THE ECONOMIC RELATIONS OF LATIN AMERICA WITH EUROPE

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CONTENTS

I. LATIN AMERICA: A CASE OF CONTRADICTORY DEVELOPMENT 1

A. The broad stages of Latin American development 1

B. Outstanding features of Latin American internal development 4

1. Transformation of the production structure 4
2. Industrialization 5
3. Agriculture and mining 7
4. Energy 8
5. Technological development 9
6. Population 11
7. Employment 12
8. Structural unemployment 13
9. Skilled manpower 14
10. Income distribution and market size 14

C. The external sector of Latin America 15

1. Latin America's external economic policy 15
2. The total foreign trade of the region 18
3. The balance of payments and external finance 25

II. LATIN AMERICAN TRADE WITH EUROPE 27

A. Global trends 27

1. Evolution of Latin America's share in world trade 27
2. Structure of Latin America's trade with major areas 29
3. Latin America's decreasing share of world trade in some basic commodities 30
4. Evolution of the shares of different areas in European imports 31
5. Evolution of Europe's imports from developing countries 33
6. Latin America's exports to Europe 34
7. Trade trends in the major countries 36
8. Latin America as a market for European exports 36
9. Composition of Europe's exports to Latin America 38
10. Structure of Latin America trade with Europe 39
11. Latin America's commodity exports to Europe 41
12. A more detailed view of primary commodities 42
13. Exports of manufactures from Latin America to Europe 46

14. Composition of exports of manufactures to the EEC 48
15. Latin America's trade balance with the major European areas 48

B. Trade policies of developed countries and problems of access to their markets 49

The Community's scheme under the Generalized System of preferences and its utilization 55

C. Individual analysis of main basic commodities 57

1. Temperate-zone agricultural commodities 62
2. Tropical agricultural commodities 63
3. Raw materials of agricultural origin 65
4. Non-ferrous metals 66
5. Iron ore 67
6. Petroleum 67

III. DIRECT PRIVATE INVESTMENT 68

A. Background and trends 68

1. European direct private investment in Latin America 70
2. Latin America in the world total of direct European investment 71
3. The situation in Latin America by countries 73
4. Foreign investment in Latin America by sectors of economic activity 75

B. Interest of European private investors in Latin America 76

1. Factors which explain the interest 78
2. Possible contribution of direct foreign investment 86

C. Norms and modes of operation of direct foreign investment, including the activities of the transnational corporations 87

1. Modes of co-operation and the experience of Latin America 91
2. Instruments of orientation 99
3. The special case of minerals 106

IV. FINANCING 108

A. Changes in the external financing of Latin America 108

B. European financing 109

1. Medium and long-term private markets 110

V. THE FUTURE OF THESE RELATIONS. NOTES FOR ANALYSIS 118
A. The long term 118
B. Conflict between long- and short-term objectives? 133
1. Policies for the restructuring of industry in the developed countries 134
2. Short- and medium-term policies of the developed countries 136
3. Reconciliation of long- and short-term objectives 138

ANNEX 141

I. LATIN AMERICA: A CASE OF CONTRADICTORY DEVELOPMENT

The first questions which this chapter sets out to answer concern the potential complementarity of Latin America and Europe, viewed from the standpoint of the former. What are the possibilities and the needs of the Latin American countries in their relations with Europe? What are some of the basic criteria which should define the strategy of these relations during the coming years? To help answer these questions we shall begin with a brief analysis of some of the main possibilities and problems of Latin American development[1] and a description of the present stage of internal development of the countries of the region. An account will be given of some of the heterogeneous and even apparently contradictory aspects of this development, which displays important advances side by side with flagrant backwardness and the persistence of some serious problems. An attempt will be made to explain the implications of this in defining the type of relations with Europe which would best meet the needs of Latin America in the fields of trade, private investment, technology and finance.

A. The broad stages of Latin American development

Despite the disadvantages of simplification, it is helpful to distinguish three broad stages in Latin American development during the course of the present century. Such an overall view enables the present analysis, which deals with part of the second and the whole of the third of these stages, to be related to its historical background. As will be shown further on, the beginning and end of each of these stages can be only approximately defined. Moreover, the various Latin American countries passed through these stages in different ways and are even now at different points in the development process.

The first stage ends approximately with the crisis of 1930. Up to that time the bulk of Latin American production was made up of primary commodities, services and, in very rudimentary form, some manufactured goods —mainly non-durables with a few intermediate goods— based on

[1] The necessary background on the internal development and external sector of Latin America, which may not be familiar to some European readers, is taken from recent CEPAL studies, especially the reports entitled *The economic and social development and external relations of Latin America* (document E/CEPAL/1024/Rev.1, prepared for the seventeenth session of the Commission), *Long-term trends and projections of Latin American economic development* (E/CEPAL/1027), and *The economic and social development and external relations of Latin America* (document E/CEPAL/1061, prepared for the eighteenth session of the Commission).

primary commodities. The degree of protection was low and the coefficient of foreign trade in relation to the GDP was high. Only primary commodities were exported, and many consumer goods were imported, chiefly durables, capital goods for internal use and manufactured intermediate goods. Direct foreign investment in Latin America was chiefly directed to primary activities, public services, trade and finance. Many of the Latin American countries had access to private foreign markets for medium- and long-term capital, where they obtained a large part of their financial backing from abroad.

The world crisis of 1930 cut short this stage and ushered in the second. It compelled the introduction of exchange and financial regulations and protection, and what was at first little more than a policy designed to adjust the use of foreign currency to the available resources was gradually transformed into a protection policy more specifically aimed at promoting industrial development. Protection was at a very high level and, due to its successive modifications, lacked the rationality needed to link it with clear criteria aimed at industrialization. The State gave impetus to the industrialization process not only through protection and the transfer of revenue from the primary sectors to industry, but also through direct action by means of development agencies, State enterprises and various important supporting measures. A process of import substitution was carried out on the basis of the closing of each national market with a severity and intensity which varied from one country to another. Industry developed vigorously, mainly in the fields of non-durable and durable consumer goods. The world war and the performance of the international economy during the post-war period also helped to promote industrialization. Progress began to be made in the production of some intermediate goods, but the production of basic capital and intermediate goods lagged noticeably behind the development of light industry.

Exports continued to consist solely of primary commodities. The importation of consumer goods was gradually diminishing, and was confined to essential intermediate and capital goods with a high income-elasticity of demand. There was a constant trend towards external strangulation, through the slow growth of exports and the upsurge of import needs. The growth rate of exports and imports was much slower than that of the product, so that the trade coefficient systematically declined to quite low levels.

A clear trend towards nationalization of direct foreign investments made its appearance, mainly in the field of public services and some mining industries. New direct investments were small during the war and the post-war period, in the latter case because many of the developed countries were in the process of reconstruction and were absorbing their own investments instead of exporting them. In the second half of the 1950s, however, direct foreign investment began to increase, and after some initial resistance it tended to adapt itself to the import-substitution

model, confining itself mainly to industrial production for the domestic markets. There was an increase in the relative importance of external financing from official sources, coupled with a corresponding decline in recourse to the private medium- and long-term markets to which many Latin American countries had had access before the world war and the crisis.

Technological initiative in the Latin American countries was very slight and haphazard; there was no explicit relationship between scientific and technological initiative and industrialization.

As import substitution lost impetus and the countries had to tackle the production of goods of greater technical complexity, with more exacting requirements in respect of fixed capital or larger markets because of the importance of economies of scale, many Latin American countries began to enter a third stage. This began in the 1960s, when the trend towards the closing of the economies to outside trade was reversed and there began, through integration processes, a tentative opening up in the regional sphere which later spread to trade with the rest of the world.

An effort was made to introduce non-traditional exports, including manufactures. Protection was reduced and rationalized, and more realistic exchange policies were adopted. Industry laid more stress on efficiency and competitiveness. At the same time most of the countries continued to develop import substitution, though now with a more carefully defined degree of protection. Thus exports and substitution became two elements of a single industrialization policy.

Foreign private investment began to adapt itself, though with considerable resistance and delay, to the new policy of exporting manufactures first within the regional sphere and more recently to the rest of the world. Many of the Latin American countries began to lose effective access to the official concessionary and even non-concessionary sources of finance and some of them, especially the largest, resorted to private sources of financing, above all the private banks, as access to the medium- and long-term capital markets was still very rare.

Efforts began to be made in the technological field, which was still at an early stage but already significant and growing, especially in the larger countries of the region, and these efforts were increasingly related to the policies of exporting manufactures.

This third stage began in response to long-term structural development needs in the Latin American countries; during its course, however, policy was also influenced by the international economic crisis which began in 1973. As mentioned earlier, these stages did not follow a uniform pattern in all the Latin American countries, being more in evidence in the larger and some of the medium-sized countries. Some of the medium-sized and smaller countries exhausted their possibilities of substitution on the basis of their domestic markets before they had reached high coefficients of domestic supply even in traditional industries. More recently the medium-sized and relatively less developed Andean countries instituted a

sub-regional integration process in order to advance further in industrialization and substitution by overcoming the limited size of their domestic markets. As far back as the 1950s the Central American countries had initiated an integration programme in order to make progress in industrialization and import substitution, which was not feasible for such small domestic markets on an individual basis. The progress made was undeniable, and it had a favourable impact on industrialization, but it proved impossible to attain more advanced stages of production of capital and basic intermediate goods, partly because even the combined market of the five countries was still too small.[2] Some of the countries which made a later start on some of the stages of import substitution followed patterns of greater efficiency and less protection than those employed by the larger countries in earlier years.

B. Outstanding features of Latin American internal development

Within the framework of the stages described in very summary and general terms in the foregoing pages, this section highlights some features of Latin American internal development which have a special bearing on the region's relations with Europe. Section C of this chapter will give a similar account of certain features of Latin America's external relations and of the position occupied by the countries of the region in the world economy. As will be seen further on, Latin American development is characterized in various fundamental aspects by marked contrasts between the major advances made in some fields and the lags, almost total lack of progress, and even regression in others.

Reference will be made to the events of the past 25 years and more particularly to the period following the mid-1960s, which corresponds to the third of the stages mentioned above.

1. *Transformation of the production structure*

During the period 1950 to 1975 the gross domestic product of Latin America increased at an annual rate of 5.5 per cent, exceeding by almost a whole point the rate of the developed market economy countries. In per capita terms, however, the Latin American growth rate was lower than that of the developed countries, since its annual population growth rate was around 3 per cent. The growth rate of the overall product accelerated up to and including 1974, since from 5 per cent per year in the 1950s it rose to around 5.5 per cent in the 1960s and 6.3 per cent in the first half of the 1970s, but from 1975 onwards the effect of the world recession was seen in growth rates lower than the overall average for the preceding period.

[2] CEPAL, *The economic and social development and external relations of Latin America* (E/CEPAL/1024/Rev. 1), 1977, pp. 264 to 273.

Evolution varied appreciably from one country to another, but the acceleration in the growth rate was fairly general.[3] This acceleration of the product was made possible by an appreciable increase in the growth rate of investment, which rose from an average of 5.7 per cent per year between 1950 and 1965 to 8.3 per cent between 1965 and 1973. This average conceals very different situations in the individual countries, but the favourable results become clearer if the situation at the beginning of the 1950s is compared with more recent developments in terms of investment-product coefficients. Thus, this indicator rose from 19.8 per cent in 1950-1952 to 23.7 per cent for 1974-1975, with values exceeding 20 per cent in 14 of the 19 Latin American republics under study (excluding Cuba and the English-speaking Caribbean countries).

With this expansion in investment there has been a parallel dynamism in national saving, whose coefficient in relation to the product rose from 18.5 per cent in 1950-1952 to 21.3 per cent in 1974-1975.

The coefficient of domestic saving in relation to total saving has remained around 90 per cent (it dropped from 93 per cent to 91 per cent between 1950-1952 and 1974-1975), this indicator being generally higher for those countries which recorded higher growth rates of total investment. In this connexion, it should be noted that the fluctuations in external indebtedness are very wide and are linked with recurring balance-of-payments deficits.

2. *Industrialization*

The aforementioned developments were associated with an intensive industrialization process whereby the weight of manufacturing in the total product increased from 18 per cent in 1950 to 24 per cent in 1975. The countries which were of greatest economic importance at the beginning of the period (Argentina, Brazil and Mexico) recorded around 26.6 per cent of manufactures in their total gross product in 1975, while the medium-sized and small countries achieved only an average of 17.7 per cent in the same year.[4]

As already noted, the trend of industrialization was strongly towards import substitution for each domestic market until the mid-1960s, whereas from then on import substitution was combined with the export of manufactures to the regional and world markets. The more advanced countries came to produce a great variety of goods, including many engineering products of some technological complexity, and there was an improvement in quality and a reduction in costs which in many cases rivalled international levels. The share of the engineering industries in total manufacturing output has now passed 25 per cent and has grown very rapidly, since it has risen 4 points during four of the years of the present decade.

[3] *Ibid.*, pp. 33, *et seq.*

[4] *Ibid.*, pp. 158 and 159.

The differences between countries are reflected also in the different progress achieved in specific sectors.

The great progress made in industrialization has placed a group of Latin American countries in a new stage of development which can be described as that of semi-industrialized economies. This progress is counterbalanced, however, by serious deficiencies and limitations in the industrialization itself, three problems being outstanding in this respect. Firstly, this industrial development was linked with a very unequal income distribution[5] and its greatest dynamism stemmed from the demand of medium- and high-income groups which were numerically small and had a very diversified consumption structure, strongly influenced by the consumption patterns of the developed countries. This helped to create small-scale industries, while vast sectors of the population remained on the sidelines of this process, even though in recent years the middle strata in the larger countries have come to form "critical masses" of considerable size. Further comments will be made on these aspects later on.

Secondly, the developed part of industry grew up in conditions of heavy protection and low efficiency. This defect was gradually corrected, especially from the 1960s on, when the third of the stages mentioned earlier began and protection was reduced and more emphasis laid on the export of manufactures. Progress in this field is undeniable; in some cases price and quality have already reached international levels. However, in many others there still remains a considerable degree of protection which in turn calls for a high degree of promotion at the export level, as will be seen further on.

The third problem relates to the very uneven progress made in the development of the manufacturing sectors. In certain light industries producing non-durable and durable consumer goods substitution advanced too far, attempting to produce everything without specialization, on a small scale and with little competition, while at the same time the industries producing basic capital and intermediate goods were systematically retarded, so that even in the larger countries a wide margin still exists for substitution in these sectors. On the other hand, even within the capital goods industry there are notable differences: some items, such as machine tools for general use, are being efficiently produced and exported, while the production of other capital goods is only just beginning. Generally speaking, in the capital goods field there was delay in the production of those goods which correspond specifically to individual industries, constitute the nucleus of the production equipment of particular branches of industry, and thus represent the technology of the sector in question. In contrast, more progress was made in the production of capital goods for general use which are equally applicable to many industries. Preference has been given to a type of intersectoral specialization, great progress being

[5]CEPAL, *Long-term trends and projections of Latin American economic development* (E/CEPAL/1027), 1977, pp. 8 and 9.

made in light industry while the basic industries lagged behind. It has not been possible to achieve the pattern of industrial development characteristic of mature economies, where specialization occurs within each sector and this is reconciled with a diversified industrial structure. Technological progress in the manufacture of any product —textile, food, consumer durable, chemical, etc.— generally materializes in the creation of new specific equipment incorporating this advance; it is therefore no accident that Latin America is backward in the production of these capital goods, if account is taken of its poor capacity for creation or even creative adaptation of technology, together with the lack of a sufficiently defined scientific and technical policy and the scantiness of the resources assigned to these purposes.[6]

The seriousness of this last problem is emphasized by the fact that there is backwardness precisely in those industries which play a vital part in the process of technological innovation. Far from specializing in one activity from beginning to end, vertically, in order to produce not only finished goods but also some of the chief intermediate goods, and especially equipment —a situation which may apply to countries which are well up in the technology of the sector in question and are therefore not harmed by having to import other goods— the Latin American countries have in fact adopted a kind of horizontal specialization in which innovation is left entirely to the outside world. This is important, inasmuch as competition in the world market takes the form not only of lower costs and better quality but also, and especially, the development of new types of goods or the improvement of known ones. The appearance of new goods or changes in existing goods are precisely among the main causes of dynamism in demand. Thus the lack of capacity for innovation becomes an important negative factor in Latin American competitiveness abroad and prevents the region from sharing in the market of those goods which are most dynamic in terms of world demand.

3. *Agriculture and mining*

A number of points are worthy of note in relation to agriculture and mining.

In the first place, the region is endowed with abundant and varied resources. Their exploitation, however, involves investment, technology, and the solution of institutional problems. As will be appreciated further on, natural resources continue to be the basis of 85 per cent of the total exports of the region.

Over the last quarter of a century the exploitation of natural resources did not develop at the rate required by domestic needs and

[6] Juan Ayza, Gerard Fichet and Norberto González, *América Latina: Integración económica y sustitución de importaciones,* Fondo de Cultura Económica, Mexico City, 1975, p. 11.

international trade. In agriculture, the chief delaying factors were the structure of land ownership, the low and fluctuating level of internal and external prices, the failure to keep pace with the high levels of investment and technology needed for greater progress, and the policies of the developed countries, which not only affected international prices but also hindered access to those countries' markets. Poverty and bad distribution of property are still the main features of Latin American agriculture. Agrarian reform made little progress, and that only in a slow and uneven manner, and both it and the modernization of agriculture improved the lot of only a fraction of the poorer sectors: others emigrated to the cities or found complementary sources of income, whereas many made no progress at all. All in all there was no relief of social tensions, for there were still large numbers of under privileged people and furthermore the difference between their social and economic situation and that of the sectors which gained benefits became even more marked.

At the same time, there came into being a form of modern commercial agriculture, above all in the medium-sized and large farming estates, which showed sensitivity to price improvements, made capital investments and introduced improved technologies, and took advantage of State action in respect of infrastructure and extension.

In mining, the region gained ground in the external sector in a few goods such as iron ore, but lost ground in various others.

Simultaneously major changes took place in national policy. The developed countries tended rather to diversify their sources of supply, and foreign capital invested in these sectors was displaced in relative terms to other regions of the world. For their part, many of the Latin American countries carried out a series of nationalization measures.

In recent years domestic demand began to be a major factor of growth in the mining sector. Industrial development requires an increasing proportion of mineral resources, and in addition there is a clear tendency in the countries to try to export these resources with a greater degree of processing than in the past. The exploitation and processing of mining resources, however, make great demands in respect of capital and technology.

4. *Energy*

As regards energy, the consumption growth rate in Latin America in the period 1950-1975 was 7 per cent per year, which was substantially higher than that of the developed countries (4.5 per cent per year). The elasticity of modern energy consumption in relation to the product has tended to decrease in Latin America during the last few years, in conformity with the experience of the more developed countries.[7]

[7]CEPAL, *The economic and social development and external relations of Latin America,* (E/CEPAL/1024/Rev. 1), pp. 158 to 163.

The drastic increase in oil prices brought energy problems and policies, including the question of increasing production and limiting consumption growth rates, into the forefront of attention in the countries of the region. In the Latin American region as a whole oil is far and away the main source of energy. In recent years it provided around 80 per cent of modern energy needs, a figure which is the highest in the world.

As far as oil is concerned, the countries of the region fall into four groups. The first is that of the countries which have been oil exporters or at least have not had supply problems: Venezuela, Bolivia, Ecuador and Trinidad and Tobago. To these may be added Mexico, which will soon begin to export. The second group consists of the countries which are almost self-sufficient: Argentina, Colombia and Peru. The third group comprises the countries which, although they do produce oil, only manage to supply a limited part of their own needs: Chile and Brazil. The remaining countries do not produce oil or produce only a very small proportion of their own demand (e.g., Cuba, which produces only 3 per cent of its consumption).

Just as oil production is concentrated in a few countries, so are the reserves of oil and natural gas: 90 per cent of these are found in five countries, Venezuela having the largest share. Proven reserves at the beginning of 1976 represented 22 times the 1975 production for oil and 64 times for natural gas. If a more flexible concept of reserves such as that of "expanded proven reserves" is used, this volume could be increased fourfold. The proportion of reserves in relation to consumption is still more favourable in the case of coal.

5. *Technological development*

Some of the countries of the region are reaching a level of technological development which, although still limited, is already significant and is having practical effects on their industrialization and exports. The three countries which have most clearly attained this level are Argentina, Brazil and Mexico. Some others, such as Colombia and Venezuela, are following the same trend, although they are still far behind the first three.

This technological development has taken place parallel to a process marked by important contrasts. On the one hand there has been an increase in economic concentration, in the participation of foreign capital and in the assimilation of patterns of technology and demand deriving from societies which have reached a higher degree of development. Moreover, in contrast to the developed countries, whose reciprocal relations are characterized by technological interdependence, the more advanced countries of Latin America have relied on imitation and in many cases still continue in a state of dependence: they have adopted the advances of the developed countries with several years' delay and have received the designs of products and production processes from abroad, the transnational corporations being fundamental instruments in this. Two

further important facts should also be noted: first, the serious imperfections of the technology markets, where technological know-how is the property of just a few firms in each case, and secondly the limited bargaining power of the Latin American States and national firms. This has resulted in excessively high payments for technology and the acceptance of restrictive clauses such as the prohibition of exports, grant-back provisions covering adaptations of technological know-how by the recipient enterprise, restrictive practices regarding supply of parts, inputs, dies and other elements, and the fixing of differential royalties between enterprises for what is essentially the same technological "package", etc.[8] There have also been cases in which know-how was not really transferred to the purchaser, thereby keeping him in a state of dependence on the supplier and impeding the genuine absorption and diffusion of the new technology in these countries.

The increase in the participation of foreign capital in manufacturing, the growing concentration in the main productive sectors, and the deterioration or at least the lack of progress in patterns of income distribution, resulting in the continued marginalization of large sectors of the population from the consumption and labour markets, are all indications of the way in which technological modernization has developed in these countries.

Despite these problems and limitations, clear signs have appeared during recent years in the three countries mentioned of national advances which, despite their still limited scale, are growing rapidly and already showing concrete results. The amounts devoted to scientific and technological development in Argentina, Brazil and Mexico are now quite substantial.[9] Industrial advance has been accompanied by a greater capacity for the absorption, adaptation and to some degree creation of technology, and the manufactures exported by these countries contain numerous innovations in design, as do the production processes.[10] The favourable conditions displayed by these three countries in exporting their manufactures to other Latin American countries and more recently outside the region are undoubtedly connected with these advances. There have also been cases of the export of turnkey plants and of the sale of technology

[8] *Ibid.*, pp. 70, *et seq.*

[9] See CONACYT, *Política nacional de ciencia y tecnología, estrategia, lineamientos y metas,* Mexico City, 1976; Nuno Fidelino de Figuereido: *The transfer of technology in the industrial development of Brazil,* CEPAL (E/CN.12/937), February 1974; Jorge Katz, *Importación de tecnología, aprendizaje e industrialización dependiente,* Mexico City, Fondo de Cultura Económica, 1976.

[10] See C. Díaz Alejandro, *Some characteristics of recent export expansion in Latin America,* Economic Growth Centre, Yale, 1973, p. 183; R. Jenkins, *Internationalization of capital, multinational corporations and industrial exports in Latin America,* Mexico City, mimeo, 1976; CEPAL, *La exportación de manufacturas en México y la política de promoción,* Mexico City, mimeo, August 1976.

not incorporated in goods. Cases are also beginning to appear of firms in these countries establishing subsidiaries in other developing countries, especially within Latin America.

There have also been noticeable advances in the scientific infrastructure, the supply of professionals and their contacts with experts of the developed countries. In these respects, a "critical mass" of some importance is being attained. The very fact of the "brain drain", influenced also, of course, by other factors such as instability, means an increasing supply of scientists and professionals for some countries. Moreover, some significant technological externalities are being generated in the case of these three countries.

6. *Population*

The natural growth rate of the population of Latin America as a whole for the period 1970 to 1975 was 2.8 per cent per year. This was one of the highest rates in the world: three times higher than that of the developed areas and even somewhat above that of Africa. Brazil and Mexico together account for more than half of the population, followed by Colombia and Argentina which together comprise about one-sixth.[11]

Average life expectancy at birth for the period 1970 to 1975 was 61.4 years for Latin America: closer to that of the developed regions (71.1) than to Africa (41.0) and South Asia (48.5). The overall fertility rate for Latin America in the same period was 5.3; in this respect it comes nearer to other developing regions such as Africa (6.3) and South Asia (6.0) than to the developed regions (2.3). Improvement in health conditions has been very rapid in Latin America, but the decline in fertility, except in a few countries, has only relatively recently begun to take place: a fact which explains the high population growth rates in the region.

The process of urbanization has been intense in the period 1950-1975, during which time the proportion of the population living in areas of 20 000 or more inhabitants practically doubled.

For Latin America as a whole, the urban population has grown by an annual 5.1 per cent during the period 1950-1975. In the last of these years 61.1 per cent of the population were living in cities.

The economically active population[12] increased at an average annual rate of 2.5 per cent between 1950 and 1975. This rate was lower than the growth rate for the population as a whole because of the high fertility rates and the decrease in the mortality rate. The former increases the number of persons in the non-active age groups and the effect of the second is similar, since the decrease was mainly due to the drop in infant

[11] CEPAL *Long-term trends and projections of Latin American economic development* (E/CEPAL/1027), pp. 92, *et seq.*

[12] The economically active population includes both employed and unemployed persons, including those seeking work for the first time.

mortality. According to the projections, the economically active population will increase at an average rate of 3 per cent between 1975 and 2000, i.e., over that period it will increase by more than 100 per cent. The evolution of this indicator varies considerably from one country to another. Thus, while in the Dominican Republic the rate will be 3.7 per cent and in Mexico and Nicaragua 3.6 per cent, the average annual increase in Argentina and Uruguay will be only 1.1 per cent. The growth rate for Brazil will be the same as the average for the region.[13]

The urbanization process will also continue. By the end of the century three out of every four inhabitants in Latin America will be city dwellers. The economically active urban population will increase at an annual rate of 4 per cent, so that the number of young people who will join the urban labour market will increase by nearly 170 per cent.

The natural growth rate of the population began to decline slowly from the beginning of the 1960s and this trend will continue, but even so, according to the middle projection hypothesis of CELADE, the average population growth rate for the period 1975-2000 will be 2.6 per cent per year. By the end of the century the population of Latin America could reach 600 million: double that of the United States and Canada together and more than that of Europe. The relative weight of the different countries will change substantially, with special importance being assumed by the great masses of population which will accrue to Brazil and Mexico.

7. *Employment*

Emphasis must be laid on the significance of this last fact, which will impose big demands for labour absorption on the economy, and in particular on urban industry and productive services, to say nothing of the need to absorb the population currently unemployed or under-employed, to which reference will be made further on.

As regards agriculture, there has been a continuing fall in the proportion of the active population employed in this sector.[14] This situation is connected with the intensive urbanization process mentioned above. Manufacturing should have played an active role in the absorption of labour in order to give productive employment to a major part both of the natural population increase and of those leaving agriculture, but in reality, despite the growth rates in production indicated earlier and the fact that the industrial growth rate even exceeded the general average, industry made only a very limited contribution from 1950 onwards: the rate of increase in industrial employment was practically equal to that of

[13] *Source:* CELADE, *Demographic Bulletin,* various numbers.

[14] In six Latin American countries representing three-quarters of the region's active population, 35 per cent of this population is engaged in agricultural activities and the rest in industry and services.

the population, which meant that while industry more or less maintained its share in total employment, it showed itself unable to contribute to the solution of problems of unemployment and underemployment. The labour force which moved out of agricultural activities thus established itself in the services sector, which expanded far beyond the limits consonant with a sound and productive increase in these activities.

Account must also be taken of the increase in labour productivity in industry, which meant an improvement in the standard of living of those employed in it, but helped to limit the role of industry in absorbing more labour.

8. *Structural unemployment*

At present about 5.8 per cent of the economically active population are openly unemployed. But the problem of unemployment is much more serious than this figure would seem to indicate. A high proportion of the active population is only partially employed or carries out activities of very low productivity which frequently signify disguised unemployment. If an estimate is made of this type of disguised unemployment and this is added to the open unemployment already mentioned, the result is a level of virtual total unemployment close to 28 per cent of the economically active population.[15] A fifth of this amount relates to open unemployment, two-fifths to underemployment in agricultural activities and two-fifths to underemployment in urban activities.

Projecting the problem into the future, different calculations made independently[16] coincide in estimating that —on the basis of reasonable assumptions on production structure, technology, etc.— Latin America would need to reach an annual growth rate of not less than 8 per cent —much higher than that which it appears to be approaching now— in order to begin to solve the problem of unemployment and underemployment within the next 10 or 15 years. If such a rate were achieved, rural-urban migration could be slowed and agriculture would gradually absorb its own underutilized labour force, while industry, and to a lesser degree the productive services, would give employment to the increase in the active labour force and would begin to absorb the surplus urban manpower. In this way, even though the solution of the underemployment problem would take a considerable time, there would at least be a trend in that direction.

[15] PREALC (ILO), *The employment problem in Latin America: facts, outlooks and policies,* Santiago, November 1975.

[16] Raúl Prebisch, *Change and Development,* and CEPAL, *Long-term trends and projections of Latin American economic development* (E/CEPAL/1027), p. 129 *et. seq.*

9. *Skilled manpower*

The other important feature in the employment field is the sharp increase and high proportion of persons in the medium and high-level occupational strata in urban manufacturing and service activities. These strata include professionals and semi-professionals, management personnel, employers, self-employed workers and owners of commercial establishments, representing highly qualified management and technical personnel. Around 1970 these people represented about a fifth of the labour force in Argentina, Brazil, Chile, Uruguay and Venezuela, and the proportion was rising rapidly. To this category must also be added skilled employees and workers who have reached an appreciable standard of knowledge and income. This means that a high proportion of the population in Latin America is now qualified to carry out tasks which go far beyond the levels of elementary knowledge required to discharge low-grade functions in agriculture or industry. This phenomenon reflects the degree of development reached in industry and the growth of intermediate income strata, to which reference will be made further on.

10. *Income distribution and market size*

Subject to all the reservations that the inadequate data impose, it may be estimated that the poorer 50 per cent of the Latin American population, which in 1970 shared in less than 14 per cent of the total income, had in that year an annual average per capita personal income of about 150 dollars. It is estimated that about 45 per cent of the population of Latin America lives in conditions of extreme poverty.

The great majority of this group of more than 150 million people have very little capacity for purchasing manufactures. Their exceedingly low income level barely enables them to buy the most essential goods, generally of a primary nature. Some of these people who live in the towns, however, probably demand certain manufactures through imitation, albeit at the expense of consumer goods which might be considered more necessary, such as foodstuffs.

The next 40 per cent of the population, taken in ascending order of income, had in that year a personal per capita income similar to the general average, although naturally with considerable differences within this large group. As their per capita income, at least in the 1960s, increased more rapidly than the general average, the standard of living of this group fully benefited from the growth rates attained by the gross per capita product. At the present time, with a total Latin American population of about 320 million, it can be estimated that these intermediate strata constitute a mass of not less than 130 million people, with a purchasing power which makes them consumers of manufactured goods.

Mention must also be made of the 5 per cent of the population at the highest income level, with a personal per capita income of about 3 200

dollars per year in 1970. This level of income enables this group, which consists of a little more than 15 million people, to practise a form of consumption which is very diversified and exacting as regards the quality and renewal of goods. As this group is also subdivided into small national groups, its consumption habits lead to very great diversification of the production structure, with a high import content.

There are thus three principal facts to emphasize in this context. First, there is the immense number of Latin Americans (corresponding in great measure to the unemployed or underemployed) who constitute a great reserve of domestic demand but who are practically outside the consumer market and must therefore be incorporated into it. Secondly, there is a "critical mass" of people in the intermediate-income strata who already constitute an effective market for Latin American industry and whose large members —although split up into national markets which in some cases are only small— explain the eagerness of private foreign investors and the transnational corporations to enter these markets to produce for these groups. Thirdly, there are small national groups with very high, diversified and exacting consumption patterns, closely imitative of those of more developed countries; these groups, by force of demonstration, induce an increase in the consumption of the intermediate strata, which leads to the creation of industries and services producing sophisticated goods on a small scale and generates a constant pressure on the balance of payments through a tendency to import luxury goods.

C. The external sector of Latin America

The internal aspects described in the preceding section are reflected in the behaviour of the external sector and in the relations of Latin America with foreign countries, especially with Europe. This section will make an overall review of this external sector and the relations of the region with the rest of the world, their possibilities and problems. This analysis will serve as a framework for the study of Latin America's relations with Europe which will be made in succeeding chapters.

1. *Latin America's external economic policy*

As was seen above, until the middle of the 1960s the degree of protection for industry was very high and was used with little discrimination in many of the Latin American countries. In addition to nominal tariffs which sometimes exceeded 200 or 300 per cent, non-tariff prohibitions or barriers were also in force.

Of course the situation with regard to protection was not uniform for all countries. The barriers were higher for countries like Argentina, Brazil, Chile and Uruguay and were lower for Colombia, Mexico and Peru, etc. The lack of tariff rationalization, however, meant that the effective protection bore no relation to development needs and in some cases even

worked against them. Sometimes the exchange rate overvalued the national currency, encouraging imports and discouraging exports. No use was made of systematic policies to promote non-traditional exports, at least at a level sufficient to produce a genuine impact on trade diversification.

From the 1950s in the case of Central America, the beginning of the 1960s for LAFTA and the early 1970s for the Andean Group countries, policies began to be applied aimed at reducing tariff and non-tariff barriers to intrazonal trade within these integration schemes. The removal of internal barriers was extensive and thorough in the case of the Central American Common Market, but only very partial in the case of LAFTA, where after some time the process was practically abandoned. In the case of the Andean Group the elimination of internal barriers is advancing at a good pace, though it has not yet been completed.

From about the middle of the 1960s a change began to appear in Latin America's trade policies with respect to the rest of the world. Although the trend was not continuous or uniform as between countries, there was a reduction in non-tariff and tariff barriers and an attempt was made to apply them with a greater degree of rationality; many studies on effective proctection were carried out at this time in several Latin American countries. Argentina reduced its tariffs from an average of 151 per cent in 1960 to a recent level of about 40 per cent of nominal and effective protection, with a maximum of 80 per cent. Brazil reduced its tariffs from 54 per cent to 39 per cent as an average between 1966 and 1967, but in later years they were increased again and amounted to 49 per cent in 1973. The five Andean Group countries agreed on a reduction from an average 40 per cent in 1971 to 28 per cent in 1976, with a maximum 60 per cent. The time-limits for the application of this reduction have been extended, however, and there are important exceptions.[17]

Exchange policies also underwent considerable changes. Exchange rates came nearer to parity and systems of frequent small devaluations ("crawling peg") were introduced to prevent inflation from invalidating the exchange rates and thus introducing a strong element of instability into the real prices obtained by exporters. The exchange reform applied in different ways by Argentina, Brazil, Chile, Peru, Uruguay, etc., was possibly the policy change which had the greatest impact on non-traditional exports.

Moreover, from 1965 onwards export promotion systems were introduced which contained fiscal, financial and institutional elements and

[17] *Sources:* Argentina: Santiago Macario, "Protectionism and industrialization in Latin America", *Economic Bulletin for Latin America*, vol. IX, Nº 1, 1964. Brazil: IPEA, Relatorio de pesquisa Nº 22, *A política brasileira de comercio exterior y seus efeitos: 1967/1973*, Rio de Janeiro, 1974. Andean Group: Board of the Cartagena Agreement, *Antecedentes sobre el arancel externo común*, J/PE/86/Rev.1, September 1977.

used a considerable variety of instruments, including "draw-back", internal-tax exemption, export credits, exchange facilities, favourable terms for imports, etc. Throughout this period promotion institutions and instruments alike were frequently and markedly improved in order to increase their effectiveness and reduce their cost to the government. Specific aspects were modified, but a policy of strong support for non-traditional exports was maintained throughout.

It should be noted that the drastic reductions in protection which have been and are still being made constitute very important advantages granted by Latin America, especially for the developed countries from which the region buys the greater part of its imports. Since these reductions were made mainly with a view to improving the efficiency of industry and reducing trade barriers, they were effected outside the Kennedy and Tokyo (GATT) rounds. This has given rise to the curious situation that in spite of them Latin America is accused of not reciprocating the relatively minor advantages which it is demanding from the developed countries in the multilateral trade negotiations at Geneva.

Despite the marked progress made in its reform, external trade policy is still at a transitional stage in the Latin American countries. Some problems therefore still persist and foreign trade has not in every case attained a new and regular pattern of behaviour. Certain aspects may be noted by way of example.

In some sectors the level of protection is still high, making necessary an equally high level of export promotion in compensation.

In others, the desire to attain greater efficiency and competitiveness has resulted in over-hasty and excessively drastic reductions in protection which have endangered the industrial progress already made.

From a conceptual standpoint there are two aspects of export promotion (i.e., export incentives). In the first place, there is the compensation for the obstacles placed in the way of the new exports by the national economic policy itself: this includes compensation for import duties on inputs and capital goods used in the production of the exported article, and for the still persistent overvaluation of the national currency through the fixing of unrealistic exchange rates. This procedure is accepted as legitimate by the developed countries. Additionally, internal taxes which the exported goods would pay if they were destined for the domestic market may be rebated: this compensation is accepted by many developed countries but opposed by others.

In the second place, it may be necessary for promotion to go beyond these measures in order to offset the initial disadvantages experienced by a new export during the process of organizing its external distribution, making the product known in foreign markets, and getting to know those markets. This type of promotion should be acceptable within reasonable limits of level and time when applied to incipient export activities, in the same way as protection is accepted within similar limits for incipient industries.

A further type of promotion, not discussed here, is needed to offset the restrictions on access to their markets applied by developed countries, which have a serious effect on some of the new Latin American exports.[18]

In a recent CEPAL study[19] it is stated that, in the past 10 years' experience of the Latin American countries which have made most progress in the export of manufactures, the export incentives provided by the promotion systems in force have consisted mainly of compensation for the customs duties and internal taxes placed on exported goods. Any further compensation is generally lower than the tariffs in force in the same Latin American countries for imports of goods similar to those exported. Of course the situation varies from one country and sector to another.

2. *The total foreign trade of the region*

It was stated earlier that during the 1960s one stage of Latin American development ended and another began. The main features of that which ended were import substitution in each national market, high and virtually indiscriminate protection, and little emphasis on the promotion of non-traditional exports. In the new stage, import substitution was combined with the export of manufactures, there was a tendency to reduce and rationalyze protection, and high priority was given to promotion policies for non-traditional exports. The performance of trade reflects these policy changes if the year 1965 is regarded as the boundary between the two stages: a choice which, although arbitrary to some extent, corresponds roughly to the period when the changes began.

As regards imports, their rate of growth during the period 1950-1964 was 0.4 per cent for each 1 per cent of the growth of the product.[20] Between 1965 and 1975, in contrast, imports increased at an average rate 1.4 times that of the product, the relation being 2.1 for Brazil, 1.3 for Mexico and 2.0 for Ecuador.

In order to assess the significance of these facts it is useful to know what would happen in Latin America as a whole if, in the case of each and every one of the different types of goods, the import coefficient with respect to overall supply of these goods remained constant in the medium term. This situation would correspond to what might be called "neutral" import substitution in each of the sectors of economic activity, since for each one of them domestic production and imports would exactly follow the growth rate of demand, without either of them advancing or retreating in relative terms. A calculation made on the basis of this hypothetical assumption indicates that with this "neutral" substitution imports would

[18] See Chapter II, Part B.

