were up by 32 per cent and those of Latin America by 43 per cent.

Although these exports still come from a small number of countries, there was a change in their composition during the early years of the 1970s. During the entire period, Cuba, Brazil, Argentina and Peru provided 94 per cent of exports to Socialist countries. In the 1970s, Cuba was the main exporter of the group, inasmuch as the value of its exports to those countries was more than double that of the other three countries put together. The situation has now been reversed, with Argentina, Brazil and Peru together exceeding Cuba's exports (see table 4).

Of the three countries, the largest exporter in terms of value in 1973 was Brazil. In the first half of the year, its exports to the Socialist countries still consisted almost entirely of sugar, soya flour and coffee. Argentina registered the largest increase in value of exports, and Peru was the only one of the three countries that managed to increase the share of its exports to Socialist countries in its total exports (10 per cent as opposed to about 2 per cent in the 1960s).

Table 4

LATIN AMERICA: TRADE WITH SOCIALIST COUNTRIES

(Millions of dollars)

	1961-1965	1966-1970	1971	1972	1973
<u>Exports</u>					
Argentina	108	98	75	62	198
Brazil	84	118	129	280	413
Peru	8	24	81	98	118
Other Latin American countries	43	51	88	120	100
Total	243	291	373	560	829
Cuba	439	548	571	471	713
<u>Total Latin America</u>	<u>682</u>	<u>839</u>	<u>944</u>	<u>1 031</u>	<u>1 542</u>
<u>Imports</u>					
Argentina	29	23	22	22	26
Brazil	69	74	110	91	74
Peru	2	5	5	6	8
Other Latin American countries	22	45	71	73	65
Total	122	147	208	192	173
Cuba	622	831	980	950	965
<u>Total Latin America</u>	<u>744</u>	<u>978</u>	<u>1 188</u>	<u>1 142</u>	<u>1 138</u>
<u>Balance</u>					
Argentina	79	75	53	40	172
Brazil	15	44	19	189	339
Peru	6	19	76	92	110
Other Latin American countries	21	6	17	47	35
Total	121	144	165	368	656
Cuba	-183	-283	-409	-479	-252
<u>Total Latin America</u>	<u>-62</u>	<u>-139</u>	<u>-244</u>	<u>-111</u>	<u>404</u>

Source: IMF, Direction of Trade and United Nations, Monthly Bulletin of Statistics.

/The trend

The trend in the other Latin American countries varied during the three initial years of the 1970s. Uruguay and the countries of the Central American Common Market increased their exports to Socialist countries to a similar extent, while the growth rate Chile and Guyana fluctuated widely. There was a slight drop in Colombia's exports and those of Ecuador remained at the same level. Mexico and Jamaica have virtually disappeared as exporters to the Socialist countries, despite the considerable flow of trade that existed in the past. In 1973, none of the above countries exported more than 23 million dollars in value.

As regards the type of products exported, the International Development Strategy recommended that the countries of the Eastern Europe should take steps to increase their imports of manufactures and semi-manufactures from the developing countries.

The exports of the developing countries in 1972 included 19.6 per cent of manufactured products 25/ compared with 14.3 per cent in 1968, 16.9 per cent in 1969, and 15.7 per cent in 1970. The same figures for the LAFTA countries were 3.8 per cent in 1968, 3.6 per cent in 1969, 6.2 per cent in 1970 and 7.5 per cent in 1972. The low share of manufactures in Latin America's exports, compared with those of other developing areas, is understandable considering the greater progress that has been made in economic co-operation between the countries of Eastern Europe and certain countries in Africa and Asia. The Socialist countries' trade relations with countries of other geographical areas - India, for example - in the context of global plans intended to promote the harmonious growth of basic sectors of the economy have existed for much longer than with Latin America, and economic co-operation with the latter region has been fairly modest. The efforts to increase it that were made in 1973 are discussed elsewhere.

With regards to the destination of exports from Latin America (excluding Cuba) to the Socialist countries, the Soviet Union continues to be the largest buyer: in 1973 it took about 30 per cent of the total.

25/ Section 5, 6, 7 and 8 of the SITC, including division 68.

China is becoming an increasingly important buyer; whereas in the 1960s, it took only 13 per cent of Latin America's exports to Socialist countries, it currently takes 23 per cent, which makes it the second largest buyer. The third largest is Poland, which has been increasing its trade with Brazil.

The origin of Latin American imports bears no relation to the destination of its exports. Whereas the principal buyers of exports are the Soviet Union and China, the biggest supplier of Latin American imports from the Socialist area is Czechoslovakia, followed by Poland and then the USSR (see table 5).

In the first three years of the 1970s, Latin American imports from the Socialist countries declined in absolute terms, while the share of the Latin American countries importing from the Socialist countries remained at more or less the same level. During this period, Cuba was the largest importer, taking 85 per cent of such imports for itself and thus leaving only 15 per cent for the other Latin American countries.

The decline in Latin America's imports from the Socialist countries, together with the rapid growth of its exports in 1973, has changed the region's balance-of-trade situation. The traditionally negative balances of Cuba for many years, which had been increasing up to 1972, declined in 1973 as a result of the sharp expansion of Cuba's exports; the equally traditional positive balances of almost all the other Latin American countries increased even more for the same reason thereby giving Latin America a large and positive overall balance of trade with the Socialist countries. The traditionally positive balances of the region (excluding Cuba) have frequently been mentioned as an obstacle to increased trade between Latin America and the Socialist countries.

Despite the persistence of problems in the trade relations between both groups of countries, it is generally agreed that an expansion of mutual trade is desirable and possible.

Table 5

LATIN AMERICA AND THE CARIBBEAN COUNTRIES^{a/}: EXPORTS AND IMPORTS FROM AND
TO THE SOCIALIST COUNTRIES BY DESTINATION AND ORIGIN^{b/}

(Millions of dollars)

Destination and origin	Exports					Imports				
	1961- 1965	1966- 1970	1971	1972	1973	1961- 1965	1966- 1970	1971	1972	1973
Bulgaria	3.5	18.1	12.9	18.9	29.2	1.1	9.7	5.3	7.3	9.7
Czechoslovakia	31.2	30.5	30.5	36.9	44.5	34.0	28.9	40.6	44.8	49.4
Hungary	17.7	29.9	31.2	36.2	40.9	8.4	5.5	9.2	10.0	11.7
Poland	48.0	56.5	70.9	85.6	128.6	18.6	32.0	71.9	53.6	33.3
German Democratic Republic	24.2	50.4	53.2	63.6	59.5	16.2	22.7	35.4	25.9	16.1
Rumania	6.9	10.9	22.2	21.7	20.8	4.5	11.4	13.7	13.4	14.4
Soviet Union	65.9	76.8	93.5	136.5	233.4	40.1	33.6	13.3	19.0	29.7
<u>Total Eastern Europe</u>	<u>197.4</u>	<u>273.1</u>	<u>320.5</u>	<u>399.4</u>	<u>556.9</u>	<u>122.9</u>	<u>143.8</u>	<u>189.4</u>	<u>174.0</u>	<u>158.3</u>
People's Republic of China	45.3	19.8	40.8	132.0	171.7	1.2	3.9	5.9	6.5	7.3
People's Democratic Republic of Korea	-	0.2	-	4.8	40.4	-	...	0.2	-	-
<u>Total Socialist countries</u>	<u>242.7</u>	<u>293.1</u>	<u>361.3</u>	<u>536.2</u>	<u>769.0</u>	<u>124.1</u>	<u>147.7</u>	<u>195.5</u>	<u>180.5</u>	<u>165.6</u>

Source: IMF, Direction of Trade, 1973.^{a/} Excluding Cuba.^{b/} The difference between these figures and those given in table 4 are due to the fact that certain Socialist countries whose trade with Latin America was insignificant has been excluded.

Economic co-operation agreements similar to those governing the relations of the Eastern European countries with several developing countries in Africa and Asia are currently being drawn up with a number of Latin American countries; new agreements already exist or are being negotiated between a number of Eastern European countries and Brazil, Argentina and Peru.

In February 1974, Argentina and the Soviet Union signed a series of intergovernmental trade and economic co-operation agreements for ten years, with a view to joint action in the principal industrial sectors of Argentina. These agreements cover technological and scientific assistance and the supply of USSR machinery and equipment both to the government and to private Argentine bodies, payment being deferred for up to ten years and at a rate of interest of between 4.5 and 5 per cent. The goods supplied by the Soviet Union will be paid for by goods produced by the new industries. It is hoped that manufactured products will make up 30 per cent of Argentina's exports to the USSR.

The scientific and technical co-operation agreement between Czechoslovakia and Peru is designed to create documentation centres of great value to Latin America, where very little information is available regarding the prospects afforded by Socialist countries.

As regards financing and payment agreements, a number of innovations have been made that may well help smoothe over some of the problems arising from the excessive rigidity of existing methods of payment. The International Development Strategy refers specifically to these problems and recommends that payment agreements should gradually become more flexible and multilateral. The bilateral and multilateral arrangements advocated by the International Bank for Economic Co-operation cover part or all of mutual trade in transferable roubles, thereby facilitating payment and credit arrangements both among members of the Bank and between the latter and non member countries.

Mention must also be made of the intergovernmental agreements between Argentina, Czechoslovakia and Poland, which stipulate reciprocal credits lines.

/Finally, the

Finally, the use of the clause relating to payment in convertible currency now appears more often than before in payment agreements signed between Latin America and Socialist countries. By contrast, the agreements between Argentina and Rumania for the purchase of Rumanian machinery and equipment stipulates that 15 per cent of the cost should be paid in dollars and the remainder in Argentine manufactured products.

Chapter IV

CRISIS OF THE INTERNATIONAL MONETARY SYSTEM AND EXTERNAL FINANCING

A. INTRODUCTION

The conditions under which external financing has developed in recent years have been particularly influenced by two aspects of the international economic context: the crisis of the monetary system and the general economic situation. The first of these aspects is rooted in the obvious fact that the circumstances prevailing in the second half of the 1940s and during the 1950s have ceased to exist. The shortcomings of the Bretton Woods Agreement in connexion with the process of adjustment and the provision of liquidity were unimportant so long as world economic and political conditions did not change. As an increasing number of countries began to have considerable economic importance, new currencies disputed the pre-eminent role of the dollar, international financial markets developed, the mobility of capital was facilitated, and United States dollars were accumulated abroad through persistent deficits in that country's balance of payments, the imperfections of the process of adjustment made it impossible for the system of more or less fixed monetary parities to operate and led to the general practice of floating the principal currencies. This has introduced an additional degree of uncertainty in the financial markets, and fresh factors of instability for the developing countries, thereby increasing their financing requirements.

The world economy, in its turn, has been characterized by sharp variations both in the rate of growth of the industrial countries and in their rates of inflation. While growth has slowed at an unprecedented pace since the Second World War, inflation has spurted. Currently, and possibly as one of the many factors responsible for the situation, the increase in petroleum prices has led to a redistribution of world income and wealth and a reorientation of financial flows that are completely without precedent.

The two factors - the crisis of the monetary system and the international economic situation - have combined to present an extremely difficult picture of external financing in all its main forms. Access to private financial markets have become more difficult, risky and expensive; development aid at the government level has gradually fallen as a proportion of the gross national product of the donor countries; and direct external investment has been discouraged by the economic difficulties of the industrial countries.

Latin America in particular - if the oil-exporting countries are excluded - is once again facing a bottleneck in its external sector, which was believed to be well on the way to being solved in the middle of the 1960s.

At the same time, the sources of external financing seem to be undergoing a process of structural change and it may be some time before the action of existing institutions and the new ones which may be set up can contribute to organizing the circulation of the financial resources in the economic system and ensuring their adequate distribution. In any case, the outlook over the next few years for the non-oil-exporting developing countries, particularly in Latin America, is not too bright.

B. CRISIS OF THE INTERNATIONAL MONETARY SYSTEM

1. The Bretton Woods system

The international monetary system established at the Bretton Woods Conference at the end of the Second World War envisaged a solution to the balance of payments disequilibria between member States based mainly on the adoption of domestic policies to restrict or expand overall demand. The rates of exchange of the various currencies were expected to change only when the disequilibria could not be settled by means of any other policies, either because of their magnitude or because of the social cost involved.

/The member

The member countries were to declare their currencies' parity with gold, and undertake to intervene in the exchange markets to prevent the exchange rate from being adjusted by more than 1 per cent of the declared parity. In practice, the countries maintained their rates of exchange in relation to the United States dollar, while the United States undertook to convert into gold any dollars presented to it for the purpose by the rest of the member countries of the system.

To give the countries time to implement internal adjustment measures and for these to take effect, a system of loans was established, financed with contributions from all the members to a Fund. The size of this contribution, partly in gold and partly in the currency of each country, was determined in the light of factors such as the exports and income of each of the member States. The loans were made conditional upon the adoption of adjustment measures, and the conditions were stricter as the loan increased in relation to the contribution of the country requesting it. The International Monetary Fund was set up to supervise the whole system and administer the resources obtained through the countries' contributions.

Under the monetary system thus established, the creation of international liquidity was tied to the fluctuations in the price of gold in terms of all currencies. Since the United States was the only industrial country whose production capacity had not been affected by the war, however, the United States dollar became the most widely accepted medium for financing international transactions and for accumulating reserves. This accumulation had its counterpart in a constant deficit in the United States balance of payments.

After the war, and particularly in the 1950s, in a general atmosphere of economic expansion with slight inflationary pressures exerted by demand, it was generally possible to control overall domestic demand in the various countries by means of fiscal and monetary policies, and thereby to regulate the balance of payments /trends. Moreover,

trends. Moreover, the European industrial countries and Japan, which needed to restore the levels of their international reserves, maintained persistent balances of payments surpluses and accumulated increasing amounts in dollars.

This very accumulation, however, raised growing doubts as to whether the United States would be able to redeem its pledge to convert dollars freely into gold. Furthermore, the size of the surpluses of certain countries, or of the United States deficit, was not limited by the agreement under which the new monetary system had been established. The system failed to provide adequate incentives to effecting adjustments in the case of countries with balance of payments surpluses. Nor did the machinery provided for conditioning the use of the Fund's resources operate in the case of a country which had no need to resort to the Fund to finance its deficits but was able to cover them with its own currency.

In addition, the growing inflationary pressures exerted by costs made it more difficult or more expensive to implement adjustment policies based on the control of overall domestic demand.

Thus, the Bretton Woods system involved two difficulties in the implementation of the adjustment policy envisaged: the incentives to adopt such a policy were applicable only to countries with deficits which they were unable to finance with their own currency, and pressures from costs were making it harder and harder to achieve the adjustment by regulating overall domestic demand. To this asymmetry in the adjustment process was added the difficulty of using the traditional economic policy instruments.

Moreover, since the accumulation of reserves was expressed mainly in dollars, this created a transfer of real resources from the rest of the world to the supplier country of the reserve currency, while at the same time its provision depended, at least in part, on the domestic economic policy options of that country.

/The difficulties

The difficulties involved in the system became more evident with the greater dispersion of world economic power and the expansion and improvement of the international financial markets. The appearance of other hard currencies in the system and the development of the Euro-currency market facilitated and stepped up international capital movements which are difficult to control by means of adjustments in overall demand. The direct controls or dissuasive mechanisms tried out as a means of controlling such movements proved insufficient, since the forms which capital inflows or outflows could take were such that it was impossible to detect them, at any rate in time to take appropriate action.

The risk of inconvertibility of the dollar into gold coupled with the uncertainty regarding the strength of certain currencies created pressures on the gold market which compelled a group of countries, in the second half of the 1960s, to agree not to conduct official gold transactions except through their central banks at the official price, and to stop buying or selling gold on the free market.^{1/}

In the mid-1960s, concern also began to be felt regarding the erratic movements of international liquidity. The drop in the United States international reserves and the accumulation of dollars abroad gave grounds for believing that this country might adopt policies designed to stabilize its balance of payments, thereby closing the main source for the creation of international liquidity. The matter was discussed in the International Monetary Fund, which, in the light of ideas analysed in UNCTAD, the industrial countries and within the Fund itself, decided to create a new instrument of liquidity having a fixed parity with gold, which would be distributed to all the member countries of the Fund willing to accept it in proportion to their

^{1/} The agreement was adopted in Washington on 17 May 1968 by Belgium, the Federal Republic of Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States. A large group of countries subsequently acceded to the agreement.

quotas. Thus the special drawing rights came into being, their introduction in the system representing the first important deviation from the basic principles adopted at the end of the Second World War.

The developments in the world economy, with uneven variations in the productivity of the various countries' economies, terms of trade, and rates of domestic inflation, combined with the asymmetry of the adjustment process to make this system incapable of stabilizing the growing disequilibria by controlling demand. Of course, capital movements multiplied the pressures on currencies.

This want of adjustment led to a considerable accumulation of reserves in countries like Germany and Japan,^{2/} and the movements of capital made the system progressively more untenable. On 15 August 1971 the United States, faced with the risk of being presented with completely unmanageable quantities of dollars for conversion into gold and with the aim of forcing the adoption of a new agreement on exchange rates that would remain steady, officially suspended the convertibility of the dollar into gold, which in practice meant the end of the system of parities and a general floating of the exchange rates.

Towards the end of 1971 an attempt was made to establish a new set of stable exchange rates, with relatively wide margins of fluctuation around parity. In December of that year, by virtue of the Smithsonian Agreement, the countries decided on new rates of exchange for their currencies which involved the devaluation of the dollar in relation to all the rest, particularly the German mark and the Japanese yen, which, among others, were revalued. This agreement, however, lasted only a short time. It broke down in mid-1972, owing to pressures in the international monetary markets.

^{2/} While at the end of 1965 the gross official reserves of Germany and Japan represented less than 14 per cent of the total reserves of all the member countries of the IMF, at the end of 1970 they amounted to 20 per cent.

Thenceforward, two main trends were evident in the international monetary sphere: a growing acceptance of floating the exchange rates as an important part of the international adjustment mechanism, and an effort on the part of a group of European countries to achieve the joint floating of their currencies.

2. Foreign exchange policy and its impact on developing countries

(a) The co-existence of many different systems

A group of European countries ^{3/} has decided on the joint floating of their currencies, with maximum margins of fluctuation between them of 2.25 per cent. To finance operations within these margins, the countries have established mechanisms in the form of short-term loans between their central banks. In this way they create liquidity through the mutual accumulation of one another's currencies or the right to draw against the credits opened, so that the transfers of real resources implicit in the accumulation of liquidity in the form of currencies tend to cancel each other out.

The accepted margins of fluctuation in the currencies of this group and the joint floating of these currencies in relation to those of third countries provide greater incentives to the private sector to operate on the exchange markets. For this purpose the private sector needs to increase its international liquidity holdings in the form of currencies, which stimulates the demand for these currencies.

As the joint floating of currencies contributes to improving the process of adjustment, the demand for international liquidity will decline. The combined effect of these factors may mean a reduction in the demand for special drawing rights in relation to other forms of accumulating international liquidity. At the same time, the increase in private currency holdings could, under certain

^{3/} Denmark, the Federal Republic of Germany, Luxembourg, the Netherlands, Norway and Sweden.

conditions of interest rates in various countries and of relative exchange rates, cause considerable movements of capital or strong pressures on the exchange rates.

The industrial countries which have not taken part in the joint floating scheme have let their currencies float independently with some degree of government intervention in the exchange markets. In these countries also there is a relative increase in demand for currencies out of their total reserves, and an increase in demand for liquid foreign currency holdings in the private sector for market operation and arbitrage.

(b) Effects on the developing countries

The majority of the developing countries ^{4/} have adopted the policy of tying their currencies to that of some industrial country, in particular the dollar, the pound or the French franc.

In view of the conditions prevailing in their exchange markets, it is neither advisable nor possible to let their currencies fluctuate freely. The size of the market for their currencies is limited, and operations which would be considered small from the international point of view might cause radical changes in their exchange rates, providing opportunities in their foreign exchange markets for monopolistic practices which might seriously affect their economies. At the same time, the lack of relatively sophisticated monetary markets including exchange operations

^{4/} The currencies of Afghanistan, Malaysia, Nigeria and Singapore, inter alia, are floated independently. Algeria, Cyprus and Malawi, among other countries, have tied their currencies to those of a group of major countries with which they normally trade, thus directly establishing their rates of exchange. Although Brazil, Chile, Colombia and Uruguay fix their exchange rates in relation to the United States dollar, they adjust them relatively frequently.

/in future,

in future, compels importers and exporters to seek coverage abroad, at a cost which may prove excessive on account of the risk of fairly considerable exchange fluctuations. The fact that these countries are generally single-commodity exporters adds to the risks involved in the small markets, since any slight variations in the prices or quantities exported, or in the expectations in this connexion, may cause relatively sharp exchange fluctuations. In addition, the favourable effects of exchange fluctuations on the balance of payments current account are not immediately felt, particularly when the main export products are not consumed locally on any large scale, since such effects would derive from variations in production, which take time, rather than from relatively rapid variations in domestic consumption of the exportable products.

Those developing countries which have traditionally received substantial flows of short-term capital from some industrial country normally find that to untie their currency from that of the industrial country concerned may produce drastic effects on their own economies, since the expectation of a relative revaluation or devaluation of their currencies may set off large-scale movements of capital in one direction or the other, or violent movements of the exchange rates.

Lastly, exporters and importers of many developing countries are not accustomed to operating in a situation of prevailing uncertainty regarding exchange. Most of the countries of Latin America, for example, have enjoyed notable exchange and price stability, although some of the larger countries have not had the same experience.

All these reasons lead to the conclusion that in the majority of the developing countries the floating of their currencies is not a real possibility for the present.

Naturally, this analysis is not applicable to exchange variations aimed at remedying the effect of different rates of inflation, since such variations tend to reduce the uncertainty regarding the exchange rate in real terms. This kind of variation generally takes the form of gradual, irregular and relatively frequent adjustments, rather than a more or less free floating of the currency.

/In tying

In tying their currencies to that of an industrial country, the fate of the developing countries is bound up with the latter's as far as their relations with other currencies in the world are concerned. If the fluctuations in the main currency have a stabilizing effect in the issuing country, given its own economic situation, they will not generally have the same effect in the developing country, whose external accounts will thus be exposed to fluctuations which are additional factors of disequilibria. For this reason, although floating their currencies may result in some saving in the industrial countries' liquidity requirements - and available information appears to indicate that such saving, if it exists at all, is very small - it will cause an increase in demand for liquidity resources from the developing countries, which, if not satisfied by means of the creation and allocation of new liquidity resources, could force these countries to adopt internal deflationary policies, thus jeopardizing their levels of employment and growth.

The greater liquidity requirements of developing countries produce net transfers of real resources to the countries whose currencies they are accumulating, since the former do not generally accumulate their own currencies, so there is no reciprocal cancelling-out effect as in the industrial countries which accumulate one another's currencies.

In any case, the view increasingly held in the industrial countries is that the present conditions of the world economy can best be dealt with, from their own point of view, by means of greater flexibility with regard to exchange. At the same time, the efforts they are making to establish mechanisms for the provision of liquidity among themselves are a sign that, at least for the present, they will have no major incentive to support the creation of liquidity by means of new allocations of special drawing rights.

3. Creation of international liquidity and the link

Although it seems clear that under the existing conditions of the monetary system the industrial countries will have incentives to create international liquidity by means of arrangements among themselves, this

/is not

is not feasible in the developing countries. The latter are excluded from the liquidity agreements reached by the larger countries, despite the fact that their own official demand for international liquidity is increased by the floating of the principal currencies.

Thus, the increase in the demand for liquidity is satisfied by means of a growing accumulation of currencies, with the corresponding transfers of real resources to the countries issuing them.

The introduction of special drawing rights in the international monetary system helped to foster the hope that the transfers of resources involved in the accumulation of international liquidity would not continue, or would even be reversed, while at the same time the creation of liquidity would become a more rational process. This hope was strengthened by the agreement adopted by the Ministers composing the Committee of 20 of the International Monetary Fund to make special drawing rights the centre of the monetary system, and gradually to reduce the part played by gold and national currencies.^{5/}

At the same time, the establishment of special drawing rights led to a revival of the old ideas of linking the creation of international liquidity with development assistance. UNCTAD played a leading role in this respect,^{6/} both through the representatives of the governments of developing countries and through the members of its own secretariat. The former, as members of the Group of 77, established a special committee to take care of international monetary and financial questions. This Committee, which is called the Group of 24, finally succeeded in reconciling the developing countries' views on a means of linking the creation of special drawing rights with development aid, i.e., the direct link. This consisted in the direct allocation to the developing countries of a larger proportion of special drawing rights than that to which they were entitled on the basis of their quotas to the IMF, while the rest of the countries would receive a correspondingly smaller share.

^{5/} See Committee of 20, Outline of Reform, 13 June 1974.

^{6/} UNCTAD, International Monetary Issues and Developing Countries, 1965.

The technical arguments advanced by some developed countries against the link have found a response in several documents prepared both by international agencies and by economists, members of academic circles and representatives of governments.^{7/} The discussion still continues at the political level, however.

For the developing countries, the advantages of the link are obvious. An allocation of special drawing rights which, within the total world demand, exceeds their own demand gives them the opportunity to use this allocation to purchase products from the industrial countries. In this way, real resources are transferred to the developing countries, while at the same time the current account in the balance of payments of the industrial countries is strengthened. Such a mechanism, about which the industrial countries did not seem to be too happy until a short time ago, now seems a possible means of helping to solve the problems created by the increase in oil prices, which are discussed later in this report.

The developing countries currently receive about 25 per cent of the special drawing rights allocated, which is equal to their share of total exports by the member countries of the IMF in mid-1974, and also to their proportion of the total quotas payable to the Fund. Should the proportion of special drawing rights which they receive increase significantly, a "triangulation" mechanism would be created, as noted above, which would permit the redistribution of international liquidity according to the various countries' demand, by means of trade flows which would facilitate both the stabilization of the major countries' current accounts and the expansion of world trade and acceleration of development.

^{7/} See, for example, John Williamson, "Surveys in applied economics: International liquidity", Economic Journal, September 1973; and Adolfo C. Diz, "The Link, Inflation and all that...", a document submitted to the Committee of 20, Washington, D.C., 1973.

It is pointed out, however, that the link makes sense in a system in which the expansion of total international liquidity can be reasonably controlled. In other words, the reform of the monetary system, including such regulation, in addition to strengthening the international creation of liquidity, would create the best possible conditions for the operation of the link.

If only half the growth of official international liquidity between 1972 and 1973 had been covered by means of the creation of special drawing rights, this would have meant at least 4,600 million dollars.^{8/} If the whole of this amount had been allocated to the developing countries, the total flow of financial resources from the member countries of the Development Assistance Committee to the developing countries would have amounted to 0.88 per cent of their gross national product.

C. THE INTERNATIONAL ECONOMIC SITUATION

1. World economic conditions

The world economy has been characterized in recent months by rates of inflation which are among the highest since the Second World War and by the sharpest drop in the growth rates of the real gross product since the 1940s.

The rates of inflation in the market-economy industrial countries, in terms of the deflator implicit in the gross national product, had already started to rise by the end of 1969, following the period of accelerated economic growth in these countries in 1968. The rates of inflation, which had remained close to 3 per cent in the preceding years, rose to nearly 5 and 6 per cent in 1969 and 1970. Although the rates fell slightly in the next two years, the 1972 minimum of 4.9 per cent was much higher than the average recorded for the

^{8/} Gold has been valued at its official price.

previous 10 years. A relatively expansionist monetary and fiscal policy that year resulted in cumulative inflationary pressures in 1973, which raised the rate of growth of the deflator of the industrial countries' national product to about 7 per cent. All the projections showed that in 1974 the rate of inflation in those industrial countries would be above 10 per cent. They also indicated that the growth rate of those countries would be close to zero - or even negative - in 1974, after being around 8 per cent in the first half of 1973. Estimates of the Organization for Economic Co-operation and Development (OECD) indicate for the member countries a drop of about 1.3 per cent ^{2/} in the product in the first half of 1974 compared with the preceding six months.

A group of factors has influenced this situation. First, prices seem to show an increasing resistance to dropping when the rate of economic growth declines - a phenomenon whose corollary does not apply when there are pressures to increase prices in periods of economic expansion. Thus, during the period of slower economic growth in 1970-1971 the rates of inflation remained fairly high, while during the period of expansion in 1972-1973 they reached exceptionally high levels. This seems to suggest that both the pressures exerted by costs and the expectations of inflation are tending more and more to account for the situation in the industrial economies. These pressures were partly triggered by factors which were probably accidental, such as the increase in food prices as from 1972 owing to the combination of adverse weather conditions in most of the major production and consumer centres and the difficulties in the supply of fertilizers and pesticides. These prices, which for a long time had been showing a downward trend, at least in relative terms, had helped to mitigate inflationary pressures in several countries. Moreover, because of the fact that the cyclical position of the major industrial countries' economies tended to coincide the inflationary pressures strengthened each other. The disruption in the international monetary situation and the uncertainty regarding the

^{2/} OECD, Economic Outlook, December 1974, p. 13.

external and internal value of the industrial countries' currencies stimulated the growth of demand for raw materials by making it worth while to increase stocks of these commodities. At the same time, the floating of important currencies introduced a new inflationary bias in the world economy, since the inflationary effect of the devaluations owing to the resistance of prices to come down was not compensated for by opposite effects of the revaluations. At the end of 1973 the sharp rise in oil prices added a decisive ingredient to the general picture.

Naturally, the existing sharp inflationary pressures caused the majority of the industrial countries, by mid-1973, to change their policies in a more restrictive sense, and interest rates soared. These policies, and subsequently the drastic changes in the composition of overall demand caused by the increases in oil prices contributed to a reversal of the rates of growth which is without precedent in the last 30 years.

Yet even with these restrictive policies and the world economy virtually at a standstill, prices continue to rise in the industrial countries, and the forecasts available for 1975 are not heartening. As a result of these pressures and the uncertainty regarding currencies, the market price of gold has gone up to levels that bear no relation whatever to the official price, which after two devaluations of the dollar was set at 42.2222 dollars per troy ounce.^{10/}

2. Effects of the increase in oil prices

The factor which has had the most far-reaching effect is the increase in oil prices.

Estimates of international agencies indicate changes of considerable magnitude in the balance of payments current accounts of several countries and groups of countries. These estimates coincide in that

^{10/} At its meeting on 15 and 16 January 1975, the Interim Committee of the IMF, at the ministerial level, decided to eliminate the official price of gold.

the oil-exporting countries were expected to record a current account surplus of at least 60,000 million dollars in 1974 - some estimates put the figure at even over 70,000 million dollars - while altogether the market-economy industrial countries were expected to show a balance of payments deficit on current account, including official transfers, of 30,000 to 35,000 million dollars. For the developing countries which are not oil-exporters, the current account deficit is estimated at over 20,000 million dollars. These changes in the countries' balances of payments are important not only because of their magnitude, but also because they alter the traditional structure of the industrial countries' balances of payments. In the past, these countries have normally recorded a current account surplus, which served to finance the capital and external assistance that went to the rest of the world.

Naturally, it cannot be expected that the result estimated for the current account in the balance of payments of the oil-exporting countries will be reflected in a similar result for the total balance, since these countries will seek remunerative uses for their reserves, investing them in such external markets as provide the best guarantee of a safe return. Nevertheless, such a rapid change in the structure of the balances of payments and the need to place the accumulated resources in external markets create problems which are difficult to solve.

The first of these problems is that for every industrial country considered individually, the fact that the balance of payments results may to a large extent depend on movements of capital which are not under its control creates a problem of volatility in the overall result. When in a country with a diversified economy a current account surplus is a normal relatively stable and certain result, the country concerned is in a position to handle its overall balance of payments situation by controlling its investment or external assistance. In contrast, when the current account reflects a constant deficit, the country is not in a position to deal with movements of capital in the same way, and its international economic situation is therefore more insecure.

/External insecurity

External insecurity prompts a three-fold response. First, there will be a temptation to adopt restrictive internal policies, possibly including trade restrictions, in an attempt to reduce the current account deficit; secondly the country will feel the need to increase its international reserves, which will encourage the adoption of somewhat restrictive policies, if such reserves are not created by international agreement; and, lastly, there is likely to be a tendency to rely more heavily on exchange fluctuations, which, however, may need to be fairly sizable if the capital movements of the scale of those which may be generated are to be withstood successfully. To give some idea of the magnitude of these movements, the market for Euro-currency is estimated at around 200,000 million dollars,^{11/} and the current account surplus of the oil-exporting countries would amount to nearly one-third of this figure.

The second problem created by the change in the financial flows is the difference in composition of the supply of and demand for funds at certain rates of interest according to the repayment periods. In particular, the countries receiving the capital flows, for the same reason as that mentioned above, usually prefer longer repayment periods, while those supplying the resources have, at least so far, preferred to place the funds at relatively short maturity periods. This creates a downward pressure on the rates of interest on short-term liabilities, while at the same time creating an upward pressure on the rates of interest for longer periods. These pressures are additional to those exerted by other factors, such as, the countries' internal policies, inflationary pressures, etc. In any case, the risk for the intermediary financing institution increases as it places the short-term funds it receives on a medium- or long-term basis. This risk is added to that generated by the exchange fluctuations and is another factor of insecurity for the whole private financing system. In view of the size of the financial flows involved, the problem has become sufficiently serious to merit international attention.^{12/}

^{11/} Excluding inter-bank deposits. See, for example, Department of the Treasury News, Washington, D.C., 16 October 1974, p. 31.

^{12/} A first step in the right direction has been the agreement of the major industrial countries to support the private banks which are experiencing difficulties owing to market uncertainty.

What is valid for each industrial country taken separately, however, is not valid for the industrial countries as a whole. In fact, it is unlikely that the transfers of financial resources from the oil-exporting countries to the rest of the developing countries will come anywhere near the figure of 12,000 million dollars which their larger current account deficit may reach in 1974.^{13/} Of course, this means that the industrial countries as a whole will receive through various channels sums which will probably exceed their deficits on current account. Thus, the overall balance of payments for this group of countries may even be favourable to them. This fact clearly points to the desirability of establishing international machinery for bringing the situation of each country into line with that of the whole group, and at the same time for helping to recycle funds to the developing countries.

This gives rise to the third problem. For the developing countries, which do not usually offer the same conditions of security as the economically more advanced countries, it is a different problem altogether. For these countries, which often face an awkward situation of external indebtedness, the increase in their current account deficits cannot be financed for long with relatively short-term loans or at commercial rates of interest. Moreover, in order to channel funds towards them, market mechanisms are not enough, and a conscious international effort is also required. At any rate, the increase in interest rates over longer periods which may be the result of the intermediation problem will be particularly unfavourable to them.

In this respect, it should be noted that a few developing countries which are not oil-exporters, in particular some Latin American countries, on account of their economic size, the development of their financial system, the dynamism of their economies and their political stability, have had relatively easy access to the international capital markets.

^{13/} Although the commitments to provide financial aid to developing countries, contracted by the oil-exporting countries, both through multilateral institutions and through national and international agencies, amount to over 20,000 million dollars, these resources will be made available only over a relatively long period. In addition, it is quite probable that, at least in part, these funds will take the place of assistance from other sources.

/However, increasing

However, increasing difficulties in the current account of their balances of payments and the resulting large increase in their external indebtedness, may jeopardize such access.^{14/} Some of these countries, which play an important role as financial intermediaries, may benefit from a growing demand for such intermediation, so long as they manage to overcome the increasing risk involved in their operations.

A fourth problem lies in the international liquidity requirements generated both by a possibly greater concentration of holdings of international reserves and by the greater volatility of the overall balance of payments position of each of the countries receiving capital from the oil-exporters. The greater vulnerability of the external sector necessarily generates a bigger demand for international liquidity, at both the official and the private level, while the greater concentration of such reserves makes them in a real sense, less liquid for the countries as a whole. If the increased liquidity requirements are settled by means of partial multilateral agreements, this would accentuate the role of currencies in the international monetary system and weaken that of the special drawing rights, maintaining the shortcomings of the Bretton Woods system in connexion with the creation of liquidity. At the same time, the adverse effects of these shortcomings may be aggravated since, as has been seen, the general floating of the exchange rates tends to create even greater liquidity requirements in the developing countries. In addition to the greater volatility of their balances of payments due to the larger deficits on current account, another cause of instability in these countries' economies is the floating of the industrial countries' currencies. Contrary to the situation in the industrial countries, what is valid for the individual non-oil exporting developing countries is also valid for these countries as a whole.

In this general situation of international financial difficulties and economic recession accompanied by inflation, it is difficult to expect even that the flows of official external aid from the developed to the developing countries will continue; in previous years they had gradually declined to a proportion of not more than 0.30 per cent of the industrial countries' gross national product in 1973.