[19] CEPAL, *The economic and social development and external relations of Latin America*, (E/CEPAL/1024/Rev.1), pp. 198 and 199.

[20] *Ibid.*, p. 185.

grow at a rate 1.3 to 1.4 times that of the product.[21] Moreover, this difference between the growth rate of imports and that of the product becomes even greater as the growth rate of the latter rises, that is, as the elasticity coefficient increases. This is due to the fact that, with the growth of the per capita product and even more with its acceleration, there is a more rapid increase in demand for goods with a high direct or indirect import content, and a slower increase in demand for goods with a larger proportion of domestic production.

Using the terms of comparison defined in the preceding paragraph, an estimate can be made of the coefficients of elasticity of imports in relation to the product during the periods 1950-1964 and 1965 onwards which were mentioned earlier. The coefficient in the first of these periods was less than one-third of the elasticity which would correspond to a "neutral" substitution in each and every sector of the economy. This can be interpreted as meaning that during this period import substitution was not only very strong, but was also possibly accompanied by actual compression of imports, i.e., by the reduction and suppression of purchases abroad, without an equivalent accompanying increase in the national production of the same goods; indeed, the experience of what occurred in many Latin American countries during this period does suggest that substitution was accompanied by such compression. As regards the period from 1965 onwards, the elasticity of imports in relation to the product which actually took place is practically the same as that corresponding to "neutral" substitution. Does this mean that the coefficient of imported supply remained constant in each and every one of the productive sectors of Latin America? Experience indicates that it did not. In some sectors of economic activity the coefficient of imported supply continued to decline, that is to say, import substitution went ahead. In other sectors, the coefficient of imported supply increased as a result of the greater opening up of the economy (through reduction and rationalization of protection), which eliminated the compression of certain imports and caused national production to grow at a lower rate than the demand. Thus, the substitution which occurred in some sectors was more or less offset by the liberation of imports in others.[22]

At all events, protection is still high in many Latin American countries and this is reflected in the performance of their trade. If these countries had a degree of protection and competitiveness in their industrial sector similar to that of the OECD countries, the present size of their domestic markets would compel them to carry on more intensive external trade, i.e., they would have higher import coefficients in relation to

[21] Juan Ayza, G. Fichet and N. González, *América Latina: integración económica y sustitución de importaciones,* Mexico City, Fondo de Cultura Económica, 1975, pp. 66 *et seq.*

[22] *Ibid.*

demand than they have at present.[23] For example, in 1972 the size of Brazil's market for transport equipment was close to that of Italy in 1969, but its coefficient of imported supply in relation to demand was 11 per cent compared with 25 per cent for the European country. In that same year the size of the market for chemical products in Argentina and Spain was very similar, but the former's import coefficient was 9 per cent and the latter's 17 per cent. In Mexico, domestic demand for non-electrical machinery was similar to that of the Netherlands in 1969, but while Mexico's import coefficient was 52 per cent, that of the Netherlands was 68 per cent. A similar situation is found in most of the sectors, with import coefficients lower in the Latin American countries than in those of the OECD because of the higher level of protection.

About the middle of the 1960s there was also a change in the performance of regional exports. During the period 1950-1965 their purchasing power grew by only 2 per cent per year, because although they increased in volume by 4.3 per cent per year, there was a downturn in their relative prices. From 1965 onwards, however, their purchasing power grew more rapidly. Between 1965 and 1973 it rose by 6.6 per cent per year through an accelerated increase in volume (5.0 per cent per year) in comparison with the preceding period, accompanied by an improvement in prices; indeed, 1973 was the year in which the terms of trade were the best for many years for Latin America, as a result of price rises for the majority of the basic products exported by these countries, despite the fact that the relative price index was still markedly below that recorded for the period 1950-1954. In the following three years, however, from a general export standpoint, relative prices deteriorated for nearly all the non-oil-exporting countries, and the falls in 1974 and 1975 were not offset by the improvement in 1976, which was partly due to a lower rate of inflation in industrial imports and also to the substantial increases in coffee prices.

Of course these global movements conceal different situations for individual basic commodities and countries. As regards the oil-exporting countries, their prices, which had deteriorated previously, began to improve and reached their peak in comparison with imports in 1974.

These stages are reflected in the structure of exports, as may be seen from table 1.

This table clearly shows that between 1955 and 1965 the proportion of raw materials and of fuels in the export total varied very little, and that of manufactures increased only very slightly from 1960 onwards. In 1965 66.0 per cent of exports still consisted of raw materials and 28.6 per cent of fuels, while manufactures accounted for only 5.4 per cent of the total. From that year onward, however —i.e., in the second of the stages indicated— there was an important change in the situation. In 1965-1975 the relative proportion of raw materials fell from 66.0 per cent to 47.0 per cent, that of fuels rose from 28.6 to 39.4 per cent (because of the increase

[23] *Ibid.*

Table 1

PERCENTAGE COMPOSITION OF EXPORTS OF DEVELOPING LATIN AMERICAN COUNTRIES, ON THE BASIS OF CURRENT PRICES

	1965	*1960*	*1965*	*1970*	*1975*	*Average annual growth rate 1955-1975 (percentages)*
Raw materials	66.8	64.7	66.0	64.8	47.0	6.6
Fuels	30.1	32.0	28.6	24.0	39.4	9.9
Manufactures	3.1	3.3	5.4	9.1	13.6	16.8
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*8.6*

Source: UNCTAD, *Yearbook of International Trade and Development Statistics,* and United Nations, *Monthly Bulletin of Statistics.*

in petroleum prices), and that of manufactures increased from 5.4 per cent to 13.6 per cent.

In other words, exports of manufactures grew very rapidly: rising from a relatively unimportant level in the first half of the 1960s they have now come to represent somewhat more than one-eighth of the total value of all the exports of the region. Since they started at such a low level, the very rapid annual growth rates which occurred during this stage did not have a more pronounced effect on the growth of total exports, but if they maintain a similar dynamism in the future their influence will soon be marked and will come to be decisive in the growth of total exports, up to the point where they will represent a significant part of the whole.

The situation naturally differs from one country to another, and there is a similar difference in respect of sales to the rest of the world compared with intra-zonal sales. In the case of the largest countries the proportion of manufactures in total exports to all destinations is quite high: Brazil (24.5 per cent), Argentina (24.2 per cent), Mexico (36.5 per cent) and Colombia (23.1 per cent) in 1975.[24] The smaller countries, and especially the less developed ones, generally have a lower proportion of manufactures in their exports: Bolivia (0.6 per cent), Chile (8.1 per cent), Honduras (11.4 per cent), Peru (3.8 per cent), the Dominican Republic (1.8 per cent) and Venezuela (1.0 per cent).

These manufactures comprise goods of various classes. In the first place, there are those coming from labour and natural resource-intensive traditional sectors (leather articles including footwear, textiles, processed foods, and articles made of wood). Secondly, there are manufactured mineral goods, with a high density of natural resources and capital, and a growing industrial added value. Thirdly, there are the chemical and metal-working industries, which are acquiring increasing weight in export sales,

[24] CEPAL, official data.

both to the Latin American market and also outside the region (the electronic and motor-vehicle industries, consumer durables and capital goods).

These exports differ greatly from country to country in their sectoral composition. In the exports of manufactures from Argentina and Brazil the metal-working industries (CUCI 7) accounted for high percentages (55.3 per cent and 40.9 per cent, respectively) in 1975, chief among the exports being non-electrical machinery, transport equipment and basic metal products. In Mexico, metal products and machinery represented 26.7 per cent of total exports in 1974, the most important items being non- electrical machinery and, to a lesser degree, chemical products. In Colombia the proportion of metal products and machinery is much lower, the chief exports of this country being intermediate industrial products, especially chemicals. In the exports of manufactures of the medium-sized countries (Peru, Chile and Uruguay), intermediate industrial goods such as wood pulp, paper and traditional chemical products predominate, while in the smaller countries traditional manufactures reach very high proportions in comparison with other manufactured exports.

The metal-working industries employ more highly skilled and better-paid labour; their products have a high unit value and demand for them has a higher income elasticity. These goods are very suitable for export and also have promising sales prospects in external markets (as recent experience shows), taking into account the present stage of Latin American development.

In intra-regional trade exports of manufactures, which represented only 12.6 per cent of the total in 1960, grew at a very high rate, reaching 38.3 per cent of the total in 1975; the three countries most advanced in industry —Argentina, Brazil and Mexico— are those which have derived most benefit from this trend, although in the other countries too the volume of manufactures in their exports to the region is proportionately higher than it is to the rest of the world.

It must be emphasized, however, that there is little difference between intra-regional and extra-regional protection, except in cases of internal trade within Central America and the Andean Group, although it is true that there are other elements which favour such trade.

Despite these advances, agricultural and mining products and fuels still form the greater part of Latin American exports. The high proportion of these goods in external sales, together with their loss of importance in world trade, explain in part the declining participation of Latin America in world trade during the past 25 years. Thus, taking world trade as a whole (including all goods and all countries), primary products practically kept pace with the evolution of total trade in the first half of the century but in the period after the Second World War the situation changed profoundly. Manufactures increased very rapidly —by an average of 12.7 per cent per year— and increased their relative weight from 43.7 per cent of the total in 1950 to 60.4 per cent in 1975, while fuels increased from 9.9 per cent to 18.6 per cent, chiefly because of price rises. In contrast, the share of raw

materials and foodstuffs dropped from 46.4 per cent to 19.0 per cent. These trends were persistent throughout the past 25 years.

The deficiencies in the Latin American production structure have produced an unbalanced external trade structure, which has had negative effects on the expansion of exports and the equilibrium of the trade balance. This imbalance is due to a relatively high weight of primary commodities and a low weight of manufactures in exports, and the reverse situation in imports. In order to appreciate this fact it is helpful to compare the case of Latin America with that of some developed countries, drawing a distinction between primary goods, traditional industries and industries with more advanced technology. This comparison is made in table 2.

Table 2

RELATIONS BETWEEN EXPORTS AND IMPORTS IN SOME STRATEGIC SECTORS

	Volume of exports in comparison with imports for each country or area: 1972-1974 averages			
	United States	*European Economic Community (six countries)*	*Japan*	*Latin America*[a]
Primary commodities	1.3	0.7	0.2	2.4
Foodstuffs	1.7	0.7	0.1	2.9
Agricultural raw materials	1.2	0.9	0.2	1.5
Minerals	0.6	0.5	0.2	1.9
Fuels	0.2	0.2	0.01	1.5
Manufactures	1.1	1.5	4.6	0.2
Non-electrical machinery	2.4	1.8	2.9	0.1
Electrical machinery	1.2	1.5	7.1	0.2
Transport equipment	1.0	2.2	17.4	0.2
Chemical products	2.2	1.5	1.7	0.2
Other manufactures	0.6	1.2	4.1	0.3

Source: Prepared on the basis of data from the United Nations *Monthly Bulletin of Statistics* and *Yearbook of International Trade Statistics.*

[a]20 republics, excluding Cuba, Paraguay, the Dominican Republic and Panama.

As regards technologically advanced manufactures, it can be seen from this table that the mature developed economies export and import goods in all sectors, and the volume of their exports is equal to or greater than that of their imports. For example, in the case of non-electrical machinery the exports of the United States are 2.4 times as great as its imports and those of the EEC are 1.8 times as great as the amount im-

ported by the Community. This reflects the fact that in these industrialized economies there is specialization in each of the manufacturing sectors, so that in the sectors of greatest technological importance and dynamism in world trade, the exports of each country or area are equal to or greater than their imports for the same type of goods. In Latin America, in contrast, exports of non-electrical machinery are scarcely one-tenth of the region's imports. This same contrast between Latin America and the developed economies is shown for other sectors in table 2.

In the case of traditional industries the situation is very different. In these activities, for which less advanced technology is required and world demand grows more slowly, Latin American exports exceed the region's imports in volume, whereas in the developed economies exports and imports are equal.

In the case of primary commodities, the availability of natural resources is a major determinant of production potential in each country or region. Latin America, which is relatively thinly populated and has vast natural resources, is favourably situated to produce and export. Some of these goods are still exported in primary form without processing. Among the developed countries, however, there are great differences as regards these same resources. The United States, which is highly developed in the advanced industries mentioned above, is also endowed with both agricultural and mineral natural resources and is therefore a major exporter of certain goods, while it produces a high proportion of its domestic demand for others. In respect of other primary goods, such as fuels, its dependence on imports is critical. In contrast with the United States, Japan has very few natural resources, so that its dependence on other countries for its supply of agricultural and mineral products and fuels is very great and its exports of these products are only a small fraction of its imports (see table 2). The European Economic Community comes between the United States and Japan in this respect: its exports of agricultural products are not very different in volume from its imports, partly because of the protection and import substitution brought about by its Common Agricultural Policy; in the case of minerals its exports of refined products are appreciable, although less than its imports, while in fuels its comparative lack of natural resources makes it severely dependent on the outside world. These averages for the EEC, however, naturally fail to reflect the sometimes considerable differences which exist between countries and specific goods.

In Latin America the relationship between exports and imports is more prejudicial to those sectors whose international trade grows more rapidly, which at the same time contain a higher proportion of better-qualified, better-organized and therefore better-paid labour, and whose profit margins are generally higher because of their speedier pace of technological innovation. In contrast the relationship between exports and imports is more favourable to the sectors of the region where demand grows slowly, where there is little technological innovation, and where

there is a high content of unskilled, badly-organized, and therefore relatively badly-paid labour. This kind of asymmetrical structure of trade does not seem to be much in keeping with the considerable development in Latin America of the managerial and professional strata and skilled workers, referred to earlier. The vigorous industrial development and the important advances which have taken place in the improvement of manpower skills have not yet been reflected in a parallel change in the structure of Latin American external trade.

3. *The balance of payments and external finance*

In this connexion it is necessary to distinguish between oil-exporting countries (Bolivia, Ecuador, Trinidad and Tobago and Venezuela) and non-oil-exporting countries. Outstanding among the former is Venezuela, which has had extremely high surpluses, although the very rapid growth of imports is leading once again to a trade deficit. Mexico, too, will soon qualify for inclusion in this first group.

For the non-oil-exporting countries of the region, the average balance-of-payments current account deficit rose from a little over 1 500 million dollars per year in the period 1965-1970 (less than 15 per cent of the exports of goods and services) to a little over 4 000 million dollars per year in the period 1971-1973 (22 per cent of exports), while in 1974-1976, it jumped to almost 14 000 million (45 per cent of exports). According to preliminary calculations this deficit was reduced in 1977, although it still remained high both in absolute and relative terms.

This means that external strangulation has reappeared as a major limiting element of Latin American growth, and the prospects are that —unless the improvement first glimpsed in 1977 materializes— this strangulation will continue, especially in view of the uncertainty about the future evolution of the world economy and the relatively lower growth rate expected in the developed economies, at least for several years to come. World-wide inflation and the severe fluctuations in the prices of basic commodities are major factors in this situation of uncertainty.

The deficits incurred by the Latin American countries in recent years as a complement to their internal measures reflected their attempts to defend their growth rates —as far as was reasonable— against sharper falls; these deficits also played a part in avoiding a sharper decline in the growth rate of imports, which are composed for the most part of capital and intermediate goods acquired from developed countries. In this way Latin America helped to maintain the trade and economy of the world at a higher level than would otherwise have been the case.

In some countries such as Brazil and Mexico there have been recent public discussions on the influence which can be attributed to foreign investment operations, and especially the activities of the transnational corporations, as contributory causes of this deficit.

The deficit countries also changed their sources of external finance.

Before the Second World War, as noted earlier, many Latin American countries had access to medium- and long-term private capital markets. After the world war, as the reconstruction of the European countries proceeded and the reserves accumulated by Latin America during the conflict were used up, the flows of external finance were renewed. From the late 1950s until the early 1970s, however, public international and national sources of finance predominated. In recent years, since the increase in oil prices, these public sources lost importance as a source of funds for Latin America. There was a decline in the proportion of international financial flows controlled by these sources, and moreover the criteria they applied in the distribution of their funds gave precedence to the countries with the lowest income levels, leaving the greater part of Latin America on the sidelines, except for countries like El Salvador, Haiti and Honduras. There was a sharp increase, on the other hand, in the proportion of external finance for Latin America deriving from private sources, especially private banks. Some countries in the region, especially the larger ones, tried to gain access to the medium- and long-term private markets through the floating of bonds, but although positive results were achieved in this way, only a small proportion of what is needed comes from this source as yet, showing the existence of problems of access.

Exclusion from public concessionary finance affected not only the larger countries but also many medium-sized and small countries, and in addition there was a widespread reduction of access to non-concessionary public funds. The simplified criteria employed by the public agencies recognize only the relatively less developed countries (which are very few in Latin America: Haiti, Honduras and El Salvador, according to the criteria applied in various cases), and they tend to apply uniform treatment to all the rest, whether they be large, medium-sized or small countries. It should be noted that many of the medium-sized and small countries of the region have acute balance-of-payments problems, relatively primitive production and export structures, little or no access to the capital markets, and severe domestic problems of mass unemployment and poverty.

The guaranteed public debt of the non-oil-exporting countries of the region rose from 8 700 million dollars in 1965 to 49 000 million in 1976, and non-guaranteed credits from private banks reached 31 000 million in 1976. These figures do not include indebtedness to the International Monetary Fund or non-guaranteed supplier credits.

Of the total indebtedness of 81 000 million dollars in 1976 (including IMF credits), guaranteed and non-guaranteed credits from private banking sources came to somewhat more than two-thirds: i.e., twice as much as the already relatively important proportion of one-third or more which they represented ten years earlier. Quite apart from its effects as regards time-limits and servicing of the debt, this can have other consequences which are still difficult to appreciate fully.

Thus, the amount of the debt has increased sharply in both absolute and relative terms. Additionally, there has been an increase in the ratio of servicing charges to exports. The debt problem is therefore one of those which requires most attention in Latin America. What is more, the fact that the ratio of debt servicing charges to exports has not attained excessively high levels is due in part to the rapid growth in the field of exports, so that in the future evolution of the problem the interdependence between finance and trade will have to be taken into account.

There was a parallel change in the time-limits and costs of the debt. Credits to developing countries for periods of over 7 years announced in the European currency market dropped from 50 per cent of the total borrowed in 1974 to 5 per cent in 1976, while credits of over 10 years granted by this same market disappeared completely. The surcharge on the basic reference rates rose from 1.25 per cent in 1973 to 1.78 per cent at the beginning of 1976.

Among the non-oil-exporting countries the situation as regards deficit and financing varies from one to another. Argentina, Brazil and Mexico, through their very size, represent a very high proportion of the total deficit; but the problem is also serious for many medium-sized and small countries when related to the volume of their exports. The larger and some of the medium-sized countries have easier access to private capital markets —although in no case is this access satisfactory— and these same countries also obtain better terms from the international banking system.

II. LATIN AMERICAN TRADE WITH EUROPE

A. Global trends

1. *Evolution of Latin America's share in world trade*

Since the Second World War the developed market-economy countries and the European countries with centrally planned economies have grown vigorously not only as regards their production but also their trade, financial and investment relations. Thus, the developed countries increased their share in world exports from 60.2 per cent to 64.5 per cent between 1950 and 1977 (table 3). This increment, which is part of a process of changes in the shares of different areas in world trade, has been achieved through an intensification of trade between the various groups and also within each individual group (EEC, EFTA, United States, Canada, Japan and the European socialist countries). Factors that have contributed strongly to this have been the integration processes, the reduction or elimination of tariff and non-tariff barriers for manufactured products, and the operations of transnational corporations. The developing countries, for their part, have greatly diminished their share of world trade, in both exports and imports, with the proportion of their exports in the world total

Table 3

EVOLUTION OF WORLD TRADE, BY PRINCIPAL AREAS

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

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

dropping from 31.7 to 25.8 per cent during the same period and that of their imports falling from 27.1 to 22.7 per cent (table 3). These tendencies are also reflected by the changes in the structure of world trade, where manufactures now represent nearly two-thirds of total trade compared with less than half in 1950, while food and raw materials have lost importance over this period (see annex, table II).

Within this group, however, there are marked differences between the various developing regions. The oil-exporting countries improved their position doubling their share in world exports between those years from 7.3 to 13.2 per cent, while the share of the non-oil-exporting countries fell from 24.4 to 12.2 per cent. A similar trend is noted in the case of imports, although to a slightly lesser degree, as can be seen from the table. Within this group, Latin America is the region that has lost most ground: its share dropped from 10.4 to 4.4 per cent in the case of exports and from 9.0 to 4.9 per cent in the case of imports between 1950 and 1977 although the evolution of trade with different areas in not homogeneous. The rest of the non-oil-exporting developing countries (with the exception of Africa during the last two years) all show higher rates of increase in trade than Latin America, albeit lower than those recorded by the developed regions (table 3). Within Latin America itself there are also marked differences in the growth of exports at current prices. Particularly noteworthy are the countries of the Caribbean (with an annual growth rate of 12.0 per cent) Brazil (9.4 per cent) and the Central American Common Market (9.3 per cent), while Argentina's exports grew only slowly (6.0 per cent) between those years.[25]

2. *Structure of Latin America's trade with major areas*

Latin America's trade with developed market-economy countries is characterized by a notable disequilibrium in its structure, as can be seen from a comparison between the exports and imports of each group of goods. This has already been referred to in the section on Latin America's total external trade, which showed what happens in the case of some strategic goods such as those produced by the metal manufactures and machinery industries and the chemical industry. This chapter deals more specifically with trade with the developed market-economy countries and the centrally-planned economies, distinguishing the main types of basic commodities and manufactures as a whole. As regards the first of these two groups of countries, in 1977 trade in fuels reflected a favourable balance for the region of 13 000 million dollars, representing the most important group. The importance of this group is, however, severely limited by the fact that almost all the exports come from one country: Venezuela. The group ranking second in importance is composed of agricultural commodities, which also show a positive balance for Latin

[25] On the basis of official data for the period 1955-1975.

America, i.e., 12 900 million dollars. Minerals also reflect a positive balance. As regards manufactures, there was a considerable deficit (30 000 million dollars) in 1977 which was almost seven times the value of the region's exports of manufactures to the above-mentioned countries.

The composition of trade with the European countries with centrally planned economies was similar, in that there was a trade surplus of 3 600 million dollars in agricultural commodities and of 200 million in mining products, while in the case of manufactures there was a trade deficit of 1 500 million dollars. Fuel also showed a negative balance, but only a small one so that total trade reflected a surplus (see annex, table III).

3. *Latin America's decreasing share of world trade in some basic commodities*

A further breakdown of raw materials exports provides a clearer picture of the commodities in which Latin America has lost ground in world markets.

Table 4

LATIN AMERICA'S SHARE IN WORLD EXPORTS, BY SITC SECTIONS

(Percentages)

	1955	*1960*	*1965*	*1970*	*1975*	*1976*
Food	20.5	17.5	16.1	15.6	14.5	15.6
Agricultural raw materials	8.8	7.0	7.9	6.1	5.4	4.8
Minerals	14.5	14.6	16.7	15.7	13.2	13.0
Non-ferrous metals	14.4	11.8	11.1	17.8	7.0	11.2

Food includes, SITC sections 0, 1, 22, 4.
Agricultural raw materials include, SITC section 2 (excluding division 22, 27, 28).
Minerals include, SITC divisions 27, 28.
Non-ferrous metals include, SITC division 68.

Source: UNCTAD, *Yearbook of International Trade and Development Statistics, 1976;* United Nations, *Monthly Bulletin of Statistics,* various issues.

The developed countries drastically increased their mutual trade in foodstuffs, owing to the sharp rise in their production linked among other factors with the improvement of technology and internally implemented support policies. In the case of these items, Latin America lost slightly less ground than the developing world as a whole, as is shown in table 5.

As regards minerals, where the developing world roughly maintained its share in the world market, Latin America lost some slight ground with respect to this group of countries during recent years.

Table 5

EVOLUTION OF RELATIVE SHARES IN EXPORTS OF COMMODITIES

(Index 1955 = 100)

	Latin America			*Developing countries*			*Developed countries*		
	1970	*1975*	*1976*	*1970*	*1975*	*1976*	*1970*	*1975*	*1976*
Food	76	71	76	75	67	72	121	130	126
Agricultural raw materials	68	55	54	75	65	67	118	124	124
Minerals	108	97	90	93	99	93	110	103	108
Non-ferrous metals	78	49	77	85	65	72	107	115	130

In non-ferrous metals, on the other hand, Latin America's loss of ground was substantial, even within the group of developing countries, which in their turn saw their share in world trade drastically reduced in favour of the developed countries.

Equally severe was Latin America's fall in agricultural raw materials, where Latin America also lost ground within the group of developing countries, while the developed countries improved their share.[26]

All in all, as may be seen from table 5, the developed countries increased their share of world trade in all four sectors.

4. *Evolution of the shares of different areas in European imports*

Three big economic groups were formed in Europe during the period under review, namely, the EEC, EFTA and CMEA, and although different in their scope and approach to integration their common aim was to promote trade among the countries forming part of each group. This trade grew rapidly; the proportion of imports by these three groups with respect to Europe's total imports rose from 33.2 per cent in 1955 to 44.7 per cent in 1977. The fastest growth was reflected by the mutual trade of the countries that subsequently formed the European Economic Community, which in 1955 represented one-third of its total imports but in 1973 a little over half (52.6 per cent). With the entry of the three new members —the United Kingdom, Denmark and Ireland— intra-EEC trade covered 54 per cent of total imports that year, although in 1977 its share dropped slightly to 51.9 per cent of the total (see annex, table IV).

The European countries with centrally planned economies are still the group registering the largest proportion of mutual trade, although that

[26]For a more specific discussion of basic commodities, see the relevant section of this chapter.

proportion has gradually declined in the last few years, since their intra-area imports dropped from 64.5 per cent of their total imports in 1955 to 56.8 per cent in 1977. This declining trend, particularly in the 1970s, is connected both with a greater opening up to other countries and with the lifting of many barriers imposed by other countries on trade with this group. EFTA's intra-area trade also reflects a vigorous growth, although its proportion in relation to the other two areas is much lower: intra-area imports in 1977 represented 14.8 per cent of the total imports of its present members.

The elimination of internal barriers, together with continued protection with respect to countries outside the area, increased intra-area trade but affected the rate of growth of purchases from the rest of the world. As regards trade outside the area, the various world regions were differently affected, however. On the whole, the developed market-economy countries improved or maintained their relative position in these countries' extra-area imports. This fact is related to the faster growth of world trade in manufactures mainly among developed countries, a trend that was encouraged by the tariff reductions agreed on within the context of GATT. This trend is most striking in the case of EFTA (as originally established), in whose total extra-area imports the developed countries' share rose from 66.3 to 75.2 per cent between 1955 and 1973, while the developing countries' share fell from 28.7 to 17.9 per cent between those years.

In the European Economic Community, some loss of ground is also noted on the part of the developing countries, whose share in extra-Community imports dropped from 39.8 per cent in 1955 to 34.7 per cent in 1973. From 1973 onwards, the developing countries' position changed owing to the sharp rise in oil prices which was reflected in a bigger share for oil-exporting countries, thus explaining the developing countries' increased share since that time (in 1977 they accounted for 44.6 per cent of the nine members' imports from outside the area).

The case of the European countries with centrally planned economies is a little different, partly because they comprise an oil-exporting area. In their trade, between 1955 and 1965 the share of the developed market-economy countries and that of the developing countries both increased, mainly at the expense of other countries with centrally planned economies, whose share fell from 37.6 per cent in 1955 to 9.3 per cent in 1965. Thenceforward the developing countries' share began to decline, and in 1977 it represented 24.4 per cent of extra-area imports (compared with 16.1 per cent in 1955 and 28.6 per cent in 1965), while the developed countries continued to increase their share (from 46.3 per cent in 1955 to 72.0 per cent in 1977) (see annex, table IV). The share of other countries with centrally planned economies pursued its downward trend, representing barely 3.6 per cent in 1977.

The evolution of the share of the developing countries as a whole did not affect all the developing areas in the same way, since the oil-exporting

countries, for example, improved their share in Europe's extra-regional trade; if petroleum imports are excluded, however, a clearer view is obtained of the significance of this trend and the effects on each area of developing countries, and this will be done in the next section.

5. *Evolution of Europe's imports from developing countries*

As noted earlier, even if intra-area trade in the European integration schemes, as well as fuels, are excluded, the developing countries have still lost ground in Europe's total imports from the rest of the world. Besides the decline in the proportion of the whole group of developing countries in this extra-area trade, the share of each of the principal areas composing it –Latin America, South and South-East Asia, Africa and the Middle East[27] – has diminished too. The decline has been different in each case, however, as is clear if the share of each of the four-regions in Europe's total imports from developing countries is examined. Such examination reveals that South and South-East Asia and the Middle East have gained ground in the Third World as a whole and that the same is true of Latin America, without prejudice to the fact that all these areas have nevertheless lost ground among Europe's extra-area supplies in favour of developed countries, as noted previously. Africa, for its part, has lost importance even within the developing world. Of Europe's total imports from developing countries, Latin America's share rose from 31.5 per cent in 1955 to 37.7 per cent in 1976, thus becoming the main supplier region in the Third World; the share of South and South-East Asia increased from 24.7 to 31.5 per cent over the same period, making this region second in importance as a supplier. Africa's share, in contrast, fell from 40.1 per cent of these imports in 1955 to 24.2 per cent in 1976; while the Middle East, despite the fact that the exclusion of petroleum brings down its percentage, increased its share from 3.9 to 5.3 per cent (see annex, table V).

These trends are also observable at the level of each of the major European groups, although with some important differences between them. From Latin America's point of view, the European Economic Community is the most unfavourable, since the region's share diminished as from 1970, while that of South and South-East Asia increased, and this process was accentuated with the entry of the new members to the Community in 1973 (see annex, table V). Africa showed a declining trend throughout the period. Furthermore, Latin America's share in EEC inputs in 1976, at 31.4 per cent, unlike the situation in other areas of Europe, was not very much higher than that of Africa (26.4 per cent) and was lower than that of South and South-East Asia (35.5 per cent).

[27]It should be remembered that fuels are excluded throughout this analysis. If they were included, the developing world and particularly the Middle East would increase their share in Europe's extra-area imports.

In the case of the European countries with centrally planned economies, Latin America's predominance as a supplier in comparison with other developing regions is quite clear and has increased; the purchases made by these countries from Latin America rose as a proportion of total purchases from all the developing countries from 42.4 per cent in 1955 to 52,9 per cent in 1976, although there was a decline followed by a recovery in the last few years. It should be noted, however, that purchases from Latin America by the socialist countries of Eastern Europe have traditionally been concentrated in a very few countries. In recent years, Argentina, Brazil and Peru have supplied a little over 80 per cent of Latin America's exports to that group of countries, followed by Colombia and Mexico with considerably smaller figures. A large part of the trade between these two areas has been carried out under bilateral compensation agreements, but there has been a recent tendency to replace this type of agreement by others which stipulate payment in convertible currency, and moreover, the strictly commercial agreements are gradually being replaced by more comprehensive agreements that include various systems of economic co-operation.

In the case of EFTA, too, the developing world lost some of its importance, although in unequal proportions. Latin America is the most important supplier to this market among all the developing regions and its share in the total rose from 28.9 per cent in 1955 to 32.7 per cent in 1973. With the withdrawal from EFTA of Denmark, and particularly the United Kingdom, Latin America acquired even more relative importance, since its share went up to 43.7 per cent in 1976, so that it became the primary supplier, followed by South and South-East Asia and finally by Africa, which has lost some of its share.

6. *Latin America's exports to Europe*

Let us now consider the question from a different angle: the evolution of Latin America's exports to Europe within Latin America's total sales abroad. Taking Latin America's exports as a whole, Europe has lost some slight importance as a market for the region, since its purchases have grown at a lower rate than those of other parts of the world.

The situation of the various European groups differs greatly, however. As will be seen from table 6, the European countries with centrally planned economies increased their proportion of total Latin American exports from 1.9 per cent in 1955 to 7.4 per cent in 1977. Exports to the EEC practically maintained their share of the total (19.2 per cent in 1977), thus preserving the EEC's position as the second most important market for the region after the United States, while EFTA's share shows a declining trend and its relative importance until 1975 was less than that of the Western European countries not included in either of these groups, which increased their importance up to that year although it declined slightly later (2.9 per cent in 1977).

Table 6

LATIN AMERICA'S TRADE WITH THE MAJOR DEVELOPED AREAS

		Exports		*Imports*		*Balance*	
		Billions of US dollars	*Percentage of total Latin American exports*	*Billions of US dollars*	*Percentage of total Latin American imports*	*Billions of US dollars*	*Percentage of Latin American export balance*[a]
EEC	1955[b]	1.4	15.1	1.4	16.0	0.0	+2.1
	1965[b]	2.5	19.2	2.0	16.7	+0.5	+19.3
	1970[b]	3.4	19.7	3.3	17.8	+0.2	+3.2
	1973[b]	5.3	17.9	5.4	17.2	-0.1	-2.5
	1973[c]	6.6	22.5	6.8	21.6	-0.2	-2.7
	1975[c]	8.2	16.9	11.2	19.7	-3.0	-36.5
	1976[c]	9.8	18.6	10.4	17.0	-0.6	-5.8
	1977	11.2	19.2	13.3	18.2	-0.7	-6.7
EFTA	1955[d]	1.2	13.0	1.0	11.0	+0.2	+21.3
	1965[d]	1.5	11.4	1.3	10.9	+0.2	+10.9
	1970[d]	1.6	9.2	1.8	9.9	-0.2	-15.0
	1973[d]	2.4	8.1	2.7	8.4	-0.3	-10.9
	1973[e]	0.9	3.1	1.3	4.1	-0.4	-40.2
	1975[e]	1.2	2.5	2.0	3.6	-0.8	-69.7
	1976[e]	1.7	3.2	2.0	3.3	-0.3	-18.2
	1977	1.9	3.1	2.1	3.1	-0.2	-11.1
Rest of Western Europe	1955	0.2	2.4	0.1	1.4	+0.1	+47.8
	1965	0.4	2.9	0.2	1.7	+0.2	+47.4
	1970	0.6	3.2	0.4	1.9	+0.2	+36.4
	1975	1.6	3.1	0.9	1.5	+0.7	+45.2
	1976	1.5	2.9	0.9	1.5	+0.6	+39.1
	1977	1.8	2.9	1.2	1.7	+0.6	+34.8
European countries with centrally planned economies	1975	0.2	1.9	0.1	1.6	+0.1	+20.0
	1965	0.7	5.6	0.6	5.0	+0.1	+17.8
	1970	1.0	5.7	0.9	5.0	+0.1	+6.1
	1975	3.9	7.9	2.5	4.5	+1.3	+34.0
	1976	3.8	7.2	2.8	4.6	+1.0	26.2
	1977	4.4	7.4	3.4	5.0	+1.0	+23.9
United States	1955	3.8	40.3	3.5	40.2	+0.3	+7.6
	1965	4.2	32.1	4.2	35.1	-0.0	-2.2
	1970	5.6	32.2	6.5	34.7	-0.9	-15.3
	1975	17.1	35.2	16.9	29.8	+0.2	+1.0
	1976	18.9	35.9	16.8	27.5	+2.1	+11.4
	1977	21.5	35.7	17.6	26.0	+3.9	+18.1

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

[a]The percentages are calculated on the basis of a larger number of digits. [b]Includes the six original members. [c]Includes the nine members. [d]Includes the original members of EFTA. [e]EFTA, excluding the United Kingdom and Denmark.

EFTA's decreased importance as a market for Latin America[28] was, to a great extent, determined by the United Kingdom which was the main market for Latin American goods in that sub-region but which considerably reduced its purchases of Latin American exports from 9.1 per cent in 1955 to 4.3 per cent in 1975, with an annual growth rate of only 4.0 per cent.

7. *Trade trends in the major countries*

In addition to the changes due to the behaviour of the United Kingdom, significant differences are also discernible when the countries of the European Economic Community and of Latin America[29] are considered separately. The rates of growth of Latin American exports to various countries show that Italy displayed the most vigorous growth rate as a purchaser (an annual average rate of 9.4 per cent in 1955-1975), followed by Germany (8.2 per cent), France, and the three remaining countries of the original Community (7.8 per cent) (see annex, table VI).

In Latin America itself there are also marked differences in the development of exports to Europe from the various countries. The Latin American countries most noteworthy for the accelerated growth of their exports to Europe (both the market-economy countries and those with centrally planned economies) in the period 1955-1975 are Brazil (10.2 per cent annually), the Andean Group (7.9 per cent), the English-speaking Caribbean countries (7.8 per cent) and Mexico (6.1 per cent).[30]

8. *Latin America as a market for European exports*

With regard to European exports to countries outside that area, a sharp increase is noted in sales to developed market-economy countries between 1955 and 1973; their share in the total rose from 59.3 to 65.6 per cent, while that of the developing countries as a whole declined from 32.0 to 24.2 per cent between those years. For Latin America the proportions were 8.8 and 6.0 per cent, respectively. This situation changed as a result of the rise in oil prices and the world recession in the next few years, so that exports to developed market-economy countries in 1977 represented 57.1 per cent of Europe's total exports to countries outside the area, which is a little less than the share obtained in 1955 (see annex, table VII). The proportion of sales to Latin America remained practically unchanged in the 1970s, representing 6.3 per cent of the total in 1977. It should be noted that these are percentages of Europe's total sales to all external destinations, not only to developing countries. In earlier sections it was

[28] The data for Latin America cover 23 countries, excluding Cuba.

[29] CEPAL, on the basis of official data.

[30] CEPAL, on the basis of official data.

seen that although Latin America's proportion of the subtotal of European purchases from developing countries increases if petroleum products are excluded, its share of Europe's purchases from all parts of the world declined substantially.

After 1973, European exports to developing countries increased, and in 1977 represented 26.3 per cent of total extra-area sales, which is higher than the percentage recorded in 1955 (see annex, table VII).

Exports to countries with centrally planned economies also increased (from 8.7 in 1955 to 10.3 per cent in 1977). As stated previously, this reflects the changes occurring in connexion with the barriers imposed on this trade in earlier periods; it should be noted that a large part of this increase represents the growth of trade within Europe between market-economy countries and those with centrally planned economies.

Among the three European groups considered there are significant differences in the evolution of their exports to countries outside the area, although in every case the share of exports to developed market-economy countries is seen to increase. The biggest difference is shown by the countries with centrally planned economies, whose proportion of total intra-area exports fell from 60.0 per cent in 1955 to 35.2 per cent in 1977. Exports to developed market-economy countries grew more rapidly than in the other two groups, as did the developing countries' share; Latin America's share of the centrally-planned economies' extra-area exports rose from 4.4 per cent in 1955 to 7.7 per cent in 1977, that of the other developing areas increased from 10.8 to 23.8 per cent over the same period.

As regards the EEC's extra-area exports, the biggest increase was in sales to developed market-economy countries and those with centrally planned economies. The former increased their share of the extra-area sales of the six original members of the Community from 55.3 per cent in 1955 to 66.3 per cent in 1973. In the case of the present members of the Community, the share of the developed market-economy countries is slightly smaller and in 1977 had dropped to 51.9 per cent of total extra-area exports. The developing countries, whose relative importance as markets for the Community had declined substantially between 1955 and 1973, recovered their importance in the last few years, regaining their 1955 level. As regards exports from the Community of six members, Latin America's share dropped from 10.9 per cent in 1955 to 6.2 per cent in 1973, while that of the rest of the developing countries fell from 28.8 to 17.8 per cent between those years. As regards exports from the Community of nine members, Latin America maintained its share (6.6 per cent in 1977), while that of the rest of the developing countries rose from 20.6 to 31.5 per cent, between 1973 and 1977. The developing countries therefore represent an important part of the Community's external market (38.1 per cent in 1977) and, in particular, increased their relative importance precisely during the period of recession, thereby constituting an important factor of impetus and economic recovery.

For EFTA, the export trends are similar to those of the EEC, although with certain differences. The share of intra-area trade is smaller than in the previous case (17.5 per cent of total exports in 1977), while the relative importance of the developed countries in extra-area sales is greater (72.2 per cent in 1977). In this case, too, the share of the developed countries increased and that of the developing countries declined during the period considered. Likewise during the period of recession from 1973 onwards, the developing countries increased their relative importance in these sales and thus made a significant contribution towards a recovery: between 1973 and 1977, while Latin America's share of extra-area exports fell from 4.2 to 3.9 per cent, that of the rest of the developing countries rose from 9.5 to 13.4 per cent.

Lastly, some differences are observable among the Latin American countries. The fastest growth was recorded by the purchases made by Brazil, whose share in Europe's total exports to Latin America increased significantly between 1955 and 1975 as regards both the EEC and EFTA and the European countries with centrally planned economies; its share declined only in exports from the rest of Europe. Thus Brazil is now a more important market for Europe than the Andean Group, as distinct from the situation in 1955 when this group of countries was the most important Latin American customer for the EEC and EFTA.[31] Mexico, too, increased its share of Europe's exports to the region during this period, not only in the case of the EEC and EFTA and the countries with centrally planned economies, but also as regards the rest of Europe. Argentina's relative importance in Europe's exports to the region for these four groups of European countries, however, dropped substantially.

9. *Composition of Europe's exports to Latin America*

Manufactures[32] represent 87 per cent of total exports to the region by the EEC (nine countries), and an even greater proportion (92 per cent) of exports by EFTA (average 1975-1977).

Table 7

EXPORTS OF MANUFACTURES, AVERAGE 1975-1977

(Millions of dollars)

	Total to world	*EEC(9)*	*EFTA*	*United States*	*Japan*	*Developing countries*	*Latin America*
EEC(9)	256 762	118 838	30 731	16 045	2 499	52 896	9 849
EFTA	45 835	19 008	8 703	2 408	620	7 129	1 879

[31] See annex, table VIII.

[32] Defined as SITC sections 5-8, excluding division 68.

As may be seen from these data, Latin America imported during that period four times more manufactures than Japan, about two thirds of the volume imported by the United States, and one-third of that imported by EFTA from the Community.

As regards exports by EFTA, Latin America's imports amounted to 78 per cent of the value of sales to the United States and three times the value of imports by Japan.

If manufactures are broken down by SITC sections it will be noted that Latin America's relative importance in the exports of certain products by both the Community and EFTA is even greater. This is so in the case of chemical products (SITC 5) where Latin America's imports represented somewhat less than half of EFTA's purchases from the Community, while the United States' imports of these products represented a value similar to that of Latin America's imports from the EEC. A little more than a quarter of the total volume of chemical products exported to developing countries by the EEC (9) is destined for Latin America. The situation is very similar in the case of EFTA's exports of these products: although the absolute figures are lower, the relative importance of Latin America is still substantial, and in relative terms Latin America imported more (35 per cent) [33] than the rest of the developing areas.

The Community's exports of manufactures to the Middle East and Africa have increased in volume in the last few years owing to the greater availability of foreign exchange in some countries after the rise in oil prices, so that the volume of their respective imports is now bigger than those of Latin America.

In the case of the European countries with centrally planned economies, the composition of their exports is somewhat different, with a comparatively lower proportion of manufactures in exports to both developed and developing countries. This is explained especially by the bigger proportion of fuels, which in 1977 represented 37.8 per cent of their total exports to the developed countries compared with 34.7 per cent of manufactures. In exports to Latin America, manufactures predominated with 52.0 per cent of total exports, while fuels represented 22.4 per cent. Exports of agricultural commodities were also fairly important that year, representing 16.3 per cent of exports to the region. Compared with other developing areas, the importance of manufactures in total exports to Latin America is relatively less, although their absolute value is clearly greater.

10. *Structure of Latin American trade with Europe*

Raw materials (SITC sections 0,1, 2, 4 and division 68) predominate in Latin America's exports to Europe. Although exports of manufactures have grown rapidly, they still represent a small proportion of total exports,

[33] On the bases of data from the United Nations *Monthly Bulletin of Statistics*. February 1980.

which partly explains Latin America's loss of ground compared with the developed countries. It must also be borne in mind that most exports of manufactures come from the three biggest countries: quite apart from the size of these countries, the dependence on commodity exports in the other countries of the region is even greater. Moreover in the case of the latter a very high proportion of total exports to Europe is made up of a few basic commodities. This is true of the exports to Europe (the OECD countries) of several Latin American countries in which only two products represented a high proportion of total sales in 1976: Chile, 72.9 per cent (copper and iron); Costa Rica, 95.5 per cent (coffee, bananas); El Salvador, 92.7 per cent (coffee, cotton); Nicaragua, 83.4 per cent (coffee, cotton); and Honduras, 80.6 per cent (coffee, bananas).[34]

In the case of the EEC (9), raw materials represented 80.0 per cent[35] of the region's total sales to that destination in 1977, while the share of these products in Latin America's total exports was only 51.6 per cent.[36] In contrast, exports of manufactures (SITC sections 5, 6, 7 and 8, excluding division 68) to the EEC attained an importance close to that of manufactured products in Latin America's total exports: 13.0 per cent of the total was exported to the Community as against 14.4 per cent of exports to the world. Petroleum exports (SITC 3) to the EEC represented only 6.4 per cent of total sales to that destination, while their share in Latin America's total exports was nearly three times higher (33.4 per cent).[37] This partly accounts for the weak development of trade between the Community and Latin America, particularly in comparison with other developing areas, as noted earlier. Only minor changes took place in trade during the period under review, but they show a high rate of growth for manufactures: in 1955 these products represented only 3.5 per cent of total exports to the six members of the Community, compared with 13.0 per cent in 1977 in the case of the nine EEC members, as mentioned above.

The composition of exports to EFTA is similar to that of exports to the EEC: raw materials absorbed 70.0 per cent of Latin America's total exports to that destination in 1977. Here too the growth of manufactures was significant, and in 1977 these represented 18.0 per cent of the total for the present EFTA members. In the case of the original members they represented only 1.6 per cent in 1955.

The structure of exports to European countries with centrally planned economies is even more asymmetrical: 1977, raw materials represented 95.7 per cent of the region's total exports to that destination while

[34] On the basis of data from OECD, *Statistics of Foreign Trade*, Series C.

[35] On the basis of data from the United Nations *Monthly Bulletin of Statistics.*

[36] Excluding fuels.

[37] It should be recalled that the figures include exports by the Netherlands Antilles.

the share of manufactures was 3.8 per cent. There have been practically no changes in the composition of these exports over the past 20 years; in 1955, 3.4 per cent of the total were manufactures and 96 per cent basic commodities. Consequently, these exports are not considered in the analysis of the trend followed by sales of manufactures.

Apart from these structural differences between the region's exports of basic commodities and manufactures to the world and to Europe, within the manufactures group there are also some differences in composition according to destination. Latin America's intra-regional trade is more diversified in composition, as shown in table IX of the annex, the three destinations listed cover 87.3 per cent of total exports of manufactures in 1977.

11. *Latin America's commodity exports to Europe*

In 1977, Europe absorbed 51.6 per cent[38] of Latin America's total commodity exports (excluding petroleum). The EEC (9) is the most important market; it absorbed 28.6 per cent of these total exports, surpassing the United States whose relative importance has diminished in the past 20 years to only 21.7 per cent in 1977. EFTA's importance has also decreased to a mere 4 per cent of the total of these commodities, while the relative importance of the European countries with centrally planned economies and the rest of Western Europe has increased, representing respectively 14.1 per cent and 4.9 per cent of total commodity exports in 1977. Since the Community is the most important market for this type of product, the development of its trade with Latin America will be analysed more fully here.

The EEC's commodity imports from all sources averaged 25.4 per cent of total Community imports in the three-year period 1975-1977.[39] Intra-EEC trade in these products, particularly those subject to the Common Agricultural Policy, as will be seen later, has grown rapidly and represented 43.5 per cent of Community raw material imports during these years.

Latin America is an important supplier of basic commodities to the EEC (9), even though its share in Community imports from outside the EEC is slightly lower than the Community's purchases from the United States, which provided an average of 18.1 per cent of extra-Community purchases of these products in 1975-1977, while Latin America's share was 15.8 per cent,[40] i.e., slightly higher than Africa, which provided 14.1 per cent. There are many commodities of which Latin America is the main

[38] According to data from the United Nations *Monthly Bulletin of Statistics*, and UNCTAD.

[39] United Nations, *Monthly Bulletin of Statistics*.

[40] *Ibid.*

supplier, for example coffee and bananas, in which it covers half of the Community's total imports. The region also covers a considerable percentage of iron, copper, sugar and cotton imports. Table X of the annex summarizes the situation of 18 basic commodities which between 1972 and 1974 represented 66.8 per cent[41] of Latin America's exports to all destinations and 64.7 per cent of the EEC's imports from the region. As can be seen from this table, the proportion of the EEC's total imports from Latin America represented by this group of products did not change substantially over the period; there are marked differences between the various products, however, as regards access conditions and other problems encountered in the Community market.[42]

12. *A more detailed view of primary commodities*

Despite the considerable drop over the last few years in the share of primary commodities[43] in Latin America's total exports, they still represented over 87 per cent of total exports in 1976 if petroleum is included, and 51.2 per cent if it is excluded.

Table 8

LATIN AMERICA: SHARE OF PRIMARY COMMODITIES IN TOTAL EXPORTS

(Millions of dollars)

Year	*A* *Total exports*	*B* *Petroleum*	*C* *Basic commodities*	$\frac{B+C}{A}$	$\frac{C}{A}$
1955	9 400	2 820	6 306	97.1	67.1
1960	10 170	3 240	6 610	96.9	65.0
1965	12 940	3 670	8 635	95.1	66.7
1970	17 430	4 150	11 475	89.6	65.8
1976	52 670	19 020	26 980	87.3	51.2

Source: UNCTAD, *Handbook of International Trade and Development Statistics,* 1979.

For every individual country of Latin America, the share of primary commodities (excluding petroleum) in its total exports continues to be high, as will be noted from table 9.

[41] World Bank, *Commodity Trade and Price Trends, 1976.*

[42] For a more detailed analysis by individual commodities, see the relevant section below.

[43] Defined by SITC sections 0, 1, 2, 4 and division 67 and 68 (plus section 3 for fuels). Division 67 (iron and steel) is included because these products are usually exported from developing countries after only simple processing.

Table 9

COUNTRIES OF LATIN AMERICA: SHARE OF BASIC COMMODITIES (EXCLUDING PETROLEUM) IN TOTAL EXPORTS, 1974

Country	*Year*	*Percentage*
1. Cuba	1975	99.8
2. Peru	1975	87.4
3. Chile	1975	93.6
4. Honduras	1976	90.0
5. Dominican Republic	1975	89.5
6. Guyana	1975	89.4
7. Paraguay	1975	88.4
8. Nicaragua	1976	84.0
9. Argentina	1976	76.9
10. Guatemala	1975	75.8
11. Brazil	1977	74.5
12. Colombia	1976	74.2
13. Costa Rica	1976	73.0
14. El Salvador	1974	70.1
15. Uruguay	1976	66.6
16. Haiti	1977	62.4
17. Bolivia	1975	61.7
18. Mexico	1976	56.5
19. Panama	1975	50.7
20. Barbados	1977	49.8
21. Suriname	1975	49.3
22. Jamaica	1976	42.1
23. Ecuador	1976	39.1
24. Venezuela	1975	4.3
25. Trinidad and Tobago	1977	3.6

Source: United Nations, *Yearbook of International Trade Statistics;* UNCTAD, *Handbook of International Trade and Development Statistics,* 1979.

Thus, the structural dependence on basic commodities still affects the Latin American countries and will continue to do so for a long time yet. Such dependence brings with it a number of problems which have been discussed in the most widely varying international forums: price instability and, in many cases, a long-term trend towards a deterioration of the terms of trade; an insignificant stimulating effect on the economies and societies, etc.

Commodity exports to Europe constitute an important part of Latin America's total sales, as may be seen from table 10.

Clearly, Europe has considerably strengthened its position as an outlet for total commodity exports from Latin America, and since the beginning of the 1970s has established its share at around 50 per cent, if petroleum and petroleum products are excluded from the analysis.

Table 10

LATIN AMERICA: EXPORTS OF BASIC COMMODITIES (EXCLUDING PETROLEUM) TO EUROPE AND THE WORLD

(Millions of dollars FOB)

Year	*Food, including beverages, tobacco, oilseeds (SITC 0+1+22+4)*		*Raw materials of agricultural origin (SITC 2, excluding 22, 27, 28)*		*Crude minerals (SITC 27 and 28)*		*Iron and steel and non-ferrous metals (SITC 67 and 68)*		*Total basic commodities*		*Europe as a percentage of the world*
	Europe	*World*	*Europe*	*World*	*Europe*	*World*	*Europe*	*World*	*Europe*	*World*	
1955	1 550	4 190	544	1 070	129	495	260	551	2 483	6 306	39.4
1960	1 855	4 330	478	970	219	730	336	580	2 888	6 610	43.7
1965	2 910	5 540	555	1 190	342	1 060	378	845	4 185	8 635	48.5
1970	3 720	7 160	515	1 100	680	1 650	837	1 565	5 752	11 475	50.1
1976	10 510	19 260	892	2 020	1 306	2 870	1 134	2 830	13 846	26 980	51.3

Source: UNCTAD, *Handbook of International Trade and Development Statistics,* 1979.

Very different results are arrived at from a study of table 11, i.e., if consideration is given to Latin America's relative position in Europe's total commodity imports.

Table 11

EUROPE: COMMODITY IMPORTS FROM LATIN AMERICA, AFRICA AND THE WORLD

(Millions of dollars FOB)

Year	*Total imports*	*Imports from Latin America*	*Percentage of total imports*	*Imports from Africa*	*Percentage of total imports*	*Imports from developing countries*	*Percentage of total imports*
1955	23 270	2 458	10.6	3 070	13.2	7 631	32.8
1960	28 620	2 867	10.0	3 489	12.2	8 606	30.1
1965	37 595	4 157	11.1	3 972	10.6	10 499	27.9
1970	51 240	5 729	11.2	5 238	10.2	13 783	26.9
1975	120 560	13 846	11.5	8 542	7.1	129 190	24.2

Source: UNCTAD, *Handbook of International Trade and Development Statistics,* 1979.
Note: SITC division 67 (iron and steel) has been excluded from this calculation.

In fact, the region has not significantly improved its position as a supplier of basic commodities to the European countries in the past two decades, although the situation in this respect of other developing areas, such as Africa, and of the developing countries as a whole is, relatively speaking, even worse. This table reflects a basic fact which will be analysed in greater detail later in this study: the more than proportional increase in Europe's commodity imports from other developed countries (either through intra-European trade or from North America and Oceania), particularly in the field of foodstuffs and agricultural raw materials. This took place at the expense of the developing countries, which saw their share in Europe's imports of basic commodities shrink from just under one-third to less than one-quarter of the total.

As regards the composition of Latin America's exports to Europe by groups of products, the changes occurring over the past 20 years can be seen in table 12.

Food (including beverages, tobacco and oilseeds) clearly predominates throughout the period under review, with 62.4, 64.2, 69.5, 64.7 and 71.4 per cent of total commodity exports to Europe in the years 1955, 1960, 1965, 1970 and 1976, respectively, and its importance seems to have been enhanced in recent years. The relative drop in raw materials of agricultural origin is very marked, both from the comparison of Latin American exports by commodities and from Latin America's relative position as a supplier of the European market, while minerals and crude fertilizers are shown as the most dynamic sector in both these senses.

Table 12

EUROPE'S COMMODITY IMPORTS FROM LATIN AMERICA AS A PERCENTAGE OF TOTAL EUROPEAN IMPORTS AND OF TOTAL LATIN AMERICA EXPORTS

(Millions of dollars)

Year	*Total imports by Europe* *A*	*Imports from Latin America* *B*	*Total exports by Latin America* *C*	*B as a percentage of* *A*	*B as a percentage of* *C*
		A. *Food (including beverages, tobacco and oilseeds)*			
1955	11 690	1 550	4 190	13.3	37.0
1960	14 290	1 855	4 350	13.0	42.8
1965	20 390	2 910	5 540	14.3	52.5
1970	26 410	3 720	7 160	14.1	51.2
1976	71 400	10 510	19 260	11.7	54.6
		B. *Raw materials of agricultural origin*			
1955	7 360	544	1 070	7.4	50.8
1960	8 480	478	970	5.6	49.3
1965	9 250	555	1 190	6.0	46.6
1970	10 570	515	1 100	4.8	46.8
1976	23 850	892	2 020	3.7	44.2
		C. *Crude minerals, etc.*			
1955	2 050	129	495	6.3	26.1
1960	2 820	219	730	7.8	30.0
1965	3 770	342	1 060	9.1	32.3
1970	5 900	680	1 650	11.5	41.2
1976	12 610	1 305	2 870	10.3	45.4
		D. *Iron and non-ferrous metals*			
1955	4 575	270	551	5.9	49.0
1960	7 300	336	580	4.6	57.9
1965	9 615	378	845	3.9	44.7
1970	18 500	837	1 565	4.5	53.5
1976	39 040	1 138	2 830	2.9	60.3

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1976: Supplement, 1977.*

13. *Exports of manufactures from Latin America to Europe*

Latin America's exports of manufactures to the world, though still representing not more than 12.7 per cent of total exports, have grown rapidly over the past 20 years. This has been due in part to the increase in goods produced with more advanced technology (capital goods, consumer durables and basic intermediate products). The 1976 figures for exports of

engineering products from Argentina, Brazil, Colombia and Mexico totalled 1 654 million dollars.

In 1976, exports of intermediate iron and steel goods by six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela) amounted to 251.8 million dollars, of which 43 per cent went to the industrialized countries.[44] Exports of motor cars, trucks and buses from these same countries came to 415.9 million dollars, and sales to the industrialized countries formed 32.3 per cent of this total. Another important group includes radios, television sets and other light electrical and electronic items, with exports totalling 211.5 million dollars and a very high proportion (65 per cent) destined for the industrialized countries. Available information for 1975, however, indicates that exports of the majority of these types of products declined that year, particularly those destined for the developed countries.

Inter-Latin American trade showed the most dynamic performance with an average annual growth rate of 24.7 per cent between 1970 and 1976; in this last year of the period it accounted for 39.5 per cent of total exports of manufactures (SITC 5, 6, 7 and 8, except divisions 67 and 68).

The United States was the most important market outside the region and in that same year received 27.7 per cent of total exports of these products. Sales to Europe grew at a fairly high rate between the years in question, exceeding the rate of growth of exports to the United States. Nevertheless, the total value of exports to Europe represented 20.3 of the total, i.e., just over two-thirds of the value of these exports to the United States. Of the total exports of manufactures to Europe (1 447 million dollars' worth) in 1976, 74 per cent went to the EEC (9), 13 per cent to EFTA and 11 per cent to the socialist countries of Europe: consequently, a major part of the analysis will be devoted to the study of trade with the Community.

A notable fact is the marked predominance of "traditional" manufactures in sales to the developed countries (amounting to about three-fifths of total sales of manufactures, compared with two-fifths, for example, in Latin America's intra-regional trade in manufactured products). On the other hand, there are some noteworthy differences between Western Europe and the United States. In the latter market the relative importance of chemical products and machinery and transport equipment is practically equal, with each group absorbing one-fifth of the total, whereas in the case of Western Europe the share of exports of chemical products is over twice the value of exports of machinery and transport equipment. This is partly explained by the existence of transnational corporations, since these companies generate the major part of manufactured exports and European companies predominate in the chemicals sector, as will be seen in chapter III.

[44] Including the United States, Canada, the rest of the continent except Latin America and CARIFTA, the EEC, EFTA, Eastern Europe and the rest of Western Europe.

14. *Composition of exports of manufactures to the EEC*

Of the imports of manufactures from Latin America by the European Economic Community (9), 58 per cent are in SITC sections 6 and 8 (excluding division 68) and consist in general of manufactured products other than metal manufactures, machinery or chemical products (see annex, table IX). Latin America's share in total imports of these latter products is insignificant as most trade in manufactures is between developed countries. Trade in manufactures is important because of the high degree of competitiveness that has developed in many products belonging to this group both in Latin America and in other developing countries. In 1977, most of the imports of these types of manufactures effected by the EEC (9) from the region were textiles, including clothing, leather and footwear, which totalled a value of 373 million dollars, compared with a total for the group of 765 million dollars.[45] These imports have grown vigorously, since in 1965 they represented virtually insignificant values (see annex, table XI). Moreover, these products are important not only for their volume but also because they are exported by the relatively less developed countries as well as the three major countries, Argentina, Brazil and Mexico. Furthermore these products have stiffer barriers to face in their access to the developed countries' markets, and most of them belong to the "sensitive" category of the Community's Generalized System of Preferences.

The region's exports consist not only of traditional manufactures, however, but also of those produced by modern industry. Brazil, Argentina and Mexico, in particular, export by no means insignificant amounts of manufactures of this type. In 1977, Brazil's sales to the EEC of engineering products amounted to 187.6 million dollars; of these, power-generating machinery alone (SITC 711) accounted for 81.7 million dollars. The value of these same products exported to the rest of Western Europe was 35.7 million dollars. Information at hand would seem to indicate that exports of these items are increasing rapidly.

15. *Latin America's trade balance with the major European areas*

Latin America's exports to the European Economic Community have not increased at the same rate as imports from that origin, particularly in the last few years, so that its trade balance with the Community, which was positive up to 1970, has since been converted into a growing deficit which amounted in 1975 to 3 billion dollars, or 36.5 per cent of total exports to that market. A very similar situation has arisen with regard to trade with EFTA: at the end of the 1960s the trade balance was converted into a

[45] These figures, drawn from OECD's "Trade by Commodities" are in CIF terms, and therefore are not strictly comparable with those referred to above.

deficit for Latin America, and in 1975 it amounted to 800 million dollars, or 69.3 per cent of total exports to EFTA. Trade with the rest of Western Europe and the European countries with centrally planned economies shows a favourable trend for Latin America, with increasing trade surpluses throughout the period.

In 1976 Latin America's position improved, and this trend continued in 1977. With respect to Europe as a whole, Latin America obtained a surplus of 700 million dollars, mainly owing to a trade surplus with the countries with centrally planned economies. Trade with the EEC and EFTA reflected a negative balance, but this was considerably smaller than in previous years. With respect to the rest of the European countries, Latin America obtained a positive balance (see table 6).

B. Trade policies of developed countries and problems of access to their markets

This section deals with the European Economic Community, because it is the most important European area for Latin America and has certain common policies which justify its treatment as a group.

A study of the Community's trade policy reveals two features which, especially in recent years, have given rise to serious concern about the effects they might have on the growth of Latin America's exports to that group of countries.

The first of these features is the emergence and strengthening of distinctly protectionist tendencies which affect a number of products of great interest to Latin America and which, although not expressly directed against the region, can be said to affect Latin American exports more seriously than those of other developing areas. Moreover, these tendencies are not peculiar to the EEC but are shared by other developed areas.

Secondly, the various agreements concluded by the EEC with several countries of the Mediterranean area, and particularly the Lomé Convention of which 57 countries of Africa, the Caribbean and the Pacific (the so-called ACP countries) are members, have led to the formation of a trade grouping of the Community with a great many developing countries, which undoubtedly has connotations of discrimination against countries not forming part of that grouping, especially the Latin American countries.

The first group of problems (protectionism) is amply illustrated in a recent statement by the Director-General of GATT to the effect that the measures designed to restrict imports adopted in recent years, or about to be adopted, affect from 3 to 5 per cent of world trade to a value of 30 to 50 billion dollars. Among the categories of goods affected are beef, textiles, leather manufactures, footwear, steel, transport equipment, household electrical products including electronic articles, etc. To this list should be added those agricultural commodities which, in the case of the

EEC are included in the common Agricultural Policy and for many years have been the subject of import restrictions.[46]

The above-mentioned manufactured products are all of great present or potential interest to Latin America and account for a significant part of the growth of exports from the region in the last few years. Their potential interest is all the greater because, for the production of most of these goods, Latin America has advantages in the way of cheaper manpower than in the developed countries (including skilled as well as unskilled manpower), its natural resources endowment, and the degree of maturity attained by its industry. If the protectionist trends of the industrialized countries continue, not only will the region's export capacity be seriously affected but also its import capacity, and this, besides obstructing the industrialization process, could not but have some negative effects on the industrialized countries themselves, since they are the origin of most of the region's imports of equipment and intermediate goods.

Generally speaking, the protectionist policies adopted by the industrialized countries are due to concern over unemployment or balance-of-payments disequilibria, or they are designed to defend industries considered of strategic importance. It should be noted, however, that the harm these restrictions do to the developing countries is undoubtedly greater than the alleviation they bring to the countries adopting them, since the values involved have a much greater relative significance for the former's exports than for the latter's imports. It would seem, moreover, that in the face of a situation which is difficult for all concerned, the developed countries have a greater capacity for defence in view of their superior position in financial, economic and technological terms, and they should therefore strive to find solutions to their conjunctural problems that will not involve sacrifices of this kind for the developing areas.

Specifically, the most significant immediate negative effects are being felt by the textile, clothing and footwear, and leather manufactures sectors, at least in the case of the restrictions imposed by the EEC: exports of steel products, metal manufactures and machinery, electronic items and transport equipment to this group have not yet acquired much importance, although they should do so in the future.

In analysing the second category of problems, i.e., the EEC's measures which discriminate against Latin America and favour other countries, specific reference must be made to the more favourable, non-generalized, trade treatment granted to those countries with which the EEC has concluded trade agreements.[47] These countries already number over 70, if account is taken of:

[46] CEPAL, *The economic and social development and external relations of Latin America,* (E/CEPAL/1024/Rev.1) *op. cit.*

[47] See the discussion later in this study on the nature and scope of generalized preferences.

(a) *The non-reciprocal preferences* accorded to the 57 ACP signatory countries of the Lomé Convention, the three Maghreb countries and the four Mashrek countries which enjoy preferential trade treaties, and

(b) *The reciprocal preferences* implicit in the agreements existing with the four Mediterranean countries which are forming a customs union with the EEC (Greece, Turkey, Malta and Cyprus) and the eight member countries of EFTA and Israel, which have signed agreements with the EEC with a view to the establishment of a Free Trade Association.

Apart from these agreements there are examples of special deals with individual countries on a single product or group of products. Included in this category are the agreements with Yugoslavia on beef, and the special agreements with Commonwealth member countries to compensate for the loss of customs benefits resulting from the entry of the three new members into the Community. It has been estimated[48] that the agreements with Canada involve concessions in respect of agriculture, fishery and forestry exports which amount to a value of over 250 million dollars. Other countries enjoying these special benefits are Australia and New Zealand.

The Lomé Convention grants, in principle (with the sole exception of those products which are subject to the Common Agricultural Policy), completely free access for all products of the 53 ACP countries, with no reciprocity obligations. There are also three supplementary agreements on industrial co-operation, technical and financial assistance and the stabilization of export earnings (STABEX).

Table 13 summarizes the different treatment given under EEC's trade policy to Latin America compared with the ACP countries in the field of basic commodities. It will be noted from the table that as regards the 23 commodities analysed, which represent about two-thirds of Latin America's total exports to Europe, in 1974 Latin America still had a bigger share than the ACP countries (4 901.5 million dollars against 4 511.7 million). The situation has probably changed in recent years as a result of the Lomé Convention, the difficulties of access for beef and sugar to the EEC and the problems of fish meal production in the region. In any case, it can be seen from the table that Latin America's treatment is significantly more unfavourable. This will probably have a greater impact in the future, with less favourable commodity prices and markets than in the past, when these conditions were particularly satisfactory in some years.

The preferential treatment reserved for the ACP countries is obvious from comparing their position both as regards tariffs and as regards the use of the STABEX mechanism. Note should also be taken of the special case of sugar, which, though not benefiting from the STABEX system, is subject to a special supply agreement whereby the EEC guarantees the

[48] United States Department of Agriculture, *Foreign Agriculture,* 21 February 1977: "The EEC and its special third country partnerships", by Omero Sabatini.

Table 13

EUROPEAN ECONOMIC COMMUNITY: CONDITIONS OF ACCESS FOR MAIN BASIC COMMODITIES[a]

Commodity	*Value of imports CIF 1974 (millions of dollars)*	*Latin America's share (percentages)*	*ACP countries' share (percentages)*	*Treatment of Latin American countries*		*Treatment of Lomé countries*	
				Most-favoured-nation tariff	*Use of generalized system of preferences and preferential tariff*	*Tariff preferences under Lomé Convention (tariff applicable)*	*Use of STABEX compensatory system*
Beef	1 713.9	13.4	0.5	CAP	No	Favourable treatment[b] (rule 706/76)	
Wheat	1 927.5	4.4	–	CAP	No	Irrelevant, not produced[b]	
Maize	2 500.1	14.5	–	CAP	No	Favourable treatment (rule 706/76)	
Linseed, coconut and palm oil	990.8	13.7	18.0	Palm oil: 4-14% 5-20%[c]	Palm oil: 2.5-12% No	Exempt	Yes
Sugar and honey	1 532.2	24.2	14.2	Sugar: CAP Honey: 27%	No Honey: 25%	Exempt Exempt	Supply agreement
Bananas	481.9	52.6	17.0	20%	No	Exempt	Yes
Groundnuts	286.7	4.8	41.7	0%	No	Exempt	Yes
Copra	174.8	–	1.9	0%	No	Exempt	Yes
Wood				0%	No	Exempt	Yes
Groundnut oil	309.4	23.2	56.4	5-15%[c]	No	Exempt	Yes

Coffee	1 808.5	52.3	33.0	Beans: 5.4%, Roasted: 15% Soluble: 18%	Roasted: 12% Soluble: 15%	Exempt	Yes
Cocoa	1 056.3	11.6	43.4	Butter: 12% Powder: 16%, Paste 15%	Butter: 8%[c] Powder and paste: 11%	Exempt	Yes
Tobacco	962.5 689.5	8.4	6.0	Manufactured: 26% or 52-117% Unmanufactured: 14-23% Plus specific duty	Small margins only 7%[c]	Exempt	
Undressed hides and skins	689.3	2.5	7.0	0%	No	Exempt	Yes
Wool	1 458.5	7.3	0.2	Combed or carded: 3% The rest: 0	No	Exempt	Yes
Cotton	1 288.1	20.3	14.3	Combed or carded: 1.5% The rest: 0	No	Exempt	Yes
Sisal and abaca	320.9	30.0	19.1	0%	No	Exempt	Yes
Iron ore	2 316.1	26.0	20.5	0%	No	Exempt	Yes
Refined copper	4 695.5	14.6	34.9	0%	No	Exempt	
Refined lead and zinc	1 033.0	5.9	2.6	3.5%	No	Exempt	
Refined tin	469.7	0.7	7.4	0%	No	Exempt	
Non-ferrous metal ores	2 139.7	15.0	6.7	0%	No	Exempt	
Fish meal	318.0	23.1	0.5	2%	Exempt	Exempt	

Source: Statistical data: OECD, *Trade by Commodities, Imports 1974;* Generalized System of Preferences and most-favoured-nation tariff: EEC, *Practical Guide to the Use of the European Communities' Scheme of Generalized Tariff Preferences* (May 1977).

Note: CAP = Subject to the Common Agricultural Policy.

[a]Comprise two-thirds of Latin America's experts to the EEC.

[b]See foregoing pages.

[c]This concession is subject to a pre-established quota.

ACP countries the purchase of sugar quotas at prices that must not be below the support prices paid to producers in the Community itself.

As regards manufactures, it should be noted that although many of the ACP countries represent a distinctly lower net export potential than Latin America, their position compares very favourably with that of the Latin American countries, since their completely liberalized access is not subject to the quota system in force for "sensitive and semi-sensitive" products in the EEC's Generalized System of Preferences. Moreover, some ACP countries are already in a position to take advantage of this improved treatment. The Lomé Convention only contains a safeguard clause authorizing restrictive measures to be implemented in such a way as to cause a minimum of difficulties to the ACP countries, in the event that their exports should give rise to serious disruptions in the economy of the importing country.

In addition to the Lomé Convention, whose main features have just been outlined, there are also the above-mentioned preferential agreements with other countries, especially of the Mediterranean basin. These countries, some semi-industrialized and others approaching the stage of full industrialization, are strong present and potential competitors of Latin America.

All the foregoing information reveals a situation of distinct discrimination against Latin America, which is difficult to justify in the light of the existing legal instruments (UNCTAD and Part IV of GATT). It is worth recalling that although Part IV of GATT provides for the granting of special preferences to developing countries, in the Principles and Objectives included in the same chapter it is stated that the basic objectives of the Agreement include improving the level of living and the progressive development of the economies of *all* the contracting parties, and that the achievement of these objectives is particularly urgent if the contracting parties are developing countries.

In other words, the preferences should not become advantageous for one group of countries at the expense of the rest. Nor is it a valid argument that the countries with which the EEC has signed preferential agreements are relatively less developed than the Latin American countries, since so far the EEC has granted special preferences to countries with widely varying income levels, many of them higher than those of some Latin American countries.

It may therefore be affirmed that the granting of special preferences to only one group of countries violates the spirit of the world movement towards generalized preferences and also the spirit and basic motivations of Part IV of GATT.

Furthermore, Latin America's importance as a buyer from the EEC (7.2 per cent of total sales in the period 1973-1975 compared with 5.6 per cent for the ACP countries), particularly in some specific items such as chemical products and machinery in which its share is close to that of the United States, contrasts very strikingly with its under-privileged position as

a supplier (2.9 per cent of total EEC imports in 1974, as against 4.3 per cent for the ACP countries).

It would seem that the lack of a united approach on the part of the Latin American countries has been one of the factors that have so far prevented the region from having more bargaining power with respect to the EEC,[49] although possibly the historical ties between the EEC and many of the ACP countries have played an even more important role.

The conclusion is that the problem of trade discrimination against the region is destined to be one of the focal points of discussion between the EEC and Latin America, unless clear measures are adopted to improve the conditions of access for Latin American products to the Community Market.

The Community's scheme under the Generalized System of preferences and its utilization

A detailed description of the nature of the Community's scheme under the Generalyzed System of Preferences was included in an earlier (1975) document of the Economic Commission for Latin America.[50] Since then there have been changes in the lists of products covered, but basically the structure of the scheme and its significance for the Latin American countries remain the same.

The principal Latin American beneficiaries of the scheme in 1975 were Argentina, Brazil, Mexico, Peru and Venezuela. The trade of these countries which actually entered the Community under preferences amounted to:

Argentina	47	million units of account
Brazil	162	,, ,, ,, ,,
Mexico	59	,, ,, ,, ,,
Peru	32	,, ,, ,, ,,
Venezuela	1	,, ,, ,, ,,
	301	

The corresponding total for all beneficiaries was 1 792 million units of account.

[49]On this subject, see CEPAL, *The economic and social development and external relations of Latin America, op. cit.*, pp. 236-243; and Leopoldo Tettamanti, *Relaciones económicas de América Latina con la CEE*, E/CEPAL/L.159, June 1977.

[50]CEPAL, *Latin American Development and the International Economic Situation, Part II.* E/CEPAL/981/Add.2, 21 February 1975.

About two-thirds of Latin America's exports to the EEC is made up of 25 basic commodities.[51] Sixteen of these are subject to tariff duties, but only three receive preferences. These preferences are in the form of only partial tariff reductions and the margins of advantage over countries not receiving preferences are quite small. The scheme of the EEC has been intended and designed from the start to encourage exports of manufactures and semi-manufactures from the developing countries rather than exports of primary goods. Indeed, exports of many agricultural primary goods are actually discouraged by the Community through the implementation of its Common Agricultural Policy.

On the other hand the expressed intention to stimulate exports of industrial goods from the developing countries has been partially frustrated by limitations which the Community itself has placed on such exports. These limitations are in the form of tariff quotas and ceilings which prevent duty-free entry once the specified limits have been reached. Unfortunately some of the products affected are precisely those non-traditional exports which the Latin American area has been striving to develop in order to reduce its debilitating dependency on a few export products subject to sharp international price and demand fluctuations.

Forty-six sensitive industrial products are subject to tariff quotas, with advance allocation of each quota among the Member States of the Community. Certain tariff quotas include a reserve share to enable allocation to be adjusted according to use of the quota. Semi-sensitive products number 131 and are subject to ceilings at the Community level. For almost all other non-agricultural products (the so-called non-sensitive ones) ceilings at the Community level are applied when the category of sensitivity of the products is changed. Individual exporting countries are in principle limited to a specific percentage of the Community quota (the *butoir*), which means that no one country may export more than 50, 30, or 20 per cent of the ceiling, depending on the product. These *butoirs* are set out product-by-product in the list of goods receiving preferences.

Industrial raw materials are excluded from the preferences scheme but in general these have low or zero duties.

According to information provided to UNCTAD by the European Economic Community, there is a great disparity between the value of imports, from all sources, of products covered by the preferences scheme and the value of imports of the same products which actually entered the Community with preferential treatment,[52] the ratio being 3 to 1. Some Latin American countries (Brazil, Mexico and Peru) showed much less disparity according to figures for 1975 provided by the source referred to.

[51] See list in CEPAL *The Economic and Social Development and External Relations of Latin America, op. cit.*, p. 230.

[52] See UNCTAD, *Generalized System of Preferences: Replies received from preference-giving countries*, TD/B/C.5/30/Add.4, 20 June 1977.

Argentina's percentage corresponded to the world average and Venezuela's percentage was quite low.

Probably the two main factors which severely limit utilization of the preferences are (a) the quotas and ceilings which the Community imposes for certain sensitive and semi-sensitive products and (b) insufficient knowledge and understanding of the scheme on the part of exporters, contributed to by the complexity of its regulations. With respect to the first of these factors, in 1976 five Latin American countries exceeded the maximum amounts established by the Community (Brazil with seven products, Mexico and Venezuela with two each, and Argentina and Colombia with one each). All beneficiary countries under the scheme, including Latin American countries, were limited in their duty-free exports of 23 other products to the Community owing to the latter's quantitative restrictions. This makes a total of 36 product-cases where Latin American countries were affected by the application of such restrictions under the preferences scheme. For the developing countries as a whole 105 products were affected. The categories of exports to which the 36 products correspond are hides and skins, wood, cement, yarn, fabrics and apparel, shoes, citric and glutamic acid, petroleum derivatives, certain manufactured metal articles and building materials.

For 13 of the products where a quantitative restriction under the scheme affected a Latin American country or countries the maximum quantity permitted to enter duty free is less than half a million dollars. For other products the amount is less than 800 000 dollars. Moreover, for yet other products the limits are very low in relation to total exports of the "beneficiary" country to the Community (e.g. hides and skins exported by Argentina, shoes and planed lumber exported by Brazil).