^{14/} The concept of credit worthiness in use is based, inter alia, on total future debt payment obligations. This concept, which is also used by some international institutions, may raise difficulties even in gaining access to them.

D. EXTERNAL FINANCING IN LATIN AMERICA

1. Financial flows from the industrialized countries to the developing countries as a whole

The net financial flows from the industrialized countries to the developing countries during the 1960s amounted to an average of 11,000 million dollars annually. In the first few years of the 1970s, the growth of these flows in terms of current prices accelerated from 15,000 million dollars in 1970 to 23,000 million in 1973. However, as a proportion of the gross national product of the developed countries, the total net resources amounted to 0.74 per cent in 1973, which is equal to the proportion in the previous year and below the average percentages reached in the 1960s. Therefore, it is unlikely that the recommendation contained in the IDS - which was ratified by United Nations resolution 3202 (S-VI) - that the developed countries should provide to developing countries net financial resource transfers amounting to 1 per cent of their gross national product will be fulfilled by 1975 (see table 1).

The components of the financial flows channelled from member countries of the Development Assistance Committee (DAC) to developing countries have varied in structure compared with the 1960s. Private flows are larger, while official flows have decreased. If the resources are grouped according to the terms on which they are made available, it will be seen that those granted on concessionary terms - specifically official development assistance - amounted to 9,400 million dollars in 1973, while those subject to normal market conditions, which are nearly all from private sources, totalled 14,500 million dollars. Accordingly, compared with a structure of 10 years ago when the developed countries granted resources on concessionary terms to the developing countries amounting to 60 per cent of the total resources transferred, in the middle of the first half of the 1970s the percentage dropped to 41 per cent.

/Table 1

Table 1

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

(Net disbursements)

	Annual average 1961-1965	Annual average 1966-1970	1971 <u>a/</u>	1972 <u>a/</u>	1973 <u>a/</u>
	1. <u>Thousands of millions of dollars b/</u>				
Total net financial flows	9.2	12.8	17.2	18.8	22.8
Official development assistance	5.6	6.4	7.8	8.7	9.4
Private disbursements	2.7	5.7	8.2	8.6	10.9
	2. <u>Percentage of the gross national product</u>				
Total net financial flows	0.81	0.74	0.77	0.74	0.74
Official development assistance	0.50	0.38	0.35	0.34	0.30
Private disbursements	0.28	0.33	0.37	0.34	0.35

Source: OECD, Press Release, Paris, 3 July 1974, tables 2 and 3.

a/ Excludes grants from organizations in the private sector, as in the period 1961-1970.

b/ It is important to note that these figures are expressed in current dollars and exchange rates, which include the distortions caused by inflation and adjustments in the exchange rates. Therefore, the 9 per cent increase in official development assistance between 1972 and 1973 means a decrease of about 6 per cent for the industrialized countries in their own currencies, since the average adjustment in the exchange rates during that period was 8 per cent and the rate of inflation about 7 per cent for all the member countries of DAC. Similarly, the increase of 21 per cent in total flows is reduced to a growth of 6 per cent, which would give the following figures for the two years:

	<u>1972</u>	<u>1973</u>
Total net financial flows	18.8	19.9
Official development assistance	8.7	8.2
Private disbursements	8.6	9.6

/That official

That official development assistance (ODA) should be replaced by flows reflecting the steadily increasing cost of capital on being extended under normal market conditions adds to the cost of external financing in the developing countries and affects them especially because of the debt commitments involved.

This fact has been reflected in the average terms for loans already committed to Latin America, the grants-in-aid element falling by 44 per cent between 1966 and 1972.

2. Official development assistance

Compliance with the objectives laid down in the IDS and ratified in resolution 3202 (S-VI) regarding the volume of official development assistance has been far from satisfactory. In the 1960s the average ratio of official development assistance to the gross national product of the developed countries was 0.44 per cent, while in 1973 it was 0.3 per cent.

The terms on which this aid has been granted have continued to improve; the concessionary element amounted to 86.7 per cent in 1973, the highest proportion since 1969. The IDS goals in this connexion have been attained, since the average indicators for 1973 with respect to amortization and grace periods, interest rates and percentage share of grants in the total ODA come close to those established as a necessary minimum.

In 1972 the DAC adopted a further recommendation on terms and procedures for this assistance in place of those established in 1965 and 1969. The new recommendation is applicable to commitments contracted as from 1973 and simplifies the measurement of performance, establishing a minimum concessionary element of 25 per cent if a transaction is to be considered as ODA, and setting as a minimum target that the member countries ODA commitments should contain an average concessionary element of 84 per cent.

The importance of the establishment of this minimum lies in the fact that it is the first acceptance of a principle involving a limit, and that this limit can be raised in the future and serve as a basis for reviewing the concessionary terms for ODA.

/As regards

As regards the simplified target of 84 per cent, this could affect Latin America adversely, since the United States and the Federal Republic of Germany, the main sources of ODA granted to the region, reached higher percentages than this in 1973, which gives them some margin for hardening their terms.

In addition to the two points mentioned above, the new DAC recommendation broadened the scope of the measures recommended in resolution 3202 (S-VI) as regards the special terms on which official development assistance should be extended to the least developed among the developing countries, a measure which in Latin America would affect only Haiti and possibly, temporarily, Honduras.

The developed countries have changed the method of channelling their ODA to the developing countries, in line with the IDS recommendation to endeavour to increase the resources made available through multilateral institutions. In 1973 the resources contributed by the member countries of the DAC to multilateral institutions amounted to 24 per cent of the total ODA granted, compared with an average of 13.5 per cent between 1967 and 1970. There has, however, been no adequate response to the need to evolve techniques to enable these institutions to fulfil their role in the most effective manner, also recommended in the IDS and in resolution 3202 (S-VI). The granting of loans by programmes instead of by projects would be an advantage to the developing countries; these loans have been somewhat modest, however, negligible for Latin America.

Bilateral or direct ODA to recipient countries has undergone change in geographical distribution: while the amounts received by all the other regions increased between 1969 and 1972, Latin America recorded a decrease of 25 per cent (from 564 to 428 million dollars). The countries contributing the bulk of the bilateral ODA received by Latin America are the United States, which in the years 1969-1971 provided an average of 83 per cent of the total received, and Germany which provided 14 per cent. This sharp contraction reflects the pronounced vertical character of the financial assistance, which is especially

/significant if

significant if consideration is given to the openly declining trend in the United States contributions.

The net resources transferred to the developing countries by multilateral agencies come mainly from the International Bank for Reconstruction and Development (IBRD) and its subsidiaries, and the Inter-American Development Bank (IDB).

The net resources transferred to Latin America by IBRD, the International Development Association (IDA) and the International Finance Corporation (IFC) totalled 446 million dollars in 1973, compared with 400 million the year before and an average of not more than 200 million dollars in the 1960s.

IDB's net disbursements have increased considerably, reaching approximately 443 million dollars in 1973, or almost double the amount disbursed in 1968.

3. Private international financial markets

The general picture of the international financial markets is clearly dominated by elements that generate uncertainty, such as the floating of the currencies and the changes in the financial flows generated by the increase in the price of oil, which also curtail their growth. The Euro-currency market has started to run into difficulties as regards expansion,^{15/} owing to the nature of the additional deposits and of the potential borrowers. Deposits are being made generally on a relatively short-term basis, and the depositor maintains a high degree of flexibility to change from one currency to another, or from one bank to another, if necessary. At the same time, the new depositors are few in number and their deposits are fairly large. The applicants, in their turn, often face balance of payments difficulties, so that their solvency is doubtful, while the amounts requested are such that the insolvency of a few of them would seriously jeopardize the system.

^{15/} See, for example, Morgan Guaranty Trust Co., of New York, World Financial Markets, 22 October 1974, p. 14.

The international sale of securities on a longer-term basis has suffered some reductions. Whereas between January and October 1973 new issues of Euro-bonds 16/ were sold to a value of 3,700 million dollars, during the same period in 1974 the figure dropped to 1,500 million. There was also a sharp drop in the sale of new issues of foreign bonds 17/ outside the United States from 2,100 to 700 million dollars between the same dates. These reductions were only partially offset by the increase in the sale of new foreign issues in the United States market from 700 to 2,200 million dollars. Total new issues of international bonds fell from 6,500 million dollars in the first 10 months of 1973 to 4,400 million during the same period in 1974.18/

These figures indicate that the limitations observed in the Euro-currency markets are partly offset by the growing importance of the United States market. This country is apparently recovering the relative importance it enjoyed as an international financial intermediary in the past. According to available information, however, the increase in sales of international bonds on the United States market has not succeeded in pushing up total sales.

The reasons underlying this situation include, besides those mentioned above, the general weakening of the economies and the increase in interest rates resulting from anti-inflationary policy. Although the second of these additional reasons may have less validity in the next few months, this would be so only because the world trend towards a contraction may force the adoption of an easier monetary policy. In any case, as stated above, there is likely to be a trend towards an increasing difference between short-term and long-term interest rates, with relatively adverse implications for debtors requiring longer-term financing, among them the developing countries.

16/ Bonds sold mainly in countries other than those issuing the currency in which they are quoted, with backing from international financial groups.

17/ Bonds sold outside the borrower country, but quoted in the currency of the country in which they are sold.

18/ Morgan Guaranty Trust Co., World Financial Market, op. cit., p. 17.

4. Latin America and international financing

The reduction in official aid flows and the restricted activity of the international financial markets create an awkward situation for the developing countries in general, and the non-oil-exporting countries of Latin America in particular. The latter's financial requirements have recently increased as a result of an increase in their balance of payments deficit on current account from about 3,700 million dollars in 1973 to nearly 9 million in 1974. The deficit has been somewhat reduced by the higher external prices of raw materials exported by the countries of the region, but this situation is now clearly showing signs of deteriorating for a wide range of commodities, particularly mining products. In the appropriate chapter of this document it is easy to see the size of the problem in connexion with the potential trade deficit and balance of payments deficit on current account which the non-oil-exporting countries of Latin America will have to face in their efforts to achieve the growth rates proposed in the International Development Strategy. Furthermore, recent projections prepared by the Organization of American States (OAS) regarding these countries' external financing requirements confirm the seriousness of the problem.^{19/}

The access of the Latin American countries to the sources of international financing varies widely. Some of them, like Brazil, have developed a financial structure and international contacts which, combined with their dynamic economy and stable policies, make it easier for them to obtain financial resources at less cost in almost the whole range of maturity periods. Others have to resort mainly to

^{19/} The estimates published in the OAS document entitled Financiamiento externo de América Latina: perspectivas y políticas futuras (OEA/Ser.H/XIV, 21 November 1974, p. 43) give an order of magnitude for the financing requirements of the non-oil-exporting countries in Latin America, under deteriorating conditions with respect to prices of raw materials, which were expected to fluctuate around 8,000 million dollars in 1974, 12,000 million in 1975 and 37,000 million in 1976 and 1977.

official government or multilateral sources. As will be seen in table 2, the net foreign capital flows to the Latin American countries are increasingly composed of loans, whereas direct investment does not grow at the same pace. The extremely high concentration of direct investment in Brazil and Mexico still further accentuates the difficulties which the Latin American countries have to face.

The change in the world economic situation will put the borrowing capacity of the non-oil-exporting countries of Latin America to the test. Several factors limit this capacity.

First, for some countries of the region the previously contracted debt means a considerable annual expenditure of foreign exchange. For the non-oil-exporting countries of Latin America as a whole, the annual expenditure on servicing the external public debt represented 15.7 per cent of the total value of exports of goods and services at the end of 1972. The proportion was much higher in Uruguay (34 per cent) and Mexico and Argentina (22.2 per cent in each) (see table 3 and 4).

That service payments on the external debt represent a high percentage of total exports is not in itself a bad sign. Even if the percentage is high and the debt continues to grow, provided exports are also increasing the payment capacity grows with the debt. For the group of Latin American countries which are not oil-exporters, a 10 per cent increase in the value of their exports meant, at the end of 1972, an increase of nearly 1,800 million dollars in foreign exchange earnings. If only half this figure were used to service the new debt service payments could increase by over 30 per cent. Hence, the dynamism of exports is a crucial factor of borrowing capacity and, therefore, so also are the policies which promote such dynamism.

Table 2

LATIN AMERICA: NET INFLOW OF FOREIGN CAPITAL
(Millions of dollars)

	1961-70	1966-70	1971	1972	1973
<u>Total foreign capital</u>	<u>2 258</u>	<u>2 951</u>	<u>5 258</u>	<u>8 338</u>	<u>10 075</u>
Brazil	442	607	2 179	3 945	3 834
Mexico	508	631	810	1 211	2 134
Panama	81	119	281	676	1 417
Rest of Latin America	1 227	1 594	1 988	2 506	2 690
Direct investment	626	845	1 304	1 317	1 959
Brazil	143	165	225	415	1 087
Mexico	190	232	307	301	373
Panama	15	16	16	13	10
Rest of Latin America	278	432	756	588	489
Loans	1 493	1 970	3 845	6 907	7 955
Brazil	274	421	1 952	3 526	2 742
Mexico	317	396	496	900	1 753
Panama	58	96	258	654	1 399
Rest of Latin America	844	1 057	1 139	1 827	2 061
Grants	139	136	108	115	162
Brazil	25	21	2	4	5
Mexico	1	3	7	10	8
Panama	8	7	7	9	8
Rest of Latin America	105	105	92	92	141

Source: IMF, Balance of Payments Yearbook.

Table 3
LATIN AMERICA: COMPOSITION OF THE EXTERNAL PUBLIC DEBT^{a/} AT 31 DECEMBER 1972

(Millions of dollars)

Country	Bond issues			Private credit					Official			Total debt	
	Public	Private	Total	Suppliers	Banks	Other financial institutions	Nationalization	Total	Total private	Multi-lateral	Bilat-eral		Total
Argentina	497	272	769	892	666	24	43	1 625	2 394	741	441	1 182	3 576
Brazil	71	11	85	1 573	1 454	114	278	3 419	3 564	1 867	2 302	4 169	7 573
Mexico	436	67	503	349	1 497	462	10	2 318	2 821	1 542	491	2 033	4 854
Venezuela	54	25	79	286	630	16	-	932	1 011	458	124	582	1 593
Rest of Latin America	191	106	297	1 697	1 768	361	333	4 159	4 456	2 605	4 872	7 477	11 933
<u>Total</u>	<u>1 252</u>	<u>481</u>	<u>1 733</u>	<u>4 797</u>	<u>6 015</u>	<u>977</u>	<u>664</u>	<u>12 453</u>	<u>14 186</u>	<u>7 213</u>	<u>8 230</u>	<u>15 443</u>	<u>29 626</u>

Source: Inter-American Development Bank, Deuda pública externa de los países de América Latina. Síntesis estadística, Washington, D.C., November 1974.

a/ With original maturity of one year or more, payable in foreign currency.

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/Table 4

Table 4

LATIN AMERICA: RATIO OF SERVICE PAYMENTS ON THE EXTERNAL PUBLIC DEBT^{a/} TO THE VALUE OF EXPORTS OF GOODS^{b/} AND SERVICES

(Percentages)

Country	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Argentina	20.0	21.1	21.2	18.2	24.4	20.4	25.4	25.7	27.7	23.6	20.8	20.3	22.2
Bahamas ^{c/}	...	...	...	...	...	...	...	...	...	...	...	...	...
Barbados	...	...	...	...	...	...	1.4	1.3	1.2	1.2	1.1	0.9	0.7
Bolivia	27.6	23.5	7.0	6.1	12.0	12.6	4.8	5.9	6.4	6.7	10.8	11.8	18.2
Brazil	38.6	29.2	33.1	30.0	26.4	28.7	30.4	15.5	15.1	16.0	14.3	13.1	12.5
Colombia	13.9	12.8	13.1	15.1	12.8	14.4	16.4	14.0	13.1	11.6	11.7	14.1	12.6
Costa Rica	4.8	4.9	8.0	8.7	7.4	10.2	12.2	12.1	12.0	10.5	10.0	9.8	9.8
Chile	14.2	22.6	22.2	17.7	17.9	12.0	10.5	12.7	19.8	15.7	17.7	20.6	12.1
Ecuador	7.1	8.5	9.4	8.5	6.7	6.1	6.4	6.4	8.8	10.1	8.9	12.2	10.7
El Salvador	2.6	2.2	2.6	2.4	4.1	3.7	3.8	2.6	2.5	2.6	3.4	5.9	3.2
Guatemala	1.5	3.1	11.0	4.4	6.5	5.2	5.7	7.3	7.8	7.8	7.6	8.2	10.5
Guyana ^{c/}	...	...	3.6	3.5	4.4	4.1	5.5	5.0	6.0	3.4	4.0	3.0	...
Haiti	3.7	6.7	3.7	5.7	2.2	2.2	-	2.4	-	-	5.7	4.7	3.2
Honduras	2.7	3.8	2.3	3.3	2.9	2.1	1.9	1.7	1.5	2.1	3.0	3.2	3.4
Jamaica	...	...	...	1.9	1.8	1.9	1.8	2.0	3.0	2.9	3.0	3.9	9.1
Mexico	15.5	14.3	15.4	16.2	23.9	24.6	20.7	21.4	25.0	20.7	23.6	22.8	22.2
Nicaragua	3.8	5.9	3.8	4.7	4.0	4.0	5.2	6.5	7.7	9.8	10.5	13.2	10.2
Panama	1.6	1.4	1.7	1.5	2.5	2.6	2.8	2.7	3.0	3.3	7.6	8.9	10.1
Paraguay	6.8	6.0	6.5	8.9	7.8	6.0	6.3	6.5	10.3	9.0	10.0	12.2	12.3
Peru	10.5	6.7	6.4	7.6	5.7	6.7	9.7	11.0	14.6	11.9	13.6	19.6	18.9
Dominican Republic	...	0.7	1.1	0.5	2.5	18.8	12.4	7.0	7.5	8.8	4.9	6.8	4.1
Trinidad and Tobago	...	...	...	...	3.5	2.0	1.9	1.9	1.4	2.2	2.0	1.7	1.5
Uruguay	5.8	5.0	6.1	9.1	10.4	6.7	12.5	16.9	18.9	18.3	18.2	22.0	34.0
Venezuela	4.4	4.8	3.3	2.8	2.8	1.8	2.6	2.0	2.0	1.9	2.7	3.3	4.5
<u>Latin America</u>	<u>15.0</u>	<u>13.6</u>	<u>13.3</u>	<u>12.6</u>	<u>13.6</u>	<u>13.4</u>	<u>14.2</u>	<u>12.5</u>	<u>13.7</u>	<u>12.7</u>	<u>13.0</u>	<u>14.0</u>	<u>13.2</u>

Sources: Debt service payments: IBRD and IDB estimates; exports: IMF, Balance of Payments Yearbook.