C. Individual analysis of main basic commodities

Fourteen commodities are considered here: wheat, maize, rice, meat, cotton, sugar, cocoa, coffee, bananas, bauxite and aluminium, copper, tin, iron and, of course, petroleum. They represented an average of 64.8 per cent of Latin America's exports in the period 1973-1975.

Table 14 provides information on Latin America's share in European imports of these goods in terms of quantity and value. Because of the source used,[53] these tables cover only the European countries belonging to the OECD, i.e., they do not include the socialist countries of Europe.

These latter countries are, however, included in the data on commodity exports by SITC sections,[54] and the evolution of their imports from Latin America will be dealt with in greater detail later on in this study. The share of the European member countries of CMEA is still

[53] OECD, *Trade by Commodities*, various years.

[54] See tables 10, 11 and 12 above.

Table 14

LATIN AMERICAN DEVELOPING COUNTRIES: SHARE IN COMMODITY IMPORTS OF EUROPEAN MEMBER COUNTRIES OF OECD

(Percentages)

SITC	*Commodity*	*On the basis of value*					*On the basis of volume*				
		1960	*1965*	*1970*	*1974*	*1976*	*1960*	*1965*	*1970*	*1974*	*1976*
011	Meat	44.9	28.5	18.7	9.4	8.5	26.4	21.1	21.6		10.6
041	Wheat	8.8	17.0	4.1	3.4	2.3	8.8	18.3	4.2	2.5	2.2
042	Rice	0.3	11.1	14.0	12.4	14.1	2.2	14.1	19.3	12.9	15.6
044	Maize	33.4	20.6	28.2	17.5	12.8	33.4	20.4	29.6	17.5	10.9
051.3	Bananas	...	74.6	83.0	83.4	n.a.	...	76.2	84.0	84.4	n.a.
061	Sugar	53.7	55.0	26.4	36.6	26.9	48.4	37.1	33.8	34.4	31.1
071	Coffee	63.6	64.2	64.2	57.6	54.0	56.3	58.2	61.6	55.2	52.4
072	Cocoa	13.0	7.0	7.4	11.9	8.8	11.8	5.0	7.1	9.5	8.0
263	Cotton	15.5	30.0	24.6	20.3	14.7	14.3	28.4	...	19.9	13.1
281	Iron ore	17.1	19.4	20.8	26.8	29.0	11.3	14.6	18.1	24.3	27.1
682	Copper	18.9	14.6	17.0	10.8	13.4	19.1	16.6	17.4	11.5	14.9
283.3	Bauxite	...	20.0	25.1	23.3	n.a.	...	7.6	7.9	8.4	n.a.
685, 283.4	Lead	19.2	12.2	13.0	10.7	n.a.	17.4	11.2	12.2	10.7	n.a.
686, 283.5	Zinc	8.2	4.8	5.4	10.8	n.a.	10.0	1.2	6.7	15.4	n.a.
283.6	Tin	...	33.3	60.5	54.9	n.a.	...	55.8	76.3	70.2	n.a.
331, 332	Petroleum	13.8	9.4	3.9	1.9	1.7	10.0	7.9	...	2.1	1.9

Source: OECD. *Statistics of Foreign Trade,* Series C, several volumes.

considerably lower than that of the member countries of the OECD, in spite of having risen from 9 per cent in 1960 to 15.2 per cent in 1973, essentially owing to Cuba's exports to its fellow socialist countries.

There has been a steady increase in the volume of commodity exports throughout the period under review, although in some cases (such as that of agricultural products of tropical origin), this indicator displays slower growth than world demand for these products and the rate of growth of exports to those countries by other parts of the world (particularly Africa). In others, as noted in section B, barriers were established for Latin American exports to Europe, particularly to the EEC. This happened in the case of temperate-zone agricultural products and, to a certain extent, sugar. Demand for non-ferrous metals depends on the level of industrial activity of the consumer countries and has therefore grown considerably in the last few decades.

Although it is true that in terms of volume commodity exports have grown steadily, the same cannot be said of the series of unit value indexes for the period concerned. This is because of the price fluctuations which affected nearly all commodities.

Figure 1 presents a series of international price indexes for the commodities studied, including petroleum, and compares it with an index

Figure 1

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN AMERICA COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)
Semilogarithmic scale

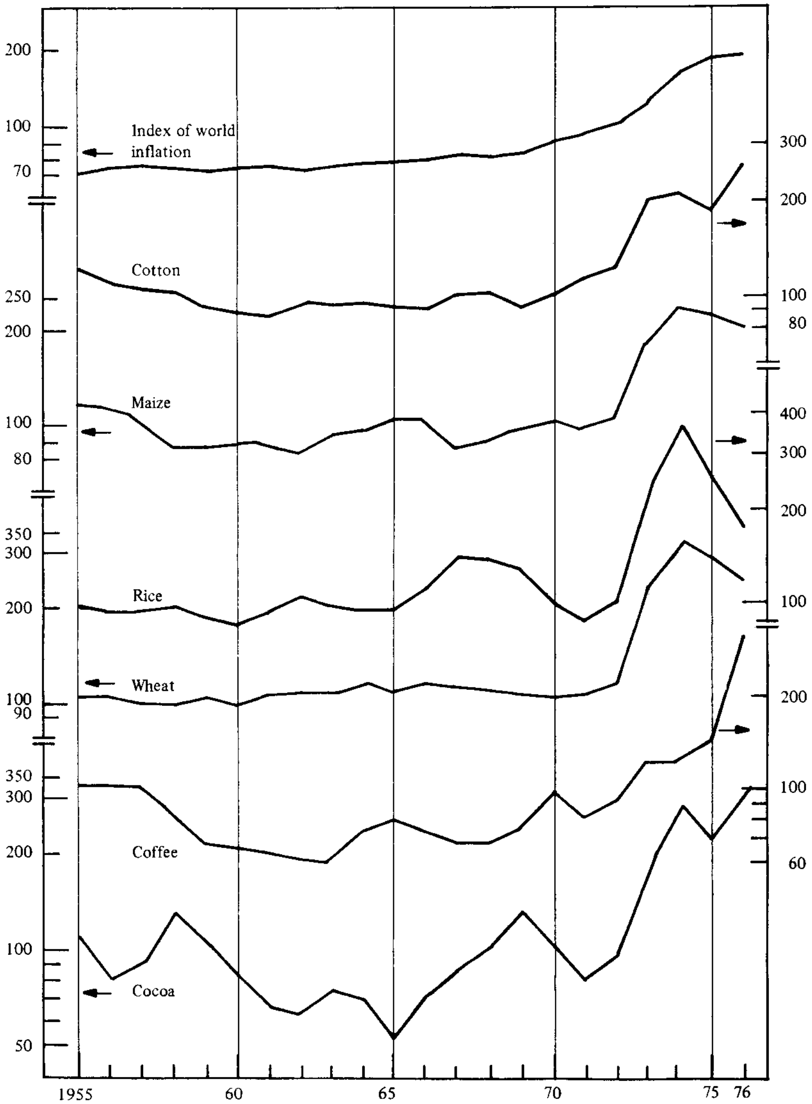


Figure 1 (continued)

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN AMERICA COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)
Semilogarithmic scale

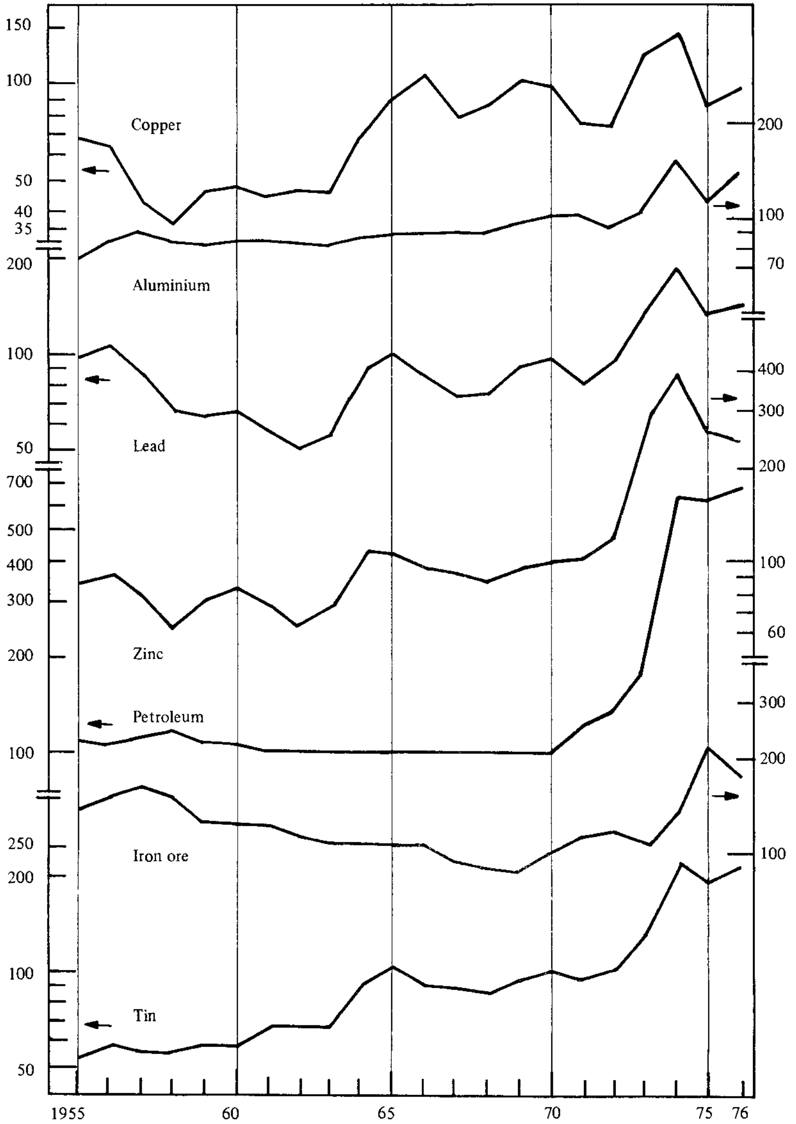
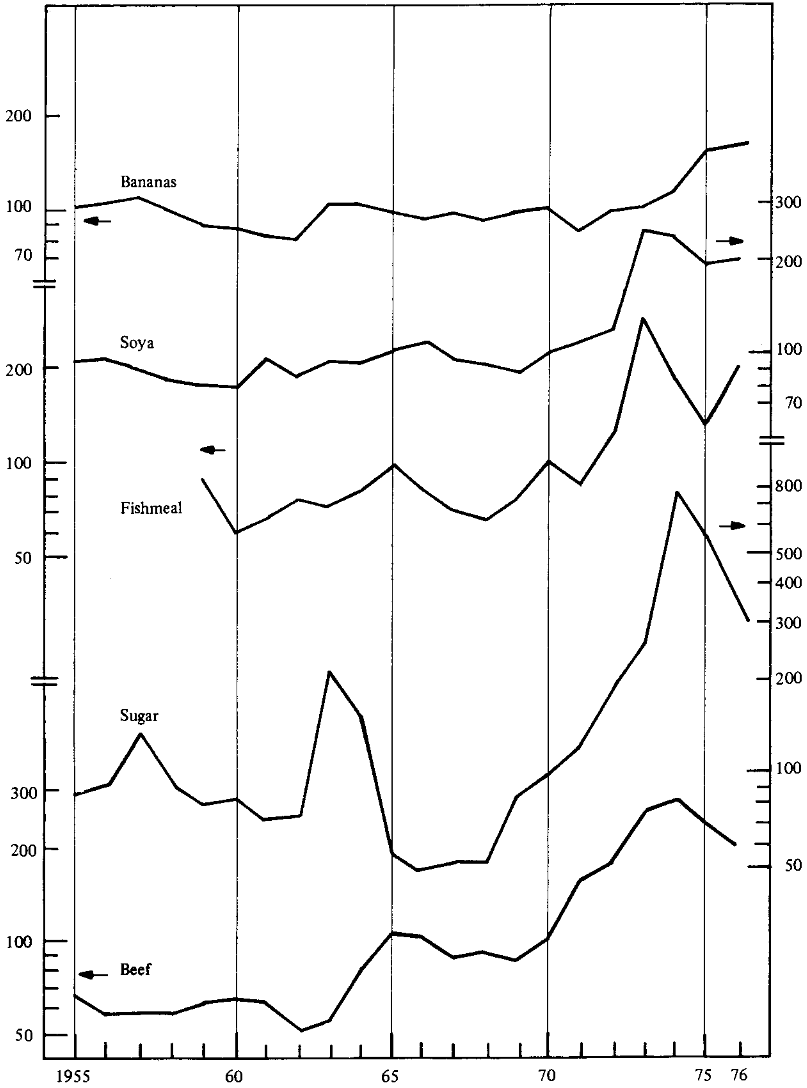


Figure 1 (concluded)

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN AMERICA COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)
Semilogarithmic scale



of world inflation prepared by the World Bank on the basis of the prices of exports of manufactures from the developed countries. This figure shows to what extent prices have suffered fluctuations, sometimes extreme, in the course of time, in sharp contrast with the progressive rise in the prices of manufactures (and of petroleum) which represent the bulk of the imports of the Latin American countries. Although admittedly there has been a notable recovery in price levels since 1973, in the first place it should be noted that the actual increase in terms of purchasing power has been seriously affected by the rises in world price levels and, secondly, it is a well-known fact that for many of these products (sugar and copper being two particularly serious cases for the region), in 1976 and 1977 there were occasionally sharp drops from the 1974 levels, with prices sometimes even sinking below the 1972 levels.

1. *Temperate-zone agricultural commodities*

These commodities have been seriously affected by the restrictions imposed by importing European member countries of OECD, and in particular by the EEC. The countries most affected have been Argentina, followed by Uruguay, Brazil, and others, although on a much lesser scale.

Between 1970 and 1974, meat imports from Latin America by the European OECD countries[55] dropped to less than half their previous volume. Because of the mechanism used (complete suspension of imports) beef was the sector most seriously affected by the restrictive policy for imports of agricultural origin by the EEC. Wheat has also been severely affected (in this case, too, imports by the European OECD countries declined to half), although the drop in exports to Western Europe may have been partially compensated for by the considerable increase in exports to the Soviet Union. The decrease in maize imports, on the other hand, has not been very great and it has been accompanied by a marked increment in sales to the CMEA countries. In more general terms, Latin America's share in imports of wheat, maize, rice and meat by the European member countries of OECD fell from 23.2 per cent in 1965 to 10.8 per cent in 1974[56] as a result essentially of the EEC's Common Agricultural Policy, which led to growing self-sufficiency through the mechanism of imposing variable levies on imports.[57] Exports of vegetable oils are in a similar position, although the effects on import values have not been so

[55] As regards this information, and all that following in relation to "the OECD European countries", there is a small overestimation in the figures for 1974 owing to the inclusion of Finland, which was not a member of the OECD in 1965.

[56] By 1976, the situation had worsened for all these products but wheat.

[57] Designed to compensate for the difference between the price of imported products (CIF plus fixed customs duties) and the domestic support price established for each year.

marked, since there was no previous significant flow of these products. The increase between 1965 and 1974 (from 69 to 254 million dollars) in the imports of European countries (OECD) from Latin America hides the barriers that have prevented this item from representing a much higher figure. Moreover, 1974 was a year of unusually high prices for vegetable oils.

2. *Tropical agricultural commodities*

Particularly notable among these commodities is the case of *sugar,* which like the temperate-zone commodities is subject to the EEC's Common Agricultural Policy. For sugar, as for other tropical commodities, the signature of the Lomé Convention distinctly improved the relative position of the Caribbean countries in this respect,[58] but in normal years there is still a situation of surplus production in the Community which makes it difficult to import from the rest of Latin America. Imports from "developing America"[59] (that is, including non-self-governing territories, for purposes of comparison) by the European member countries of the OECD dropped from 48 to 33 per cent between 1960 and 1976, while the increase in volume over the same period was practically negligible, i.e., from 2 450 000 tons to 2 500 000. Moreover, if Finland and Yugoslavia, which were not members of OECD in 1960, are excluded, the figure for 1976 actually shows a decline in volume terms. Latin America's prospects of helping to supply Western Europe's demand for sugar, except in years when there may be a sugar shortage in the Community, show no signs of improving. The preferential treatment given to the Caribbean signatory countries of the Lomé Convention and the export quota for European countries which are not members of the EEC may be expected to be maintained. Cuba's case is quite different: there is an agreement in force with the countries of CMEA —of which this country is actually a member— signed in 1965 and renewed up to 1980, guaranteeing the market of the socialist countries of Eastern Europe at price levels which, except in very special periods such as the second half of 1974, are higher than world prices.

As regards *coffee,* the United States, which is the traditional market for Latin America, has failed to maintain its volume of imports (17 per cent less in 1974 than in 1959). The European market, on the other hand, has expanded notably in the last two decades, exceeding that of the United States and becoming stabilized at over half of the total world imports of this commodity (52.7 per cent in terms of value in 1974). This

[58] As a result of this Convention, the Caribbean countries have been able to retain their position as traditional suppliers of sugar to the United Kingdom market; at the same time they enjoy tariff examptions and the use of the stabilization of export receipts mechanism (STABEX) envisaged for the member countries.

[59] See table 14.

explains why Latin America's coffee exports, in spite of having lost ground to Africa in both the world market and in Europe, where they dropped from 63.6 per cent of the total imported in 1960 to 54.0 per cent in 1976, have found their most dynamic market in Europe. What has shown itself to be even more dynamic, although still at relatively low levels, is the market of the CMEA countries, which doubled its volume of coffee imports from Latin America between 1960 and 1974.

Access to the EEC market presents some difficulties ranging from the customs tariffs (5.4 per cent), from which the member countries of the Lomé Convention are exempt, to the excessively high level of internal taxes in certain countries such as Germany and Italy, where the internal tax (without considering the tariff) amounted to 130 per cent and 110 per cent, respectively, of the CIF import price in 1973.

Cocoa presents many characteristics in common with coffee: slow growth of world demand, high level of internal taxes in the EEC countries, and strong competition from other developing areas. Inasmuch as the customs tariff is as high as for roasted and soluble coffee (12 per cent for cocoa butter and 16 per cent for cocoa powder), the customs exemption granted to the ACP countries under the Lomé Convention is relatively more detrimental to the Latin American countries, particularly if it is taken into account that their share of total imports by the European OECD countries had already dropped from 11.8 to 8.0 per cent in terms of volume between 1960 and 1976. In the case of both coffee and cocoa, attention is drawn to the lack of growth of Latin America's production.

The case of *bananas,* which has been thoroughly studied by the Intergovernmental Group set up by FAO, in co-operation with UNCTAD [60] is very typical of a certain situation in the production and marketing of basic commodities concerning which a recent CEPAL document[61] suggests the need for "a complete restructuring of all phases of the process of production and marketing of this commodity so as to enable the producing countries to have a larger share in them as the only means of increasing their net foreign exchange earnings". These marketing mechanisms, in which transnational corporations play a predominant role, are responsible for the fact that the export price of bananas is only 11.5 per cent of the final retail price. To this situation is added a decline in export earnings in real terms, due to the deterioration in the terms of trade, which is more evident in the case of bananas than in that of any other commodity. In spite of a relatively high tariff barrier in the EEC's common external tariff (20 per cent) and of the competition from the non-self-

[60] See the UNCTAD documents *Pricing policy in relation to marketing and distribution of bananas* (TD/B/C.1/CONS.10/L.5) and *The marketing and distribution system for bananas* (TD/B/C.1/162), both issued in 1974.

[61] *Information note on recent trends in some primary commodity markets* (E/CEPAL/L.122), 20 August 1975.

governing territories of America and the African countries, Latin America increased its share in the volume of imports by Europe (OECD) from 46.0 per cent of the total in 1965 to 62.5 per cent in 1974. Satisfactory results, with good prospects of a subsequent improvement, have also been recorded in the CMEA countries, particularly the German Democratic Republic, where per capita consumption of bananas has exceeded that of certain Western European countries such as Italy.

3. *Raw materials of agricultural origin*

For lack of space, this analysis will exclude items which are of medium importance to several Latin American countries and will deal only with *cotton*, which, as can be seen from the following table, represented 47 per cent of the region's total exports of these materials in 1974.

Table 15

LATIN AMERICA'S EXPORTS OF RAW MATERIALS OF AGRICULTURAL ORIGIN TO EUROPE (OECD), 1976

(Millions of dollars)

Hides and skins		86.1
Natural rubber		3.2
Wood and cork		94.9
Pulp and paper		58.5
Agricultural and animal raw materials not elsewhere specified		95.3
Textile fibres of which:		551.2
Wool and other animal hair	259.1	
Cotton	263.8	
Total		*888.4*

No major tariff or non-tariff barriers exist for exports of raw cotton to Europe and to the Community in particular, although there are fairly stiff barriers for the more highly processed forms of cotton exports.[62] The common external tariff is zero, except in the case of combed or carded cotton, which in any case represents a minimal percentage of Latin America's total exports. Nevertheless, the region's share in the total volume of imports dropped both in absolute terms (from 438 600 to 199 500 tons) and in relative terms (from 28.4 to 11.2 per cent) between 1965 and 1976.[63] This decline was essentially due to the lower imports

[62] See part B of this chapter.

[63] This drop would be even greater if the figure for Finland, which was not a member of OECD in 1965, were deducted from the 1974 figures.

from those countries (Brazil, Mexico and Peru) which had been the biggest exporters in 1965, since the countries of the Central American Common Market and Colombia significantly increased their share in the total volume of trade. This drop in exports to Europe from Brazil, Mexico and Peru seems to be due essentially to the development of the national textile industry and, therefore, the use of a relatively larger part of production for domestic activities.

4. *Non-ferrous metals*

This section will deal with exports of metals (SITC 68) but not of crude ores (SITC 283), since in global terms the former are more important than the latter. Reference will be made to exports of crude ores when, as in the case of tin, lead and zinc, they represent a value close to or higher than exports of refined metals.

Copper, 80 per cent of which is exported by Chile (and which represented an average of nearly three-quarters of this country's exports in the period 1973-1975) is by far the region's chief export commodity in this category.[64] Latin America's share in Europe's total imports decreased sharply between 1960 and 1976 (from 19.1 to 14.9 per cent in terms of volume).

Moreover, the depressed situation with respect to world copper prices is only too well known (see figure 1), and is essentially attributable to a greatly excessive supply due partly to the slow economic recovery of the industrialized countries and partly to the lack of agreement among the member countries of the Intergovernmental Council of Copper Exporting Countries (CIPEC)[65] to implement policies for the self-limitation of supply. The working groups convened by UNCTAD in 1976 and 1977 with a view to preparing the ground for an agreement to regulate the world copper market have so far shown no significant results.

The problems of copper's entry into the European countries are connected not with customs duties (the EEC's tariff is zero), but, for the reasons explained above, with demand. The present tension will probably continue, especially as in several countries of Latin America (Chile, Peru, Panama, Colombia, Mexico) there is a strong possibility of opening up new mines for development, some with a very great production potential. A certain trend towards a decline in the production of copper in the developed countries will apparently not be sufficient to counteract, within a reasonable period, the present situation of excessive supply on the world market.

[64] It represented about 85 per cent of Latin America's total exports of non-ferrous metals to Europe in 1970-1972.

[65] This body, of which two Latin American countries –Chile and Peru– are members, controls 30 per cent of world production and 70 per cent of world exports.

As regards the processing of copper, it should be noted that, as in the case of tin referred to below, Latin America exports a relatively higher proportion of crude ore (20 per cent) (in terms of the export value of crude ore in relation to the total export value of the ore and the metal) than other developing areas such as Africa (3.8 per cent).

5. *Iron ore*

This commodity does not have any difficulties in terms of access to the European markets either, since the tariff is zero. Latin America's share in the total volume of Europe's imports has risen steadily between 1960 and 1976, from 11.3 per cent to 27.1 per cent. The region's exports of iron ore to Europe are almost exclusively from three countries (Brazil, Venezuela and Peru), since Chile, the fourth exporting country of the region, sends Europe only a minimal proportion of these exports.

With the development of new and large-scale projects in Brazil, in some of which there are European interests, it may be assumed that Latin America's share in iron ore exports to Europe will increase in the future. The possible development of the Mutún mines in Bolivia, which have an enormous potential (no less than 40 per cent of the total potential reserves of all the developing countries) will add an element of great importance to Latin America's position in the world iron ore market. Nevertheless, the evolution of exports of this commodity, even more than in other cases, is closely linked with the reactivation of the economy in the industrialized centres.

6. *Petroleum*

Latin America's importance as a supplier of petroleum to Western Europe has diminished considerably in the last two decades, its share of total European petroleum imports having dropped between 1960 and 1976 from 13.0 to 1.7 per cent. It is well known that Europe obtains most of its supplies from the Middle East, while a considerable proportion of the remaining imports come from Africa and the Soviet Union.

Western Europe's share in Latin America's total petroleum exports to all destinations is much more than this –it amounted to 7.5 per cent in 1976– but even so this represented a substantial drop compared with 1955 (18.8 per cent).

The proportion of fuels in the region's total exports to Europe dropped from 18.5 per cent in 1965 to 11.0 per cent in 1976.

It is estimated that with the increase in petroleum exports from Mexico[66] which are already partly under way, all these indicators will rise, as European countries are among the possible purchasers of Mexican crude.

[66] Agreements to sell petroleum to France and Spain have been announced.

III. DIRECT PRIVATE INVESTMENT

A. Background and trends[67]

Direct private investment by the United States continues to predominate in the world, although European investment already accounts for a very large share of the total. Nearly 38 per cent of the accumulated total of direct foreign investment in the world in 1971 originated in European countries, compared with 52.1 per cent in the United States. A further indicator of the pre-eminence of investment by United States enterprises is that these invested 23 581 million dollars in continental Europe in 1973, while investment by continental Europe in the United States amounted to 6 595 million dollars.[68]

The considerable importance achieved by the European enterprises is reflected in some significant data as well as in the percentage quoted above. Of the world's 650 largest industrial enterprises in terms of total sales, 185 are European, according to a United Nations report based on figures published by *Fortune.*[69] According to the same source, 21 of the 50 largest enterprises in the world are European. Of these 21 enterprises, 4 have annual sales exceeding 10 thousand million dollars. The total sales of Royal Dutch Shell, the biggest of these enterprises, amount to 36 thousand million dollars, i.e., practically the gross domestic product of Venezuela, and exceed the GDP of all the Latin American countries except for the three largest (Brazil, Mexico and Argentina).

The predominance of United States enterprises is linked, *inter alia,* to the role of the dollar in the international monetary system and to the great effort to create technology made by the United States with major government support, as a result of which its enterprises hold a vanguard position in very dynamic sectors of international manufacturing. It should also be stressed that the 228 subsidiary companies of continental European enterprises operating in the United States and the 905 subsidiaries of United States companies operating in continental Europe deal predominantly with the same branches of industry, the majority of the enterprises in both cases being in the electrical, machinery and chemicals sectors.

The situation seems, however, to be changing to the advantage of Europe. The importance of the manufacturing subsidiaries of major

[67]This and the following section include elements and information from Alfredo E. Calcagno, "Las inversiones extranjeras directas en América Latina", CEPAL (mimeographed), January 1978. Some of the data, concepts and proposals in this chapter also reflect preliminary results of the work of the joint CEPAL/CTC Unit.

[68]United States Department of Commerce, "Survey of Current Business".

[69]United Nations Department of Economic and Social Affairs, "Multinational Corporations in World Development", 1973.

European companies compared with those of the United States increased substantially as from the 1970s, once the reconstruction of Europe had been completed and European enterprises were being consolidated, aided by the creation of the European Economic Community. More than half the subsidiaries of European enterprises existing in the world in 1971 had been established after 1965. According to available data, as of 1970 the proportion of such subsidiaries established after 1965 was 67 per cent in the case of France, 55 per cent in the Netherlands, 53 per cent in the Federal Republic of Germany, Belgium and Luxembourg, 47 per cent in the United Kingdom, 41 per cent in Sweden, 38 per cent in Switzerland and 37 per cent in Italy. In the case of the United States, however, this percentage was only 18 per cent, i.e., the majority of the subsidiaries had already been established prior to 1965. [70]

If the group of developing countries is considered as a whole and the situation in 1967 is compared with that of 1976,[71] it may be observed that the share of the United States in the total direct private investment made by the member countries of the Development Assistance Committee (DAC) in the total number of developing countries increased from 50 to 52 per cent, while that of Japan increased from 2 to 5 per cent. Europe's share, however, dropped from 44 to 39 per cent, basically owing to the decline in the United Kingdom's share from 19 to 14 per cent, and to smaller decreases in those of France and the Netherlands. Among the European countries, Germany's share increased sharply (from 3 to 7 per cent).

Europe's performance in the developing countries as a whole is therefore different from its performance in the world as a whole and in Latin America, as will be seen below. In the first case, the relative importance of Europe decreased, whereas in the other two it increased. This may apparently be explained by the different relative weight of Great Britain in the two cases, and by the ground lost by that country.

A European Economic Community press bulletin (17/78 of 11 May 1978) refers to the stagnation of the global flow of investment by the Community in the developing countries, and to a dramatic drop in long-term investment, especially in the mining sector, where the surveying expenses of the European firms in the Third World accounted for only 13 per cent of the total, compared with 57 per cent in 1961.

[70] These proportions are based on the number of affiliates established prior to 1970 (a total of 5 567 for the European countries referred to and 9 127 for the United States). This indicator is less representative than the capital invested in these affiliates or their output, but in any case it gives an idea of the relative importance of the growth of the European transnational corporations compared with those of the United States before and after 1965. The data have been taken from Lawrence G. Franco, "The European Multinationals", London, 1976.

[71] Data prepared by the Joint CEPAL/CTC Unit on the basis of OECD data; see annex table XII.

1. *European direct private investment in Latin America*

Total accumulated direct private investment from all sources in Latin America increased from around 17 thousand million dollars to around 30 thousand million dollars between 1967 and 1976.[72]

An indicator of the presence of foreign capital in the different Latin American countries may be obtained by noting the proportion of the gross domestic product of the Latin American countries accounted for by the transnational corporations in 1975. If Venezuela is omitted from the calculation, owing to the distortion caused by the presence of large-scale investment in petroleum in that country, this indicator was an average 5.5 per cent in 1975. Brazil and Panama were above this average, and Chile well below it. Somewhat below it were such countries as Argentina and Colombia, while Mexico and the majority of the remaining countries showed values close to the regional average.

For the years following 1967 there are no complete data by countries of origin and destination.[73] This restricts the analysis, makes it necessary to use sources which are not uniform, and also means that caution must be observed with the conclusions. With these remarks in mind, developments from 1967 to 1976 and the situation at the beginning of the latter year may now be considered.

Between those two dates, the market economy countries of Europe recorded an increase from 23 to 26 per cent in their share of direct accumulated investment in Latin America. The share of the United States, on the other hand, dropped from 66 to 61 per cent, and that of Canada from 6.5 to 4 per cent. Japan's share increased substantially, from 2.4 to 4.8 per cent. In short, the share of the United States decreased, that of Europe increased and that of Japan doubled.

Within Europe as a whole, some countries increased their share in the accumulated total of foreign investment in Latin America, while for others this indicator dropped substantially. Although there is no standard

[72] Alfredo E. Calcagno, *Informe sobre las inversiones directas extranjeras en América Latina*, CEPAL (mimeographed), January 1978. The data used were taken from OECD, *Les actifs correspondant aux investissements directs du secteur privé des pays du CAD dans les pays en voie de développement –état à la fin de 1967*, Paris 1972, and data supplied later by OECD. These data correspond to the 20 countries of Latin America, excluding Cuba, plus Guyana, Jamaica, Suriname and Trinidad and Tobago. The subsequent OECD data referred to were taken from the publication *Coopération pour le développement - examen 1977*. From the issues of this publication corresponding to data for 1974 and 1975 a decrease instead of an increase may be seen in the accumulated amount of investment. It is assumed that this must be interpreted as the stagnation of this investment, and not as being due to methodological causes.

[73] For these data and others, information supplied by the Joint CEPAL/CTC (Centre for Transnational Corporations) Unit has been used.

information to determine the comparable shares of the countries of Europe, that of the Federal Republic of Germany can be said to have increased substantially (by approximately 50 per cent over what it was in 1967), as did the shares of Switzerland (which more than doubled) and France, where there was a moderate increase. The relative share of the Netherlands dropped substantially (its percentage of the total dropped to approximately half of what it was in 1967), and that of the United Kingdom decreased moderately.

It is useful to observe the evolution of European private investment in Latin America in a long-term historical perspective. Up to 1914, the United Kingdom controlled nearly half of total direct private investment from all sources in Latin America, followed by the United States, France and Germany in that order.

This means that at that time Europe had a far higher percentage than the United States. Between the end of the First World War and the end of the Second, however, the United States increased its share considerably and came to exceed that of the United Kingdom, thus becoming the region's top investor: indeed, as far back as 1945 the United States was ahead of all the European countries together. In the same period, investment by the European countries came to a standstill. Of the latter, France substantially decreased its direct private investment in Latin America, even in absolute terms. From the end of the First World War until the mid-1960s, the predominance of the United States increased, but from the mid-1950s Europe resumed an upward curve in absolute terms, although its share continued to decrease in proportion to the whole for some years more. It was from the mid-1960s that Europe began to increase its share compared with the United States, as pointed out above. This increase in the relative importance of the European countries between 1967 and 1976 represents a partial recovery of the loss which they experienced in previous periods and especially during the immediate postwar period.

An analysis based on a differentiation by the number of affiliates established as opposed to investment shares, similar to that made at the beginning of the section for the whole world, leads to similar conclusions.

2. *Latin America in the world total of direct European investment*

The other question which should be asked is what weight Latin America had in total private investment of European origin in the whole world. Using data on the number of affiliates,[74] it may be observed that in 1971 the majority of European manufacturing subsidiary companies were situated in the European developed countries themselves and in the United

[74] J.W. Vaupel and J.P. Curhan, "The World's Multinational Enterprises: a Sourcebook of Tables", Boston, Harvard University, Graduate School of Business Administration, 1973.

States. Table 16 shows that 59 per cent of the subsidiaries of seven European countries[75] were located in the developed countries of Europe, the United States and Canada. Of the total number of subsidiary companies of the same seven European countries located in developing countries, the percentage established in Latin America (15 per cent) was larger than that established in Asia and Oceania or in Africa and the Near East. The case of the United Kingdom is different from that of the above seven countries: the majority of its subsidiary companies are located in Asia, Oceania, Africa and the Near East, as may also be seen from this table.

Table 16

GEOGRAPHICAL DISTRIBUTION OF THE MAJOR MANUFACTURING SUBSIDIARY COMPANIES

(Percentages)[a]

Country or region of the parent company	*Region in which the subsidiary company is installed*						
	United States and Canada	*Developed Europe*[b]	*Less developed Europe*[c]	*Latin America*	*Asia and Oceania*	*Africa and the Near East*	*Total number (100%)*
United States	13	35	4	27	15	7	4 246
Developed Europe excluding the United Kingdom	12	47	9	15	8	8	2 599
United Kingdom	13	26	3	6	27	25	2 265
Japan	5	1	2	18	65	9	479

[a]For the United States: data at 1 January 1968. For other countries: data at 1 January 1971.

[b]Including: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, United Kingdom, Sweden and Switzerland.

[c]Including: Spain, Portugal, Greece and Turkey.

United States subsidiary companies also tend to be located in developed countries, 48 per cent of them being in the United Kingdom and the other developed countries of Europe, but as far as the developing world is concerned, in this case too the largest share corresponds to Latin America (27 per cent). The case of Japanese subsidiary companies is somewhat different: the majority are located in Asia and Oceania (65 per cent), but even so more are located in Latin America (18 per cent) than in Africa and the Near East (9 per cent).

The same conclusion emerges from the data, incomplete though they may be, available on accumulated investment. In fact, the amount of European investment in Latin America appears to be similar to the total

[75]These seven countries are: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, Sweden and Switzerland.

amount of European, Japanese and Canadian investment in Africa. Assuming that Japanese and Canadian investment in the latter continent is not very large, it may be deduced that Latin America accounts for a rather larger (although not very different) share of investment of European origin than Africa, and very probably Asia, where it may be assumed that European investment accounts for a smaller sum than Africa.

3. *The situation in Latin America by countries*

Of the total accumulated direct private investment in Latin America from all sources at the beginning of 1976, the largest proportion was to be found in Brazil (31 per cent), Mexico (16.4 per cent) and Argentina (6.8 per cent); the rest of the countries together absorbed the remaining 45.8 per cent.[76] If Venezuela, whose situation is special owing to petroleum investment, is excluded, the figures change but the order of magnitude is maintained.

Brazil substantially increased its relative importance between 1967 (22.1 per cent) and 1976 (31 per cent).

If the countries of Latin America with the largest shares in direct total private investment from all sources are considered and European investment in each of them is compared with that from other sources, the following situation emerges.

In Brazil, European investment substantially increased its share of accumulated total private investment from 31 per cent in 1969 to 42.7 per cent in 1976 (see table 17). In the latter year, total investment from all sources amounted to around 9 000 million dollars (see annex, table XIII) according to the source indicated. Particularly outstanding among the European countries on account of the increase in their relative importance, and especially because of the considerable weight they thus acquired in the whole, were the Federal Republic of Germany (from 10.3 per cent in 1969 to 12.4 per cent in 1976) and Switzerland (from 6.1 per cent to 10.9 per cent between the same years). Investment by France, Luxembourg, the Netherlands and Sweden also increased more than proportionally. However, Belgium and Great Britain lost relative importance, while Italy simply maintained its share in the whole.

Among non-European developed countries, the relative decrease in the share of the United States from 47.7 per cent in 1969 to 32.2 per cent in 1976 (owing to less rapid growth than others) and in that of Canada is noteworthy. Japan, however, which accounted for only 0.3 per cent of total external direct private investment in Brazil in 1969, rose to 11.2 per cent in 1976.

More than half of the total direct investment made in Latin America in 1974 and 1975 by DAC countries went to Brazil, and if Mexico and Peru are added, 90 per cent of the total is accounted for.

[76] A.E. Calcagno, *op. cit.*

In Mexico (see table 17) the share of the main European countries[77] in the accumulated total of external direct private investment increased from 14.8 per cent to 19.6 per cent between 1970 and 1975, although of course this percentage was still much smaller than that of Brazil. The share of the United States, on the other hand, despite having dropped from 79.4 per cent to 72.2 per cent between the same years, remained overwhelming.[78]

Table 17

BRAZIL, ARGENTINA, MEXICO: SHARE OF INDIVIDUAL DEVELOPED COUNTRIES TOTAL DIRECT FOREIGN INVESTMENT

(Percentages)

	Brazil		*Argentina*	*Mexico*	
	1969	*1976*	*1969*	*1970*	*1975*
Germany	10.4	12.4	9.0	3.4	5.8
Great Britain	6.4	4.7	15.7	3.3	4.7
Switzerland	6.1	10.9	...	2.7	4.2
Netherlands	0.5	2.6	...	1.8	1.9
France	2.0	3.6	10.8	1.6	1.5
Italy	0.9	0.9	8.8	2.0	1.5
Belgium	2.2	1.2	...	...	...
Luxembourg	1.0	2.8	...	...	...
Sweden	1.0	2.4	...	...	...
Total Europe	*31.0*	*42.7*	*44.3*	*12.8*	*19.6*
United States	47.7	32.2	51.2	79.4	72.2
Canada	9.8	5.4	...	1.6	2.0
Japan	0.3	11.2	...	0.9	1.9
Total	*100.0*	*100.0*	*100.0*[a]	*100.0*[a]	*100.0*[a]

Source: Annex table XIII, based on the Bulletin of the Banco Central do Brasil, December 1977.