^{a/} With original maturity of one year or more, payable in foreign currency.^{b/} Exports of goods (FOB).^{c/} Included since it is a member of IDB.

Although this point seems quite clear, in the analyses of solvency undertaken by official and private lending institutions it is complicated by the fact that the prices of products exported by Latin America fluctuate so widely. The analysis of solvency calls for price projections, but the methods so far used for the purpose do not seem to have produced reliable results. This situation can be dealt with in three ways: by establishing price stabilization mechanisms, by improving the projection methods used, and by changing the traditional concept of solvency for another with the emphasis on policies rather than on projections.

A second factor limiting the borrowing capacity of some Latin American countries is the lack of suitable internal financial structure for tapping resources abroad. Moreover, this usually goes hand in hand with a lack of appropriate mechanisms for the tapping and efficient use of domestic savings.

A third factor militating against the possibilities of obtaining external resources is the instability or nature of some countries' economic policies. This instability not only jeopardizes the more efficient use of available resources, but it also makes it difficult to increase those resources, and presents an image abroad of unclear objectives and measures. As regards their nature, such policies do not always contribute to the expansion of exports, and frequently obstruct it. It is worthwhile to stress the crucial importance of the expansion of exports in the region's future economic context.

Lastly, the policies of some international institutions granting long-term financing have been aimed primarily at satisfying the demand of the least developed countries in the world, including a very few in Latin America and the Caribbean. In fact, these areas received an average of 31.5 per cent of the loans extended by the World Bank group between 1964 and 1968, and just under 21 per cent in 1973 and 1974.^{20/}

^{20/} World Bank, Annual Report 1974, p. 13.

E. MEASURES ADOPTED AND PROSPECTS

1. Measures adopted

In the face of the general situation described above, which was created both by the shortcomings of the monetary system in force up to 1971 and by factors of a fortuitous nature, attempts have generally been made to solve the problems one by one instead of conducting a complete organic review. Thus, the general floating of exchange rates prompted the IMF to adopt general guidelines for this process aimed, through international consultation and under the Fund's surveillance, at minimizing any disputes that may arise in floating. The need for more frequent consultations at the policy-making level led to the establishment of the Interim Committee of the Board of Governors of the International Monetary Fund, while the developing countries' request for attention to their problems led to the establishment of the Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund. The increase in oil prices, in its turn, led to the establishment of the IMF Oil Facility under which loans are granted to member countries for a maximum period of seven years at 7 per cent interest. Such loans are proportional to the countries' quotas in the Fund, to the increase in costs involved in their oil imports, and to the level of their international reserves.^{21/} Countries taking up these loans undertake not to increase the restrictions on their current payments, or on current transactions, without consulting the Fund.^{22/}

^{21/} Loans may not exceed 75 per cent of the country's quota in the Fund, of the additional cost of petroleum imports calculated by the Fund less 10 per cent of the country's gross international reserves at the end of 1973, adjusted by the fluctuations in its export earnings, or of its overall balance of payments needs.

^{22/} Of just over 1,800 million dollars' worth of loans approved under the Fund's Oil Facility by the end of November 1974, about 55 per cent went to developed countries. The Facility has a total financing of nearly 3,400 million dollars. In Washington on 17 January 1975, the Fund's Interim Committee recommended that the Facility be enlarged in 1975 to some 6,000 million dollars.

Recognition that measures for adjusting the balance of payments require a relatively long time to take effect, particularly in single-commodity producing or exporting economies, prompted the Fund to establish an Extended Facility, under which loans may be granted for periods of up to eight years at the same interest rates as those charged for normal loans of this organization, i.e., less than 7 per cent.^{23/} The United Nations General Assembly, in the Programme of Action on the Establishment of a New International Economic Order (resolution 3202 (S-VI)) adopted in May 1974, adopted a Special Programme aimed at providing assistance to the developing countries most seriously affected by the economic crisis, and also established a Special Fund which set itself a target of 3,000 million dollars for the provision of emergency aid. The major proportion of the contributions to this Fund is provided by the oil countries, while Haiti, Honduras, El Salvador and Guyana are among the Latin American countries eligible for this type of assistance.

The continued rise in the price of gold on the free market, combined with the general floating of exchange rates, caused the valuation of the special drawing right to be tied to a basket of currencies comprising the 16 currencies of those countries whose imports amount to over 1 per cent of the total imports of the member countries of the Fund, weighted by a factor that is intended to reflect the relative importance of each in world trade and reserves. Accordingly, the value of a special drawing right may vary in terms of a given currency, even if the relation between that currency and gold does not change. Basically, the special drawing right is now "floating" tied to this basket of currencies.

All the measures adopted are, however, insufficient to deal with the present world economic problems, and in particular with the developing countries' needs.

^{23/} The International Monetary Fund has yet to establish the operational policy of this new facility, which has not yet been used.

2. Prospects for the immediate future and courses of action

The immediate future of the economy is plagued with uncertainty. As a result of the present monetary market situation, multiple exchange systems in which one form or another of floating will predominate are likely to continue to co-exist for some time. In particular, since it is highly improbable that there will be any appreciable reduction in oil prices, the present financial market trends will continue and their volatility will stimulate the flexibility of exchange rates unless institutional changes are introduced to reduce their volatility.

As a result of the change in the structure of the balance of payments in most of the industrial countries, combined with continuing inflationary pressures, the adoption of somewhat restrictive internal policies will be intensified, while the growth and even the level of total world demand will slacken. At the same time, it would not be surprising if the recent tendency to impose trade restrictions in the industrial countries were accentuated.

This combination of factors makes up a discouraging picture for the non-oil-exporting developing countries, including those of Latin America. Of the latter, some possess sufficient reserves to withstand difficult situations for some time, their exports have reached a degree of diversification which safeguards them against temporary difficulties, or they have relatively easy access to the international financial markets. A weak external demand beyond mid-1975, however, combined with high prices of the main import products, would create conditions which would be difficult to overcome, even for those countries, without a significant sacrifice of their levels of income and employment or their rates of growth.

Borrowing and external aid, a course originally taken to overcome both temporary external difficulties and structural weaknesses in external trade, seems no longer a machinery to which recourse can be had as in the past. The scarce assistance resources available at present are probably not even enough to palliate the most dramatic problems of

/poverty in

poverty in the world, still less to achieve some acceleration of the developing countries' growth. The industrial countries, which are having difficulty in managing their own economies, do not seem to be in a position to consider sizable increases in foreign aid. The international financial machinery is in its turn affected by the sharp change in financial flows, which will be difficult to absorb within the short term.

The oil-exporting countries will constitute an important source of financial resources in the near future. As stated above, these resources will probably be channelled primarily to the industrial countries. In fact, estimates of the United States Department of the Treasury indicate that of an approximate surplus of 25,000 to 28,000 million dollars accruing to the member countries of the Organization of Petroleum Exporting Countries (OPEC) between 1 January and 31 August 1974, some 7,000 million dollars were invested in the United States, about 3,000 million were transferred to developing countries either directly or through multilateral institutions, and the rest - some 15,000 to 18,000 million - were placed mainly in Europe.^{24/} The oil-exporting countries have no tradition in the field of external aid except at the regional level in certain parts of the world and, therefore, they have no proper institutional organization for the purpose.

In the light of the general situation, the pressure from the developing countries on the international agencies is likely to increase shortly, thus putting the capacity of these institutions to the test as regards either obtaining additional resources or devising new forms of operation.

^{24/} United States Department of the Treasury, The Financial and Economic Consequences of the Quadrupling of the Price of Oil, a document presented to the Permanent Research Sub-Committee, jointly with the testimony of William E. Simon, Secretary of the Treasury, on 18 September 1974.

The industrial countries, for their part, will need reserves on an increasing scale to offset the greater vulnerability of their external sector, and added to this are the needs of the developing countries. At the same time, the growing concentration of international liquidity resources will tend to reduce the availability of these resources for financing the requirements of international trade. Unless greater liquidity resources are created in the form of special drawing rights, a new pressure will have been generated which will stimulate the accumulation of currencies and partial arrangements between groups of countries to create among themselves the resources they need. No doubt the most important of these arrangements will be those which accept officially, either directly or indirectly, a considerable increase in the price of gold. Thus, the creation of new liquidity would be distributed among the countries in proportion to their gold holdings, and gold would continue at the centre of the international monetary system.

Chapter V

REGIONAL ECONOMIC INTEGRATION

A. INTRODUCTION

After the promising beginnings of Latin American integration during the 1960s, periods of crisis set in - in the Latin American Free-Trade Association (LAFTA) and the Central American Common Market (CACCA) - but, the process was given a new start with the creation of the Andean Group and the Caribbean Community (CARICOM), formerly CARIFTA.

The crisis helped the Latin American countries to form new groups on bases which were not very different from those which existed in the 1950s, or to advance separately towards a common more dynamic scheme.

It has been repeated on several occasions that the relative stagnation of LAFTA was one of the principal reasons which led some countries to sign the Cartagena Agreement, and that the understating of the limitations of the model stimulated the conception of more ambitious integration formulas, such as are described further on in the study of the Andean subregion.

During the five years of the life of the Andean Group several plans have been put forward to link this subregional integration process with the remainder of the subcontinent. The most significant events which show the interest created by the Group were the establishment, at the end of 1972, of bilateral commissions of the Andean Group and Mexico, and of the Andean Group and Argentina. As regards the latter country, it is of interest to mention its intention of signing the Cartagena Agreement. For its part, Brazil was a party to the co-operation and trade agreements with five countries of the Group, and has granted lines of credit to the Andean Development Corporation. Contacts have been established with the Central American Common Market for a mutual exchange of experiences on integration schemes with a view to co-operation in the task of subregional integration.

/It is

It is still premature to evaluate the significance of the Andean integration process as a resuscitating factor in Latin American integration. But it appears that the important task of the future is to plan the possible ways of bringing the three subregional integration groups and the larger countries together, as well as determining the future role of LAFTA.

The Andean countries submitted a draft resolution to LAFTA under which they were authorized to suppress the concessions granted to products included in national lists which under decisions 28 and 29 of the Commission of the Agreement, were, on 1 January 1971, allocated for production in Bolivia and Ecuador and liberalized if exported from those countries to other countries of the subregion. The suppression of such concessions was to come into effect as from 1 January 1975.^{1/} In this connexion, six countries were allowed to suppress the concessions granted in their respective national lists to the products which were included under the metal-engineering programme (Decision 57) and in the future lists which were to be incorporated in sectoral industrial programmes (Decision 25). The suppression will be effective from the date these sectoral programmes make the adoption of the common external tariff, provided for in them obligatory.

The failure to reach agreement during the second round of the Collective LAFTA Negotiations in Quito resulted in the deferment of the project to the third round in Montevideo in December 1974.

For all these reasons the Andean Subregion could be considered - within the LAFTA framework - a divergent movement. On the other hand, considered on its own, its content is an obvious point of convergence of the targets of the member countries, and serves as a catalyst in the regional integration process.

The need for regional co-operation also emerges in the relations between Mexico and Central America, and between Mexico and CARICOM.

^{1/} This aim was not realized, but the countries agreed to continue negotiations during 1975.

/Moreover, in

Moreover, in the last two years there has been a resurgence of bilateral agreements aimed at strengthening and diversifying trade, co-ordinating industrial activities, promoting investment and encouraging the establishment of bi-national enterprises. Among them mention could be made of the agreements concerning specific projects of Argentina with Uruguay, Cuba, Chile and Brazil, as well as Brazil's with Paraguay and Bolivia. The granting by Argentina or Brazil of credits to several countries of the region is related to the rapid development of exports of manufactures from both these countries.

The different socio-economic situations of each of the countries lead them to adopt national objectives which are not always compatible with the subregional ones. These divergences must be remedied if any progress is to be made in the harmonization of policies within the group, and they constitute a challenge which the countries participating in any integration scheme will have to overcome if they are to satisfy the legitimate interests of the parties.

Among the basic problems to be tackled mention should be made of overt or disguised unemployment, which is reaching alarming proportions in some countries. Linked with this problem is that of integrating the agricultural sectors which have never been a priority area. As regards industrialization, the need is also emerging to reconcile national objectives with those laid down in each integration scheme; experience in the industrial field has shown that the obstacles which stand in the way are not insurmountable. Lastly, technology, transport and the transfer of extra-regional resources - among others - are the fields in which there is need to harmonize national objectives with subregional ones.

Finally, it should be noted that preference should be given to reconciling the interests of each of the countries in future integration projects regardless of the degree of economic development. The Cartagena Agreement and the Chaguaramas Treaty 2/ were a step in this direction,

2/ Established by the Caribbean Community and Common Market (CARICOM).

/but recently

but recently there have been signs of reasonable concern that the measures introduced in a subregional scheme in favour of the relatively less developed countries could prove inadequate for achieving the results expected.

B. THE LATIN AMERICAN FREE-TRADE ASSOCIATION

Article 61 of the Montevideo Treaty establishes that on the expiration of a twelve-year period counting from the date it came into force, the Contracting Parties shall review the results obtained as a result of its enforcement and shall begin collective negotiations to improve the performance in achieving the objectives of the Treaty and, if opportune, to adapt it to a new stage of economic integration. Therefore, at the XIII LAFTA Conference, the Contracting Parties approved resolution 328 (XIII), which made provision for the collective negotiations held in 1974, which are to be continued in 1975.

The integration process, which during some periods of the 1960s made some noteworthy progress, both in the liberalization of trade and in the complementarity agreements has come practically to a standstill in recent years. Parallely, intra-zonal imports, whose relative importance increased a great deal up to 1965, have hardly maintained, in recent years, the same rate of growth as that of imports from the rest of the world.

Simultaneously, during recent years, Latin American trade with the rest of the world took a favourable turn. Exports of manufactures increased, especially in the larger countries, from the second half of the 1970s, and favourable prices during 1973 and 1974 for many of the raw materials exported by the region were two basic causes for the improvement which took place in trade towards countries outside of the region. Although it may not be easy to establish very strict relations of cause and effect, it is reasonable to assume that the existence of favourable conditions in the international market reduced the need for the countries of the zone to make any special effort to

/step up

step up regional economic co-operation, to increase intra-zonal trade, or to give an impulse to the integration process. Even so, some of the advances made in intra-zonal trade in recent years, above all in respect of goods of major industrial importance, are of some significance, as will be seen further on.

The purpose of mentioning here the relation which could have existed between the favourable conditions in the international market and the limited progress made in integration efforts is to show, as has been pointed out in other parts of this document, that in the years ahead it could happen that these conditions in external markets which now favour Latin America could change substantially in the other direction. Such a trend would enhance the value of co-operation and regional trade as a means of offsetting, in part, the possible drop in outward directed growth.

In this context, the collective negotiations mentioned earlier between the LAFTA countries will be of great potential importance. Articles 51 and 54 of the Montevideo Treaty provide a framework for considering rather far-reaching and comprehensive integration proposals. For this reason the ongoing negotiations offer a particularly important opportunity.

1. Trends in intra-zonal trade

Exports between the LAFTA countries were sizable in absolute terms (approximately 2,200 million dollars in 1973), a figure very close to those which the countries as a whole exported to the Federal Republic of Germany, and higher than sales to Japan in the same period. The relative importance of this trade is greater if account is taken of exports of manufactures,^{3/} for which data is available only up to 1972. In that year, the area was the second largest market for this type of goods, with some 700 million dollars, following the United States (930 million), and much more important than that of the six countries

^{3/} Sections 5 and 8 of SITC, with the exception of Division 68.

of the EEC (300 million), that of the EFTA (100 million) and that of Japan (60 million).^{4/} In table 1 the importance of the Latin American market for some sectors can be seen, for example, transport equipment and non-electrical machinery, scientific instruments, manufactured fertilizers, plastic materials, various chemical manufactures and metal manufactures. It ought to be noted that 30 per cent of these products are directed towards the area; that the sales of machinery and transport equipment represent 45 per cent of the total exports of these goods, and that for chemical products the proportion is 34 per cent, which shows the importance of the Latin American market as a potential buyer of industrial goods produced in the area.

However, for some 15 years, that is to say approximately since the creation of the Latin American Free-Trade Area, such intra-zonal trade, which increased a great deal in the early years, tended to stagnate. From 8 per cent, the figure for intra-zonal imports in 1961, it increased to 13 per cent in 1965, dropping afterwards, in relative terms, and levelling off at between 11 and 12 per cent in recent years. The important advances made during the first half of the 1960s are explained by the re-establishment of traditional trade flows within a new framework of multilateral agreements, as well as by the success achieved in overcoming the difficulties in respect of the trade of some goods between the different countries which are on a competitive footing. It is no less important that during this period the reduction of certain traditional items in intra-zonal trade was offset by an increase in the trade of manufactures and semi-manufactures, marking the beginning of an experiment in exporting these goods which was later expanded to include the rest of the world. This increase coincided with the progress made in the agreements on the reduction of tariffs through LAFTA machinery, and was supported later on by the industrial complementarity agreements.

^{4/} This analysis is based on a sample of countries, comprising Argentina, Brazil and Mexico, which in 1972 imported 86 per cent of the total exports of manufactures from LAFTA countries, and accounted for 79 per cent of intra-zonal sales in these same products.