Annex tables XIV and XV, based on A.E. Calcagno, "Las inversiones directas extranjeras en América Latina", *op. cit.*, tables 17 and 20.

[a]The total used to determine the percentages is the sum of the countries for which data exist.

With regard to Argentina, data are available only for 1969 (see table 17), corresponding to direct private investment in manufacturing. In that year, four European countries[79] accounted for 44.3 per cent of total

[77]These countries are the Federal Republic of Germany, Great Britain, Switzerland, the Netherlands, France and Italy.

[78]See annex, table XIV.

[79]These countries were Great Britain, France, the Federal Republic of Germany and Italy (see annex, table XV).

foreign investment, while the United States controlled 51.2 per cent. This means that although only four countries are considered, Europe accounted for higher percentages of the total than in the cases of Brazil and Mexico. It is probable that these proportions have not changed substantially since then.

In the case of Venezuela, 73 per cent of the total accumulated direct investment in 1967 was accounted for by the United States and 23 per cent by Great Britain and the Netherlands together –mostly in the oil industry. After the nationalizations it is estimated[80] that 85 per cent of total investment was made by the United States, i.e., the majority of investment other than in oil in Venezuela originated in that country.

Panama is a special case because of its position as an international financial centre, which explains how in 1975 it came to have accumulated 2 300 million dollars of direct private investment. Of this sum, it is estimated that 80 per cent came from the United States.

4. *Foreign investment in Latin America by sectors of economic activity*

Considered over the long term, the sectors in which direct foreign investment in Latin America has been located have changed substantially, with a very large decrease in mining, petroleum and services, and a proportionally large increase in manufacturing. Although data are not available for investment from all sources, information on investment by the United States shows that between 1929 and 1976 the share of mining and smelting decreased from 21 per cent to 8 per cent of the total, that of petroleum from 17 per cent to 10 per cent and that of the other sectors (including public services, trade, agriculture and other sectors) from 55 per cent to 32 per cent. Investment in manufacturing, however, increased over the same period from 7 per cent to 50 per cent.[81]

The decrease in the proportion of direct investment devoted to mining and oil activities has been partly influenced by the nationalization processes carried out at various stages in many Latin American countries.

The substantial reduction of investment in public services, which was very considerable up to the Second World War, was also due to fairly widespread nationalization processes in the region. The share of trade and finance in some cases increased, and in particular investment in manufacturing activities, both in absolute and relative terms, rose substantially. The larger part of this investment was devoted to production for the domestic or sub-regional markets; only recently was some investment devoted to producing for export, especially in the case of United States

[80] A.E. Calcagno, *op. cit.*

[81] A. E. Calcagno, *op. cit.*, table 11. Information for 1976 excludes the Bahamas, Bermuda and other dependent territories where investment in services is proportionally much greater than in other countries of the region.

enterprises in what are known as the *maquila* industries (export industries using imported inputs) in Mexico.

In manufacturing, the relative importance of foreign exterprises compared with national public and private enterprises has generally been greater in sectors with vigorous demand and more modern technology. In the case of Brazil, foreign enterprises had a particularly large share in the ownership of assets in the electrical (61 per cent), transport equipment (63 per cent), machinery (46 per cent), rubber (61 per cent), and non-metallic minerals (35 per cent) industries in 1974; their share in the tobacco (99 per cent) and food (31 per cent) industries was also considerable.[82] Recent capital inflows have shown a strong preference for chemical industries.

In the case of Mexico there are no recent data on the proportion of investment by foreign enterprises in specific sectors. However, data on the sectoral destination of the investment of United States enterprises in that country also show a predominance of manufacturing, and within this sector, of the chemicals and machinery industries, which constituted half the accumulated investment in manufactures from this source. The *maquila* industries are also important in this country.

In the case of Argentina, European enterprises mainly devoted themselves to the motor-vehicle and steel industries (France), to buses and trucks, tractors, electrical articles and tobacco (Germany), and to motor-vehicles, rail equipment, rubber articles (especially tyres), electrical and office articles and steel (Italy). The United States enterprises, for their part, covered the motor-vehicle, metal, chemicals, rubber, food and textile industries.

Progress in the integration process in the countries of the Cartagena Agreement may be reflected in a relative increase in investment in the metal manufactures and machinery and chemicals industries, to judge by the interest shown by foreign enterprises in taking part in the development of sectors where the programming has already been decided upon (motor-vehicles, metal manufactures and machinery and petrochemicals).

B. Interest of European private investors in Latin America[83]

For the overall operations of the transnational corporations, the output of affiliates located in countries other than the home country represents a

[82] A.E. Calcagno, *op. cit.*, table 11 of the Annex.

[83] The reasons for this interest which will be analysed here generally apply to private investment from all sources (Europe, United States and Japan), but investment from other countries tends to be more enterprising and prepared to accept different conditions, as is explained in another section of this chapter.

very important element of expansion. A United Nations document[84] contains estimates regarding the operations of the transnational corporations of the United States, the United Kingdom, France, the Federal Republic of Germany and Japan in 1971. In that year, exports by these enterprises from their home countries amounted to around 150 000 million dollars, while the output of their affiliates situated in foreign countries was estimated at around 260 000 million dollars. Export figures from the home country and production figures for affiliates abroad can only be compared with reservations and only for certain specific aims. Despite this, however, the fact that for these countries the output of the affiliates was 1.75 times[85] the exports made by the transnational corporations from their home countries illustrates the importance of this output for growth potential, the obtaining of profits and the achievement of economies of scale in the effort to create technology, both for the transnational corporations themselves and for their home countries.

A similar conclusion is reached if the case of 50 major enterprises in the United States in 1970 is considered.[86] Among these enterprises are to be found some of the largest producers of motor-vehicles, capital goods (electrical and non-electrical machinery), electronic and computing equipment, chemicals, petroleum, foodstuff, etc. For 35 out of these 50 enterprises, sales abroad accounted for between 30 and 65 per cent of the total; for 22 of them, sales abroad accounted for 40 per cent or more of the total.

Information on profits is available for 30 of the enterprises: in 23 of them, profits obtained abroad accounted for between 30 and 98 per cent of the total, while in 17 of the 30 enterprises, profits obtained abroad were equivalent to or greater than 40 per cent of the total.[87]

[84] United Nations, *Multinational Corporations in World Development*, (ST/ECA/190), New York, 1973.

[85] For the United States of America and the United Kingdom the ratio is even greater than this average.

[86] A.E. Calcagno, *op. cit.*, based on the report of the sixth meeting of members of Congress and of the European Parliament, September, 1974, *The multinationals: their functions and future*, Washington, 1974.

[87] According to the same source, the proportion of profits obtained abroad is generally greater than the relation of sales abroad to total sales. This would apparently indicate that the operations of the affiliates are, proportionally, economically more profitable, although this observation should be considered with caution because it may be affected by the quality of the data. In a study published by the United States Department of Commerce (Survey of Current Business, *US Direct Investment Abroad in 1975*, by Obie G. Wichard and Julius N. Friedling), August, 1976, p. 40 onwards, there is a fact which points to a similar conclusion: for the group of enterprises considered, the declared rate of direct investment in manufacturing in 1975 was greater in Latin America (14 per cent) than in the developed countries (11 per cent). In this case too, however, there may be problems due to the quality of the data, the different risks involved in operations in different countries, and the different sectoral structure.

In the case of Latin America, exports by the developed countries of Europe as well as the United States and Japan to the region reflect only very partially and inadequately the magnitude of the interest of these developed countries and their enterprises in Latin American markets: in the case of several sectors which are very dynamic for European countries, such as motor-vehicles and transport equipment, capital goods and chemical products, the production of the Latin American countries themselves with direct and large-scale participation by European enterprises is greater than the exports of those same enterprises to Latin America from their home countries. However, production in the Latin American countries with large-scale participation by these transnational corporations also induces the purchase of parts and spares and equipment from the home countries of the corporations.

The share of European private investment in Latin America, then, is very substantial compared with investment by other developed areas and is on the increase; furthermore, Latin America absorbs a very large proportion of total European investment in the developing world —comparatively more than other areas— and clearly constitutes the most important area for many of the more dynamic manufacturing activities. These conclusions emerge from section A of this chapter, and raise two questions which will be dealt with below. These are:

1. How can the great interest of private investors and the transnational corporation operating in Latin America be explained?

2. What significance does this interest have for the countries of Latin America?

1. *Factors which explain the interest*

Among the important factors affecting this interest, the following may be highlighted: (a) size of the market; (b) cost of labour; (c) degree of manufacturing development, education and training of labour; (d) natural resources; (e) environment. These factors are discussed below after considering the degree of interest of the affiliates' operations for the transnational corporation as a whole.

(a) *Size of the market*

Simplifying the question in order to discuss it in general terms, three main types of goods may be distinguished here, although exceptions and qualifications are called for:[88]

(i) goods requiring simple and practically changeless technology, generally non-durable consumer goods;

(ii) consumer goods requiring medium, or high-level technology, mainly consumer durables;

[88] The groups presented here are similar to those identified in Chapter V, although in the interests of this analysis some sectors are omitted and the division of the groups is not quite identical.

(iii) basic capital goods and intermediate goods, mainly chemicals.

With regard to the goods in the first group, a large proportion of Latin American demand is covered by domestic production. The domestic market for these goods in already considerable in Latin America and will grow a great deal more as the large percentage of the population which is at present marginal is incorporated into the labour and consumer markets. Foreign investment and the transnational corporations generally speaking have little direct share in the production of these sectors in the Latin American countries, with some exceptions such as the tobacco industry.

Consumer goods of intermediate or high-level technology, generally consumer durables (motor vehicles, domestic appliances, etc.) and some non-durables, are in demand among the intermediate and high-level income strata. Bearing in mind the size of the population and the proportion of it which belongs to the intermediate strata,[89] the Latin American market for these goods already has a position of considerable importance among all the regions of the world. Taking the region as a whole, the size of its market for these goods is smaller than that of the developed and some developing regions. However, bearing in mind population growth projections, a reasonable hypothesis would be that the size of the combined Latin American market for these goods will increase more rapidly than that of other regions and will only be smaller than that of Southeast Asia and China, while it will be larger than that of the main individual developed areas and the other developing areas.[90] Of course, Latin America does not operate as a single market, insofar as it is not integrated, but neither are the other developing areas with which it can be compared. In constrast, the United States, the EEC, Japan, China and CMEA do operate in an integrated manner. In Latin America four major units at least must be distinguished: Brazil, Mexico, the Andean Group and Argentina. To increase the real demand for these goods, a large share of national savings is mobilized through credit machinery in order to acquire them. Advertising, the demonstration effect of consumption in more developed countries and the action of the transnational corporations themselves are also important elements in expanding demand in these sectors. The potential Latin American market would be still greater in comparison with developed areas if its problems of marginality could be overcome and the

[89] See Chapter I, section 10.

[90] France, Ministère de L'Industrie et de la Recherche, *Spécialization Internationale du Travail et Redéploiement Industriel*, pp. 73 to 76. This research study distinguishes 15 areas of the world: Black Africa, Latin America, East Asia, Australia, New Zealand and South Africa, Canada, the European Economic Community, China, Scandinavia, the United States, European countries with centrally planned economies, Mediterranean Europe, Japan, the Arab world, the Alpine countries and the Soviet Union. The measurement of the future size of the market exclusively based on population is a simplification, which means that these conclusions of the study must be taken only as approximate indications.

600 million inhabitants which the region will posses towards the end of the century could really be incorporated into the market.

The level of protection afforded to national industry by Latin American countries, which has declined but will continue to be significant and on average greater than in the developed countries over the next decades, contributes to ensuring a large market for the domesctic production of this type of goods.

The real future participation of transnational corporations in Latin American production in these sectors will possibly continue to be substantial: naturally, the modes of participation at present differ from one case to another and may evolve, in the future, from direct production in the hands of the transnational corporations to their participation in specific aspects of the production, marketing and distribution cycle, such as the supply of technology.[91]

The increase in the domestic output of the two groups of consumer goods mentioned and other not explicitly considered here generates the market for the goods of the third group, i.e., capital goods and chemicals. In this group the Latin American market at present and for the next 10 years may be calculated as being smaller than that of several of the main developed areas, to judge by the comparison made in the above-mentioned study.[92] However, the size of the regional market for these goods compares favourably with several others in the 14 areas mentioned in the study. In this case too the size of the Latin American market varies according to whether one may assume a real and substantial integration of the whole of the region, or alternatively, the continuation of the present division into four major units and other smaller ones. In any case, each of these four major units very probably compares favourably with a fair proportion of the units which make up effectively integrated markets in Asia or in Africa.

In this third group, too, the level of protection of domestic or regional production will presumably continue to be significant, and thus effectively ensure a market for domestic output.

In this group, the interest of foreign investors and the transnational corporations is considerable compared with other developing areas, and it should increase further as the region grows and these industries develop from the levels already reached.

(b) *Cost of labour*

This cost in generally considerably greater in developed countries than in the Latin American countries. Comparisons of this type should be made with caution, however, owing to the difficulties inherent in the differences in quality and significance of the information available for different countries, and because the data used here refer to periods as long

[91] See section C of this chapter.

[92] France, Ministère de l'Industrie et de la Recherche, *op. cit.*

ago as the years 1970 and 1972 in some cases, since which time the situation may have changed. Furthermore, productivity in physical units in generally greater in developed countries than in Latin America, which may wholly or partly offset and even more than compensate for differences in the cost of a unit of labour. For this reason the data given below are only useful as indicators to show the apparent existence of an important phenomenon.

In table 18 it may be seen that for manufacturing on average, the cost of an hour's work in Great Britain, France, Belgium-Luxembourg, the Federal Republic of Germany, Canada and the United States was between 2.9 and 7.1 times that of Brazil. Comparing these developed countries with Mexico, also for the average of manufacturing industry, an average hour's work in Great Britain, France, Belgium-Luxembourg, the Federal Republic of Germany, Canada and the United States costs between 3.3 and 8.3 times that of Mexico.

If the comparisons are made in respect of the operations of a single enterprise (specifically General Motors), large differences may also be seen. In comparison with Argentina, an average hour's work cost between 2.3 and 6.3 times more in Japan, the United Kingdom, Australia, the Federal Republic of Germany and the United States. In comparison with Brazil, the cost was between 4.1 and 5.6 times greater in the five countries mentioned, and in comparison with Mexico, an hour's work cost between 1.1 and 2.9 times more in the same five countries.

Taking average wages per hour in different assembly plants in some sectors, wages in the United States were 4 times higher in electronics, 4.2 times greater in semi-conductors and 6.3 times greater in machinery than in Mexico.

In the clothing industry, average wages per hour in the United States were 4.3 times those of Mexico, 5 times those of Honduras, 6.3 times those of Trinidad and Tobago and 6.7 times those of Costa Rica.

The differences were still greater in comparison with South Korea, Hong Kong, Singapore and Taiwan, although in these countries wages have apparently tended to increase in recent years.

Although a more profound analysis of this question would be out of place here, it is well known that a similar phenomenon is found in connexion with other developing countries, particularly North Africa and some Asian countries. There are still large differences in the cost of labour between the more industrialized countries of Europe and some Mediterranean countries of the same continent, especially in the more depressed regions of the latter.

The difference in the cost of labour offers an incentive for the transfer of some sub-sectors or operational sectors which make intensive use of skilled or unskilled labour from developed to some developing countries. This process has expanded considerably in recent years using a variety of methods: co-production, sub-contracting, transfer of plants (especially medium- or small-sized ones), and association between capital

Table 18

AVERAGE COST OF AN HOUR'S WORK IN INDUSTRY IN DEVELOPED COUNTRIES COMPARED WITH SOME LATIN AMERICAN COUNTRIES [a]

	Average for industry 1970 [b]		*Operations of General Motors at end of 1972* [c d]			*Average wages per hour in assembly plants* [e]			*Manufactures*			
						Elec-tronics	*Machi-nery*	*Semi-conduc-tors*				
	Brazil	*Mexico*	*Argen-tina*	*Brazil*	*Mexico*	*Mexico*	*Mexico*	*Mexico*	*Mexico*	*Costa Rica*	*Hondu-ras*	*Trini-dad and Tobago*
United States	7.1	8.3	6.3	5.6	2.9	4.0	6.3	4.2	4.3	6.7	5.0	6.3
Canada	6.1	7.2	1.0									
Federal Republic of Germany	4.6	5.4	4.1	3.6	1.9							
Australia			2.8	2.4	1.3							
Belgium-Luxembourg	3.8	4.4										
France	3.4	3.9										
United Kingdom	2.9	3.3	2.3	2.1	1.1							
Japan			2.3	2.1	1.1							

[a] Number of times the average cost of an hour's work in each developed country exceeds that in each of the Latin American countries, prepared on the basis of A.E. Calcagno, *op. cit.*, table 6.

[b] *Source:* Committee on Finance, United States Senate, Russel B. Long, Chairman, *Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labour,* Report to the Committee on Finance of the United States Senate and its Sub-Committee on International Investigation, Nº 332-69, under section 332 of the Tariff Act 1930.

[c] *Source:* Hearings before the Sub-committee on International Trade of the Committee on Finance, United States Senate, Multinational Corporations, Washington, February and March 1973.

[d] Total cost per hour, including complementary benefits, in local currencies converted into dollars at the rate of exchange at 20 February 1973.

[e] *Source:* United States Tariff Commission, *Economic Factors Affecting the use of the Items 807.000 and 806.30 of the Tariff Schedules of the United States,* Washington, September 1970.

from developed and developing countries to produce specific goods in the latter, etc.

This trend could also be affected in different ways by a further three factors: (i) more intensive competition among transnational corporations, especially among those from different developed countries, could accentuate it; (ii) the economic difficulties of developed countries and uncertainty about the world economy could slow it down in the short and medium term, as has already begun to happen; (iii) the different degrees of industrial development, labour skills and education in the different developing regions could influence to some extent the direction of the trend, depending on the level of skill and technology requirements in each sector of production. The first two factors mentioned are dealt with in section C of this document. The third is considered below in this section.

The difference in the cost of labour, in conjunction with the different levels of per capita income, has also produced labour movements from countries with lower income levels towards more developed countries. This is the case of migration from Mediterranean countries to more developed countries in Northern Europe and from Latin America to the United States. According to a recent study by UNCTAD, 20 296 experts and professionals emigrated from Latin America to the United States, Canada and the United Kingdom between 1961 and 1972, 80 per cent of them to the United States.[93] These migratory processes are not devoid of problems, and the loss of professionals and skilled workers which they represent for Latin American developing countries would perhaps not occur to the same extent if labour-intensive industries or processes were transferred from developed to developing countries on a greater scale.

(c) *Degree of manufacturing development, education and training of labour*

Although these elements could be dealt with separately, they are presented here as a group because they are closely related from the standpoint of this analysis.

Reference has already been made in Chapter I to the considerable degree of development achieved or on the point of being achieved by industry in many Latin American countries, subject to the appropriate differences depending on countries and sectors. This development takes the form of a diversified manufacturing structure, an industrial environment suitable for the establishment of new activities, and the already quite considerable experience of entrepreneurs, experts and workers in the operation of plants, production under efficient conditions, the solution of problems of marketing and financing of enterprises, etc. The gradual reduction of protection and the growing move outwards to win external markets which took place in the recent years are certainly linked with this

[93] A.E. Calcagno, based on UNCTAD, *La transferencia inversa de tecnología: dimensiones, efectos económicos y cuestiones de política*, Geneva, 1975.

development, in the form of a greater ability to produce under competitive conditions of cost and quality.

The general improvement in the level of education and especially the training of labour at all levels is another aspect of this development. This topic was dealt with in Chapter I in connexion with skilled labour. As already noted, in Latin America a large proportion of the population is already, in terms of training and experience, in a position to undertake the management of enterprises, professional activities and skilled manual work, and a very large and growing number of such persons are to be found in the cities, working in industry, commerce and other services.

According to the study already referred to,[94] the Latin American countries are in a less favourable position than the developed areas of the world as regards these factors too, but of course these are averages made up of very different situations according to countries and sectors.

The region also possesses a still limited but significant capacity of technological innovation and adaptation, as referred to earlier in Chapter I.

In brief, the "acquired" comparative advantages have been changing and are continuing to change with time for the countries of Latin America, in accordance with the development of each industrial sector. In manufacturing, where efficiency is closely linked to the above-mentioned availability of skilled labour and entrepreneurial capacity, experience in the production and handling of plant, capacity for technological innovation, the existence of an industrial environment, and the very process of installing and developing many manufacturing sectors which produce consumer durables and capital and intermediate goods has definitely helped to improve the comparative advantages of these countries for producing goods of this kind. Costs, quality and even the innovative capacity of Latin American countries have improved substantially over the last decade, so that these countries are now in a position to produce on a competitive basis even goods which require skilled labour and relatively advanced technology. The comparative advantages can only be considered dynamically and not statically, if it is sought to avoid a halt and even reverses in manufacturing progress.

Another way of expressing these factors is that Latin American countries have outward-looking economies which favour the continuing development of many of the sectors of industry already in existence, and open up the possibility of developing new sectors.

These factors enable a large number of Latin American countries to export manufactures, including metal manufactures and machinery and chemical products, and stimulate the interest of foreign investors in coming to the region and contributing to its production and exports. As noted in another section of this document, the possibility of exporting manufactures, the production of which requires a considerable and increasing degree of skilled labour, in turn conditions the possibility of

[94] France, Ministère de l'Industrie et de la Recherche, *op. cit.*

increasing the proportion of the population which will come to form part of those strata, and of maintaining the improvement in living standards of those who already belong to them. It is therefore not only possible but also necessary for the transnational corporations in Latin American countries to adapt to the shift towards exporting manufactures employing more advanced technology.

(d) *Natural resources*

The availability of abundant and varied natural resources –including energy resources– in Latin America has traditionally been an important element in attracting foreign private investment. In recent years, pessimistic projections of the future supply of some of these basic commodities for the developed countries, and the effects of the rise in oil prices, have increased the interest of such countries in ensuring a stable supply of mineral and energy resources in particular, and thus in associating with Latin American countries for the production and processing of these goods.

The traditional forms of participation of foreign private investors in the domestic production of minerals and energy have lost importance, and in some cases have tended to disappear because of nationalization and the interest of many Latin American governments in claiming sovereignty over their natural resources.

Interest in obtaining technology and capital from abroad for the extraction and processing of natural resources has stimulated the search for new forms of co-operation in keeping with the degree of maturity achieved by the Latin American economies and their needs. This is manifested, *inter alia*, in the methods which tend to be used to associate national public or private capital and foreign capital, and especially in the fact that in many cases –as in those where production or processing have been nationalized– certain services are bought without relinquishing any or all of the ownership of the production process to foreign hands. Long-term sales contracts to developed countries, in some cases in connexion with the provision of certain technological and other services, have also been introduced. This topic is dealt with below in section C of this chapter.

(e) *Environment*

Pollution of the environment has become an important item in world industrial policy and the location of economic activities over the last few years. The importance which the developed countries attribute to the problem and how to tackle it varies from country to country. However, in all of them the need arises, to a variable degree, for more investment and higher costs in some sectors, and this affects the comparative advantages of these countries *vis-à-vis* developing countries. The latter, of course, also face problems of pollution which cause considerable concern. However, their relative importance and the way in which they are dealt with may be

different, bearing in mind the other serious problems of mass poverty which they face.

The favourable conditions discussed in this section and their probable intensification in the future should strengthen the bargaining position of the region in negotiating the conditions of its relations with foreign private investment and with the developed countries which best answer its development needs. The extent to which this power can be used is another problem.

It should be mentioned that future developments in foreign private investment will also depend on what happens in the developed countries. In Chapter V consideration will be given to several factors which may determine the future international division of labour between Latin America and Europe.

2. *Possible contribution of direct foreign investment*

What can Latin America obtain from direct private investment in general, and from European investment in particular? Without attempting to expand this topic beyond the scope of the present document, some points may be mentioned briefly.

Firstly, it is indispensable that this investment should contribute effectively to promoting the development strategy measures defined by each Latin American country, which in turn take into account the needs and priorities of its current stage of development.

Furthermore, direct private investors and the transnational corporations must adjust to the rules and modes of action defined by the governments in each case; progress in the preparation of a code of conduct at the international level will ensure that the treatment the corporations receive will meet mutually acceptable standards of uniformity and moderation.

More specifically, three main contributions may be expected from direct private investment and the transnational corporations: (i) technology; (ii) better access to external markets of manufactures, including those employing more advanced technology; (iii) organizational skills. The first two would appear to be particularly important, bearing in mind that they are vital to the present stage of development of many Latin American countries, and in both of them the external contribution is fundamental. The question of access to external markets not only concerns direct foreign investment and the transnational corporations, but is also closely linked to the trade policies of the developed countries and to their policies for the restructuring of their industry. The fact that the spheres of influence of the decisions made by governments and private enterprises in developed countries are to some extent separate should not be any reason for preventing these questions from being dealt with and settled jointly. The interaction between governments and enterprises in developed countries for the purposes of winning external markets, including those of

developing countries, is very effective in many important respects; in Latin America, the use which governments make of their bargaining power will determine whether there is joint consideration of questions involving the transnational corporations and the policy of governments of developed countries with regard to exports of manufactures. As for the financial contribution of foreign direct private investment, while it is not negligible it does not appear to be the most important contribution from the point of view of Latin American countries. Of course, no general assertion can be made on this score since the situation differs according to countries and sectors. Some medium-sized and small countries in Latin America, with inadequate capacity for domestic savings and limited access to international public and private loans, may still attach considerable importance to this contribution. Indeed, both for these and larger countries, the scope of this financial contribution is of some relevance, particularly in the case of sectors which involve large investment, large-scale immovilization of capital and high risk. The relatively ready access which foreign direct investment enjoys with respect to international financial resources of origins different from that of the investing enterprise itself is also important. In any case, the financial contribution of the enterprises themselves and their countries of origin is usually of limited interest to recipient countries, at least in recent experience, as regards the average transnational affiliate.[95]

C. Norms and modes of operation of direct foreign investment, including the activities of the transnational corporations

The questions which will be dealt with in this section is to what extent significant changes are taking place or may take place in the norms which govern private investment and the transnational corporations, and in their modes of operation, in response to Latin American development needs.

Many countries in the region have three chief preoccupations: (a) to avoid all interference by foreign investors in internal political matters; (b) to ensure that these investors adapt their actions to the development strategy and policy orientations of each country; (c) to ensure that the modes of operation of foreign private investors are those which are most appropriate to the country's situation and needs.

Reference will be made at a later stage to the first and second of these questions. The third will be the central topic of the rest of this section.

With regard to the first question, the operation of transnational corporations has political implications which may be of importance. The report of a group of experts convened by the United Nations, in referring to their forms of action, states that "in home countries, they may attempt to influence foreign and domestic policy by utilizing their broad financial

[95] A.E. Calcagno, *op. cit.*

power and their often close relationship with government cadres. They can lobby for or against governments of host countries, depending on whether or not they receive specially favourable terms of treatment. In host countries, the affiliates of multinational corporations can seek to influence government policies in undesirable ways. Being closely connected with domestic groups favouring foreign investment, they can use their own or their parent company's resources to support particular political parties of their choice, and they can rally against groups advocating social reforms".[96] The sensitivity of governments and public opinion to these problems has increased in recent years.

The co-operation which the Latin American countries require from foreign investors with regard to technology, access to external markets and administration of enterprises and plants is indispensable for their development. Interest in finding formulae and machinery to avoid possible problems and ensure that this investment is in keeping with the development policies being followed has so far been clear and is increasing.

With regard to the second point –the adaptation of foreign investment to the development policies and strategies of the countries– the first requirement is for the governments themselves to establish clear policies and communicate them to the transnational corporations. For the sectors of industry which, for reasons of economies of scale, can develop more efficiently on the basis of subregional or regional markets, it is very desirable to define measures for co-ordinating policies among several countries so that it is the transnational corporations which can adapt their activities to the guidelines established by the governments, instead of these enterprises being the forces which in fact define the development criteria and orientations of the sector. In this connexion it is useful to compare in Latin America the cases of LAFTA and the Andean Group. In the former, progress with regard to complementarity agreements was very limited and in some cases practically non-existent, with the result that the transnational corporations chiefly had the initiative. However, in the case of the Andean Group, in the sectors reserved for programming, which are new and generally contain economies of scale, it is the countries themselves which define the development guidelines of each sector, the siting of plants and the specialization of each of the countries. The governments thus retain the initiative, and transnational corporations wishing to operate in that market adapt their actions by negotiating with each of the governments on the basis of the guidelines agreed upon by the five countries. The examples of the metal manufactures and machinery, motor-vehicles and petrochemicals sectors are cases in point. One very important aspect of the adaptation to official development strategies and policies is the concern of governments, especially in recent years, regarding the impact of

[96] United Nations, Department of Economic and Social Affairs, *The impact of multinational corporations on development and on international relations,* ST/ESA/6, New York, 1974, p. 45.

transnational corporations on the balance of payments. Balance-of-payments problems have once again converted the external sector into a limiting factor of development, and the effects of foreign investment in this respect have come under close scrutiny.

In the first place, transnational corporations influence imports. These corporations generally operate in sectors of industry where the import coefficients are higher than the manufacturing average. Their presence promotes the development of these sectors and in many cases encourages an increase in the consumption of goods with a high import content, which aggravates the tendency towards a trade deficit in the recipient countries. At the same time, their export coefficient is very small. In the main, the transnational corporations have been reluctant to export, except where investment has been conditioned on the export of part of the production. Tendencies of transnational corporations to export from Latin American countries are still incipient, despite their recent trend towards greater flexibility and despite the new modes and policies which will be discussed below. In the case of the United States transnational corporations which operate in Latin America, for example, half of their accumulated investment in 1973 corresponded to manufactures, and during the period 1973-1976, 94 per cent of their sales were destined for the Latin American domestic market and only the remainder was sent abroad.[97]

Secondly, there are the effects of intra-company trade and the problem of transfer prices, referred to later in this chapter, which may adversely influence the balance of payments, although it is difficult to evaluate this factor exactly. There are also the payments of profits, interest and royalties. For an idea of the impact of this type of payment, the example may be taken of United States investment in Latin America, which during the period 1966-1976 gave a negative balance on current account of 7 300 million dollars, resulting from the net outflow of capital from the United States to a value of 7 500 million and of net income to that country of 14 800 million in terms of dividends and interest.[98]

With regard to the adaptation of the transnational corporations to the development strategies of the countries, the case of the foreign banks operating in the region is important: they collect the national savings of

[97] A.E. Calcagno, *Informe sobre las inversiones directas extranjeras en América Latina,* January 1978; Fernando Fajnzylber and Trinidad Martínez Tarrago, *Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana,* Mexico, D.F., 1975; Daniel Chudnovsky, *Empresas multinacionales y ganancias monopólicas en una economía latinoamericana,* Siglo XXI, Buenos Aires, 1974.

[98] *Source:* US Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1977, vol. 57, Nº 8, p. 32. Also see Obie Wichard, *US Direct Investment Abroad in 1975.*

the countries in which they operate and serve as channels for granting them credits.

With regard to the third aspect mentioned –modes of operation in some countries of Latin America and in the rest of the world– there have been development in at least three directions referred to here: (a) regulation of foreign direct private investment by means of general or specific legal provisions, a possible code of conduc agreed upon internationally, and prescribed legal provisions issued at the level of a country or group of countries; (b) the definition of some areas in which the action of foreign private investment is either admitted, excluded or else admitted only subject to conditions; (c) negotiation and action on a case-by-case basis with specific foreign enterprises and the use of incentives to ensure that their modes of operation are more in keeping with national development objectives. An exhaustive review of developments in these fields in Latin America is beyond the scope of the present document, and moreover there is the problem of a lack of data, which can only be obviated by basic research. But the elements available do allow a preliminary review from which some tentative conclusions may be drawn. As will be appreciated, not only has the form in which these three elements (regulation, definition of sectors and case-by-case bargaining) have been used varied from one country to another, but the relative weight given to each in relation to the others has also been different. In some countries or groups of countries, governments appear to have attached greater weight to legal regulation than to case-by-case bargaining, while in others this individual bargaining was apparently used to a larger extent than legal regulation. Naturally, in most cases the three types of instrument were used: they are of course complementary and not mutually exclusive.

One of the main aims of these three complementary forms of guiding the activities of foreign investors in Latin America is to bring about the use of some of the new modes of co-operation between foreign investors and recipient countries worked out in recent years which may respond better than the traditional methods to the region's requirements.

Here the Latin American countries have potential advantages deriving from certain factors which will be highlighted in the course of this section: (i) the forms of operation of the transnational corporations are not static: on the contrary, they are evolving throughout the world, and there is a notable emergence of new modes and types of arrangements; (ii) the "newcomer" enterprises, in attempting to increase their presence in a particular region of the world, tend to be more flexible and offer more favourable conditions for penetrating oligopolistic markets, and they usually carry along with them the already-established enterprises, which must also become more flexible in order to compete with the new enterprises; (iii) a tendency to play a more active role *vis-à-vis* the transnational corporations through regulations, nationalization and individual

negotiations is to be observed on the part of governments of many developing countries, so that the action of the former will be more favourable to them; (iv) co-operation among countries in some cases has increased their bargaining power and manoeuvring capacity *vis-à-vis* the transnational corporations; (v) the inflationary recession in the developed countries and the uncertainty of the world economy have influenced the policies of transnational corporations with regard to investment in developing countries, while the energy crisis and the problems of the environment have also modified these policies and the sectoral pattern of investment; (vi) in some cases, public enterprises, with greater scope and economic and financial capacity, and with government support, are in a better position than medium-sized or small private enterprises in Latin America to bargain with the transnational corporations on an equal footing; deliberate and more energetic State policy in support of Latin American private enterprise, and the setting-up of multinational enterprises among several countries of the region, will no doubt reduce the shortcomings of local private enterprises. Naturally, the use made of these new trends depends on the resolution with which each government defines and applies clear policies in keeping with the new opportunities.

The remainder of this chapter will start by examining these new modes of co-operation and then go on to describe the forms of action which the Latin American countries are using to guide the activities of foreign private investors.

1. *Modes of co-operation and the experience of Latin America*

In the world in general and in the developing countries in particular, especially in Latin America, there are different modes of co-operation with foreign private investors and the transnational corporations. Without attempting to cover all the types, the following are presented here:

(a) Co-production and specialization agreements between plants situated in developed countries and plants belonging to local enterprises in developing countries;

(b) Sub-contracting;

(c) Co-operation arrangements limited to aspects of technology and marketing;

(d) Joint ventures.

(a) *Co-production and specialization agreements*

This is an importante and frequently used mode of co-operation. An analysis of it is of considerable potential interest to Latin American countries, both because it may become very widespread and because its characteristics lend themselves to making arrangements which fit in with the requirements of Latin American countries. It takes place when a plant belonging to a foreign enterprise located abroad and a national or regional public or private enterprise, or an affiliate of the same foreign enterprise

located in a developing country, share out between them the components or the types and models of a specific good, each one of them producing and marketing a part. A basic feature of this mode of operation is that the developing country imports certain of the sector's goods which it does not produce, but also exports others in which it specializes with the co-operation of the transnational corporation which facilitates those exports. Where –and this is extremely common in Latin America with the import substitution process– the enterprise or affiliate in the developing country only produces for the domestic market, this cannot really be considered co-production since it does not permit exports.

Where, under the terms of the arrangement, the transnational corporation exports exclusively to regional markets involved in integration processes, this again constitutes co-production, but only in a limited form, since it does not allow the developing country to penetrate the markets of developed countries.

Two cases may be distinguished within this mode of co-operation: *co-production* and *specialization*. In the case of *co-production*, both parties produce and trade among themselves components which are incorporated into the final article assembled by one or both of them. The foreign enterprise supplies part of the production equipment, licences and technical assistance. Once the plant located in the developing country is operating, the foreign enterprise supplies from its own country or another developed country the parts of the article which call for more advanced technology. In turn, the plant in the developing country prepares components whose technology and production are within the scope of this country's level of development: in the metal-transforming industries (production of capital equipment, motor-vehicles, etc.) there are a number of cases where components with fairly demanding requirements are produced competitively in Third World countries. The parts produced in developing countries will be those with the highest labour component and advantage is taken of the lower labour costs in these countries compared with the developed countries. The assembly of the finished article is carried out in the developed or the developing country according to the technological requirements involved and the relative labour and capital content of the process.

In recent years, significant examples of this type of co-operation have begun to appear in Latin American countries. Such is the case of Fiat and Volkswagen in Brazil and Nissan in Mexico: parts and components are produced in these countries and exported outside the region for incorporation in the production of the home countries of these transnational corporations, or for distribution by their marketing network. In a way, this is an extension of the form in which the motor-vehicle industry is organized in each developed or developing country: a large number of plants produce parts and components at a very specialized level and these are then incorporated into the final good in the assembly plants or used as spares. A similar form of organization can be used in other metal-

transforming industries such as those producing capital goods. In Japan, extensive use has been made of this method, linking large enterprises with medium-sized and small ones.

In the case of co-production, the foreign enterprise generally continues to keep the enterprise in the developing country up to date on the new technological changes which take place in the production of the good, when the initial installation period is over.

In the case of *specialization*, instead of distributing the production of the components among the plants situated in both countries, it is the production of the types or models of the final good which is distributed. As in the previous case, the types or models involving higher technological requirements, or those which because of their higher quality and cost require more expensive labour, are produced in the plant located in the developed country. The plant in the developing country, for its part, produces other models whose production is in decline or has been discontinued in the developed countries. This type of arrangement has been made recently in a few cases between Latin American countries and European transnational corporations in the motor-vehicle industry. Volkswagen has produced a car model in Brazil and a jeep-type vehicle in Mexico for export outside the country and outside Latin America. In the case of Argentina, Peugeot has continued to produce a car model for export outside the country and outside the region. In these cases, too, lower labour costs in the developing country make it possible to continue for a time the production of models which might not otherwise be competitive in the international market.

Cases of co-production and specialization where a leading role has been played by transnational corporations and production has been distributed among different developed countries have been frequent.

Plants installed in developing countries under these arrangements may remain in a situation of dependence upon the foreign enterprise possessing the technology and the access to the external markets. However, these problems can be handled through negotiation, especially if the developing country has a large domestic market and productivity advantages, some degree of industrial development, cheaper labour than developed countries, etc., all of which carry weight in the negotiations. Of all these factors, the most important in achieving greater bargaining power is the size of the market the country can offer to the foreign enterprise as well as the security it offers, in the form of some degree of protection *vis-à-vis* the exterior and, in the case of integration schemes, tariff or non-tariff area preferences. Comparing these arrangements with the subcontracting arrangements discussed below, it must be concluded that co-production and specialization are definitely better: the degree of dependence upon the foreign enterprise is less and it is easier to avoid its consequences, while the favourable effects of the plants on the rest of industry are greater (dissemination of technology, creation of new activities, labour training manufactured exports with more value added).

(b) *Sub-contracting*

Under this scheme, a firm in a developing country produces parts or components for a firm in a developed country, for incorporation in a final good in the country of origin of the latter, or else the sub-contractor carries out some stages of production, in which case the good is transferred from the developed to the developing country at a certain point in production, the agreed state of production is incorporated into it, and it is re-exported to be finished in the developed country. The stages carried out in the developing country are generally low-skilled and labour-intensive. The technical specifications are set by the foreign enterprise, which also provides technical assistance and equipment.

This type of arrangement is also made within both developed and developing countries between large enterprises and medium-sized and small ones.

In Latin America sub-contracting has acquired importance in recent years mainly in Mexico, with the *maquila* industries which have resulted in the installation of clothing, electronics and other plants, especially near the frontier with the United States. In 1975, the value added by such industries in Mexico amounted to 468 million dollars. The gross value of exports of these manufactures in that year was 1 020.6 million dollars, or 26.3 per cent of the country's total exports and 46% of total exports of manufactured products.[99] These operations have been facilitate in the case of United States tariff items 806-30 and 807-00, where the basis for payment has recently been established as the estimated value added abroad and not the total value of the import, in order to make sub-contracting possible through the transfer abroad of a part of some productive processes to take advantage of cheap labour.

The advantages of these arrangements for countries with surplus under- or unemployed manpower are clear in terms of providing employment and generating foreign exchange. From another point of view, however, the activities located in developing countries are in a very vulnerable position *vis-à-vis* the foreign enterprise, which at any moment may decide to transfer production to another country. Investment in the developing countries is generally minimal. In the great majority of cases, only low-skilled, low-wage labour is used. There is very little in the way of dissemination of technology or stimulus for the creation of other industries, i.e., external economies, since the semi-processed goods used are imported entirely from a developed country, with the sole aim of incorporating a labour-intensive process and re-exporting them. These limitations have led in the case of Mexico to an attempt to induce these industries to acquire other inputs in the country, and to locate them not

[99] Economic Commission for Latin America, *La exportación de manufacturas en México y la política de promoción*, CEPAL/MEX/76/10, August 1976.

only on the frontier but also in other regions so that they may be better integrated with the rest of the manufacturing sector.

(c) *Co-operation arrangements limited to aspects of technology and marketing*

These arise out of the tendency to break down private investment packages into their main components. It should be recalled that this investment mainly contributes technology, access to markets, organizational skills and financing. Traditionally, almost until the end of the 1960s, these elements came in a single investment package —the foreign enterprise was the owner or had a majority share of the capital and management of the plants established in developing countries with its participation. The new trend subsequent to this date in the majority of the developing countries, especially in those reaching a stage of semi-industrialization, consists in breaking down this package, and obtaining separately and independently the elements which each country requires. The ownership and management of the plants is thus no longer exclusively, or at least principally in the hands of the foreign investor. On the contrary, means are being sought of obtaining specifically those elements which the developing country does not have. Even the technology is broken down into its different parts or components, in an attempt to find in each case a source of supply which is cheaper and more suited to the conditions of the country, in terms of making more use of domestic resources for production, in order to promote the creation of a national capacity which will help to close the technological gap and at the same time gear production more specifically to local conditions.

These arrangements also avert or reduce some of the drawbacks observed in the case of exports made through intra-company transactions. As is well known, a large proportion of the exports made in the world by transnational corporations is composed of transactions between affiliates of the same enterprise or between these and the parent company. The fact that the same enterprise is both buyer and seller means that it is more difficult to check that the prices fixed really correspond to those of the competitive market for the goods, and that the developing country really obtains earnings corresponding to the value added by the activities of the enterprise in its territory and pays fair prices for the same goods imported by the enterprise itself. The well-known examples of prices being set at lower or higher levels than normal for the goods exported or for the inputs and equipment imported have made developing countries sensitive about the question of whether the earnings they receive as exporters and the prices they pay as importers are correct. Although the data on such matters should be considered as indicative, due to difficulties in judging their quality, the fact that intra-company transactions account for large proportions of exports of manufactures by transnational corporations must be significant: in the case of the United States, this proportion is

nearly 50 per cent in 1972, while it was 73 per cent in Brazil and 82 per cent in Mexico.[100]

In view of this, Latin American and other developing countries frequently prefer specific co-operation arrangements in technology and marketing. In such cases the developing country in question must have adequate knowledge of the alternative sources available in the world to obtain these elements, as well as the capacity to analyse the different alternatives bearing in mind its specific needs and decide between them from a technological, economic, financial, etc., standpoint.

In some cases an attempt is made to transfer technology to national enterprises, or to firms whose capital or management is to a majority degree in local hands, so as to combine this transfer with technical assistance in management and the training of personnel. In other cases, the transfer of technology is arranged without the provision of other services. These methods allow national enterprises to gain access to forms of transfer of technology which were traditionally reserved by the transnational corporations for their own affiliates or for situations in which they held a dominant position. In this case, the national enterprise shares production, export markets and the creation and adaptation of technology. In Brazil, some examples of new modes of transfer of technology involve petrochemicals, computers and aircraft construction. One case concerns the design and manufacture of civilian aircraft: the foreign enterprise provides technical assistance for the production of parts, assembly, quality control, etc. and has the right to export, but the Brazilian State enterprise can export too, probably using the distribution network of the foreign enterprise. Mexico, also, has achieved both greater national technological capacity and more selective and disaggregated incorporation of foreign technology. In synthetic fibres, for example, competi-

[100]On intra-company trade, see United States Senate, Committee on Finance, *Implications of multinational firms for world trade and investment and for US trade and labour, op. cit.*, p. 314 *et seq.* With regard to transfer prices (in particular possible undervaluations of imports and exports), see United States Senate, Committee on Foreign Relations, *Multinational corporations in Brazil and Mexico: structural sources of economic and non-economic power, op. cit.*, p. 19. *et seq.;* Constantine Vaitsos, *Intra-country income distribution and transnational enterprises,* Oxford University Press, 1974; Daniel Chudnovsky, *Empresas multinacionales y ganancias monopólicas en una economía latinoamericana,* Buenos Aires, Siglo XXI Editores, 1974, Ronald Muller and Richard Morgenstern, "Multinational corporations and balance-of-payments impacts in less developed countries: an econometric analysis of export pricing behaviour", in *Kyklos: International Review for Social Sciences,* Vol. XXVII, 1974 (reproduced in *El Trimestre Económico,* Mexico City, July-September 1974, Nº 163, pp. 665 *et. seq.*). In this last-mentioned article, estimates of the undervaluation of some exports by transnational corporations in Argentina, Brazil, Mexico and Venezuela are given, ranging on average between 40 and 45 per cent of the prices paid in the open market.

tion was encouraged between foreign enterprises of different origins, and the final selection took into account the provision of technical assistance both at the start and in the future and also the right to acquire separately the different technological components. In these and similar cases it is endeavoured to make the agreements for the transfer of technology more flexible for the developing country, to reinforce its capacity for the national generation of technology, and to improve its position as regards bargaining and selecting technologies.

The methods of transfer of technology range from those which are very systematic and complete, such as the "product-in-hand" agreements,[101] to more partial examples of sales of technical services or patents. We refer here, of course, to cases in which the national enterprise is free to export all or part of its production abroad: if production is only for the domestic market of the developing country, this is merely the well-known case of sales of technology which do not allow exports, and its analysis does not concern us here.

"Product-in-hand" agreements generally consist of the foreign enterprise selling the plant on a turnkey basis to the public or private national enterprise, initially training the technical staff and a certain proportion of the skilled labour, and later providing advisory services during the first years of operation of the plant until it is in a position to be run entirely by the developing country. This method may be of interest for relatively less developed countries when they tackle sectors where they lack not only the necessary technological grounding, but also the degree of general industrial development which would provide the environment and external economies to tackle such production by themselves. Naturally, this mode of operation will presumably prove more expensive for the country and for the national enterprise involved, with the result that they will not choose it when they are in a position to avoid doing so. Its consequences have some important features in common with the case where an affiliate of the transnational corporation, rather than a public or private national enterprise, is set up in the developing country, with a majority share of its capital and management in foreign hands, to produce specific goods.

In the other case of the sale of specific technical services or patents, the enterprise which is mainly nationally-owned acquires from foreign enterprises on a selective basis those aspects of technology which are not available in the country. This case is more interesting because it may prove cheaper and also opens up the possibility of selecting and combining technologies of different origins, in accordance with the characteristics and conditions of the developing country and the sector in question.

In Latin America cases along these lines have been common, but only for production for the domestic market. In the dealings between transnational corporations and European centrally-planned economies, on

[101] A.E. Calcagno, *op. cit.*, p. 99.

the other hand, there have been some cases in recent years where the agreement to sell technology also includes arrangements regarding sales of a part of the production outside the market of the producer country.

For the countries of Latin America which are reaching a stage of semi-industrialization, arrangements for the selective purchase of technology are also more advantageous in that they allow the development of a national capacity for design and engineering, which is essential for continued progress in the creation of competitive conditions for the export of manufactures. It is worth mentioning the case of Japan, which by law forbids United States engineering firms to operate in its territory. However, co-operation between external and national engineering firms in developing countries makes it possible to train nationals of the country and develop the latter's potential.

The examples already given for Brazil and Mexico indicate the beginning of a new stage for Latin America.

Specific co-operation in marketing and distribution in external markets may form part of a wider arrangement which also includes co-operation in production or, alternatively, it may take the form of an agreement which only concerns exports to international markets. For those machinery and chemical sectors where the developing countries also need to buy technology, there is generally combined co-operation in the production and marketing of certain parts and components produced by national enterprises or by affiliates in the developing country, which are distributed over the network of the foreign enterprise in external markets, or are incorporated in goods finished in and sold by the developed country.

The second case, restricted to marketing, may occur in more traditional sectors (food, clothing, etc.) where the developing country does not suffer from any substantial technological shortcoming as regards production, but where transnational corporations have trade marks, new forms of presentation, advertising machinery or distribution networks which make it possible to penetrate the markets of developed countries. For the developing country, the choice between an international distribution arrangement with a transnational corporation, or alternatively selling on its own account, which may require the setting-up of a special enterprise or distribution network in some markets of developed countries, constitutes a dilemma whose solution depends on the developing country's capacity, the competitive or oligopolistic characteristics of the markets to be conquered, and the marketing margins of the goods in question.

In Latin America these modes of specific co-operation in marketing are fairly recent. The examples quoted above for Brazil and Mexico illustrate these trends.

(d) *Agreements between two or more parties to carry out joint ventures*

These usually include capital, technology and management skills from one or more foreign enterprises and even from different developed

countries, combined with national elements from the developing country. In some cases, none of the parties has a majority share in the capital or management. The foreign enterprises supply the more advanced technology and facilities for export. Financing may be obtained externally and internally by means of joint efforts. National participation in such ventures is increasing, even in cases requiring technology of some importance.

Agreements to set up mixed-economy companies with shared ownership, signed between Governments or public enterprises of Latin American countries and transnational corporations, are increasingly frequent.[102]

2. *Instruments of orientation*

Bearing in mind these modes of co-operation among developing countries and foreign enterprises in the world and in Latin America, consideration may now be given to the instruments and methods which the governments

[102] Among these mention may be made of the agreements made by the Government of Brazil: (a) in the metal-transforming sector, setting up Usiminas Mecânica, with Gutehoffnung (Germany) and Nippon Steel (Japan); (b) in the iron and steel industry, Industria Metal N.S. Aparecida, with Thomas Firth and John Brown (United Kingdom); Usiminas, with Nippon Steel; Forja Acesita, with Sumitomo (Japan); (c) in petroleum, Petrocoque; (d) in aluminium with ALCAN (Canada); (e) in chemicals, Ciquine do Nordeste, with Adela (Luxembourg) and Royal Dutch Shell (United Kingdom-Netherlands); Ultrafertil S.A. with International Finance Co. (United States) and private Brazilian groups; Cía. Brasileira de Estirenos, with Koppers (United States) and Huels (Federal Republic of Germany); Oxiteno S.A., with IFC (United States) and local groups; Cía. Química do Reconcavo, with Morton Norvish (United States); Nitriflex S.A., with Goodyear (United States); Isocianatos do Brasil, with E.I. du Pont (United States); Salgema Industria Química, with E.I. du Pont (United States) and a private Brazilian group; Ciquine, with Mitsubishi (Japan) and a local group; Politeno S.A., with C. Itoh (Japan) and a private Brazilian group; (f) in mining, Termisa Terminais Salineros, with Morton Norvich (United States), and for bauxite, with ALCAN (Canada); (g) in telecommunications, Rio Grandense de Telecomunicações, Ericsson (Sweden) and the State Government of Rio Grande do Sul; (h) in automobiles, Fiat (Italy) and the State of Minas Gerais; (i) in electronics, the agreement with Ferranti (United Kingdom); (j) in atomic energy, with Urangesellschaft (Federal Republic of Germany). In other Latin American countries, cases include the following. In Venezuela, the agreement between the Corporación Venezolana de Guyana, Reynolds International (United States), Mitsubishi and Sumitomo (Japan), on aluminum. In Ecuador, CEPE (State-owned) and Texaco-Gulf (United States) for producing petroleum, and the Corporación Financiera - Comisión de Valores, a State company, and a Swiss group, for the watch industry. In Trinidad and Tobago, the Government, Kawasaki and Mitsui (Japan) and Este N.V. Hoesch Hoogorem (Netherlands), for the steel industry. (A.E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", *op. cit.*, p. 98).

of countries in the region are using to achieve forms of activity more in accordance with their needs and policies. These are of three kinds:

(a) Regulations;

(b) Definition of areas;

(c) Negotiation on a case-by-case basis.

(a) *Regulations*

Apart from certain restrictions common to all transactions with the exterior, especially in connexion with foreign exchange controls, up to the Second World War foreign investment was not, generally speaking, subject to any particular rules. Specific legislation began to appear after the war, including restrictions which ranged from the prohibition of investment in certain sectors of the economy (publishing, domestic transport, public services, etc.) to the prior authorization required to set up an enterprise (Chile, Mexico, Argentina). In Mexico, the Government reserved the right to make this authorization subject to the condition that, in certain cases, at least 51 per cent of the shares must be in the hands of nationals of the country.

A period of relative liberalism followed the acceptance of foreign investment, during which the companies slowly adapted to the import substitution process set in motion in the majority of Latin American countries.

At the end of the 1960s, there was renewed discussion on the need for regulations to govern foreign investment, and this led to various examples of legislation which will be commented on briefly below.

In the framework of the Cartagena Agreement, the member countries adopted unified legislation in 1970, contained in Decision 24 of the Agreement and modified by Decisions 37 and 37A of 1971 and 103 of 1976. This legislation defines a foreign enterprise as one in which national investors possess less than 51 per cent of the shares, or one in which foreign investors, even when national investors possess 51 per cent or more, control the management of the enterprise either technically, financially, administratively or commercially. It lays down that an authorization is required for all new investment, re-investment, contracts for the transfer of technology, external credits, and external payments in respect of remittances of profits, royalties or the repatriation of capital. Such authorization is to be granted provided the investment, which must be specified in detail, meets certain conditions aimed at protecting national industry.

Other elements contained in the text provide that:

– reinvestment of profits shall be limited to 5 per cent (increased to 7 per cent in 1976) of the invested capital per year; remittances of profits in convertible currency shall be limited to 14 per cent (increased to 20 per cent in 1976) of invested capital in any one year (this provision may be repealed by the Governments of the member countries);

– access to domestic credit shall be restricted to short-term credit only (in 1976 the maximum term was set at 3 years);

– the participation of foreign enterprises in the benefits of the tariff liberalization programme of the Cartagena Agreement shall be conditioned upon their transformation into mixed enterprises (that is to say, an enterprise in which between 51 and 80 per cent of the capital belongs to national investors) within a maximum of 15 years (20 for Bolivia and Ecuador) as from 1 January 1974.

It is interesting to note that foreign enterprises which devote 80 per cent or more of their production to exports outside the Andean region were exempted from all the above restrictions. In 1976, this exemption was extended to the enterprises operating in the tourism sector.

The regulations of the Cartagena Agreement are among the most complete in Latin America and are certainly those which have had the greatest impact on public opinion.

The Mexican law on foreign investment of 1973, in view of the free exchange system existing in that country, does not place any restriction on the repatriation of capital or on remittances of profits.

All foreign investment which acquires control of more than 25 per cent of the capital of an enterprise or 40 per cent of fixed assets, or which leads to control of the effective management of an enterprise, requires prior authorization by the Comisión Nacional de Inversiones Extranjeras (set up by this same law). Except in specific cases authorized by this Commission, foreign investment cannot exceed 49 per cent of a firm's registered capital, and participation in administrative organs cannot exceed the share of the capital.

All foreign investment must be registered in the Registro Nacional de Inversiones Extranjeras and the shares in foreign hands must be nominative.

Partial restrictions are also laid down for foreign investment in specific sectors (mining, secondary petrochemicals, and parts for motor-vehicles), while total restrictions are imposed in respect of investment in hydrocarbons, public services and basic petrochemicals.

Mention should also be made of Mexico's 1972 law on the trasfer of technology, under which the purchase of foreign technology must receive prior authorization and be recorded in a national register of all transfer of technology contracts.

In Argentina a law governing the participation of foreign investment in the economy was in force between 1973 and 1976. It provided *inter alia* for:

– compulsory authorization and registration, subject to certain conditions designed to safeguard national interests, including a prohibition on the purchase of domestic enterprises and even of shares belonging to national investors;

– prohibition or restriction of foreign investment in certain specific sectors;

– the possibility that the government may require the transformation of foreign enterprises into mixed or national enterprises over the short period of three years;

– fixed annual limits for the repatriation of capital and remittances of profits.

This law has since been replaced by another with a much more liberal régime for foreign investment. It classifies new foreign investment in three categories:

(a) investment requiring prior approval by the Government, with no period of time fixed for granting such approval (article 4);

(b) investment registered automatically (article 5);

(c) other investment requiring the prior authorization of the Government, which must be granted within a fixed period (article 6).

With regard to the right to remit profits and distribute capital, three situations are distinguished:

(a) periods of free exchange (international) when there are no restrictions on the purchase, sale or transfer of foreign currency; naturally, both registered and non-registered investors have this right;

(b) periods of exchange controls: only registered investors have this right;

(c) periods of exchange controls and of difficulties in external payments: the right of registered investors to remit profits and repatriate capital may be suspended. Only in the case of remittances of profits will the foreign investor be given bonds and debentures expressed in foreign currency (articles 11, 12 and 13), and the repatriation of capital may take place when there is no obvious difficulty in the external payments situation.

A special tax applies to registered foreign investors with respect to:

(a) payments of profits in excess of 12 per cent of the capital registered;

(b) the surplus product of the investment realized, in excess of the capital which can be repatriated (article 15).

This law governs the relations between the foreign mother company and its subsidiary in the country, and:

(a) recognizes them provided they respect normal market prices and practices;

(b) imposes restrictions on this principle in the case of loans and contracts coming under the law on the transfer of technology (article 20).[103]

In the case of Brazil, there are various legal provisions which define the treatment of foreign investment. They provide for:

[103] CEMLA, *Boletín Mensual,* Mexico City, vol. XXIII, Nº 2, March-April, 1977, pp. 96-105.

– total or partial prohibition on investment in certain specific sectors;

– obligation to use the register of the Central Bank through FIRCE (Fiscalización de Registros de Capitales Extranjeros), which issues a certificate of registration recording investment, reinvestment, changes in money values authorized by law, remittances of profits and other movements of funds;

– restriction of remittances of profits deriving from activities producing goods and services to an annual 8 per cent of the registered capital.

Compared with other Latin American countries, relatively wider use has apparently been made in Brazil of negotiation on a case-by-case basis rather than regulations to persuade foreign investors and transnational corporations to engage in activities which are favourable to national development objectives. This will be discussed below. Perhaps the reason for this is that the Government wishes to maintain greater flexibility in applying its policy.

In addition to the regulations mentioned, some countries (Brazil and Mexico) have modified their legislation on patents and trade marks, by reducing the period of protection on unused patents.

(b) *Definition of areas*

With regard to the areas in which the participation of foreign capital is admitted, excluded or admitted under certain conditions, the provisions contained in the laws of Mexico, Argentina and Brazil were already mentioned above.

Apart from regulations, nationalization was the main instrument used in the shift from the freedom existing before the Second World War to the present situation in which foreign investment is often restricted or prohibited in certain sectors.

Two main periods of nationalization may be distinguished —one immediately after the war (1945-1954) and the other at the end of the 1960s and the beginning of the 1970s (1968-1975).

Up to the 1960s, foreign investment in Latin America was principally directed to public services and the mining sector. These activities were the target of the nationalizations carried out following the Second World War.[104] Encouraged by the substantial amounts of foreign currency accumulated during the war and the favourable conditions in international trade, in this period many countries (especially Argentina, but also Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela) nationalized the greater part of their public services owned by foreign companies (railway, telephone and electricity companies).

[104]The expropriation of the Mexican oil companies in 1938, which preceded the process analysed here, should be mentioned.

In the same period a movement to control the primary industries (generally mining) developed in the region, and in a few cases it took the form of nationalization (as in the case of the tin mines in Bolivia in 1952 or the expropriation of the United Fruit Company begun in Guatemala in the same year).

In addition to the very special case of Cuba, the second wave of nationalizations in Latin America began around 1968 and were aimed almost exclusively at foreign investment in the mining sector. In Peru, mining enterprises which almost entirely belonged to the United States, including the International Petroleum Corporation, Gulf Oil, Cerro de Pasco and Marcona Mining, were nationalized. The same was done in 1971 in the Chilean copper mining industry, which accounted for around one-third of the United States' total mining investment other than in oil in the region, the main companies affected being Kennecott and Anaconda. In the same year the bauxite mining industry in Guyana was nationalized.

In the petroleum sector, Argentina nationalized the production and refining of petroleum in 1964, but three years later it returned part of the assets to the foreign enterprises and increased their share in the sector. As from 1 January 1976, Venezuela nationalized all the assets of the petroleum enterprises. The governments of Trinidad and Tobago in 1974 and Ecuador in 1977 acquired the property of the main petroleum companies in both countries.

As a result of these measures, the share of the mining and petroleum sectors in the total sum of foreign investment in Latin America has diminished notably. In the case of the United States, this percentage had already dropped to 19 per cent in 1975, from 49 per cent in 1960, and very probably it has decreased sharply in the last two years as the result of the nationalization process in Venezuela.

This does not mean that direct foreign investment in the region's mining sector is going to disappear, since investment of some importance is still taking place, such as Japanese investment in Brazil, or United States investment in Chilean copper.

These nationalizations in the public services and mining sector were accompanied, particularly in the last fifteen years, by very large increases in investment in sectors of industry where, with few exceptions, the countries of the region allowed foreign investment, whether regulated or otherwise.

(c) *Negotiation and incentives on a case-by-case basis*

Negotiation and action on a case-by-case basis for each sector of production or each foreign investment, and the use of incentives, are important instruments whose effectiveness is linked to, although not exclusively dependent on, the bargaining power of each country as determined by the factors analysed in the last section of this chapter, in particular the size of the domestic market. From this standpoint the larger economic units of Latin America, such as Brazil, Mexico, the Andean

Group and Argentina are in a better bargaining position than the other groups and individual countries: a co-operation policy covering the whole region and providing reasonably dependable access to the Latin American market as a whole by means of preferential trade agreements would further increase this bargaining power.

With regard to European private investment in particular, it may be recalled that: (i) in recent years private investment by European enterprises throughout the world, and apparently in Latin America too, has increased more rapidly than that of the United States, which would indicate that European enterprises have achieved a larger share of external markets; (ii) since the beginning of the 1970s, the rise in wage levels in these countries to levels approaching those of the United States, and the falling value of the dollar in relation to some European currencies, have tended to reduce the competitiveness of the exports of some of these European countries, and to increase their interest in setting up subsidiaries in developing countries; (iii) in Latin America, these European enterprises are still generally in a minority position compared with the United States. In view of the above, credence may be given to the frequent affirmation that the attitudes of European transnational corporations and private investors are generally more flexible, in that they accept more favourable conditions for the Latin American countries so as to gain entry to them or increase their share in their markets. The newcomers must offer more favourable conditions in order to penetrate oligopolistic markets, although not all European countries have the same attitude to winning of markets: some, like Germany, are more active than others, for example Great Britain. The fact is that the transnational corporations of the United States are no longer dominant in some sectors, especially in increasing foreign investment. In order to protect themselves from growing competition from the newcomers, the transnational corporations of the United States must also increase their flexibility and accept new conditions, which will be more favourable for Latin American countries. This, of course, varies from one sector to another. These new conditions include: the export of part of production towards markets outside Latin America; association with Latin American capital; a better disposition towards accepting the breakdown of the private investment package into its components of technology (and this in turn into its different parts), marketing, management and financing; better conditions for the transfer of technology, etc.

These negotiations and incentives are generally aimed at procuring a better adaptation of the activities of private investors and the transnational corporations to the development strategies and policies of each country, and obtaining modes of operation more in accordance with each country's characteristics and needs.

Incentives and other similar forms of action have been applied to an increasing extent. In the Brazilian motor-vehicle sectors, for example, as part of the negotiations to allow the establishment of a plant in the

country, the foreign enterprise undertook to make a specific amount of exports per year, while another enterprise in this same sector located the production of a forerunner of the latest model in Brazil for export to the international market. Also in Brazil the amounts exported by each of the main foreign enterprises, compared with their import requirements, are published periodically, and some enterprises can obtain special benefits in exchange for exporting each year an amount which offsets the outflow of foreign currency which the enterprise itself causes through imports, royalties and remittances of profits. In any case, the mere publication of these amounts constitutes a form of influencing the conduct of the enterprise through public opinion.

In Mexico, too, a foreign motor-vehicle company was induced through negotiation to export parts and components to the home country, and something similar took place in Argentina with another motor-vehicle company which set up production of a successful model which still had a market but had ceased to be produced in the home country.

The growing preference of Latin American countries for foreign capital to function in association with national public or private capital, and not alone, also stems from the desire to achieve a greater degree of national control over important economic decisions and to increase local participation, so as to be able to progress in the acquisition of a basic technological and industrial capacity in order to operate on a competitive basis. This association has mainly been obtained through negotiations at the moment when the foreign investment enters the country or when a project is started, or by means of regulations, as in the case of the Andean Group. The examples of mixed enterprises quoted above for Brazil were obtained, generally speaking, through negotiations on a case-by-case basis.

These instances of negotiations on a case-by-case basis and of regulations are recent; they are proving positive not only because they facilitate the development of national technological capacity but also because of their excellent effects on the balance of payments and the country's decision-making capacity. The national enterprises are strengthened and modes of operation are achieved which are better suited to the needs of these countries. A growing predisposition may be observed on the part of the transnational corporations towards flexibility in relation to these trends and to acceptance of changing conditions within certain limits, since the benefits they obtain are wholly acceptable and the arrangements are much more stable, which clearly reduces the economic and political risks they run.

3. *The special case of minerals*

While investment in mineral resources has features in common with the above case, it also presents a number of special characteristics.

Up to the Second World War, the main form of producing and processing minerals in Latin America was long-term concessions and

package investment in which financing, technology, organization of production and marketing were all provided together, the minerals frequently being exported with a low degree of processing. Faced with the policies of Latin American governments aimed at nationalizing the ownership of natural resources and increasing the degree of processing in their countries, external private investors showed flexibility towards new modes of operation which were more in keeping with these new policies. The interest of Latin American countries in exporting minerals with a higher degree of processing, and in taking a greater part in their international transport and distribution, is clear, bearing in mind that at present those countries only obtain a fraction –sometimes rather small– of the final price which the consumer pays.

By dividing up the investment package, the transnational corporations provide Latin American enterprises or governments with modern technology for mining or processing; draw up risk contracts for surveying in such a way that the remuneration of the foreign enterprise is dependent on the discovery of resources; take part in the international marketing of raw or processed mineral resources; and make long-term purchase contracts sometimes tied to the provision of technology or to the association of foreign investment in the production or processing of the resources, sharing in transport and utilizing specialized technology. The interest of the developed countries in ensuring a regular supply of certain minerals encourages them to accept these new forms of co-operation, which in some cases take place with the direct or indirect participation of their governments.

The conditions of co-operation have been changing not only with respect to the moment when production begins, but also subsequently. Before the nationalization of the foreign oil enterprises, the governments of Venezuela and of other oil-exporting countries progressively increased the share of the final price which remained in the producer country. In some cases, these countries did this by applying taxes or other policy measures, bearing in mind the specific factors influencing at any given moment the real possibility of modifying these shares.

IV. FINANCING

A. Changes in the external financing of Latin America[105]

In the last few years some important changes have taken place in Latin America in the field of external financing:

(a) The current account deficit on the balance of payments of non-oil-exporting countries of the region has increased strongly, both in absolute terms and in comparison with exports. Although in 1977 the deficit dropped to 16.7 per cent of exports, a ratio not very different from that corresponding to the 1966-1969 period, the price paid for this drop was a heavy sacrifice in the rate of economic growth, since the gross domestic product of the region increased by only 4.4 per cent in 1977, compared to the 6 per cent anual average for the 1966-1969 period. The domestic social implications of this reduced growth rate have been pointed out in earlier chapters.

The world recession, for its part, has affected the growth rate of Latin American exports. In order to deal with this, the countries could either restrict their economic growth rates to such levels as their lower import capacity allowed, or borrow more. In practice, they have opted for a combination of both alternatives. Thus, balance-of-payments deficits and the corresponding foreign debt have been the instruments used by the Latin American countries to prevent problems such as unemployment and critical poverty from becoming even more acute. At the same time, these policies have helped to avert a more serious drop in the growth rate of world trade, and also helped developed countries, from which the Latin American countries by most of their imports, to tackle own balance of payments, employment and recession problems.

(b) Public sources have, to a considerable degree, lost their relative importance as providers of external funds for Latin America, and the region has tended, save in exceptional cases, to be excluded from concessionary financing. Furthermore, its participation in non-concessionary public sources has decreased considerably. Conversely, there has been a steady increase, both in absolute and relative terms, of funds from the private sector, particularly from banks.

(c) The conditions of external financing have deteriorated. Grace-periods and terms have generally been reduced, and rates of interest have risen. As regards Eurocurrency credits granted by banks (which constitute

[105]This section summarizes and updates some of the main conclusions appearing in recent studies undertaken by CEPAL. See *The economic and social development and external relations of Latin America* (E/CEPAL/1024/Rev.1) and *Dos estudios sobre endeudamiento externo* Carlos Massad and R. Zahler, CEPAL Cuaderno Nº 19 (Spanish only).

an important part of the funds required by non-oil-exporting Latin American countries) to all the developing countries, in 1974 48.5 per cent corresponded to credits with terms of over 7 years, whereas in 1976 this proportion had dropped to less than 5 per cent.

(d) As a result of these developments, the foreign debt of non-oil-exporting Latin American countries[106] rose considerably from 37 000 million dollars in 1973 (150 per cent of goods and services exports) to 82 000 million in 1976 (220 per cent of goods and services exports).

(e) The growth of the debt and the deterioration of lending conditions has caused greater attention to be paid to the ratio between debt servicing and exports in many countries. Debt servicing payments have so far not represented a serious problem, since exports continue to show relatively buoyant growth, but if this increase in exports were to slacken, such payments would affect imports more seriously and foreign debt would become a more important problem for many of the Latin American countries.

(f) The fact that a considerable part of Latin American external financing comes from private sources makes many of the countries in the region very sensitive towards maintaining their creditworthiness.

B. European financing[107]

Net flows from Europe to Latin America have lost relative importance in the total external financing of the region although they have increased in absolute terms. Between 1969 and 1973 these flows remained relatively stationary, ranging from 800 to 950 million dollars per year but they increased by almost 70 per cent in 1974 and totalled over 1 820 million dollars in 1975.[108] The European share of total external financing, however, dropped from about 32 per cent in 1970 to 16.2 per cent in 1972, rising to 25 per cent in 1974.

Of the total 8 000 million dollars representing the net cumulative European flows towards Latin America between 1969 and 1975, by far the greatest part (92.5 per cent) came from EEC countries. Special

[106]This refers to officially guaranteed debt and to the estimated long-, medium- and short-term bank debt without official guarantee outstanding at the end of each year.

[107]The lack of available information has made it necessary to use various sources to prepare this section. In some cases these use definitions and criteria which do not coincide with one another, and an attempt has been made here to bring these sources into line. The conclusions, should, however, be interpreted with some caution. The European member countries of CMEA are not included.

[108]Data on European participation in capital flows received by Latin American countries were prepared on the basis of information supplied by OECD and figures published by the IDB.

mention, because of its importance and growth, should be made of the flow from France (a little over a quarter of the total)[109] West Germany (20.8 per cent) the United Kingdom (18.5 per cent), Italy (15.7 per cent) and the Netherlands (8 per cent).

Five groups of Latin American countries may be distinguished:

(i) Brazil and Argentina, for both of which European participation in external financing is important. In 1975 these countries absorbed 37.5 per cent and 15.5 per cent respectively of the net resources coming from Europe;

(ii) Countries in which the participation of European external financing is quite important but somewhat irregular: Chile, Peru, Bolivia, Venezuela, Costa Rica, Haiti and Jamaica;

(iii) Countries in which European participation is decreasing: Mexico (which, however, in 1975 was still absorbing 6 per cent of the resources coming from Europe), Cuba, Ecuador, Guyana and, to a certain extent, Trinidad and Tobago. In the particular case of Uruguay, not only has European participation been decreasing, but the overall balance for the period between 1969 and 1974 has been in Europe's favour;

(iv) Countries in which European participation is of limited relative importance or of small magnitude: Colombia, the Central American countries, the Dominican Republic and Paraguay;

(v) The three offshore financial centres of the region (Panama, the Bahamas and Bermudas) jointly negotiated a high proportion of the resources received from Europe in 1975. This does not imply, however, that the final destination of this capital has always necessarily been Latin America.

The remainder of this section will deal with some of the principal components of European financing for Latin America: medium- and long-term capital markets, banks, suppliers' credits and official flows.

1. *Medium and long-term private markets*

The problem of access to European bond markets is highly interesting for Latin American countries. Throughout the nineteenth century and the beginning of the twentieth, many Latin American countries resorted to British, French, and even Belgian and German capital markets by floating loans or issuing bonds to finance public works. The crisis of the thirties put an end to a long phase in the relations between Europe and Latin America in this sphere. During the next forty years there were no new issues of Latin American bonds in any European market, and although at the beginning of the sixties there were some cases of isolated operations, it was onlv with the entrance of the IDB to the Italian market in 1962 and

[109]Transfers from France to French overseas territories in Latin America have not been included.

two years later to the British and German markets that a new stage in the Latin American presence in European markets began. From 1966 onwards this presence was expanded with the first placements of Mexican, Brazilian and Argentinian bonds in the Euromarket.

In view of their individual characteristics it might be advisable to examine briefly the differences existing between national European capital markets and the so-called Euromarket.

In most of the European markets, all types of bond issues and regulated by the legislation existing in the country where they are made. Besides protecting the national investor, this legislation also establishes the priority of national bond issues, particularly those of the Government or of State entities, and to this effect, maximum amounts per issue are fixed and a system of prior authorizations and waiting lists –which do not always respect the order in which the applicants appear– is established. Several countries also have regulations restricting the purchase of foreign bonds by institutional investors (insurance companies, social security bodies, etc.).

The above reasons, often combined with ignorance about the solvency and reliability of the country making the issue, and sometimes with insufficient regulation by developing countries of their own bonds in the secondary market, have considerably restricted the access of most developing countries to European capital markets. This accounts for the fact that, in the case of Latin America, only Mexico has had regular access to some of those markets in the last decade, together with Brazil in recent years, and still more recently Argentina.

The distinctive characteristic of "international issues" or Eurobond issues (i.e., those made in the Euromarket, or "international market") is that they are made in more than one country, with a currency that is not the one used in the country where they are placed. The issue of Eurobonds is less regulated than issues in national markets.[110] The most important limitation lies in the fact that countries possessing a strong currency tend to discourage issues in their own currency. This affects in particular bond issues in Swiss francs and German marks, and the latter are in fact treated like bond issues made in the German market. These limitations explain why most Eurobond issues are made in dollars. Moreover, in the remaining European markets international issues are ruled by the same system of waiting lists as those in national currencies. Similarly, institutional investors are also subject to regulations in relation with the purchase of Eurobonds.

For the purposes of the present study, another difference between these two kinds of issue should be analysed before considering the degree of European participation in the absorption of Latin American bonds.

[110]Particularly because they are not subject to maximum limits and because they do not have to fulfil all the numerous requirements in force in some countries in matters related to information on issue and the issuing entity.

It may be assumed that all or most placements in individual European markets are absorbed by nationals of the country making the issue or by foreigners who own funds deposited in the country. In contrast, given the peculiarities of the Euromarket it is impossible to determine the nationality of the ultimate possessors of the bonds issued. There is practically no systematic information on the destination of this type of issue and it can only be assumed that a large part remains in the hands of the banks taking part in their placement and that approximately half of all Eurobonds are finally placed in Switzerland.[111]

For these reasons, the only possible way of evaluating European participation in the placement of Latin American bonds is in terms of the market in which the issue was carried out, in the case of issues in national markets, and of the currency denomination in the case of international issues (Eurobonds).

An important aspect which is worth stressing is that Latin American placements in European markets represent only a very small proportion of the total placements there. This implies that on the one hand, Latin America has made very little use of these markets, partly because of problems of access to them, and on the other, that the access of medium- and small-sized countries of the region, which until now have had little or no participation in this market, would not necessarily involve competition with issues by larger countries of the region which already have a certain access to it.

(a) *Issues in the national markets*

Between the early sixties and mid-1977, Latin America issued bonds in European markets amounting to 1 114.6 million dollars. This figure equals 29 per cent of all placements of the region for the same period. European participation in Latin American placements has been irregular and does not show any definite trends.

Of this total amount, a little over three-quarters (838.2 million dollars) was placed by the IDB to finance Latin American development projects. The Latin American beneficiary countries include, in particular, Mexico, Argentina, Peru, Jamaica, Trinidad and Tobago and Ecuador.

The European market where the most placements were made was Switzerland (491.3 million dollars or 44.1 per cent of the total), followed by West Germany (26.3 per cent of the total) and Italy (11 per cent of the total). The limited amount of placements in France and the United Kingdom contrast with their importance as financial markets, with the intensity of their financial links with Latin America in the last century, and with the present-day importance of their trade relations with Latin America.

[111] See Development Assistance Committee Secretariat, *Report on regulations and practices affecting capital market access* and OECD, *Financial market trends,* June 1977.

The main problems Latin American countries have to face in connexion with placements in national European markets include institutional aspects related to European markets and existing regulations on bond issues; lack of knowledge on the part of European investors about the Latin American governments and institutions issuing bonds; guarantee problems; and lack of knowledge on the part of Latin American countries (save the largest) about the procedures and *modus operandi* of European markets.

(b) *Bond issues in the international market*

Between 1966 and the first half of 1977, the Latin American countries placed a total of 938 million dollars in bonds in European currencies in the international European market. These placements increased enormously in 1976 and 1977, amounting to 253.9 million dollars in 1976 and 304.1 million dollars in the first half of 1977 alone.

This shows that as from this period some Latin American countries have started once again to make substantial issues of bonds, a practice which had been almost negligible since before the Second World War.

Among Latin American countries, as in the case of issues in European national markets, Mexican bond issues were predominant in 1976 and in the first half of 1977, amounting to 535.6 million dollars (57.1 per cent of the Latin American total) in this period, followed by Brazil with 35 per cent of the total over the same period.

The principal currency in which these issues were made was German marks (832.7 million dollars, representing 88.7 per cent of the total). Issues were also made in Dutch florins and in units of account of the European Economic Community.