Table 1

LAPTA: a/ SHARE OF INTRAZONAL EXPORTS OF MANUFACTURES IN TOTAL EXPORTS OF MANUFACTURES

(Totals for each sector in 1972)

SITC Sections and divisions	Millions of dollars	Percentage share
<u>Total manufactured products</u>	<u>1 792.0</u>	<u>30.1</u>
<u>Chemicals (Section 5)</u>	<u>257.3</u>	<u>34.0</u>
Chemical elements and compounds (Div. 51)	85.9	30.3
Dyeing, tanning and colouring materials (Div. 53)	27.9	32.6
Medicinal and pharmaceutical products (Div. 54)	48.5	25.8
Fertilizers, manufactured (Div. 56)	18.7	45.5
Plastic materials (Div. 58)	14.7	57.1
Chemical materials and products n.e.s. (Div. 59)	37.9	49.3
Essential oils, perfume materials and explosives (Div. 55 and 57)	23.7	17.7
<u>Manufactured goods classified by material (Section 6)</u>	<u>732.7</u>	<u>19.2</u>
Paper and paperboard (Div. 64)	24.5	32.7
Textile yarn, fabrics and related products (Div. 65)	135.1	9.4
Non-metallic mineral manufactures (Div. 66)	78.1	23.7
Iron and steel and manufactures of metal, n.e.s. (Div. 67 and 69)	237.5	35.1
Leather, rubber, wood and cork manufactures (Div. 61, 62 and 63)	207.5	6.6
<u>Machinery and transport equipment (Section 7)</u>	<u>570.6</u>	<u>45.1</u>
Machinery, other than electric (Div. 71)	282.1	48.5
Electrical machinery (Div. 72)	126.9	30.9
Transport equipment (Div. 73)	161.6	50.4
<u>Miscellaneous manufactured articles (Section 8)</u>	<u>231.4</u>	<u>23.1</u>
Clothing (Div. 84)	57.9	9.0
Footwear (Div. 85)	64.1	0.5
Scientific instruments and miscellaneous articles (Div. 86 and 89)	94.5	49.8
Furniture and travel goods (Div. 82 and 83)	14.9	5.4

a/ On the basis of a sample covering Argentina, Brazil and Mexico.

/The distribution

The distribution of these increases in exports was not equal between countries, for intra-zonal exports came in the majority from the larger countries: the share of Argentina, Brazil and Mexico increased from 46 per cent in 1961 to 60 per cent in 1970, and to 66 per cent in 1973.

In the trade balances a similar systematic difference was seen in performance. The larger countries were also favoured in this respect. Argentina had a favourable trade balance with the zone, which amounted to a surplus of 362 million dollars in 1973.

Mexico and Venezuela had a large positive balance at the outset, but this diminished in time.

The medium-sized countries and the relatively less developed ones recorded a long series of negative balances, generally high, amounting to a third or more of their intra-zonal imports.

Perhaps more important than the total amount of intra-zonal trade or the balances of such trade is how much of it is made up of manufactures. In the total of LAFTA countries' exports to the zone, the proportion of manufactures increased from 10.5 per cent in 1960 to 40 per cent in 1970, and to 42 per cent in 1973.

Exports of manufactures to the zone show an even greater imbalance in favour of the larger countries which in 1973 accounted for 79 per cent of such exports. These sales towards the rest of the LAFTA countries played a very important part in the total exports of manufactures from the relatively more developed Latin American countries. The most outstanding case is that of Argentina, which in 1973 sold to the zone half of its exports of manufactures; for Brazil the proportion too is high, although there has been a marked fall in recent years, from 41 per cent in 1971 to 28 per cent in 1973; for Mexico the proportion is smaller (17 per cent), owing to, among other things, its vigorous trade in industrialized goods to the United States, in connexion with its subcontractual (maquila) re-export industries. The proportion of manufactures exported by the economies of the medium-sized countries is rather small, except for Colombia. The intra-zonal exports enabled

/the countries

the countries of the Association to export more complex items requiring a greater degree of manufacturing and technology, thus facilitating the expansion of these exports to the rest of the world. The fact that the majority of these exports come from the larger countries of Latin America is another feature of the disequilibrium which affects Latin American trade both in terms of volume and trade balances, and even more so insofar as its structure is concerned.

An evaluation would also have to be made of those positive balances in favour of some countries in a wider context, given that in several cases they stem from financial measures, credits granted, or direct investment. Although it is true that integration is an instrument to give an impulse to the development of the medium-sized and small countries, trade tends to retain a certain relationship with the size of the economies of the countries involved in the process.

As has been stated in a recent ECLA study,^{5/} for regional trade and co-operation to make a significant contribution to the improvement of the industrial structure and development, the enforcement of more deliberate policies is necessary. These policies could shape the particular areas of specialization of the different countries in goods or sub-components of each industrial sector, give stability to specialization so that this would bring about not only the improved use of existing industrial capacity, but also the installation of new plants or the expansion of existing ones, so that markets can be widened and plants built in relation to the resulting economies of scale. Although at a low level, the office machine and motor industries have been the subject of agreements between some of the LAFTA countries, and are interesting examples of certain combined modalities of intra-zonal co-operation in trade and industry.

^{5/} This study is in the process of preparation under the title "Latin America: Economic integration and import substitution", and will soon be published by the Fondo de Cultura Económica.

2. The machinery of liberalization: the liberalization of trade and complementarity agreements

The liberalization programme of the Montevideo Treaty, based on a selective negotiation mechanism, enabled a wide range of products to be incorporated in intra-zonal trade in the beginning; its application not only arrested and reversed the downward trend in intra-zonal trade, recorded in the closing years of the 1950s, but also brought about considerable diversification in its composition. In the first two years of the Treaty's operation 70 per cent of the concessions at present in force was granted. At a later date, the product-by-product negotiations were to become more difficult and complex, practically coming to a standstill in recent years. Lately, moreover, the countries of the Andean Group have proposed the withdrawal of their national lists from the concessions corresponding to the products earmarked for joint industrial programming within the framework of the Cartagena Agreement.

Furthermore, it ought to be stressed that the concessions contained in special lists of benefit to Bolivia, Ecuador, Paraguay and Uruguay, which constitute the main support machinery of the Montevideo Treaty in favour of the economically relatively less developed countries, have only had a limited effect. This could mean that purely trade machinery, without more direct complementary support measures for production and the distribution of goods, are not sufficient to offset the initial handicap of the less developed countries, and that those countries, which suffer major disadvantages in respect of their industrial structures, entrepreneurial experience, skilled manpower and infrastructure, need more direct assistance in order to take due advantage of the trade concessions. Such support could be given, in addition, through investment in new factories or in the expansion or renovation of existing ones, technological co-operation, collaboration in solving energy or transport problems, and facilities for having access to the marketing machinery of the relatively more developed countries.

/So far

So far the complementarity agreements have covered rather specific and limited groups of goods, so that they have had no major effect, in respect of total trade and trade in manufactures; however, as they have usually covered relatively evolved industrial goods, their importance has been greater in the sectors of greater technological and industrial importance; for example, in 1970 the exports under the complementarity agreements represented approximately 50 per cent of the intra-zonal sales of the engineering industries of Argentina, Brazil and Chile, and more than 20 per cent of those of Mexico.

The majority of the complementarity agreements in force only benefit the larger countries of the region (Argentina, Brazil and Mexico). Countries with a limited market have been involved to a limited extent in them, and the relatively less developed countries only marginally so; the effective participation of these two groups of countries has decreased even further since the establishment of the Andean Group.

The agreements entered into to date are in practice merely special tariff elimination programmes between the parties, with the automatic extension of the preferences agreed upon for the eventual benefit of the relatively less developed countries. They do not contain any explicit criteria or elements of industrial programming, and several of them are exclusively bilateral in scope. In some, however, a group of preferences have been firmly established through negotiation which constitute a true distribution market, of long-term importance, making some factory specialization possible, which has in fact occurred in some cases; for example, office machinery, in which specialization has been reflected in a strong intra-zonal trade flow, greater efficiency, and the opening up of possibilities of extra-zonal exports.

Another interesting case is that of the automobile industry; the existing agreements do not formally constitute a LAFTA complementarity agreement, but in practice they are close enough to one, although perhaps they are not as sound, because they have not been drawn up in

/accordance with

accordance with strict procedure. The important thing to note is that they have given rise to the distribution of the production of different parts for the automobile industry, by which means the participating countries are reconciling the achievement of greater economies of scale, by making use of the markets of several countries, with a certain degree of intra-sectoral specialization.

This is an interesting but limited and imperfect example, in which the specialization of economies of scale is reconciled with balanced benefits for all the participating countries.

The exchange of views, between entrepreneurs, promoted through officially encouraged sectoral meetings have made a great contribution in bringing about changes in the form in which the industrialists evaluate regional market possibilities; the results of this machinery have culminated not only in complementarity agreements, but also in the trade generated within the zone as a result of official agreements. Furthermore, it ought to be stressed that in the complementarity agreements signed, the initiative was generally taken by private enterprises, particularly transnational ones. In practice there has been no industrial strategy formulated by Governments to guide negotiations of complementarity agreements, which take account of the needs of industrial development in the countries, and the cases in which economies of scale and the advantages of the regional market could assume greater importance.

Considered within this framework of total exports of manufactures to the region and to the rest of the world, the complementarity agreements have so far had a rather limited effect, which moreover, has been declining in relative importance in recent years, with the spread of exporting experience and the expansion of the agreements to include a larger number of products and sectors. There has even been a further reduction in their influence on the industrial development of the countries, specialization, the extension of economies of scale, and on the improvement of industrial efficiency for this to meet the requirements of the international market.

3. A brief for the study of the case of LAFTA

To organize the study of the features of the integration process within LAFTA the following points could be proposed:

(a) General concepts or criteria

(i) The effective achievement of a suitable balance between the countries is an essential objective for the advance of integration itself; all the countries should balance their total trade with the zone, as well as the structure of this trade, so that they could all find opportunities of exporting diversified manufactures which promote the development of the principal sectors, including those of greater manufacturing and technological importance;

(ii) The liberalization of trade which will continue in LAFTA could be complemented usefully by placing greater stress on concerted or programmed actions. Thus, the periodic negotiations which are of a strictly commercial nature, at present, could become genuine wide-ranging economic negotiations, which would include measures for the liberalization of trade and well-laid policies;

(iii) The machinery to be used should be of a flexible nature and there should be some differentiation in their operation. The present development status of the countries differ, as do their situations and essential characteristics. Among the larger countries and the more developed ones, for example, trade machinery - both liberalization as well as long-term trade agreements which stimulate their specialization - are sufficient in many cases, insofar as each one of these countries has the economic, financial and technical capacity to take advantage of these trade agreements. On the other hand, the basic conditions necessary for taking full advantage of trade concessions received are lacking in the relatively less developed countries, and for this reason they have greater need for concerted or programmed actions. Thus, the importance assigned to the trade mechanisms and programming does not have to be equal in all cases nor for all countries.

Actions could be bilateral in those cases in which only a pair of countries are concerned, but multilateral action will also be implemented and other forms of action which cover several countries belonging to an association, whenever this offers important advantages, or is feasible.

/(iv) The

(iv) The convergence of the aims of the Andean Group and of the remainder of the LAFTA countries should be a fundamental objective.

(b) Principal instruments of the integration process

(i) The basic objective of the liberalization programme could continue to be that laid down in the Caracas Protocol: that the annual reduction should be at least 2.9 per cent of the weighted average of the duties applied to third countries, with the corresponding safeguards for the relatively less developed countries, and those facing major difficulties in meeting the general obligation. The reductions included in national lists could be suspended for those products which are effectively included in the area of concerted action. The common list would include the items on which tariffs are to be completely and definitely abolished, definite time limits could be fixed for so doing;

(ii) The concerted actions could aim at achieving the expansion, diversification and equilibrium of trade between the countries, so that integration could make an effective contribution to the development of all of them. Among others, the following could be included: the setting of indicative trade targets, periodically reviewed and adjusted, through programmes for the trade which the countries would try to engage in using all the methods at their disposal - such programmes would constitute a flexible procedure for meeting changing circumstances and for using the possibilities of putting them into effect - multinational associations for marketing, which would serve as a guarantee of the fulfillment of the trade objectives set; multinational producer associations, so that larger projects could be tackled through co-operation between countries - such associations would also facilitate the adequate participation of the relatively lesser developed countries in the process - and infrastructure projects, both in the field of transport, for the setting up of a basic system connecting the countries, and in the fields of energy and communications;

(iii) Co-operation for development and integration aimed at achieving an adequate balance between countries whose economic dimensions and initial degree of development vary greatly. In this case, particularly with respect to the lesser developed countries, it is

/important to

important to provide for technical and financial assistance actions agreements on the location of industry, and co-operation in respect of the infrastructure and marketing and producer associations.

(iv) As it stands at present the auxiliary machinery established for the complementarity agreements, and its operation exclusively through the liberalization of trade, would be phased out so as to give greater emphasis to the importance of these agreements and to diversify their machinery, which would also include a certain degree of explicit industrial programming, particularly with respect to the relatively lesser developed countries. Agreements dealing solely with trade liberalization could be conceived; others could be long-term trade agreements with disparate reductions in tariffs granted between countries in order to promote specialization, since medium-term or long-term agreements would not only facilitate the use of existing capacity but also the installation of new plants or the expansion of others; programmed integration agreements could also be conceived which cover the location of plants, technical and financial co-operation, and marketing and producer associations. Similarly, mixed agreements could be entered into which contain elements characteristic of two or three of the preceding types. As has been pointed out, the predominance of trade mechanisms are better suited to the situation of the relatively more developed countries in the region, whereas the aspects of programming are better suited to the needs of the relatively lesser developed countries;

(v) The indicative targets in the field of trade, and the results of the mechanisms which have been discussed could be evaluated periodically with advantage, so that it would be possible to appraise:

- the contribution of integration to the development of the region as a whole and of each country in particular, in accordance with the equilibrium criterion referred to;
- progress achieved and problems of the integration process;
- measures for intensifying the process, and for correcting aspects which need to be modified, as well as for revising the targets themselves in the light of experience.

This appraisal process could form part of the economic negotiations referred to.

/C. THE

C. THE CARTAGENA AGREEMENT

1. The scope of the Andean integration model

On the basis of the diagnoses carried out in the past decade on the limitations or obstacles to the development of the economies of the relatively lesser developed countries and those with narrow markets, the Andean integration scheme, which took the form of the Cartagena Agreement, was conceived. The appraisal of the LAFTA results clearly showed its inadequacy insofar as the smaller countries were concerned, and provided the impetus for the Andean countries to seek new ideas for a more rapid and more deep-rooted form of integration, whilst ensuring that the process would develop efficiently, both from the standpoint of the increase in trade as well as that of the creation of new lines of production, within a spirit of real equilibrium in the distribution of the benefits of the process.

These are the guidelines under which this integration scheme seeks to create interdependence between countries, combining generalized and automatic trade liberalization mechanisms with forms of industrial programming, complemented by a special effective system in favour of the relatively lesser developed countries. At the same time the Cartagena Agreement expresses the decision to harmonize policies and laws so that the rules of the game could be the same for the six countries, with a view to a common Andean planning system.

It is very significant to see that the Andean Group, in addition to trying to create conditions for the economic integration of the countries, has also aimed at, although it is still at an incipient stage establishing new and diversified co-operation ties. Mention should be made of the Andrés Bello Convenio (education and culture), the Convenio Hipólito Unanue (health) and the Convenio Simón Rodríguez (labour law). The group is also seeking to create a new common bargaining strength in international forums, so as to obtain better treatment and more favourable agreements.

Andean integration because of its concept and characteristics obliges the countries to revise and bring its institutions, policies and performance up to mark so as to create a new form of rationality

/that no

that no longer merely seeks to use integration as a means of obtaining only national benefits, but also pursues with genuine interest the common good of the Andean countries.

In brief, the Andean integration model was conceived with a view to the creation of firmly established interdependence and rapid implementation; it sought to help all the member countries - particularly the relatively lesser developed ones - to improve their development potential, and required of all of them unswerving political will for the process to overcome the obstacles created by its own complexity and those for which factors in the individual countries were responsible and for the creation of a better subregional environment, united by common interests in which national objectives would find their expression within this subregional sphere and vis-à-vis the industrialized countries of the world.

3. The evolution of intra-zonal trade

In 1969, on the signing of the Cartagena Agreement, intra-zonal trade within the Andean Group was at a relatively low level, and the five countries traded much more with the other countries of LAFTA than between themselves. In 1969-1973 trade, measured by the level of imports, grew at an average annual rate almost four times higher than that of imports from the rest of the world (24.2 per cent and 6.5 per cent respectively). In absolute values intra-zonal imports increased during the same period from some 91 million dollars to 207 million.^{6/} But although there was this outstanding increase, the relative share of trade in total imports was still low: 5.3 per cent in 1973 compared with 3.5 per cent in 1969.

The structure of intra-zonal trade still does not reflect what it could be in the future. There is at present an important increase in the trade of manufactured and semi-manufactured products, and a somewhat smaller increase in petroleum and mineral products, whereas

^{6/} These figures do not include Venezuela, for although this country signed its accession to the Andean Pact in January 1973 (Lima Consensus), its real and effective incorporation was only completed at the end of that year.

/the relative

the relative share of agricultural products is falling. Since many industrial products have been set aside for programming, it is possible to affirm that trade in these items will increase in the future, thus diversifying the structure of trade and bringing this closer to that of extra-zonal imports.

From the point of view of trade balances, it can be seen in figure 1 that, during the period under study, Colombia had a constant positive balance which tended to increase, whereas Chile and Peru have had growing deficits in their trade balances with the subregion. As regards sales to the zone, Bolivia experienced the highest rate of growth, followed by Ecuador (70 and 44 per cent annual average, respectively), whereas Peru and Ecuador were the two countries whose purchases within the zone showed the greatest increase (39 and 37 per cent, respectively).

The initial study carried out on the effects of trade under the different product lists which appear in the trade liberalization programme of the Cartagena Agreement deserves special attention. The trade realized under the common list granted within the framework of LAFTA remains at 1969 levels. On the other hand a singular growth in trade can be seen in the products included in the lists for the automatic reduction of duties under the Cartagena Agreement, and those earmarked for sectoral industrial development programmes.