Banks

The following information refers only to outlays by private banks in the form of officially-guaranteed loans with a term of over twelve months. Consequently, substantial amounts of credit from private banks are not included.[112]

[112]The series used to determine European participation in the external financing of the region provided by banks are those published by the World Bank relating to private bank outlays, for loans exceeding twelve months, made to official organizations or those with official guarantee. Short-term loans have therefore been excluded, and only effective loans have been considered. For Chile and Mexico information is available only for the period 1971 to 1975. The data include loans made by European banks, particularly where these are members of consortia providing loans to Latin American countries in the Euromarket, as well as direct loans from European banks and governments to public and private organizations in Latin America with official guarantee. They therefore also exclude operations carried out by the private sector without official guarantee, which, in the case of Euromarket operations, account for a considerable percentage of the loans received by some Latin American countries.

European banks disbursed 6 128.6 million dollars on long-term loans to Latin America. The figure does not include loans received by Chile and those received by Mexico in 1976.[113] Most of these loans (90 per cent) were absorbed by four contries: Brazil, Mexico, Argentina and Peru. Other Latin American countries which draw regularly upon European banking sources are Colombia, Guyana and Uruguay.

Financing provided by foreign private banks to Latin American countries has important economic and financial implications for them. On the one hand, these funds have in many cases been obtained more quickly and with fewer requirements than those obtainable from international finance institutions or from bonds; this may account for the intensive use that Latin American countries have made of this source. On the other hand, the possible future consequences for Latin American countries of having substantial debts with foreign transnational banks are not always clear. These banks have in some cases consulted the IMF on the credit-worthiness of the borrowing country when granting substantial loans or renegotiating a loan. However, there is no established set of rules in this matter, and private banks may decide to apply their own rules and conditions for granting or renegotiating loans.

In the period under consideration Brazil received 2 084 million dollars in this way, which is 34 per cent of the total; European loans amounted to 28.6 per cent of the total of effective loans made by private banks to Brazil between 1969 and 1976.

Mexico received 2 074.7 million dollars up to 1975, which represents 33.8 per cent of the total; between 1971 and 1975 European loans accounted for 27.5 per cent of the bank loans made to Mexico.

Argentina received 957.6 million dollars, i.e., 15.6 per cent of the total. European loans represent an important but variable proportion of the total of loans received by Argentina.

Peru received 355.8 million dollars, 5.8 per cent of the total.[114]

On the lending side, countries which form an important part of the Eurodollar market played a notable role: the United Kingdom (3 302.5 million dollars, representing 53.8 per cent of the total); France (1 115.2 million dollars, 18.2 per cent of the total); Luxembourg (212.9 million dollars, 3.5 per cent). The two other major sources of bank loans for Latin America have been the Federal Republic of Germany (600.3 million dollars, 10.7 per cent of the total) and Switzerland (272.4 million dollars, 4.4 per cent).

[113] Although exact figures are not available, it is estimated that these may have been in the region of 1 000 million dollars.

[114] The figures for loans negotiated in the United Kingdom are not available and in view of the substantial loans obtained by Peru in the Euromarket, in which the United Kingdom figure may have been important, Peru's share of the total may well be underestimated.

Official financial flows[115]

Official bilateral financial assistance for development between 1969 and 1975, in terms of a net flow from the European member countries of DAC to Latin American countries, amounted to 1 223.3 million dollars, or 5.6 per cent of the total of the net bilateral ODA allocated by these countries to developing countries as a whole. This proportion did not increase in 1975. The low priority given by European countries to Latin America for development aid is thus evident.

This low priority is practically confirmed in the case of all European countries. In four countries (Finland, the Netherlands, the Federal Republic of Germany and Switzerland) the proportion allocated to Latin America ranged between 18.4 and 10.3 per cent of the total between 1969-1975; in all other European countries the proportion was less than 10 per cent. Particularly worth mentioning are the cases of France and the United Kingdom, which allocated to Latin America a mere 0.9 and 3.9 per

[115]This heading includes "official development assistance" (ODA) and "other official lines of credit". The ODA has been defined by the Development Assistance Committee (DAC) of the OECD as the total contributions provided for developing countries and for multilateral institutions by the official organizations of developed countries, including local offices and negotiating entities in each country and at every level of operation, subject to the following criteria: (a) They are made with the essential aim of favouring the economic development and the improvement of the standard of living of developing countries; and (b) They have a favouring character and include an element of liberality of at least 25%. This "element of liberality" has in turn been defined as "equal to the nominal value of the financial commitment less the actual amount of amortization and of the foreseen interests (on the basis of an actualization rate of 10%)". On the basis of this definition, the member countries of DAC often label as ODA the donations of the public sector (in the form of technical assistance, foodstuffs and donations of technical equipment); the so-called "soft loans", including renegotiation of debts originating in loans of this kind; and contributions made to multilateral entities either in the form of contributions to the United Nations or as capital subscriptions to development banks. Much has been said about whether some of the financial flows included in this definition are actually "assistance for development" or not. In this report, considering that OECD information will be used, these financial channels will be considered as such, excepting those loans made by countries to their colonies or dependent territories in Latin America. Because the report published by OECD allows the separations of such lines of credit (very important in the case of France and less so in the case of the United Kigndom and the Netherlands), this analysis has concentrated on the bilateral flow between European countries and the independent countries in Latin America. "Miscellaneous financial flows", although they have never been so precisely defined as ODA, include all the rest of the bilateral financial transactions, among them Government-to-Government loans, public credits to exporters, their refinancing, and those contributions made to multilateral organizations under conditions similar to those existing in the market. See OECD, *Geographical distribution of financial flows to developing countries, op. cit.*

cent respectively of their net ODA, contrasting vividly with the interests these countries have in Latin America and with their share of other types of financial flows.[116]

Eighty-five per cent of the net European transfers accumulated in these seven years corresponds to three countries: the Federal Republic of Germany (54.7 per cent), the Netherlands (almost 20 per cent) and the United Kingdom (10.3 per cent).

Two facts are worth mentioning in connexion with Latin American countries. The first of these is the relatively low amount of European ODA received by countries which have greater need for concessionary assistance (El Salvador, Honduras, Guyana, Haiti, Nicaragua, etc.). Secondly, there is a concentration of ODA in a limited number of Latin American countries (Brazil, Chile, Colombia, Peru). In the case of Cuba, in 1975 most of the European ODA came from three Scandinavian countries, Sweden, Finland and Norway.

European contributions to the capital and the trust fund of the IDB are a recent development which is important not only because of the amounts involved, but also because of the implications in the diversification of capital in the IDB.

Other official financial flows between 1969 and 1975 were the bilateral loans for terms exceeding 12 months made by European countries to Latin America, which amounted to 907 million dollars.[117]

Although no systematic information has been compiled, the data available for certain countries and years indicate that European participation in the grand total received by Latin America from all sources in the flows under consideration here, has been limited and has only exceptionally exceeded 30 per cent.

[116]It is probable that Latin America as a whole receives a higher proportion of less soft loans than donations. As the figures mentioned are for net flow (loans minus amortizations), the low priority given to Latin America is more clearly shown than if these were expressed as gross flow.

[117]It has only been possible to obtain information on official bilateral loans for terms longer than 12 months to Latin American countries from series published by the World Bank on disbursements between 1969 and 1975. These statistical series present some problems. In the first place, it has not been possible to obtain data on Mexico and Venezuela; secondly, the World Bank has not published any information on Cuba, which is possibly one of the countries which have received more funds of this kind from European sources; neither does the World Bank publish any information in its Debt Reporting System on other Latin American and Caribbean countries such as the Bahamas, Barbados, Bermuda and Haiti, nor on the Dominican Republic, Guyana and Paraguay; thirdly, the available information is probably incomplete and a certain number of operations may not be included; finally, it is quite possible that many of the operations appearing in these series are not actually "miscellaneous official financial flows" but ODA-type operations which therefore have already been accounted for by the OECD series.

The greater part of the loans to the region made by European countries came from the Federal Republic of Germany (54.5 per cent of the total), Italy (12.3 per cent) and Spain (10.6 per cent), followed by the United Kingdom, France and the Netherlands, in that order.

A concentration of loans in a few countries is evident, and with the exception of Argentina the beneficiaries are the same as the major beneficiaries of the ODA. In this period Brazil received 33.1 per cent of the total of official credits of European origin given to the region and Argentina 20 per cent the other main recipients, in order of importance, Chile, Colombia and Peru. These five countries absorbed 80 per cent of the total being official bilateral credits of European origin.

Suppliers' credits[118]

Europe provides Latin America with a high proportion of goods which are susceptible to payment on a long-term basis: principally capital goods for various activities and transport equipment. It is therefore not surprising that credits granted by European exporters should represent an important part of the total credits of this type received by Latin American countries.

European suppliers' credits received by Latin America in 1973 amounted to 65.2 per cent of the total suppliers' credits received by Latin America; in 1976 the proportion was 49.6 per cent.

In 1976 the Latin American countries for which information is available received a total of 655.3 million dollars in suppliers' credits, of which 352.2 million came from European exporters. In 1973 European credit sources had accounted for 14 per cent of Latin American imports of machinery and transport equipment from Europe.

In the case of Argentina, European suppliers' credits averaged 68.9 per cent of the total suppliers' credits it received between 1969 and 1976. In the case of Brazil, between 1969 and 1973 European suppliers' credits amounted to 1 037 million dollars: 58 per cent of its total credits of this type. For Colombia, the European proportion of these credits in the period 1969 to 1976 was 76.9 per cent. In Venezuela (1969 to 1974) Europe accounted for 92.9 per cent, while for Mexico, the figure was 40.1 per cent. Jamaica (90.7 per cent), Ecuador (80.4 per cent), Costa Rica (58.6 per cent), Bolivia (45.7 per cent) and Peru (41.8 per cent), are the remaining countries for which information is available regarding the

[118]The information available on suppliers' credits is both scarce and fragmentary. For this reason, the relevant data should be considered with caution. Among other sources, information provided by the World Bank on effective credits for terms exceeding 12 months was consulted. Consequently, suppliers' credits for periods of less than 12 months are excluded, and these may well represent a significant proportion of the total.

proportion of European suppliers' credits in the total amount of suppliers' credits received.

Among European countries, the major sources of suppliers' credits are Italy and Germany, followed by France and the United Kingdom.

V. THE FUTURE OF THESE RELATIONS. NOTES FOR ANALYSIS

A complete and systematic analysis of the future relations of Latin America with Europe would go far beyond the purpose of this study. The aim here is merely to indicate, on the basis of the conclusions which emerge from previous chapters, a few lines of analysis for the study of some of the aspects considered to be particularly vital for the future of these relations. The following comments, therefore, should be taken merely as a starting point for the discussion and as a working hypothesis for future research.[119]

Moreover, this study only deals with the industrial sector in relation to the international division of labour between Europe and Latin America. It examines the factors which affect trade between them, the evolution of the Latin American productive structure –especially in manufacturing– and direct European private investment in Latin America. It does not deal with other questions such as relations in other fields –commodities, energy, finance, etc.

The following notes refer in particular to relations with the more developed economies of Europe. The references to private investment apply mainly to the European countries with a market economy, although they may be extended, at least in some important aspects, to those with centrally-planned economies

What is said here might also be applied, with due modifications, to Latin America's relations with other developed market-economy areas.

Two time horizons have been used:

(a) The long term: e.g., 10 to 20 years.

(b) The transitional period, that is, the short to medium term: e.g., 2 to 5 years.

A. The long term

Some points come to mind from previous chapters which should be highlighted in summary form as a basis for what follows:

[119]This chapter incorporates, with modifications, ideas presented in a paper prepared at the request of the secretariat by Ben Evers, Gerard de Groot and Willy Wagenmans, "Perspectives of industrial adjustment: the EEC and the developing countries". However, the opinions expressed in the present study are not necessarily those of these authors.

products, etc. Among the improved processes reference may be made to electro-chemistry, combustion technology, biotechnology, catalysis, etc. In other words, the production of these goods will probably be shared between developing and developed countries, the latter co-operating with the former in that part of production which takes place in them.

A very important example of this type of sector is the iron and steel industry.[123] Others would be the petrochemical and non-ferrous metals industries. It should be noted that the iron and steel industry is mentioned only by way of example, and not because it is more important than various other industries which would have served equally well as examples here.

During the post-war period there was a very rapid expansion of the iron and steel sector in Europe, which in 1974 reached a level of steel production comparable with that of the United States and the Soviet Union. Technology changed considerably and spread widely; production techniques and the structure of the sector tended to become more homogeneaus in European countries. Productivity rose rapidly; the labour force fell from 469 000 in 1963 to 426 000 in 1971, in spite of the rapid increase in production.

The sector is predominantly national in character in Europe, and international firms are on the whole exceptional (e.g., the case of ESTEL between Holland and West Germany). Domestic markets are relatively closed and function as oligopolies: in Europe 12 companies are responsible for 75 per cent of the production; in Japan 6 companies account for 80 per cent of the production, and in the United States 9 companies produce 71 per cent.

In Europe steel production is under the aegis of the European Coal and Steel Community, which promotes and rationalizes the common market for iron and steel and can impose sanctions against restrictive practices by cartels and set minimum prices, as it is doing now because of the present recession.

Between 1953 and 1971 international trade in iron and steel grew more rapidly than production: the latter doubled while the former quadrupled, and the proportion of international trade over production rose from 7.4 per cent to 13.7 per cent. Parallel to this there was a sharp change in the shares of individual countries in world trade between 1950 and 1971. During this period the market share of traditional exporters (United States, Belgium, France, Italy, Great Britain and the Federal Republic of Germany) dropped from 85 per cent to 46 per cent. In contrast, new exporters developed during the same period: Japan (whose share rose from 3.4 per cent to 22.2 per cent), the Soviet Union (from 4.1 per cent to 7.9 per cent), and numerous developing countries. The developing countries have increased their presence mainly in recent years:

[123] Ben Evers, *et al.*, *op. cit.*, pp. 41 and 42.

between 1970 and 1974 their share in the total iron and steel imports of the OECD countries increased from 2.8 per cent to 4.1 per cent, and between 1965 and 1971 the number of developing countries exporting these products rose from about 26 to 54. It must not be forgotten that the proportion of pig iron is greater in the imports coming from the developing countries than in the total; even though this proportion has diminished, it represented in 1970 9.2 per cent of the total imports of the OECD countries and 58.0 per cent of their purchases from developing countries. In 1974 these percentages were 9.2 per cent and 45.5 per cent respectively.[124] The chief exporters of more highly processed products among developing countries are: Korea (55 per cent of imports from these countries), Argentina (7.5 per cent), Mexico (7.5 per cent), Taiwan (6.7 per cent) and Brazil (4.0 per cent).

The growing importance of developing countries in the world iron and steel industry is boosted by the increase in the number of those countries which wish to export their raw materials in processed form, and by the increasing importance of their markets in this sector as a consequence of their own development and industrialization. The international division of labour between developing and developed countries which is now evolving appears to assign to the former the initial, more standardized phases of the process, while the developed countries tend to specialize in the more advanced phases, to which they attach strategic importance, and which involve greater technological requirements.

The exports of iron and steel from developing countries to markets of the European Economic Community encounter considerable obstacles of three types: tariff and non-tariff barriers, transport costs, and the oligopolistic structure of these markets.

The tariffs of the EEC increase in proportion to the degree of processing: from zero for iron ore they rise to 6.6 per cent for the semi-processed product and to 8.7 per cent for the processed product. The non-tariff barriers include import licenses, quotas, anti-dumping regulations, administrative obstacles and support to the domestic industry (direct payments, investment incentives and tax relief measures). These non-tariff barriers are the result of internal pressures and are often of an *ad-hoc* nature.

Fluctuations in export prices, insofar as they depend on markets of developed countries, are also greater for the processed products than for iron ore, pellets and cast iron, which are usually subject to long-term contracts. From the policies and measures applied it is clear that the European Economic Community considers this sector very important and is not prepared to sacrifice it despite the growing international competition. A policy of restructuring the industry is therefore being followed, complemented by a set of trade policy measures.

[124]*Source:* OECD, *Trade by commodities - Imports,* 1970 and 1974.

(a) Latin America now has a very large domestic market for consumer durables and capital goods of great significance to European exports, and even more for European technology and private investment. This market, based mainly on the middle-income strata, will increase in relative importance as a result of the high growth rate of the Latin American population, the increase in these middle-income strata and the incorporation into the market of sectors which are not yet part of it.

(b) Latin America has a labour force with a relatively high and still rising general level of education. It has broad sectors with industrial skills and experience. A high and increasing proportion of this labour force is urban and must therefore be absorbed into manufacturing industry and the productive services connected with it.

(c) The cost of labour in Latin America is still lower than in developed countries and, although the gap may be expected to lessen, it will continue to be significant for some time.

(d) The region possesses abundant and varied natural resources, including mineral resources. The countries are clearly interested in increasing the degree of processing of exports of these goods.

(e) If the aim is to prevent an intensification of the present serious problems of extreme poverty, marginality and unemployment in the labour force and instead to begin solving them in the long term, albeit slowly, a high economic growth rate of not less than 8 per cent must be achieved.

(f) This poses delicate problems of external bottlenecks which can only be tackled successfully if exports of commodities maintain constant growth and stable prices, and above all if exports of manufactures to developed countries develop at a high rate. The present asymmetry of Latin American external trade, with exports mainly of commodities and imports of manufactures, is changing and must continue to do so, with an increase both in the proportion of manufactures in exports and also in their technological input, as part of the process of change in Latin America's position in the international economy.

(g) Latin American industry has now reached a highly competitive level of development in a variety of goods, including consumer durables and capital goods. If this development is to continue, as it must in order to maintain the rising standard of living of the broad urban strata incorporated in the market, there must also be an increasing proportion of mechanical, chemical and metallurgical goods in exports, in addition to the more traditional manufactures.

(h) The region also possesses a technological capacity which is by no means insignificant, although still insufficient and fragmentary. The strengthening of this capacity will be a very important policy objective in Latin America.

(i) The protection given to industry will probably continue to be rationalized and reduced. However, in most of the countries of the region

government policy will probably continue to maintain a sufficiently high level of protection and support for national industry in order to carry out their policies for developing new industries, above all those of capital and basic intermediate goods.

(j) The countries of the region will probably continue to give high priority to encouraging modes of operation on the part of foreign private investors and transnational corporations such as co-production, specialization and, to a lesser degree, subcontracting proper, and they will probably try to substitute these modes to a large extent for the traditional procedures whereby foreign enterprises produced exclusively for the domestic markets. They will favour whenever possible the breakdown of the private investment package by means of a separate negotiation of its components (technology, management capacity, access to international markets and distribution networks). They will probably also prefer association arrangements between foreign enterprises and national public or private capital, as well as arrangements which would enable them to strengthen their national technological capacity and degree of self-determination. Access to domestic or regional markets by foreign enterprises may be made conditional upon their exporting a part of their production to the rest of the world and allocating to factories situated in Latin American countries the production of parts of some goods or of certain models of others.

(k) The supply of high-technology goods will continue to depend to a large degree on imports from developed countries: since the demand for these goods increases very rapidly, imports by Latin America from those countries, including the European countries, will be very dynamic.

(l) The availability of capital in Latin America will of course continue to be low in relation to labour and natural resources, in comparison with developed countries.

Four cases of specialization and co-operation

Bearing in mind the points summarized in the previous section, it is possible to identify in a very tentative and preliminary form four cases of manufacturing sectors. The possibilities of specialization by Latin American countries and of setting up activities of these sector in them, and the modes of co-operation with developed countries like those of Europe, are different in each of these cases.

The grouping of sectors made here and the characteristics assigned to each represent simplifications whose sole purpose is to indicate some of the main factors involved, as well as possible policies of Latin American countries and modes of co-operation in each case, although of course the possibilities and problems differ from one Latin American country to another. A more specific case-by-case analysis will be required to reach conclusions permitting a decision on the course of action to be followed in each situation.

(a) *Mineral-processing and chemical industries*

The goods processed by these industries serve as inputs for other manufacturing industries or for construction. This sector includes, for instance, the iron and steel industry, some industries which process non-ferrous metals, the petrochemicals industry, the fertilizer industry, etc.

Generally these industries are very capital-intensive, their capital is often immobilized to a considerable extent and they have long lead-times for investment. They usually involve economies of scale, and the minimum size for plants is quite large. Technological renovation is important —a change in processes, for example, may enable mineral resources to become economically exploitable which were not so before. In some cases, rapid technological renovation occurs in one part of an industry, whereas technology changes less rapidly in another part. Thus, the petrochemical agreement of the Andean Group, for example, does not in general include products whose manufacture is subject to an excessively high risk of obsolescense. Labour intensity in relation to capital and product in actual production, i.e., in the plant, is low. These conditions give the industrialized countries advantages in these sectors, through their resource endowment and technological capacity.

On the other hand, mention must be made of the following features which explain the growing importance of these industries in Latin American countries.

(a) Some of these industries generate external economies in the form of forward or backward linkages. Their production stimulates the establishment of other industrial activities to provide them with inputs or capital goods, or to use the goods which they produce in the manufacture of other goods, and in this way they have positive effects on the industrial structure. The iron and steel industry, the processing of some non-ferrous metals and certain chemical industries, for example, lead to the creation of industries which use these goods as inputs.

In a preliminary study of the rayon industry in Argentina there is an analysis of two types of externalities which were presumed to be generated: (a) the appearance of suppliers and manufacturers of spare parts and equipment; and (b) technical services for clients.[120]

The social benefit may be greater than the private, and this may help to explain the support that governments usually give to these sectors.

(b) The claim by Latin American governments of sovereignty over some non-renewable resources and their policies to achieve more local processing of the goods exported are designed to obtain a greater share for the country of the price paid by the final user abroad. The frequently oligopolistic character of the foreign markets of these goods and the desire

[120] IDB/CEPAL research programme on scientific and technological subjects. Working monograph Nº 13. "Productivity, technology and local efforts in research and development", March 1978.

that some of the forward linkages of the processing activities should be situated in the country underlie these policies. Due to increased concern about the availability of some of these non-renewable natural resources, expressed in the Club of Rome Report and intensified by the increase in oil prices, the industrialized countries are very keen to ensure a regular supply of these. This provides the developing producer countries with greater bargaining power to attain their aims.

(c) The domestic markets of some Latin American countries or the regional market may already account for an important part of the demand for production. In some cases such as steel, production has been traditionally below domestic demand. But even in other cases of industries originally set up for export, the national or regional market is undoubtedly acquiring a growing relative importance with the process of industrialization. This sure domestic market gives the Latin American countries an advantage and strengthens the trend towards setting up industries for export too.

(d) These industries often produce a high degree of pollution, which causes some developed countries to look with approval on the displacement of the growth of these industries to developing countries.[121]

The balance between these two groups of factors will possibly lead to the increasing implantation in Latin America of mineral-processing industries to satisfy a greater proportion of domestic demand and to export these commodities with a greater manufacturing value added; the development of basic chemical industries with intra-sectoral specialization, making the export of some goods compatible with the import of others; an increasing degree of participation of national public and private capital in the ownership of these industries; and co-operation between Latin America and enterprises of developed countries, such as the European countries, for the development of these industries, in some of the forms dealt with in chapter III, section C. It would seem that this prospect, as viewed mainly from the Latin American standpoint, might in its general features be acceptable to European developed countries. However, there is perhaps little hope that even in the long term these countries would allow the industries in question to be entirely transferred to developing countries.[122] For strategic, political and economic reasons, the developed countries will possibly also try to control a certain proportion of their demand and to diversify their sources of supply, in order to avoid being placed in a vulnerable position by a too heavy and unilateral dependence on certain suppliers. At the same time it must be hoped that the trend will continue towards the development of technologies which save mineral natural resources by means of recycling, the substitution of industrial

[121] This subject, like those of the size of the domestic market for consumer goods, cost of labour, etc., was dealt with in chapter III, section B.

[122] Ben Evers, *et al., op. cit.*, pp. 28-30.

The serious internal difficulties of the EEC are manifested in structural excess capacity (only 65 per cent of installed capacity is in use), which is due to the large-scale expansion carried out before the beginning of the recession, the unfavourable evolution of domestic consumption and the deterioration in the Community's external position (exports minus imports). The recession has resulted in the loss of many millions of man-hours through workers being laid off and the work force being reduced: the employment outlook is not encouraging.

During 1976 the European Economic Community took measures temporarily to relieve the crisis, using the instruments provided for by the European Coal and Steel Community. The worsening of the situation led to the extension of these measures into a full-scale crisis programme with objectives up to 1985 and 1990. In the short and medium term its aims are as follows:

(i) To improve the profitability of the industry without expanding productive capacity for which purpose the EEC has suggested the application of price regulations for various iron and steel products, has increased the possibilities of financial support aimed at stimulating the shift towards a more modern and rationalized industry, and has proposed measures to support research with a view to improving productivity;

(ii) To control the market, to which effect the EEC has introduced an "early warning" system paying special attention to imports and a series of anti-dumping regulations for iron and steel products;

(iii) To mitigate the consequences of the readjustment process for the workers by means of the Social and Regional Fund.

Although the programme for the iron and steel industry is the EEC's broadest programme for manufactures, it suffers from important shortcomings, since it is not binding upon business enterprises and governments and therefore its success depends on their willingness to adopt it, while moreover, a further expansion of demand is urgently required in order to avoid more serious problems for the industry. In these conditions the future of the sector is uncertain.

Under these circumstances the possibilities for developing countries to increase their participation in the Community's iron and steel market are limited, at least until the industry of the Community's own member countries is in a better condition to compete.

(b) *Light industries for the production of final and semi-final non-durable consumer goods.*

The second group comprises light industries for the processing of agricultural and chemical products and the production of final non-durable consumer goods based on the former. It includes food and drink industries, together with others which process agricultural raw materials (textiles and clothing, leather and its products including footwear, light

chemicals such as paints, articles made of wood, etc.) and it covers both the production of goods exported in final form, and others which are sold abroad as intermediates with some degree of processing for use as inputs in other industrial processes.

With all the reservations due in the case of a simplified generalization of this kind, these industries may be said to have certain features which favour their establishment by developing countries, such as those of Latin America:

(a) A broad and increasing domestic market, since many of these goods are widely consumed by sectors with rather low incomes.

(b) Capital intensity is generally not very high.

(c) They require a medium or high proportion of labour which, above all, need not be highly skilled. There are, however, important differences in this respect, and also in respect of point (b) above, even among industries which form part of similar manufacturing groups. For example, the fibre and yarn industries are generally more capital-intensive and less labour-intensive than the clothing industry, whereas the latter is well-known for the high content of low-skilled labour which it requires in its productive process.

(d) Technological renovation is not very rapid.

Nevertheless, several developed countries, including European ones, maintain a large share and an active interest in the development of these sectors of manufacturing in the following ways.

Firstly, they have a high degree of control over the distribution and marketing of some of these items, as in the case of certain food industries, such as dairy products, oils, etc. Advertising is an important tool to influence public taste and thus to maintain a degree of control over distribution.

Secondly, even though technological change is not important some developed countries do in fact exercise leadership and a degree of control over some of these activities, either because they have the advantage in design, which is important for textiles or high-quality footwear, or because they introduce innovations in the presentation of the product or control patents, as in the case of food industries such as dairy products, chocolates, etc. The needs of urban life often reveal the advantages of new presentations of foodstuffs, such as packaging, etc.

In brief, the Latin American countries possess important advantages for the development of these sectors, and it may be assumed that they will have a growing share in satisfying the growing world demand, including that of developed countries. Of course one cannot expect a complete displacement of these industries from North to South nor a total loss of participation and interest in them on the part of the developed countries, since the latter will possibly try to avoid an excessive dependence on other countries for the satisfaction of their own demand and will continue to exert influence through advantages of design, presentation. management of

distribution procedures and swaying public taste by means of advertising. The importance which these factors may have will also depend on the effort made by the developing countries to achieve a leading role. It must also be remembered that we are referring here to the long term: in the short and medium terms the growing protectionist trends, which will be discussed below, will play an important part.

In other words, in the long term, within a production scheme shared by developed and developing countries, the Latin American countries ought to increase their share of total production, collaborating in some cases with enterprises of the developed countries.

The prospect for the future may be projected on two time horizons: firstly, the long term, during which the factors examined below will have an important though not absolute influence on the specialization and participation of Latin American countries in the development of each type of sector; and secondly, the short or medium term, during which the rigidities caused by the already existing capacity and the current problems of unemployment, the balance of payments, recession and inflation will play a major role and will limit or hamper an advance towards the long-term goals.

(c) *Metal-working industries*

The third case comprises the metal-working industries producing durable consumer goods and capital goods which do not need highly sophisticated technology and which are often mass produced. An important aspect of these industries is that they generally involve the assembly of parts produced by sub-sectors which differ considerably among themselves in respect of labour and capital intensity, technological requirements, etc. In the interests of simplicity two classes of sub-sectors or processes within each industry may be identified.

One group of sub-sectors or processes is characterized by medium or high capital intensity, relatively low labour intensity and high technological requirements. All these features often appear together, but even when this is not so, there are always at least exacting technological requirements, stemming from the fact that the industry as a whole involves a considerable degree of technological renovation and therefore its competitive development demands that considerable resources be devoted to research.

A second group of sub-sectors or processes, in contrast to the former, is relatively low in capital intensity, high in labour intensity and uses technology which, although perhaps modern, is within the reach of developing countries.

A clear example of this type of industry is the motor-vehicle sector. The production of the sector is organized on the basis of assembly plants and a considerable number of factories producing individual parts.

The constant introduction of new models (and consequently of component parts) imposed by competition calls for a high degree of

technological capacity and capital intensity is also high in some of the processes for the production of certain parts: in other words, the industry includes sub-sectors or processes of the first type. On the other hand, the production of some parts or processes belongs to the second sub-group in that it calls for little capital intensity, a lower capacity for technological innovation, and only medium or low skills in the labour force.[125]

The economies of scale are very different from one sub-sector to another: some can produce competitively on a relatively small scale, while others have strong economies of scale and therefore require plants of considerable size.

The transnational corporations are generally the owners of trade-marks and patents and are able to carry out the necessary technological research. The sub-sectors and processes of the second type can take place in separate plants which may even belong to national companies of developing countries, associated or not with the transnational enterprises.

For these reasons, co-production and sub-contracting play a very important part in the organization of this sector in most countries of the world where it exists, including those of Latin America. This leads to an important international trade in the sector's products, since parts are often interchanged between plants in different countries. It also generates in each country a strong domestic trade in spare parts and components which is of considerable volume in relation to the production of the sector.

In addition to the motor-vehicle sector there are several other industries with similar characteristics, such as electronics, consumer durables, mass-produced capital goods (multiple-use machine tools, tractors, boilers, shipbuilding, etc.). These sectors are also traditionally organized on the basis of various plants specializing in the production of different parts, together with assembly plants; the tendency to subdivide the industry into separate plants varies from one country to another and has tended to increase in recent years. For example, Japan has made great use of specialization among several plants within a single sector and this has led to very close co-operation between large plants and firms and other medium-sized and small ones producing parts: the former generally handle the technological side and are responsible for components and processes with a high capital intensity and powerful economies of scale, while the medium-sized and small firms specialize in products which are more labour-intensive and less capital-intensive and receive from the large firms the technical and financial assistance needed for them to produce components which meet the cost and quality requirements imposed by the competitiveness of the industry as a whole.

[125]This semi-skilled or low-skilled labour force must, however, usually have a general education above a certain level. For example, in an assembly line each worker must carry out simple but varied and numerous operations, so that his general education cannot be very low. General education is also usually related to the responsibility and work habits needed in industry.

The transnational corporations which generally control the production and technology of each sector are beginning to seek to shift the more labour-intensive part into countries where labour costs are lower: this involves not only labour with low specific skills but also more highly trained manpower, which is nevertheless less expensive in developing countries. An hour's work by a skilled labourer or engineer in a country like those of Latin America is cheaper than that of a worker or engineer with similar qualifications and experience in a developed country. This trend towards the displacement of sub-sectors into developing countries has been gaining in importance and will probably be intensified in the long term, particularly as a result of the growing competition by Japanese and European firms with those of the United States, which dominated the markets and sectors up to a few years ago. In the short and medium term, however, the developed countries may put up some resistance.

The motor-vehicle industry, as discussed in the study mentioned earlier,[126] is a good illustration of this type of sector.

In four member countries of the European Economic Community (the Federal Republic of Germany, France, Great Britain and Italy) the motor-vehicle industry is very important. In 1973, in relation to total industrial production, it generated between 5.2 and 6.9 per cent of the value added and employed 5.5 per cent of the labour force. Its weight in the external trade of these countries was even greater, as it represented between 8 and 14 per cent of their total exports.

This industry has undergone a marked process of decentralization. Until the end of the 1950s the motor industry was concentrated in a few large centres, such as Dagenham, Paris-Billancourt, Wolfsburg, Turin, etc., but during the 1960s there was internal decentralization towards other regions within the same European countries, prompted on the one hand by increased labour conflicts and the rise in wages, and on the other by the policies of the governments of these countries which encouraged decentralization.

At present a process of international decentralization is taking place. In some cases it has followed the process carried out within the same countries, while in others it has run parallel to it. This transnationalization is reflected in the rapid increase in the number of assembly lines. In 1974 there were 550 lines in 81 countries, of which 80 (15 per cent) had been established in the last two years. Of this total, 350 lines (60 per cent) were for European, 98 (18 per cent) for Japanese and 85 (15 per cent) for United States vehicles.

There are two main factors behind this international decentralization. The first relates to labour. The motor-vehicle industry is relatively labour-intensive. In substantial parts of the production process the special skills required are low, although a suitable level of general education is

[126] Ben Evers, *et al.*, *op. cit.*, pp. 36-39.

required, and the conditions of work in various stages of the process are by no means attractive, because of standardization and automation. For these reasons, in the above-mentioned European countries the industry brought in migrant workers from countries or regions with a lower income level, while labour conflicts continued to increase. This led to the beginning of a process of displacement of production into countries where labour was abundant and cheap.

The second factor relates to the market. In order to improve their access to markets the firms have had to carry out a mutual interpenetration of the markets of industrialized countries (e.g., Volkswagen in the United States) and to establish assembly plants in developing countries, above all in those which maintained a high level of protection and were going ahead with dynamic industrialization processes, as was true of many Latin American countries. In the case of the developing countries, in addition to the processes aimed at producing for the domestic or regional market there is a perceptible trend towards displacing part of the productive processes to these countries with lower labour costs with a view to producing for the international markets. This trend is prompted by the increasing competition of Japan, in addition to the excess of installed capacity in the European industry and the slow growth of demand in Europe. The import restrictions which the European countries might apply would not be very effective in the medium or long term, since the Japanese firms could retaliate by establishing production lines inside the European Economic Community.

Some producers have now decided to displace labour-intensive parts of the production process into countries with cheaper labour, for subsequent export to other markets. By way of illustration, the FIAT plants in Spain (SEAT) export to other developed countries; the Ford Fiesta model for the European market is produced in Spain; the Volkswagen plants in Brazil and Mexico are also oriented towards export; and the co-operation of firms with member countries of CMEA (FIAT in Poland and the Soviet Union, Renault in Rumania) has led to exports from those countries, above all to other European countries.

With regard to assembly plants, as already noted elsewhere, production may be expected to be increasingly displaced to developing countries with lower wages, while new models and the smaller production series of expensive models in some makes with a lower price-elasticity of demand will continue to be produced in developed countries where wages are higher. In addition to the allocation to developing countries of a large share of the international market for certain models, which was discussed in chapter III in connexion with specialization, the production of parts is also being divided up. The original situation in which the production of components was carried out near to the asembly plants has gradually yielded to the policy by the transnational enterprises of trying to multiply the sources of supply in order to avoid the risks of depending on a single

source for the supply of vital parts, and in order to promote more competition among suppliers.

These trends towards decentralization have inevitably had political implications, in view of the great importance of the motor-vehicle sector for manufacturing, the industrial structure, employment and the international trade of the European countries. A reduction of 100 000 jobs in the European motor-vehicle industry is expected in the forthcoming decade, international competition is intense, and prospects are uncertain, not to say unfavourable. The European Economic Community encourages co-operation between firms at the European level, which reduces the ability of national governments to influence the development of their own industries, and the influence of the trade unions in each country may also be affected.

With regard to the Latin American attitude in this respect, in addition to what was said in section C of chapter III reference should be made to the motor-vehicle agreement recently approved by the Andean Group, which establishes that each country should produce part of the components required for the vehicle in which it is going to specialize and may import the rest from abroad, always provided that these imports are offset by an equivalent value of exports of the components it produces. This compensated interchange constitutes a duty imposed on the final assembly plants, which will undoubtedly be under the control of some of the great transnational motor-vehicle enterprises. Permission to import part of the vehicle makes it possible to avoid an excessive increase in cost or drop in quality which might result from compelling the enterprises to produce in the member countries components which these are not in a position to manufacture competitively either now or within a reasonable time: if they were forced to produce these components they would have to fix protection for the final article at a higher level than the maximum which the country or the sub-region is prepared to allow. The obligation to offset these imports with exports is a further example of terms imposed on transnational companies and enables the countries on the one hand to defend the balance of payments, and on the other to ensure the beginning of the regular export of parts of motors or vehicles. In Latin America it has generally been the case that, for an initial period, a condition of entry of a transnational company into the production market has been to include an increasing proportion of national (or regional or sub-regional) components in the production of the article in question. Only in a second stage (very recently introduced) have export obligations been introduced into the terms of entry or continued presence in the national or sub-regional market. In the first stage the aim is to prevent the industry from consisting of the mere assembly of parts manufactured abroad. The production of components provides a major part of the favourable technological impact that the motor-vehicle industry produces on the economy as a whole. Consequently it is made a condition of participation in the sub-

regional market that the vehicles should contain increasing proportions of components produced by the Group.

An interesting case in which production runs are not generally very long, except for certain parts, is that of machine tools for a single speciality. These are tools, such as specialized or high-precision lathes or milling machines, which are adapted to the specific needs of a particular industry or process; they are quite different from those of more general application which are used for repairs or in industries and processes which do not require very specialized machinery. In these cases, the machine cannot be mass produced. It has to be "made to measure" after a careful study of the industrial process in which it is to be employed. This requires highly qualified and technically specialized manpower, although not necessarily much infrastructure in the way of basic and applied research. It might be said that it is rather a case of craftmanship with a high technical content requiring the participation of specialized engineers. Some Latin American countries have now had considerable experience in producing this type of article, and they also have the advantage of the relatively lower cost of their trained manpower in comparison with developed countries. Similar examples can also be found in other capital goods, particularly if one assumes a concentrated research effort which, in both scope and quality, lies within the reach of Latin American countries.

In brief, most of the Latin American countries, with due regard for the differences between them, have the interest and facilities to play an active part in the development of these sectors. They already produce many of these goods to supply their own markets and in many cases have already begun to export significant amounts. They have relatively lower costs for unskilled and even skilled labour. They wish to diversify their exports by incorporating these goods with a relatively high income-elasticity of demand and a dynamic international market in comparison with commodities and the non-durable consumer goods produced by traditional industries.

In addition to the advantage of available labour, the Latin American countries have the important advantage of the bargaining power provided by their own broad and increasing domestic market, and in recent years several governments have established conditions for permitting the entry of transnationals to produce for their domestic market.

(d) *High technology goods*

The fourth case consists of sectors producing specialized capital goods involving high technology. This group includes, among others, producers of equipment which determines the productive technology of other goods.