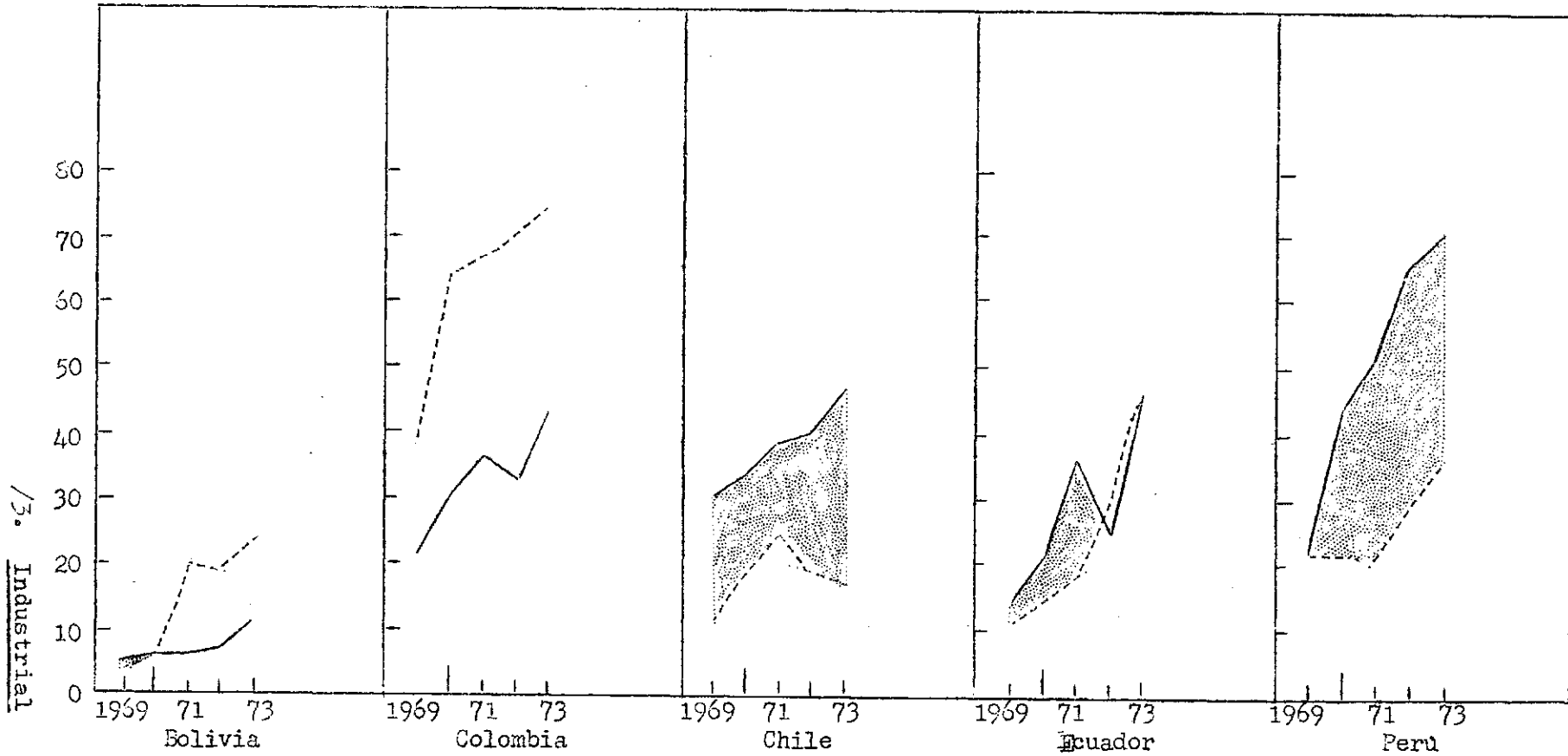
However, some obstacles, more or less serious, depending on the country, have been observed which made full use of the liberalization programme difficult, among them the lack of exportable supplies of some products, the complexity of external trade machinery, lack of knowledge of potential markets, and infrastructural problems.

Figure 1

ANDEAN SUBREGION : TRADE BALANCE FOR EACH ONE OF THE COUNTRIES WITH THE REST OF THE ZONE ^{a/}
 (Millions of dollars)

Natural scale

- Imports
- - - Exports
- ▨ Negative balance
- Positive balance



^{a/} 1973 is estimated

3. Industrial programming

Industrial programming was conceived as "the fundamental mechanism of the Agreement" (article 48) and, therefore, is no doubt one of the mechanisms which is the hallmark and major feature of the Andean integration effort. When it comes into operation it is hoped that the wider market will be used more rationally for the creation of the new lines of production which it makes possible, and that the relatively less developed countries will be guaranteed an equitable share of the benefits of integration, through attempts to reduce the initial differences in development.

The efforts made in this field have been of great interest and proved successful in the first programme, that of metal engineering, which fostered the hope of seeing the application of this important machinery to new sectoral programmes of industrial development.

It is still too early to evaluate the results in the fields of trade and production under the metal-engineering programme, but it can be affirmed that the majority of the countries were duly organized for the study and promotion stages of the projects, having observed subregional production and trade in several of the earmarked products. It is necessary to bear in mind that the effects of the programme will be first seen in the larger countries since these have a productive structure which enables them to take advantage of many of the allocations in the short term. In the case of Bolivia and Ecuador the majority of the projects will become operational after 1976.

As regards the remainder of the products reserved for the sectoral programme (decision 25) it must be recognized that progress has been slow, particularly taking into account that the Agreement fixed 31 December 1975 as the deadline for the approval of industrial programmes (article 47). The main subsectors are electronics, pulp and paper, iron and steel, chemical and pharmaceutical products, chemicals for different uses, colouring materials and pigments, pesticides, ship-building, machines for the textile industry, and the printing and the glass-making industries, in respect of which sectoral programme proposals have been prepared..

/This sluggishness

This sluggishness is due, to a large extent, to the dearth of experience in integrated industrial programming, and to the difficulties encountered in the preparation of programmes, given the inequalities existing between the Andean countries in respect of policies and levels of development.

As will be remembered, one of the main objectives of the Agreement is "to promote the balanced and harmonious development of the member countries and the equitable distribution of its benefits". In this connexion, the present negotiations covering the programmes concerning the automobile industry, petrochemicals and fertilizers are of importance, since they would enable each country to negotiate a number of projects, thereby providing each country with some degree of industrial specialization in keeping with its natural, human and financial resources in the subregion as a whole, instead of limiting it to a fixed sectoral programme. The gross value of production under the metal-engineering programme will amount to a total of 234 million dollars in 1980. On the other hand, the proposals for the automobile and petrochemical industries together represent a production value of some 2,500 million dollars, and cover many more products than were covered in the first programme; therefore, they provide a wider and more flexible framework of opportunities for each country, and a single round of negotiations, which offers the possibility of making more rapid progress, in the integration process, towards overall equilibrium.

4. The harmonization of economic policies and the co-ordination of development plans

Chapter III of the Cartagena Agreement embodies the undertaking of the countries to endeavour to harmonize economic policies and co-ordinate development plans. Some commitments with their deadlines are included in it, as well as other which are open to the initiative of the Board or the Commission.

The Commission, at proposal of the Board, succeeded in adopting almost all of the decisions within the time limits stipulated in

/the Agreement,

the Agreement, in addition to others not laid down therein. The Board, for its part, has proceeded cautiously in the technical study of those subjects for which there were no time limits for the presentation of proposals. They have also made some progress in the study of the fundamental ideas for co-ordinating development plans. As a result of these efforts including a time-consuming task in which ECLA and ILPES collaborated closely by providing advisory services, the Board submitted the "general bases for a subregional development strategy".

The basic problem which arises in this important mechanism for policy harmonization is that of its real enforcement and operation in the countries. It would appear that at national level, there is some delay in carrying out, to the letter, the decisions adopted by the Commission.

But although such a state of affairs limits the effective influence of the integration process, with its consequent demands on national policies, it ought to be borne in mind that the present decisions adopted are an important tool in the hands of the Andean Group. In this connexion the subregion has seen the reciprocal interest of the different countries in their attempts to implement the decisions adopted, this sets them on the path to making mutual demands whereby each one is committed to implementing the decisions or to seek, jointly, where justifiable, the modifications the decisions require for them to be implemented fully.

5. The preferential system for Bolivia and Ecuador

This is one of the basic features of the Cartagena Agreement and at the same time a challenge to the Andean integration process, which seeks to overcome the tendencies noted in respect of the concentration of the benefits in some countries.

The preferential system in favour of Bolivia and Ecuador could fall under two categories of measures stipulated in the Agreement. The first are the generic ones which stipulate the obligation to establish "differential treatment and adequate incentives to

/compensate the

compensate the structural deficiencies of Bolivia and Ecuador" (article 39) in the harmonization policy decisions, in industrial programmes, and in decisions concerning the trade liberalization programme and the establishment of external tariffs. This has been done in the case of many of the decisions adopted.

The second type of preferential measures are those specific obligations which determine the concessions that the remaining countries grant to Bolivia and Ecuador as from a given date.

As regards trade liberalization there are three basic provisions, First, the larger countries undertake to liberalize, from any duty or restriction, the list of products included in the Immediate Opening (approximately 40 products) to each one of the two countries receiving preferential treatment on 31 December 1974. Through this machinery, significant trade activity was generated in Ecuador, with some interesting effects on the attitude of entrepreneurs, on certain institutional changes to promote exports and simplify administrative procedures, and also on the expansion and creation of new enterprises, whereas in Bolivia its effects were limited, owing to reasons of a domestic and external nature.

Secondly, the larger countries undertook to liberalize in three years, counting from 1971, the universal tariff which is subject to automatic reduction. Thus, from 1 January 1974 the markets of Colombia, Peru and Chile (Venezuela is also complying with this provision) were fully opened to Bolivia and Ecuador for the entry of all those products included in the trade liberalization programme, except for those included in the reserve list. On the other hand, as both countries will begin to reduce their tariffs by 10 per cent a year over 10 years only as from 31 December 1976, they would have had the advantage, therefore, of a six-year protection period, in which to prepare themselves for the gradual opening of their markets.

Lastly, preferential margins were fixed for a list of products of special interest to Bolivia and Ecuador, which so far have not been of great importance in the exports of both countries.

/In the

In the field of industrial policy, in addition to the general rule which establishes the priority product allocation for the countries in each programme, the Agreement lays down that of the goods which are not produced by the subregion, if not earmarked for sectoral industrial development programmes, a number of them should be reserved for production in Bolivia and Ecuador only, and freely marketed in the remainder of the member countries. This list of products (decision 28) also marked further progress in the preferential system so that the two countries, would have in addition to the benefits that could accrue from the allocations of this list, the possibility of preparing their development structures, studies and promotion of projects with a view to industrial programming.

The effects of this industrial instrument are different for each country. Whereas in Ecuador, in general, better conditions have existed to give an impetus to allocated projects, in Bolivia, although some progress has been made in the implementation and study of several allocations, there have been some difficulties in respect of the technological, entrepreneurial, and financial infrastructure for implementing them.

As regards the financial aspect, in compliance with a mandate of the Agreement, the member countries have acted jointly so that the Andean Development Corporation and other international financing bodies help in providing assistance to Ecuador and Bolivia in their efforts to make some headway in the allocations, both under decision 20 and under the metal-engineering programme.

6. Venezuela's income and the Andean Pact

The incorporation of Venezuela in the Cartagena Agreement is an event of considerable political and economic importance. The Group, which was already substantial, has seen its importance and incidence on Latin America and the world increased with the membership of this country.

The Venezuelan contribution to the Andean Group, in quantitative terms, can be appreciated by a few illustrations; for example, the subregional population increased from 62.6 million to 74.4 million

/in 1974,

in 1974, and the overall gross domestic product of the subregion, at factor cost, rose considerably, increasing from 28.6 million dollars (at 1968 prices) to 40.9 million dollars in 1973.

From the qualitative standpoint, the membership of Venezuela, meant a considerable increase in the potential market of the subregion since, for example, domestic demand for the manufactures of this country was, in 1970, almost 55 per cent of the other five Andean countries, and its imports of manufactures were equal in value to almost 60 per cent of the imports of the countries in question. Such a situation increases, out of all proportion the possibilities of import substitution at subregional level owing to the possibility of installing industrial plants of even more efficient economic size to cover not only the Andean market, but also for exports outside the region, mainly of the more dynamic items covered by the production of inputs, capital goods, and durable consumer goods. It is worthwhile considering that in addition to the demand provided by Venezuela's economic structure it is also very active as a supply source, which will have, in addition to the possibilities offered by its own market, the opportunity of penetrating the markets of the other countries.

Although it is true that almost all of the countries of the Andean Group have strengthened their range of exports of primary commodities in recent years thanks to the price increases of these products, Venezuela is the country which receives the heaviest inflows of income, given the volume of its petroleum exports and the high prices of hydrocarbons in the world market. As a result of this, in 1972 Venezuela generated 54 per cent of the total of subregional exports, its share in 1974 was estimated at 60 per cent. Although it is still not possible to forecast the evolution of prices of imports from outside the region, particularly of equipment, machinery, inputs and foodstuffs, short-term estimates project a significant surplus in the total trade balance of the group of countries as a whole, mainly on the basis of Venezuelan exports. The volume of this surplus provides the countries generating it, and to some extent the subregion, with the financial muscle for some of them to tackle the organization of a

/subregional policy

subregional policy to their mutual advantage so as to increase and strengthen the links of the Andean countries, which could include actions in several fields: production, infrastructure, technological development, financing of exports, and also joint negotiations with third countries.

The concurrence of these factors which coincided with Venezuela's entry to the Cartagena Agreement, together with the larger resources which the new prices of petroleum will make available to several of the countries of the subregion in the years ahead, will create in a new context, many conditions conducive to the proposal of trade liberalization policies, industrial and agricultural programming, the achievement of equilibrium in the distribution of benefits and the harmonization of policies, and the integrated development strategy itself. At the same time one cannot overlook the connotations inherent in the presence in the agreement, of a country such as Venezuela, whose national income, demand, balance-of-payments situation, and financial potential place it in a privileged situation in the world. The new situation of this country changes significantly its importance in the group, and puts it in a strong position to take initiatives, which could prove to be a very important contribution to the achievement of the objectives of the Agreement.

7. Some indications on prospects for action

This integration process has advanced rapidly to establish within the time limits the rules and decisions laid down in the Agreement. There has been considerable political backing to keep the process going and, when the inevitable difficulties arose the negotiating strength to find positive solutions was forthcoming.

In this complex and far-reaching integration scheme an important achievement is the creation of juridical-institutional framework, set up by the Andean Group in this period; but the objective to build up the subregion through the establishment of innumerable inter-dependent links will only be achieved if a series of economic, political, social and cultural relationships are established.

The basic future challenge lies in the capacity of the country to go beyond the decisions and agreements established to the forms of solidarity and co-operation which offer real and significant results for the economies of the member States, to enable them to face, in particular, the present international economic situation.

In these circumstances, the Andean Group has several alternatives open to it for undertaking the task of consolidation which will enable it to ensure a suitable foundation for further advance.

It would appear desirable that the Governments make an effort to enforce the present decisions and agreements by incorporating them in national legislation and policies. This will, in many cases bring about compulsory changes in internal structures to make way for the requirements arising from the integration process. Special mention should be made of the need for the agreements in education and culture, health and work to be embodied in operative strategies in their respective areas.

The achievement in the near future of the implementation of established mechanisms within the time limits fixed by the Agreement seems to be one of the possible future actions for the consolidation of the group. At the same time, progress could be made in the formulation of new bases for the integrated development strategy particularly taking into account the experience accumulated and the new international situation.

Vis-à-vis third countries, it is still unclear how and in which sectors the import substitution strategy at the regional level could be complemented by an aggressive policy to export manufactures to the rest of the world. In addition to the foregoing, one could go deeper still on the form, and the fields in which it could be possible to use the common bargaining strength of the Group to enter into specific and useful negotiations with the rest of the world.

A path which ought to be explored in greater detail is how to strengthen the social foundation of the present integration process. Opening it to the creativity of the social forces, under certain central

/guidelines, would

guidelines, would be a good way of channelling the energy and dynamism which have already been seen, but which have lacked continuity and means of expression.

A wide area of future action could be the possibility of studying and undertaking new non-conflicting actions or projects involving the various State institutions, which have no direct relationship with trade, industrial and agricultural programming, and the harmonization of policies, but which could establish a network of joint projects in fields of social welfare and in others of economic, scientific, technological or cultural importance.

Likewise, it will be necessary to study the future actions that the Andean Group will be implementing to help in finding practical solutions to the difficulties which both Bolivia and Ecuador face in making effective use of the preferential system. Experience shows the importance of a constant review of the achievements in respect of the harmonious and balanced distribution of benefits, and the reduction in the initial differences in levels of development. This will be one of the prerequisites for the success of Andean integration.

D. THE CENTRAL AMERICAN COMMON MARKET 7/

1. Recent Trends

During the early 1970s, relative stagnation and abnormal conditions continue to prevail in the Central American integration programme, but concrete steps have also been taken to renew, by various means, the ties of interdependence.

7/ An ECLA study of which the provisional title is "La integración económica y la sustitución de importaciones en América Latina" ("Economic integration and import substitution in Latin America"), and which is shortly to be published by the Fondo de Cultura Económica, contains a very detailed analysis of the structural factors and the most marked features of the crisis, in particular at the close of the 1960s.

The course of events in the various Central American economies during the 1960s shows that the speedy headway made in the integration process was accompanied by a rapid rise in the growth rate of the product. In contrast, it is significant that in more recent years the growth rate of the per capita product shows signs of slowing down and even of remaining stationary in the countries most directly affected since 1969 by the crisis and the disruptions in the Common Market. This seems to reflect the close relationship between development and integration, although account must also be taken of external influences, which have played an important role.

In 1973, however, intra-area trade regained the impetus lost at the end of 1969 and in 1970. In addition, there is an increasing flow of trade in manufactured goods which represent a sizable proportion of the output of some sectors in certain countries.

Through the High-Level Committee set up in the course of 1973 to expedite the restructuration of the Common Market, governments have been considering the factors that are hampering the progress of integration: ill-balanced participation in the benefits of integration, inequities in the social structure, external deficits and insufficiently flexible community instruments. It has been recognized that the stagnation of the Common Market is imputable to difficulties for which no effective solutions, satisfactory to every member country have been found, and that integration called for new lines of conduct whose adoption takes time. Nevertheless, developments worth noting in this same period are the temporary bilateral agreements signed by Honduras with three countries of the subregion, by virtue of which it rejoins the free-trade system, and its participation in the process of restructuration of the Common Market. Then, too community aid was forthcoming for Nicaragua on the occasion of the 1972 earthquake, and for Honduras in 1974 after the passage of the Hurricane Fifi. The period 1973-1974, therefore, may well signify the beginning of a process of recovery founded both on past experience and on the possibilities and dangers of the international situation.

2. Regional trade

During the 1960s the establishment of the free-trade area, of the common external tariff and of national development policies had a tonic effect on trade. But the difficulties besetting the Common Market at the end of the 1960s were reflected in a relative weakening of trade flows, and only in 1973 did intra-area trade recover a share in total exports similar to its highest rate of participation in the preceding decade (23.5 per cent and 22.9 per cent in 1968 and 1973, respectively).

The geographical distribution patterns of trade have not significantly altered in the early 1970s. The intra-area trade surplus is still concentrated in Guatemala and El Salvador (see figure 2); Nicaragua's deficit has been aggravated partly as a result of the natural catastrophe it suffered at the end of 1972; and Honduras and Costa Rica are gradually reducing their negative balances.

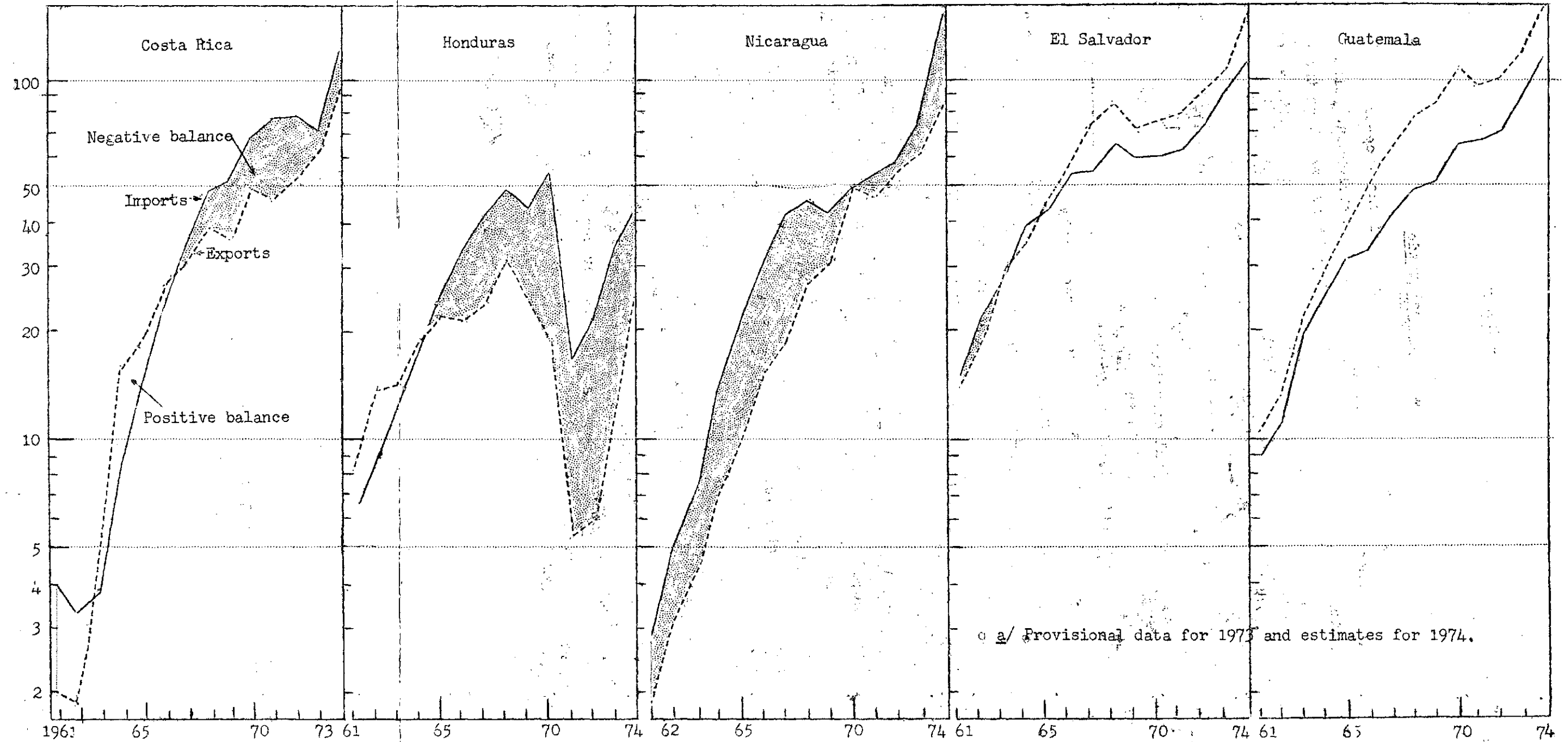
There are no signs that major changes are likely to take place in intra-area trade flows over the short term, since the relative participation of Guatemala and El Salvador together (62 per cent) has remained virtually unchanged since 1965, except that Guatemala has supplanted El Salvador as the area's leading supplier, since El Salvador has traded with three countries only. Honduras has been losing ground in both relative and absolute terms since the beginning of the 1960s, and is still doing so to an even greater extent; while Nicaragua and Costa Rica, starting from low levels, have taken better advantage of the creation of the expanded market. These disequilibria detract from trade stability and perpetuate the root problems underlying the stumbling-blocks to subregional integration.

Trade in manufactures has been steadily gaining importance in intra-area trade as a whole, inasmuch as in 1968-1973 it represented a proportion of exports ranging from 70 per cent to 80 per cent; sales of yarns, woven fabrics and other textiles, glass, hand-tools and

/Figure 2

Figure 2

CENTRAL AMERICA : TRADE BALANCE OF EACH COUNTRY WITH THE REST OF THE AREA, 1961-1974 ^{a/}



^{a/} Provisional data for 1973 and estimates for 1974.

household utensils made of base metals are predominant,^{8/} absorbing 36 per cent of total trade in goods, and chemical products account for over 20 per cent while processed goods of agricultural origin and others of a more traditional type (Standard International Trade Classification [SITC] sections 0 to 4) have lost some of their relative importance.

In contrast, the structure of exports to the rest of the world reflects a marked dependence on agricultural commodities, since in 1973 exports of coffee, bananas, cotton, meat, sugar and wood alone represented 85 per cent of total extra-area exports of goods. The remainder was made up of fish products and certain manufactures. Although the volume of extra-area exports is not yet very considerable for the countries in the aggregate, it is by no means negligible, especially where trade to Europe is concerned, and would not have been possible without the experience acquired during the 1960s in trade in these goods within the framework of the integration movement. Among the factors that may have helped to determine the relative success achieved in the sale of manufactures in very recent years must be counted the channelling of some part of intra-area trade towards third countries, as a result of the situation which arose in 1969.

3. Intra-area trade and industrial development

In its early stages, the development of manufacturing was encouraged by the common tariff, the expansion of domestic markets under the aegis of free trade and the national laws establishing industrial development incentives. Furthermore, during the first half of the 1960s traditional agricultural exports did remarkably well, and supported economic growth. This period witnessed a phenomenon very

^{8/} In the SITC classification these products are grouped in section 6, under the generic title of manufactured goods classified chiefly by material.

seldom seen in Latin America: concurrently with the improvement of the capacity to import, considerable progress was achieved in import substitution.

But from 1968 onwards the march of industry lost impetus. Extra-regional sales of agricultural commodities failed to make headway, and the result was a balance-of-payments deficit, since extra-area imports had continued to grow, especially purchases of raw materials and inputs needed for the substitution process. Moreover, the absence of any kind of forecast of the development possibilities and options offered to Central American industry in the context of the Common Market made itself more plainly felt. In the formation of the Central American Common Market (CACM), greater progress was made in measures for the liberalization of intra-area trade combined with a measure of protection against external competition, than in those aimed at programming industrial development and the lines along which its results should be directed. Owing to the limited operational force of instruments that would have helped to orientate industrial development, it was the countries which had a broader industrial base at the outset that took fuller advantage of the benefits of the new situation. Again, given the lack of a selective regional policy designed to ensure the participation of Central American capital, foreign investment under the national laws in force, which were sometimes reciprocally competitive, helped to set a course for the potential effects of the Common Market on the industrial sector. Between 1959 and 1969, 58 per cent of direct foreign investment was placed in Guatemala and El Salvador - countries which possessed initial advantages - and was primarily geared to the satisfaction of the area's demand, playing a decisive part in determining the volume of intra-area exports of manufactures that was generated.

The capital formation process was reflected in a substantial expansion of industrial production capacity, but in some branches area demand was overestimated, which gave rise to considerable margins of idle capacity.

/The broadening

The broadening of the Central American Common Market produced its most favourable effects in Guatemala and El Salvador, but these were also the countries in which the progress of industrial development was most manifestly affected by the Common Market problems when they arose; between 1967 and 1973 the share of the manufacturing sector in the product stood at 15-16 per cent in Guatemala, and fluctuated between 19 and 20 per cent in El Salvador. In Honduras and Nicaragua, on the other hand, and also in Costa Rica, manufacturing activity continued to increase its participation in the economy, possibly as a result of the internal channelling of intra-area trade in manufactures which derived from the 1969 situation, as well as of the relative success achieved in the sale of some products to third countries.

Table 2 traces the evolution of the proportion of domestic demand supplied by imports in 1960-1971, divided between imports from the rest of the world and those from the area itself, and broken down by major industrial groupings.^{9/} It can be seen that in the manufacturing sector as a whole the import component from outside the area decreased from 36.3 to 31.1 per cent, whereas the share of intra-area imports climbed from 1.4 to 8.4 per cent (with a slight falling-off in 1971 as compared with 1970, for obvious reasons). This is clear evidence of the impact of Central America's import substitution process. A point to be noted at the sectoral level is the substantial increase in the intra-area manufacturing content in the textile, rubber, chemical, basic metal goods and electrical appliances industries. This progress both in production and in trade on the part of such intermediate activities as the metal-transforming industries has been achieved through the manufacture of goods based on comparatively simple processes and in many instances on assembly operations, and having, in general, little value added. In the chemical industry, for example, the leading place is taken by parachemical products and in the

^{9/} No sectoral information is available after 1971 for total foreign trade or for the gross value of industrial production.

Table 2
CENTRAL AMERICA: EVOLUTION OF THE COEFFICIENT OF IMPORTED SUPPLIES
IN RELATION TO DOMESTIC DEMAND

(Percentages)

	Tradit ional indus- tries ^{a/}	Interme diate indus- tries ^{b/}	Metal trans- forming industries ^{c/}	Miscel- laneous indus- tries ^{d/}	Total manufac- turing sector
<u>Imports from outside the area</u>					
1960	12.9	66.9	86.3	56.9	36.3
1967	8.9	40.6	76.1	35.1	33.0
1970	7.6	44.3	73.3	28.1	30.9
1971	7.0	33.2	72.2	33.0	31.1
<u>Intra-area imports</u>					
1960	1.4	2.1	0.5	1.4	1.4
1967	7.0	11.6	5.2	12.3	7.9
1970	8.6	13.4	6.1	12.8	9.4
1971	7.4	12.2	5.9	11.0	8.4

Source: "La industrialización y los esquemas regionales de cooperación económica. El caso del Mercado Común Centroamericano", CEPAL/NEC/74/18, September 1974.

a/ Including major groups 20 to 26 and 29 of the International Standard Industrial Classification of all Economic Activities (ISIC), United Nations Statistical Papers, Series M, No 4, Rev. 1.

b/ Including ISIC (Rev.1) major groups 27 and 30 to 33.

c/ Including ISIC (Rev.1) major groups 34 to 38.

d/ Including ISIC (Rev.1) major groups 28 and 39.

/metal-transforming

metal-transforming industry by durable consumer goods, manufactured or assembled on the basis of raw materials and parts imported from outside the area; capital goods still represent only a small fraction of output.

Notable headway has been made in import substitution, notwithstanding which coefficients of imports from the rest of the world are still high (see again table 2); for example, in 1971 the metal-transforming industries imported 72 per cent of the supplies needed to meet area demand, and the intermediate and miscellaneous industries 33 per cent. This means that there is still an ample margin for import substitution, since industrial development is continuing to rely on imports of capital goods and inputs which the area does not produce. Insofar as the size of the area market permits, or as economic co-operation activities are undertaken with other Latin American countries outside the area, these sectors may offer significant development possibilities.

In 1971 trade absorbed more than one-fourth of Central American production in several sectors including, among others, electrical machinery (40.7 per cent), chemical products (36.8 per cent), textiles (29.9 per cent) and rubber manufactures (25.6 per cent). There are also a number of sectors in which the proportion of output traded ranged from 12 to 25 per cent. Clearly, then, significant advances have been made in the trade liberalization process linked to the integration movement.

4. The restructuration process

In the course of 1973 the Central American governments set up two forums for study and decision-making, to undertake the task of drawing up directives for the restructuration of the Central American Common Market. The first of these - the High-Level Committee - in which the five countries are taking part, is to review the integrated development strategy formulated by the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) and present its conclusions to a second organ - called the

Tripartite Meeting - of an executive character. Following several meetings in 1974, the Committee reached important decisions as to the objectives of the new policies in the fields of industrial development, investment, free trade, harmonization of tax system, co-ordination of development plans, agricultural policy and science and technology. Lastly, on 11 December 1974 SIECA presented to the Committee the draft of a new treaty setting up a Central American economic and social community. The governments will proceed to the analysis and negotiation of this draft during the first half of 1975.

The High-Level Committee reached consensus in the above-mentioned fields which indicate, in broad outline, the scope of the future commitments that the five member States would embody in the basic restructuration instrument.

Another current development is the gradual reincorporation of Honduras in the Common Market. It has signed bilateral trade agreements with three other countries under which it is granted preferential treatment as a relatively less developed country; but these agreements are of an interim nature, inasmuch as they are subject to the restructuration of the integration programme, and have to be renegotiated from time to time in conformity with the evolution of trade flows.

5. Problems deriving from the current situation

Alongside these lines of action, directed towards establishing new bases for the interdependence of the five Central American countries, other measures have been taken to tackle short-term problems.

One of them was the emergency technical and financial aid extended to Nicaragua after the earthquake which devastated Managua in December 1972

Then, too, the countries have begun to suffer inflationary pressures and shortages of raw materials that are unprecedented in the economic history of Central America. The sudden upswing in the prices of imports of primary commodities and strategic products and the disruptions in the International monetary system have generated

/considerable internal

considerable internal pressures on prices. As early as mid-1973 a plan of action was proposed to cope with some aspects of the increase in domestic prices, but unfortunately the plan in question has not so far found expression in specific measures to deal jointly with the problem.

As regards petroleum and its derivatives, provisional estimates suggest that in 1973 imports of crude oil totalled 133 million dollars, a sum which represented 5.7 per cent of total imports and 8 per cent of exports. It is estimated that the value of these fuel imports will have risen to about 400 million dollars in 1974. The impact of such an increase is rendered still more severe by the rise in prices of petrochemical products used as raw materials.

If the factors listed above are taken together with the contraction in the supply of agricultural commodities in 1972/1973, resulting from prolonged droughts and marketing problems, and with the low growth rate of private investment in the industrial sector, the seriousness of the inflationary pressures will be all too evident.

6. Central American integration prospects

The prospects for the integration movement are governed by divergent forces. The failure to settle the dispute between two countries is still the greatest obstacle in the way of the integration programme. It has held up the adoption of a series of joint measures which might be the best means of overcoming the difficulties at present resulting from the evolution of the international economic system. The settlement of the conflict and the application of concerted measures are two interrelated steps that might clear the way for a development strategy which, while keeping up co-operation in the existing fields, would promote it in others where it could strengthen the area's position in the present international situation.

On the other hand, there are signs that the stage is set for maintenance of interdependent relations. Progress is being made in the conversations between El Salvador and Honduras, and all five countries are participating in the High-Level Committee to study and

/prepare a

prepare a draft treaty for the restructuration of the Common Market, with the assistance of SIECA.

An interesting event in the external sector is the participation of four Central American countries (including Honduras) and of SIECA in the establishment of the Union of Banana Exporting Countries, in 1974. Similarly, the five countries have jointly taken part in the preparatory work for the next round of GATT negotiations, with a view to presenting a common external trade policy. Another striking feature is the creation of a working group with the participation of Panama, to formulate a crash agricultural plan aimed at promoting domestic production and supply of foods, in order to obtain supplementary supplies of grains and inputs from external sources and make the area self-sufficient in staple grains. Lastly, during the conference at Puerto Ordaz (13 and 14 December 1974), the Presidents of the Central American countries, Panama and Venezuela signed an agreement under which the five Central American countries and Panama will retain part of their coffee crops in 1973/1974 and 1974/1975, with the support of loans whose source is an 80-million-dollar fund financed by Venezuela. Moreover, Venezuela signed another co-operation agreement with these countries granting them balance-of-payments financing for the purchase of Venezuelan petroleum. Under the terms of the agreement, Venezuela will supply them with 66,300 barrels of oil daily at six dollars per barrel. The difference between the international market price and the price agreed upon will be deposited in the national currency of each country in its respective central bank, to be devoted to the financing of investment projects which will contribute to the development of the area's natural resources. It may be hoped that this financing programme will be applied in such a way as to help to strengthen the subregional integration movement.

Another point worth noting is the progress achieved in the monetary field with the entry into force, in October 1974, of a new Central American Monetary Agreement fusing the three instruments by which the area's monetary integration process was previously governed,

/and thus

and thus giving the central banks greater freedom of movement in dealing with balance-of-payments problems. This event is illustrative of the concern aroused in the area by the international economic situation.

In the proceedings of the various Common Market forums, including the Meeting of Ministers for Agriculture, that of Ministers for Economic Affairs and, of course, the Puerto Ordaz meeting with Venezuela, Panama has played a steadily increasing part. This does not necessarily mean the total incorporation of Panama into the "community" envisaged in the draft treaty prepared by SIECA, but it does indicate a progressive strengthening of the links between it and the rest of Central America.

Lastly, a consensus is taking shape with respect to the necessity of convening a meeting of the Central American Economic Co-operation Committee early in 1975, for the purpose of discussing the repercussions of current international problems on the economic development of the area.

E. THE CARIBBEAN COMMUNITY AND COMMON MARKET 10/

In July 1973 the Caribbean Community and Common Market (CARICOM) was created to replace the Caribbean Free Trade Association (CARIFTA), which was established in 1968, and incorporated Barbados, Guyana, Jamaica and Trinidad and Tobago, together with the countries members of the East Caribbean Common Market. The new Caribbean integration scheme has more far-reaching objectives than the former system. To the programme for free trade, as the main factor in the area's economic

10/ In the following analysis, for the period previous to July 1973 reference will be made to CARIFTA; for the period between July 1973 and July 1974, to CARIFTA/CARICOM, since it was only on the latter date that the countries members of the East Caribbean Common Market acceded to CARICOM; and, after July 1974, to CARICOM.

and social development, it adds the expansion of the geographical area, inasmuch as it is potentially open to all the Caribbean countries, and it also includes joint mechanisms for the co-ordination of economic policies.

1. Expansion of intra-area trade

In contradiction to what has happened in other Latin American integration programmes, the products covered by the CARIFTA intra-area trade liberalization programme have enjoyed the benefit of a rapid decrease in import tariffs. In 1973 almost 90 per cent of intra-area trade was duty-free. For extra-area trade, the member countries brought a common external tariff into force in May 1973.