The research carried out by these sectors is the factor which enables them to make innovations which, in turn, make it possible to achieve greater efficiency as regards the cost and quality of the goods produced with these types of equipment. The research required is complex and expensive and is

generally beyond the reach of developing countries. The production of these goods does not necessarily imply a relatively high capital content, but it does demand very high levels of investment and technology costs. The manpower required is to a large extent of a very high technological standard.

The industrialized countries will probably tend to shift resources into these industries so that they can exploit their advantage in the scientific and technical field, benefit from the high income-elasticity of demand for these goods, attain higher margins of profit by virtue of their technological superiority, and be able to pay their work force increasing wages in proportion to the higher qualifications required.

In the case of Latin American countries, for a certain number of years their technological inferiority will not allow them to undertake the competitive production of some of the more complex of these goods: they will need to import them in order to produce in their turn, with up-to-date technologies, the goods manufactured with this equipment.

In qualification of the foregoing paragraph, and with reference to exceptions which may in some cases be important, it is to be expected that some Latin American countries, particularly the more advanced ones, will undertake some processes or parts of the production of these goods and concentrating on this may lead to possibilities of competitive production both for the national and regional market and for export. The operation of plants in Latin American countries over a long period of years is gradually generating a fund of technical experience which facilitates a deeper knowledge of the processes, the introduction of minor innovations in the plants, and the provision of useful support in the installation of new ones. For example, in some cases involving the installation of a furnace, a distillery or a petrochemical factory, some Latin American countries have the capacity to build the plant, but not to design certain parts of it, and this has to be obtained from abroad. The engineering concern which provides the design needs to operate with a capacity for research and with an operational scope which in some cases is beyond the reach of these countries. It is possible to envisage a form of co-operation between Latin American countries and enterprises of developed countries in which the former contribute the construction and the latter the design and certain technologically complex parts.

B. Conflict between long- and short-term objectives?

The preceding section presented a long-term view of the type of specialization which Latin America might pursue, and the co-operation with European countries which might be sought in different sectors. This section will contain a brief analysis of some problems which arise in the short and medium term in the advance towards these objectives.

In the case of the developed countries there appears to be a measure of conflict between, on the one hand, long-term objectives and the policies

appropriate for pursuing them and, on the other, short- and medium-term objectives and policies. First, a summary will be given of the policies for industrial reconstruction which are being followed by some of the principal European countries with market economies. Next, reference will be made to some of the major problems at present affecting the developed economies, with their restrictive effect on reconstruction, and to the protectionist policies of those countries. Finally, a proposal will be made on ways of reconciling long- and short-term objectives for the revival of the world economy.

1. *Policies for the restructuring of industry in the developed countries*

Following the interpretation given in the study mentioned earlier[127] concerning current policies to restructure industry in the industrialized countries of Europe, it might be said that they aim to bring about transformations in the manufacturing sector through three types of mutually complementary policies.

Firstly, there are the policies designed to place the existing industries in those countries in a competitive situation *vis-à-vis* similar ones in other developed and developing countries. These policies apply in particular to sectors such as textiles, footwear and other leather industries, paper, automobiles, ship-building, iron and steel. They are intended to modernize obsolete machinery, rationalize the productive processes, and in general bring these industries up to date. They cannot, of course, completely overcome the potential disadvantages of these countries in these sectors, which stem from more permanent factors such as the high cost of labour, environmental problems, etc.

Secondly, insofar as these policies are unable to eliminate the competitive disadvantages of these countries in the sectors in question, the developed countries of Europe can seek association with developing countries in order to share in the activities of these industries in the latter countries. In this case, the European countries are in a position to contribute elements such as technology, access to markets and capital. The developing countries can contribute labour, natural resources, an industrial environment and their own markets, in addition to the technical capacity which they already possess, as mentioned in chapter I. Production under these conditions would be destined not only to cover the demand of the countries where it is actually carried out, but would also be partly for export to the rest of the world, including the developed European countries themselves.

[127]Ben Evers *et al., op. cit.*, pp. 47 *et seq.* The study refers to the member countries of the European Economic Community; here the theory is extended to other developed European countries which are members of the OECD.

Thirdly, there are policies for the development of industrial sectors using advanced technology which aim to give them greater priority than hitherto in the sectoral composition of the industrial structure and in the allocation of productive resources. These sectors include, *inter alia*, computing and data-processing equipment, aircraft construction, telecommunications, nuclear technology, etc. The development of these sectors generally requires government support and in some cases also co-operation between European countries, as has occurred in some sectors in recent years. Government support can be provided in the form of measures to stimulate research and development, financial help, channelling of investments, sales promotion, etc.

The transformation of the manufacturing structure, by progressively diminishing the role of the more labour-intensive industries with less intense technological change and giving increased priority to industries with more rapid technological change, more capital content and a highly qualified work-force, is one process by which the developed countries can sustain their wage increases and the general development of their economies. This measure is encouraged by some transnational enterprises as a result of the growing competition among them and among developed countries to win markets, which induces them to shift parts of industrial production processes to countries which possess certain cheaper elements of production. In chapter III some facts were given on the different progress made by transnationals of Europe, the United States and Japan in winning export and investment markets.

In general the industries being restructured cater for demands which have been declining in developed countries as markets have gradually become saturated. In contrast, the demand for their products is still buoyant in Latin American countries, since the needs of the social strata already incorporated into the market have not yet been satisfied and there is a further great potential demand in the marginal strata. The dynamism of these manufactures is gradually being displaced from North to South. If there were also a shift to developing countries of part of the productive activity of these sectors (non-durable and durable goods, and some capital and intermediate goods), and if closer co-operation were achieved between these countries and the developed countries, the latter could still have dynamic prospects, while the developing countries, for their part, by obtaining part of the market of the developed countries, would receive a great boost to their production and exports and would increase their imports, both in these sectors and in others with advanced technology from the developed countries.

2. *Short- and medium-term policies of the developed countries*

In the short and medium term, the application of these restructuring policies may produce maladjustments such as those which usually accompany transformations in the production structure. In this case in particular there are certain circumstances which must also be taken into account. In the first place, it is not a question of securing changes in isolated sectors which have little influence on the great macroeconomic variables: several very important sectors may be affected, with a great impact on the economy as a whole. In the second place, these changes are taking place at a time when there are also serious problems to be faced in the world economy.

It is common knowledge, of course, that in the developed economies two problems arise, or are latent, simultaneously: the problem of recession, with a fall in the economic growth rate and consequent unemployment, and the problem of inflation. The growth rates predicted for the medium term in the economies of the OECD countries are lower than those maintained over long periods in the past. Open unemployment has reached high proportions in many of these countries, and although it has been reduced it is still a major problem; in some cases a further rise in unemployment has been avoided by a reduction in the proportion of foreign labour employed. The solutions are all the more difficult in that the measures for combating the recession may stimulate inflation, and those intended to limit the rise in prices may have a negative effect on the growth rate and on the recovery of economic activity.

Although the present problem undoubtedly has a short-term component, it is not purely a short-term phenomena. The present period is one of transition in the world economy, in developed and developing countries alike. Some of the factors which gave dynamism to their economies after the war are wearing out. To obtain new dynamic factors, transformations are required which involve time and important decisions. There is an overlapping of short- and long-term factors, and the solutions also need to combine the two time horizons: the problems cannot be eliminated in a short period. Furthermore, in addition to these changes, there is the transformation taking place in the international monetary and financial system.

It must also be remembered that a change is taking place in the relative positions of the developed countries themselves. Not only is the bipolar world gradually giving place to a multipolar world, as seen in the increase in competition mentioned earlier, but there is also an intensification of the differences in dynamism of the various OECD economies, which helps to explain the differences already existing among these countries in respect of the priority which they currently asign to long- and short-term considerations.

The measures adopted by developed countries, both European and others, to combat inflation and defend their balance of payments have a negative effect on their policies to restructure their industry and on their imports from Latin American and other developing countries. In the initial stage following the increase in oil prices, the surplus of the OPEC countries had its counterpart in a balance-of-payments deficit both in the developed and the developing countries. Gradually, however, the former succeeded in levelling off their balance of payments and the deficit is now confined to the developing countries. It should be borne in mind that this surplus of some of the OPEC countries will be substantial and prolonged: a factor which must be added to the number of transformations in the world economy mentioned above.

Hitherto, by means of their deficits, the developing countries have helped to activate the economies of the developed countries. Consequently, their rate of development, the performance of their exports and consequently of their imports, the deficit in their balance of payments and their external debt, are not aspects which should be considered any longer as being of interest only to the developing countries themselves: their problems are created by factors of the world economy as a whole, and their solutions will also have important implications for the performance of this same world economy.

For these reasons it is a matter for concern that in the policies of developed countries short-term considerations may take precedence over long-term ones. An indication of this possibility is the substantial increase which may be observed in the protectionist policies of these countries. Indeed, one important expression of the concern over the problems just described is the growing protectionism in trade, to which reference was made in chapter II.

As pointed out in a recent article in *The Economist*,[128] pressure groups in the industrial countries are becoming increasingly preoccupied by the prospect of "other Japans" flooding their markets and extinguishing whole industries, although the threat is exaggerated and there are benefits to both rich and poor from increasing trade in manufactures. The article classifies eleven countries, including two Latin American ones (Brazil and Mexico) as "NICs" (newly industrializing countries) and says that growing protectionism in the industrialized world against them means that the NICs, as well as Japan, are coming into the front line of protectionist fire in America and Western Europe. The backlash in particularly "sensitive" areas (e.g., textiles) is worrying enough —especially when the barriers thrown up are unpoliced (because "voluntary") and impossible to hurdle (because quantitative). More ominous still are the hints that the rich might disallow the basic development strategy that has produced those troublesome exports, in part because of Japan's mercan-

[128] *The Economist*, 10 June 1978, pp. 84-85.

tilist behaviour in piling up a seemingly permanent trade surplus. The article goes on to say that the products in which the NICs have so far scored their biggest gains are precisely those which the older industrial economies ought gradually to be abandoning in favour of more sophisticated products needing the skill, research and development and capital that are scarce in industrializing developing countries.

Three main groups may be distinguished as influencing the governments of industrialized countries to step up trade protectionism. They are: (a) the industrialists who see a possible threat to their own firms, (b) the labour unions, which are concerned about the threat to employment, and (c) minority groups and regions whose interests may be at stake in the case of particular industries.

It has been observed that there is growing opposition from the European trade unions to the way in which the new international division of labour is taking shape. This inference is based on certain declarations of the ICFTU —an organization which is rather representative because of the dominance of European unions (AFL-CIO left the organization in 1969).[129]

Neo-protectionism is aimed particularly at the semi-industrialized countries, including several Latin American ones, and the industries most affected by this resurgence are precisely those that are of great importance to Latin America. Here there is a clear example, moreover, of attempts to solve short- and medium-term employment and balance-of-payments problems which interfere with efforts to achieve longer-term objectives of economic restructuring.

3. *Reconciliation of long- and short-term objectives*

It therefore seems undeniable that some conflict exists between the long- and short-term aims of the developed countries. On the one hand, they must transform their economies by shifting their attention and economic resources from traditional sectors into other more dynamic ones, in order to create the conditions for a new stage of vigorous development. On the other hand, these same transformations may aggravate short-term unemployment and balance-of-payments problems. If these short-term considerations prevail, the advance towards the necessary transformation will be hampered and the period of uncertainty, difficulty and low growth rates will inevitably be prolonged.

In practice it can be assumed that the policy of the developed European countries will combine both elements in the next few years. This will probably mean that the rate of restructuring industry will be slowed down and its form modified.

[129] Ben Evers, *et al.*, *op. cit.*, pp. 72-82.

In the abovementioned study[130] a summarized account is given of the industrial restructuring policies of various developed European countries: the conclusion which emerges from this account is that these individual policies give different priorities to considerations of long-term restructuring compared with the short term. Moreover, just as the strength and characteristics of the economies of these countries differ, so there is a difference in the importance given by their governments to social and political considerations closely linked to the problems of the present situation.

How to combine both time horizons and achieve a gradual advance which would not create unmanageable disturbances in the short term, but which would at the same time ensure steady progress in the right direction, is a problem of economic policy which interests both groups of countries. For the developed countries the growth of the developing economies, especially those which have achieved semi-industrialization like many Latin American countries, promises to be the "engine of growth" which is so much needed. For the developing countries the subject is even more vital: on the achievement of adequate international co-operation to complement their domestic effort depends their possibility of tackling with some hope of success the grave problems of mass unemployment and poverty and their economic, social and political consequences.

Finally, from the Latin American standpoint, it is essential that the international co-operation policies in different fields (trade, private investment, finance and technology) should be viewed not only separately but as a whole. Partial considerations and separate negotiations in different specialized fields may be necessary from the practical point of view, but if the relation between these different fields is not at the same time taken into account, there can be no accurate interpretation of the nature of the problems nor an adequate approach to their solution. Let us take two examples.

In the first place, greater access to the markets of developed countries for the manufactures of the region, and in consequence a more rapid growth rate for their total exports, relieves the need for external financing and reduces the effect of debt servicing on the balance of payments and on the capacity to import.

In the second place, in discussions on the restrictions which some developed European countries place on imports of Latin American goods, sufficient importance is not attached to the fact that Latin America constitutes at the present time, and will do so even more in the future, one of the most important areas for private European investment in the world. The investment possibilities in this region strengthen the international corporations and their capacity to sustain on an adequate scale the heavy costs of research and development involved in achieving technological

[130]Ben Evers, *et al., op. cit.*, pp. 72-82.

innovations, which in their turn generate the competitive capacity of the European countries throughout the world. Reference has already been made to the great bargaining power which Latin America possesses in virtue of its extensive domestic market. This bargaining power is important in relation both to private investment and to trade, finance and technology. To link this interest in the Latin American market on the part of European investment with the treatment of Latin American exports in European markets is a matter of great importance to Latin America.

ANNEX

Table I

LATIN AMERICA: TERMS OF TRADE INDEX

Year	*Oil-exporting countries*[a]	*Non-oil-exporting countries*	*Latin America*[b]
1950-1954	179.9	124.0	134.7
1955-1959	182.6	104.6	121.5
1960-1969	122.6	95.9	101.5
1970	100.0	100.0	100.0
1971	112.9	92.8	96.9
1972	111.5	97.5	100.3
1973	131.6	108.6	113.1
1974	273.0	100.2	127.8
1975	235.5	89.0	110.1
1976	225.2	94.6	113.3

Source: CEPAL, official data.

[a]Comprising Bolivia, Ecuador and Venezuela.

[b]Excluding Cuba, Barbados, Guyana, Jamaica and Trinidad and Tobago.

Table II

STRUCTURE OF WORLD TRADE[a]

	1950	1960	1973	1974	1977
	Current values				
Food and raw materials	25.7	36.7	113.0	141.8	176.0
Fuels	5.5	10.6	55.4	156.4	192.9
Manufactures	24.2	57.7	313.7	416.8	578.5
Total	***55.4***	***107.8***	***488.3***	***724.0***	***961.3***
	Constant values (billions of dollars at 1974 prices)[b]				
Food and raw materials	55.0	77.3	144.9	141.8	162.2
Fuels	27.2	52.7	156.9	156.4	152.4
Manufactures	8.0	111.5	380.4	416.8	481.7
Total	***140.2***	***243.5***	***681.6***	***724.0***	***818.7***
	Percentage breakdown[c]				
Food and raw materials	46.4	34.9	23.4	19.8	18.6
Fuels	9.9	10.1	11.5	21.9	20.4
Manufactures	43.7	55.0	65.1	58.3	61.1
Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***

	Growth during the period 1950-1977		
	Number of times[c]	*Annual rate (percentage)*[c]	*Annual rate (percentage)*[d]
Food and raw materials	6.8	7.4	4.1
Fuels	35.1	14.1	6.6
Manufactures	23.9	12.5	16.4
Total	***17.4***	***11.1***	***6.7***

Sources: United Nations, *Yearbook of International Trade Statistics*, 1978, vol. I and E/CEPAL/1024/Rev.1, table 2, page 172.

[a] Excluding trade of countries with centrally planned economies.

[b] Current values deflated by the unit value of each SITC section.

[c] In terms of current values.

[d] In terms of constant values.

Table III

LATIN AMERICA: TRADE BALANCE WITH SOME AREAS

(Millions of dollars)

	Agricultural commodities[a]		*Mining products*[a]		*Fuels*[a]		*Manufactures*[a]		*Total*	
	1955	*1977*	*1955*	*1977*	*1955*	*1977*	*1955*	*1977*	*1955*	*1977*
Developed countries										
Exports	4 470	17 057	976	3 905	1 530	13 716	211	4 511	7 190	39 528
Imports	580	4 171	139	669	220	776	4 880	34 547	6 460	41 501
Balance	+3 890	+12 886	+837	+3 236	+1 310	+12 940	-4 669	-30 036	+730	-1 973
European countries with centrally planned economies										
Export	164	4 128	4	295	0	23	6	175	175	4 623
Imports	15	543	0	58	23	747	90	1 733	140	3 330
Balance	+149	+3 585	+4	+237	-23	-724	-84	-1 558	+35	+1 293
Other developing countries										
Exports	80	1 843	2	68	90	571	0	432	180	2 973
Imports	145	215	9	150	50	10 567	80	750	290	11 690
Balance	-65	+1 628	-7	-82	+40	-9 996	-80	-318	-110	-8 717

Sources: UNCTAD, *Yearbook of International Trade and Development Statistics,* 1976; United Nations, *Monthly Bulletin of Statistics,* May 1979.

[a]Agricultural commodities: SITC 0, 1, 4 and 2 excluding 27, 28.
Mining products: SITC 27, 28, 68.
Fuels: SITC 3.
Manufactures: SITC 5, 7, 8 and 6 excluding 68.

Table IV

SHARE OF VARIOUS SUPPLIER COUNTRIES IN IMPORTS BY EUROPEAN COUNTRIES

	Year	Imports from other member countries of the same economic group		Extra-area imports: From other developed market-economy countries		Extra-area imports: From developing countries		Extra-area imports: From other sources[a]		Total imports from countries outside the various economic groups	
		Millions of dollars	*Percentage*	*Billions of dollars*	*Percentage*	*Billions of dollars*	*Percentage*	*Millions of dollars*	*Percentage*	*Millions of dollars*	*Percentage*
Whole of Europe	1975	200.2	43.9	138.9	54.3	82.5	32.3	34.5	13.5	255.9	100.0
	1976	225.5	43.5	153.1	52.3	98.5	33.7	40.9	14.0	292.5	100.0
	1977	257.8	44.7	169.3	53.1	105.3	33.0	44.5	13.9	319.1	100.0
EEC	1975	145.9	51.3	66.1	47.7	61.3	44.2	11.3	8.1	138.7	100.0
	1976	168.6	50.6	76.6	46.6	74.0	45.0	13.7	8.3	164.3	100.0
	1977	192.0	51.9	84.1	47.3	79.4	44.6	14.4	8.1	177.9	100.0
EFTA	1975	9.9	16.6	39.7	80.0	5.1	10.3	4.8	9.7	49.6	100.0
	1976	10.3	15.4	44.6	78.9	6.7	11.9	5.2	9.2	56.5	100.0
	1977	11.4	14.8	52.2	80.1	7.3	11.2	5.7	8.7	65.2	100.0
Socialis Europe	1975	44.4	53.7	27.9	73.0	9.1	23.8	1.2	3.1	38.2	100.0
	1976	46.6	53.7	29.6	73.4	9.3	23.1	1.4	3.5	40.3	100.0
	1977	54.4	56.8	29.8	72.0	10.1	24.4	1.5	3.6	41.4	100.0

Source: UNCTAD, *Yearbook of International Trade and Development Statistics,* 1976; United Nations, *Monthly Bulletin of Statistics,* May 1979.

[a]Difference between total extra-area imports and those from developed market-economy and developing countries, i.e., imports from countries with centrally planned economies.

Table V

EUROPE'S EXTRA-AREA IMPORTS (EXCLUDING PETROLEUM) FROM DEVELOPING COUNTRIES[a]

(Millions of dollars and percentages)

		Latin America		Africa		South and South-east Asia		Middle East		Total imports from developing countries	
		Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
Europe	1955	2 511	31.5	3 198	40.1	1 972	24.7	317	3.9	7 978	100.0
	1965	4 300	36.0	4 322	36.2	2 740	23.0	570	4.8	11 937	100.0
	1970	5 960	36.5	5 829	35.7	3 462	21.2	797	4.9	16 335	100.0
	1975	13 275	38.5	8 835	25.6	9 329	27.1	1 765	5.1	34 456	100.0
	1976	15 350	37.7	9 875	24.2	12 846	31.5	2 160	5.3	40 770	100.0
EEC	1955[b]	1 240	29.9	1 894	45.6	847	20.4	180	4.3	4 150	100.0
	1965[b]	2 245	38.1	2 440	41.4	1 005	17.0	220	3.7	5 900	100.0
	1970[b]	3 250	38.5	3 300	39.1	1 383	16.4	390	4.6	8 440	100.0
	1973[b]	4 955	34.4	4 880	33.9	3 390	23.5	790	5.5	14 400	100.0
	1973[c]	6 290	33.4	5 829	31.0	5 263	28.0	1 128	6.0	18 808	100.0
	1975[c]	6 990	31.7	6 613	30.0	6 926	31.4	1 054	4.8	22 070	100.0
	1976	8 620	31.4	7 240	26.4	9 750	35.5	1 300	4.7	27 430	100.0
EFTA	1955[d]	915	28.9	1 119	35.3	1 033	32.6	100	3.2	3 180	100.0
	1965[d]	1 020	29.6	1 225	35.5	1 025	29.7	180	5.2	3 450	100.0
	1970[d]	1 310	31.3	1 460	34.8	1 164	27.8	190	4.5	4 190	100.0
	1973[d]	2 120	32.7	1 610	24.8	2 335	36.0	420	6.5	6 420	100.0
	1973[e]	813	41.2	515	26.0	450	22.8	195	9.9	1 974	100.0
	1975[e]	1 086	42.6	495	19.4	752	29.5	196	7.7	2 552	100.0
	1976	1 560	43.7	540	15.1	1 165	32.6	300	8.4	3 570	100.0
European countries with centrally planned economies	1955	175	42.4	115	27.8	92	22.3	27	6.5	413	100.0
	1965	730	38.9	452	24.1	570	30.4	120	6.4	1 877	100.0
	1970	990	36.8	739	27.4	744	27.7	217	8.1	2 690	100.0
	1975	3 844	52.7	1 727	23.7	1 275	17.5	452	6.2	7 299	100.0
	1976	3 790	52.9	1 425	19.9	1 486	20.7	470	6.6	7 170	100.0

Source: UNCTAD, *Yearbook of International Trade and Development Statistics,* 1976; United Nations, *Monthly Bulletin of Statistics,* May 1979.

[a]Developing market-economy countries. [b]EEC (6). [c]EEC (9). [d]EFTA, including the United Kingdom and Denmark. [e]EFTA, excluding the United Kingdom and Denmark

Table VI

SHARE OF SOME EUROPEAN COUNTRIES IN EXPORTS FROM LATIN AMERICA (23 COUNTRIES)[a]

(Percentage)

	1955	*1975*	*Annual growth rates*
France	1.7	1.7	7.8
Italy	2.4	3.2	9.4
Federal Republic of Germany	5.1	5.3	8.2
Rest of EEC (6)	5.4	5.7	7.8
United Kingdom	9.1	4.3	4.0
Rest of EFTA	3.6	2.6	6.4
Rest of Western Europe	3.5	7.5	12.1

Source: CEPAL, official data.

[a]Excluding Cuba.

Table VII

SHARE OF VARIOUS COUNTRIES OF DESTINATION FOR EXPORTS FROM EUROPEAN COUNTRIES

	Year	Exports to other member countries of the same economic group[a]		Extra-area exports									
				To other developed market-economy countries[b]		To developing countries				To other countries		Total	
						Latin American developing countries		Other developing countries					
		Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage
Whole of Europe	1975	200.2	45.5	135.6	56.5	16.6	6.9	58.8	24.5	29.0	12.1	240.0	100.0
	1976	225.5	46.5	149.9	57.9	16.1	6.2	64.4	24.9	28.7	11.1	259.1	100.0
	1977	258.8	46.1	173.5	57.1	19.0	6.3	79.9	26.3	31.4	10.3	303.8	100.0
EEC	1975	145.9	49.3	76.2	50.9	11.2	7.5	43.8	29.2	18.6	12.4	149.8	100.0
	1976	168.6	51.8	81.4	51.8	10.4	6.6	47.6	30.3	17.8	11.3	157.2	100.0
	1977	192.0	50.6	97.1	51.9	12.3	6.6	58.9	31.5	18.9	10.1	187.2	100.0
EFTA	1975	9.9	18.7	30.9	71.7	2.0	4.6	4.9	11.4	5.3	12.3	43.1	100.0
	1976	10.3	17.6	34.9	72.6	2.0	4.2	5.9	12.3	5.3	11.0	48.1	100.0
	1977	11.4	17.5	38.9	72.2	2.1	3.9	7.2	13.4	5.7	10.6	53.9	100.0
Europe Socialist	1975	44.4	57.4	20.2	61.2	2.5	7.6	7.7	23.3	2.6	7.9	33.0	100.0
	1976	46.6	55.4	23.8	63.5	2.8	7.5	8.1	21.6	2.8	7.5	37.5	100.0
	1977	54.4	55.2	26.6	60.2	3.4	7.7	10.5	23.8	3.7	8.4	44.2	100.0

Source: UNCTAD, *Yearbook of International Trade and Development Statistics,* 1976; United Nations, *Monthly Bulletin of Statistics,* May 1979.

[a]Including reciprocal trade among the member countries of EEC, EFTA and the European countries with centrally planned economies.

[b]Including exports to other developed market-economy countries.

Table VIII

IMPORTANCE OF SOME LATIN AMERICAN COUNTRIES AS MARKETS FOR EUROPEAN EXPORTS[a] SHARE OF EACH COUNTRY OR GROUP OF COUNTRIES IN TOTAL SALES TO LATIN AMERICA

	Argentina	*Brazil*	*Mexico*	*Andean Group*	*CACM*	*Caribbean*	*Rest of Latin America*	*Total Latin America[a]*
			Percentages					
CEE (6)								
1955	21.6	21.8	6.0	32.0	4.7	1.8	12.1	100.0
1975	11.6	36.5	11.0	28.2	4.4	2.0	6.3	100.0
EFTA[b]								
1955	16.0	18.9	5.5	29.4	2.6	16.8	10.7	100.0
1975	9.3	33.8	11.3	20.9	4.6	12.9	7.2	100.0
CMEA (European)								
1955	69.6	24.1	0.6	1.9	0.6	1.3	1.9	100.0
1975	20.5	48.7	4.7	14.6	3.3	1.0	7.2	100.0
Rest of Europe								
1955	21.0	60.9	3.0	6.0	0.8	–	8.3	100.0
1975	12.8	23.0	10.7	38.7	4.9	1.9	8.0	100.0
CIF value of Latin American imports at current prices from:			*Billions of dollars*					
EEC (6)								
1955	265	267	74	392	57	22	148	1 225
1975	938	2 955	891	2 283	360	162	510	8 099
EFTA								
1955[b]	140	166	48	258	23	148	94	877
1975[b]	324	1 176	392	726	159	451	251	3 479
European socialist countries								
1955	110	38	1	3	1	2	3	158
1975	100	237	23	71	16	5	35	487
Rest of Europe								
1955	28	81	4	8	1	–	11	133
1975	94	169	79	285	36	14	59	736

Source: CEPAL, official data.

[a]Excluding Cuba.

[b]Original EFTA countries.

Table IX

LATIN AMERICA: COMPOSITION OF EXPORTS OF MANUFACTURES, BY DESTINATIONS, 1977

(Millions of dollars and percentages)

	Intra-area		*United States*		*Western Europe*		*EEC (9)*	
	Value	*Per cent-age*	*Value*	*Per-cent-age*	*Value*	*Per-cent-age*	*Value*	*Per-cent-age*
Chemical products	724	20.7	642	28.9	549	28.7	316	21.7
Machinery and transport equipment	1 248	35.7	487	21.9	268	14.0	241	16.5
Other manufactures	1 527	43.6	1 092	49.2	1 094	57.2	902	61.8
Total manufactures	***3 499***	***100.0***	***2 221***	***100.0***	***1 911***	***100.0***	***1 459***	***100.0***

Source: United Nations, *Monthly Bulletin of Statistics*, May 1979.

Table X

VALUE OF IMPORTS BY EEC (9) FROM LATIN AMERICA

(Millions of dollars)

		1960[a]	*1965*[a]	*1970*[b]	*1974*[b]	*1977*[b]
011	Meat	196.6	245.2	296.5	315.2	330.0
041	Wheat	50.0	121.0	41.4	84.5	62.1
044	Maize	163.0	221.0	252.4	363.5	283.7
051.3	Bananas	...	166.7	171.3	271.9	384.2
061	Sugar	109.3	102.2	135.7	494.4	305.4
071	Coffee	345.4	466.7	674.0	946.7	2 676.7
072	Cocoa	44.1	18.6	31.2	126.7	259.9
081.4	Fish meal	...	102.7	138.6	73.5	77.1
263	Cotton	156.1	234.6	169.6	262.1	179.0
262	Wool	131.6	168.8	92.4	106.7	247.7
281	Iron ore	138.5	160.6	260.3	602.5	599.2
622	Copper					583.3
283.1, 682	Copper	...	273.4	515.7	736.0	
283.4	Lead	11.2	12.4	36.3	29.8	363.5[c]
283.5	Zinc	7.9	6.0	14.6	94.6	
42	Vegetable oils	50.4	62.6	89.3	230.1	173.7
12	Tobacco	21.2	42.5	46.2	91.0	210.2
21	Leather	46.6	45.4	61.2	35.2	49.9
24	Wood	21.2	45.1	42.0	71.2	91.5
Total above products		1 493.1	2 495.5	3 068.7	4 935.6	6 877.1
Total imports from Latin America		2 768.8	5 187.6	4 613.3	8 735.7	12 191.7
Above products as a percentage of total imports		53.9	48.1	66.5	56.5	56.4
Total imports of basic commodities		2 330.7	3 177.6	4 020.2	6 961.5	9 665.2
Above products as a percentage of total imports of basic commodities		64.1	78.5	76.3	70.9	71.2

Source: OECD, *Foreign Trade Statistics*, Series C, several years.

[a]Includes 20 Latin American republics.

[b]Includes the 20 republics plus 4 Caribbean countries.

[c]Includes all ores and concentrates of non-ferrous metals.

Table XI

EEC IMPORTS OF SELECTED MANUFACTURES FROM LATIN AMERICA

(Millions of dollars)

SITC		*1960*	*1965*	*1970*	*1974*	*1976*	*1977*	*Growth rates 1960-1977*
65	Textiles	3.4	2.1	7.1	194.4	209.5	253.7	28.9
84	Clothing	–	0.09	1.0	54.2	97.9	119.4	82.1
61	Leather products	0.8	6.7	40.4	94.7	157.5	225.3	39.3
85	Footwear	–	0.0	0.4	14.5	28.3	43.7	95.5
67	Iron and steel	0.6	1.6	12.9	38.7	138.4	122.8	36.7

Source: OECD, *Foreign Trade Statistics*, Series C, several years.

[a]Between 1965 and 1977.

[b]Between 1970 and 1977.

Table XII

OECD-DAC COUNTRIES:[a] DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Investing country	*Cumulative values (millions of dollars)*			*Average annual growth rates*			*Percentage breakdown*		
	1967	*1970*	*1975*	*1968-1975*	*1968-1970*	*1971-1975*	*1967*	*1970*	*1975*
United States	17 448	22 071	39 973	10.9	8.2	12.6	50.0	50.0	52.0
Canada	1 477	1 658	2 528	6.9	3.9	8.8	4.0	4.0	3.0
Western Europe	15 400	19 139	29 683	8.5	7.5	9.2	44.0	43.0	39.0
United Kingdom	6 804	7 714	10 553	5.6	4.3	6.5	19.0	17.0	14.0
Northerlands	1 789	2 227	3 236	7.7	7.6	7.8	5.0	5.0	4.0
Federal Republic of Germany	1 198	1 941	5 204	20.2	17.5	21.8	3.0	4.0	7.0
France	2 980	3 832	5 033	6.8	8.7	5.6	8.0	9.0	7.0
Switzerland	695	877	1 432	9.5	8.1	10.3	2.0	2.0	2.0
Italy	879	1 245	2 235	12.4	12.3	12.4	3.0	3.0	3.0
Belgium	692	765	1 018	4.9	3.4	5.9	2.0	2.0	1.0
Other European countries[b]	363	538	972	13.1	14.0	12.5	1.0	1.0	1.0
Japan	702	1 198	3 853	23.7	19.5	26.3	2.0	3.0	5.0
Australia and New Zealand	101	305	727	28.0	44.5	19.0	–	1.0	1.0
Total	*35 128*	*44 371*	*76 764*	*10.3*	*8.1*	*11.5*	*100.0*	*100.0*	*100.0*

Sources: OECD-DAC, *Stock of private direct investments by DAC countries in developing countries* (end 1967), Paris, 1972; OECD, *Coopération pour le développement, Examen 1977.*

[a]OECD-DAC: Organization for Economic Co-operation and Development - Development Assistance Committee.

[b]Include Austria, Denmark, Norway, Finland and Sweden.

Table XIII

BRAZIL: FOREIGN INVESTMENT BY COUNTRY OF ORIGIN, 1969-1976

(Millions of dollars)

	1969	*Per-cent-age*	*1970*	*Per-cent-age*	*1971*	*Per-cent-age*	*1972*	*Per-cent-age*	*1973*	*Per-cent-age*	*1974*	*Per-cent-age*	*1975*	*Per-cent-age*	*1976*	*Per-cent-age*	*Annual growth rate 1969-1976*
Federal Republic of Germany	177	10.3	253	10.8	331	11.4	372	10.9	521	11.4	710	11.8	871	28.4	1 118	12.4	30.1
Switzerland	105	6.1	132	5.6	192	6.6	254	7.5	357	7.8	560	9.3	736	24.0	981	10.9	37.6
United Kingdom	109	6.4	208	8.9	273	9.4	281	8.3	324	7.1	401	6.7	430	14.0	421	4.7	21.3
France	35	2.0	34	1.4	130	4.5	165	4.8	205	4.5	242	4.0	300	9.8	326	3.6	37.5
Luxembourg	17	1.0	30	1.3	36	1.2	47	1.4	108	2.4	131	2.2	174	5.7	253	2.8	47.0
Netherlands	8	0.5	23	1.0	36	1.2	70	2.1	96	2.1	154	2.6	185	6.0	234	2.6	62.0
Sweden	17	1.0	39	1.7	58	2.0	69	2.0	73	1.6	119	2.0	145	4.7	220	2.4	28.5
Belgium	38	2.2	46	1.9	54	1.8	58	1.7	61	1.3	68	1.1	71	2.3	104	1.2	15.5
Italy	16	0.9	32	1.4	32	1.1	35	1.0	34	0.7	38	0.6	57	1.9	77	0.9	25.2
Other European countries	8	0.5	13	0.6	31	1.1	33	1.0	51	1.1	84	1.4	96	3.1	109	1.2	45.2
Total Europe	***530***	***31.0***	***810***	***34.5***	***1 173***	***40.3***	***1 384***	***40.7***	***1 832***	***40.0***	***2 505***	***41.6***	***3 065***	***42.0***	***3 842***	***42.7***	***32.7***
United States	816	47.7	986	42.0	1 096	37.6	1 272	37.3	1 717	37.5	2 022	33.6	2 295	31.4	2 901	32.2	19.9
Canada	168	9.8	260	11.1	294	10.1	305	9.0	360	7.9	401	6.7	411	5.6	482	5.4	16.2
Japan	55	0.3	105	4.5	125	4.3	193	5.7	318	6.9	598	9.9	841	11.5	1 006	11.2	51.5
World total	***1 710***	***100.0***	***2 347***	***100.0***	***2 912***	***100.0***	***3 404***	***100.0***	***4 579***	***100.0***	***6 027***	***100.0***	***7 304***	***100.0***	***9 005***	***100.0***	***26.8***

Source: Boletim do Banco Central do Brasil, April 1977.

Table XIV

MEXICO: ORIGIN OF DIRECT FOREIGN INVESTMENT

(Percentages)

Country	*1970*	*1975*
United States	79.4	72.2
Federal Republic of Germany	3.4	5.8
United Kingdom	3.3	4.7
Switzerland	2.7	4.2
Canada	1.6	2.0
Japan	0.9	1.9
Netherlands	1.8	1.9
France	1.6	1.5
Italy	2.0	1.5
Others	3.3	4.3

Sources: 1970: Bernardo Sepúlveda and Antonio Chumacero, *La inversión extranjera en México,* Fondo de Cultura Económica, Mexico City, 1973;
1975: Secretaría de Industria y Comercio, *Dirección de inversiones extranjeras.*

Table XV

ARGENTINA: INDUSTRIAL PRODUCTION OF FOREIGN COMPANIES, BY COUNTRY OF ORIGIN OF THEIR CAPITAL, 1969

(As a percentage of foreign industrial production)

	United States		*United Kingdom*		*France*		*Federal Republic of Germany*		*Italy*		*Total*	
Food	64.3	14.4	20.8	15.2	–	–	1.6	2.1	–	–	100.0	11.5
Beverages	24.1	1.6	15.3	3.4	–	–	27.8	10.8	27.7	11.0	100.0	3.5
Tobacco	24.1	3.1	58.1	24.8	–	–	17.8	13.3	–	–	100.0	6.7
Textiles	79.0	2.6	14.6	1.6	–	–	–	–	3.7	0.7	100.0	1.7
Subtotal	47.8	*21.7*	30.1	*45.0*	–	–	10.0	*26.2*	4.4	*11.7*	100.0	*23.3*
Rubber	80.8	8.3	–	–	–	–	–	–	19.2	11.4	100.0	5.2
Chemicals	63.1	19.8	11.4	11.7	3.9	5.7	9.0	16.2	2.5	4.6	100.0	16.0
Petroleum products	39.3	6.3	60.7	32.0	–	–	–	–	–	–	100.0	8.2
Non-metallic minerals	62.6	3.2	20.1	3.4	9.5	2.3	–	–	–	–	100.0	2.6
Subtotal	59.9	*37.0*	22.9	*47.1*	2.7	*8.0*	4.5	*16.2*	4.4	*16.0*	100.0	*32.1*
Basic metals	22.4	2.4	–	–	51.9	26.6	–	–	25.8	16.2	100.0	5.5
Metal products	65.5	2.4	11.6	1.4	7.9	1.4	7.6	1.6	–	–	100.0	1.9
Machinery	42.6	3.0	18.3	4.2	–	–	25.4	10.2	4.9	2.0	100.0	3.6
Electrical appliances	42.9	3.6	1.7	0.5	1.0	0.4	10.1	4.9	30.5	14.9	100.0	4.3
Transport equipment	50.7	28.0	1.1	1.9	24.2	63.6	11.9	37.4	12.2	39.2	100.0	28.3
Subtotal	46.3	*39.4*	2.9	*8.0*	22.7	*92.0*	11.1	*54.0*	14.6	*72.3*	100.0	*43.6*
Total	51.2	***100.0***	15.7	***100.0***	10.8	***100.0***	9.0	***100.0***	8.8	***100.0***	100.0	***100.0***

Source: Juan V. Sourrouille, *El impacto de las empresas transnacionales sobre el empleo y los ingresos: el caso de Argentina*, ILO, World Programme of Research on Employment (document WP 7), Geneva, 1976; based on a national survey on demand for manpower.