This body of measures has had a favourable influence on intra-area trade, since between 1968 and 1973 the share of imports from within the area in total imports increased from 4.9 per cent to 7.2 per cent, respectively. But it should be pointed out that although the expansion of intra-area trade has somewhat modified its composition, which was previously based on few products, this change has not been very marked, since the structure of production is still underdiversified. But the Caribbean area is now third on the list of suppliers of its own member countries, after the United States and the United Kingdom. Table 3 shows the scale of intra-area trade in each of the larger countries individually, and in the relatively less developed countries in the aggregate.

The four larger countries (Barbados, Guyana, Jamaica and Trinidad and Tobago) have played an increasingly significant role in the intra-area import trade, for whereas in 1968 their imports represented 65 per cent of the trade in question, by 1973 their share had risen to 74 per cent. In the export trade, they have taken an even more leading part, since according to estimates, in 1973, 92 per cent of it was concentrated in their hands. Table 4 gives some idea of the relative importance of these four countries in 1972, and figure 3 traces the evolution of their trade balances between 1967 and 1973.

Table 3

CARIFTA/CARICOM: SHARE OF INTRA-AREA IMPORTS IN TOTAL IMPORTS

(Millions of East Caribbean dollars at current prices)

Country or group of countries	1968			1970			1973 ^{a/}		
	Total	Intra area	Percent age	Total	Intra area	Percent age	Total	Intra area	Percent age
Barbados	168.0	17.0	10.1	235.0	27.0	11.5	372.0	46.2	12.4
Guyana	220.0	29.5	13.4	268.0	37.8	14.1	258.2	54.1	21.0
Jamaica	768.0	8.6	1.1	1 050.0	19.1	1.8	1 278.0	67.7	5.3
Trinidad and Tobago b/	856.5	16.0	1.9	1 087.0	26.9	2.5	1 536.4	39.6	2.6
<u>Subtotal</u>	<u>2 012.5</u>	<u>71.1</u>	<u>3.5</u>	<u>2 640.0</u>	<u>110.8</u>	<u>4.2</u>	<u>3 444.6</u>	<u>207.6</u>	<u>6.0</u>
East Caribbean Common Market plus Belize	221.7	37.6	17.0	320.2	57.7	18.0	454.2	73.6	16.2
<u>Total CARIFTA/ CARICOM</u>	<u>2 234.2</u>	<u>108.7</u>	<u>4.9</u>	<u>2 960.2</u>	<u>168.5</u>	<u>5.7</u>	<u>3 898.8</u>	<u>281.2</u>	<u>7.2</u>

Source: ECLA, Port of Spain Office, Overview of economic activity, 1973, ECLA/POS/74/10, 31 July 1974.

a/ Estimates, except for Jamaica and Trinidad and Tobago.

b/ Including petroleum imported under the processing agreement, which in the years in question represented about 50 per cent of total imports.

/Table 4

Table 4
 CARIFTA/CARICOM: IMPORTS AND EXPORTS AMONG MEMBER COUNTRIES, 1973
 (Percentages)

Importer Exporter	Barbados a/	Guyana b/	Jamaica	Trinidad and Tobago	Sub total	Relatively less developed countries ^{c/}	Total d/
A. Imports							
Barbados a/	-	4.1	5.0	18.4	6.2	20.2	9.9
Guyana b/	15.6	-	23.2	25.3	15.8	7.5	13.7
Jamaica	16.0	17.2	-	46.7	17.0	16.0	16.7
Trinidad and Tobago	60.6	75.4	62.1	-	53.4	49.3	52.3
<u>Subtotal</u>	<u>92.2</u>	<u>96.7</u>	<u>90.3</u>	<u>90.4</u>	<u>92.4</u>	<u>93.0</u>	<u>92.6</u>
Relatively less developed countries	7.8	3.3	9.7	9.6	7.6	7.0	7.4
<u>Total CARIFTA/CARICOM</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
B. Exports e/							
Barbados a/	-	7.9	12.2	26.3	46.4	53.6	100.0
Guyana b/	18.8	-	40.9	26.0	85.7	14.3	100.0
Jamaica	15.7	19.8	-	39.4	74.9	25.1	100.0
Trinidad and Tobago	19.0	27.7	28.6	-	75.3	24.7	100.0
<u>Subtotal</u>	<u>16.4</u>	<u>20.1</u>	<u>23.5</u>	<u>13.7</u>	<u>73.7</u>	<u>26.3</u>	<u>100.0</u>
Relatively less developed countries	17.3	8.7	31.3	18.3	75.6	24.4	100.0
<u>Total CARIFTA/CARICOM</u>	<u>16.4</u>	<u>19.2</u>	<u>24.1</u>	<u>14.1</u>	<u>73.8</u>	<u>26.2</u>	<u>100.0</u>

Source: ECLA, Port of Spain Office, Overview of economic activity, 1973, ECLA/POS/74/10, 31 July 1974.

a/ On the basis of January-July 1973.

b/ On the basis of January-September 1973.

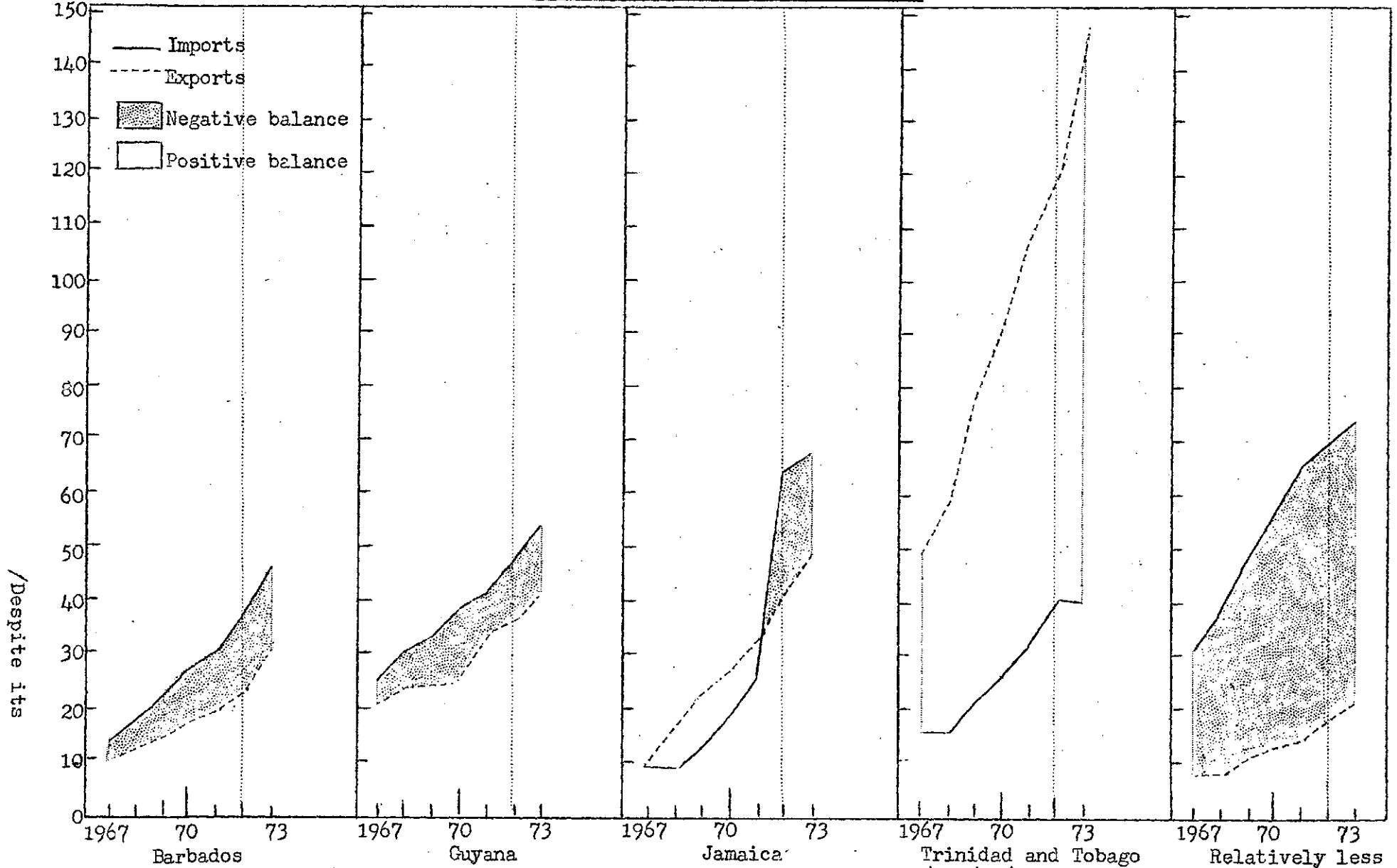
c/ The figures for 1973 are estimates for all the relatively less developed countries, except Belize, based on exports to their markets from the larger countries.

d/ Provisional figures.

e/ Assessed in terms of imports.

Figure 3

CARIFTA/CARICOM : INTRA-AREA TRADE AND TRADE-BALANCE POSITIONS BETWEEN 1967 AND 1973
 (Millions of East Caribbean dollars)



Source : ECLA, Port of Spain Office, Overview of economic activity, 1973, ECLA/POS/74/10, 31 July 74

Despite its recent diversification, the intra-area trade of Trinidad and Tobago is still concentrated in a few products. On the export side, petroleum products, cement and fertilizers continue to make up a major proportion of its sales, although it is beginning to export an increasing volume of light manufactures and of durable consumer goods such as refrigerators, gas cookers, radio receivers and television sets. Its principal imports are still rice from Guyana and market-garden produce from the East Caribbean.

Foods, electrical equipment and chemical products constitute most of Jamaica's exports to the area. As regards imports, Trinidad and Tobago retains its position as Jamaica's leading supplier, providing it with 62 per cent of its intra-area imports (see again table 4).

Imports of petroleum products account for half of Guyana's intra-area trade, and chemical products and foods make up the rest. On the export side, agricultural commodities continue to represent the greater part of its sales to the area, but the share of chemical products and other manufactures is gradually increasing.

The rapid expansion of intra-area trade has had little influence on production. For example, the share of the manufacturing sector in the area's gross domestic product has remained virtually unchanged: 14.5 per cent in 1968 and 15 per cent in 1972.

2. Broadening of the integration process in the Caribbean

Awareness of the deficiencies of the free-trade programme as the chief factor in the area's economic and social development has been evidenced on many occasions. Consequently, during 1973 action was taken to expedite the establishment of the Caribbean Community and Common Market, as a further step towards more fully integrated co-operation. For example, preliminary draft intra-area agreements were analysed, the aim of which was to avoid double taxation in order to encourage the inflow of private capital from the larger countries to the relatively less developed countries; fiscal incentives to industrial development were harmonized, preference being given to the relatively less developed countries; and the structuration of a common external

/tariff was

tariff was sketched out. Lastly, in Georgetown it was decided to create the Caribbean Community and Common Market as from 1 August 1973. The Prime Ministers of Barbados, Guyana, Jamaica, and Trinidad and Tobago implemented the Georgetown Accord by signing the Chaguaramas Treaty on 4 July 1973. The time schedule drawn up enabled the larger countries to make progress in the establishment of the Caribbean Community and Common Market, while at the same time incorporating temporary arrangements under which the relatively less developed countries could accede to CARICOM.

Thus, in April 1974 the Caribbean Community and Common Market was joined by Belize, Dominica, Grenada, Montserrat, St. Lucia and St. Vincent, and in July of the same year by Antigua and St. Kitts-Nevis-Anguila.

The decision reached at Chaguaramas is attributable to the prior existence of CARIFTA, and the agreement does not confine itself to establishing a free-trade area, since its objectives are of wider scope as regards the co-ordination of economic policies and the extent of the geographical area comprising the member countries. Under the first head may be mentioned the establishment of a common external tariff, a common protectionist policy, a trade régime vis-à-vis third countries, harmonization of tax systems, rationalization of agriculture, a common exchange rate and monetary policy, co-ordination of economic policy and joint action in relation to industrial development programmes and to the encouragement of tourism. Special treatment for the relatively less developed countries was also stipulated.

Under the relevant treaty, full membership of the Caribbean Community (CARICOM) is open to all the Caribbean countries 11/ instead of to the English-speaking countries only, as was the case with CARIFTA. The agreement setting up the Caribbean Common Market is automatically

11/ During the St. Lucia meeting in April 1974, the governments of Haiti and Surinam displayed interest in joining the Community. Haiti officially submitted its candidature for membership as early as May 1974.

open to former members of CARIFTA. As in the case of the Community, any Caribbean country can join the Common Market. And here too options are offered, since it is possible to be a member of the Common Market without joining the Caribbean Community.^{12/}

(a) Foreign trade

Concurrently with the signing of the Chaguaramas Treaty, the four relatively more developed countries decided upon a common external tariff which came into force on 1 August 1973. As the other countries gradually take up membership of CARICOM, this tariff will be extended to all extra-area trade. In order to apply these measures a time schedule was established which provides for total uniformity of external tariffs by 1981 (tariffs for most goods will be harmonized by 1976). The relatively less developed countries, with the exception of Belize and Montserrat, will adopt as initial tariffs those of the East Caribbean Common Market, and will make the necessary adjustments with that level as their starting point. These countries will be entitled to maintain their existing external tariffs until 31 July 1977; the deadline for their subsequent adjustment to the CARICOM common external tariff will be 1 August 1981.^{13/}

Lastly, a ban has been placed on restrictive trade practices and regulations have been drawn up with respect to provenance, on the basis of the criterion that products whose extra-area import content exceeds 50 per cent of the export price will not be eligible for treatment under the liberalization programme. For the relatively less developed countries the ceiling figure is 60 per cent.

^{12/} For further details see ECLA, Port of Spain Office, Ampliación del proceso de integración del Caribe. Nota sobre algunos procedimientos y aspectos institucionales, E/CN.12/1976.

^{13/} Montserrat will be allowed to maintain its existing tariff until 31 July 1981, after which it will have to bring it finally into line with the common external tariff by 1 January 1985.

(b) Industrial development

The main objectives of integrated industrial policy are as follows:^{14/}

(i) to step up the utilization and processing of the area's raw materials;

(ii) to promote increased industrial efficiency by designing plants of a size adapted to the subregional market;

(iii) to favour exports of manufactures both within and outside the area; and

(iv) to promote the installation of factories in the relatively less developed countries, in order to secure equitable distribution of the benefits of industrial development.^{15/}

An Agreement on Harmonization of Fiscal Incentives to Industry came into force on 1 July 1974. Under its terms, the relatively less developed countries are empowered to grant, ceteris paribus, greater advantages than the larger countries. Provision was also made in this agreement for another fiscal measure designed to avoid international double taxation, in order to encourage the inflow of private capital from Barbados, Guyana, Jamaica and Trinidad and Tobago to the relatively less developed countries, in the form of mixed enterprises.

Lastly, the Caribbean Investment Corporation was set up on 1 June 1973, to give financial support to investment programmes channelled into the less developed countries and based on the list of industries established in the Georgetown Accord.

^{14/} See Interamerican Development Bank (IDB)/Institute for Latin American Integration (INTAL), El proceso de integración de América Latina en 1973.

^{15/} In the Georgetown Accord of April 1973 (annex II) a list of industries to be promoted in the relatively less developed countries was adopted. Mention may be made, among others, of the manufacture of aluminium products (tubular furniture, window-frames, clocks, shirts and underwear, silencers for motor vehicles, mattresses, cigarettes, beer and gramophone records, reinforced concrete products, copra oil and fat, and packing materials (paper and plastic bags, corrugated board boxes).

These fiscal arrangements and the creation of the Corporation were decided upon at Georgetown in April 1973, and show the extreme care that was taken by the Heads of Governments to make an equitable distribution of costs and benefits within CARICOM.

Another important aspect of the harmonization mechanisms is the periodic evaluation which is to be made in order to compare the progress envisaged with that actually achieved. It is hoped that the harmonization of policies will help to reduce competition to obtain extra-area investment and will constitute a basis for the formulation of a co-ordinated industrial development policy.

(c) The agricultural sector

The expansion of the Caribbean integration movement involves the revitalization of agricultural production. The CARICOM secretariat is forming an agricultural planning agency for medium-term projects. Apart from the Rice Agreement establishing Guyana as the sole area supplier of the rice-deficit CARICOM countries, agricultural co-operation has developed through two principal instruments: the Agricultural Marketing Protocol and the Oils and Fats Protocol or marketing agreement.^{16/}

(d) Infrastructure

There is very little that can be done in respect of road and rail integration. But the countries members of CARICOM have agreed to set up a Regional Shipping Council to deal with waterborne and airborne passenger and freight transport, as well as with the improvement of airports and seaports. As regards energy, the rise in petroleum prices has had severe repercussions on industry and agriculture. Trinidad and Tobago has proposed the creation of a special fund in the Caribbean Development Bank to which it would make an individual contribution. This fund would be earmarked for those relatively less developed countries which, in view of their constitutional linkage

^{16/} See ECLA, CARIFTA developments in 1973, POS/INT.74/1, January 1974.

with the United Kingdom, cannot take advantage of the loans granted to its members by the International Bank for Reconstruction and Development (IBRD). Venezuela, as an active member of the Caribbean Bank, is also proposing to make a contribution.

(e) Financing

Something has already been said of the role assigned to the Caribbean investment Corporation in the promotion of industrial projects for the relatively less developed countries. Its initial capital will be 5 million East Caribbean dollars, with major contributions from Jamaica and from Trinidad and Tobago. Only the area's own public and private sectors can be shareholders. In addition, by the end of August 1973 the Caribbean Development Bank had lent a total sum of 65 million East Caribbean dollars, 75 per cent of which had been allocated to the relatively less developed countries for the agricultural, transport and communications, health and other sectors.

3. Prospects for CARICOM

The broadening of the integration process has posed certain problems and set up certain obstacles which will have to be overcome.

Among the relatively less developed countries, Grenada alone is entirely independent and eligible to take part in the whole range of CARICOM activities. The East Caribbean countries cannot yet participate fully in external affairs owing to their linkage with the United Kingdom; they depend on the sterling area and it is difficult for them to present an independent common front as do the Central Banks of the four larger countries. An independent exchange rate would facilitate exchange control, practices and regulations in the whole of the area.

Lastly, it is to be hoped that industrial development will help to solve the acute unemployment problem, since the agricultural sector alone cannot absorb the increase in the economically active population of the area.