UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL

LIMITED

E/CEPAL/L.190
25 May 1979

ORIGINAL: ENGLISH

C E P A L

Economic Commission for Latin America

THE ECONOMIC RELATIONS OF LATIN AMERICA WITH EUROPE

I. LATIN AMERICA: A CASE OF CONTRADICTORY DEVELOPMENT

79-5-1192

CONTENTS

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.

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 (E/CEPAL/1024) and Long-term Trends and Projections of Latin American Economic Development (E/CEPAL/1027).

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

Exports continued to consist solely of primary commodities. The import of consumer goods was gradually diminishing, and 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

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

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

2/ CEPAL, The Economic and Social Development and External Relations of Latin America (E/CEPAL/1024), 1977, pp. 264 to 273.

/5.5 in

5.5 in the 1960s and 6.3 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.

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, whose annual rate rose from an average 5.7 per cent 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. 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

3/ See CEPAL, op. cit., pp. 33 et seq.

/in their

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 of some technological complexity produced by the engineering industries, 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 the total of manufacturing industries 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.

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 counter-balanced, however, by serious deficiencies and limitations in the industrialization itself, three problems being outstanding in this respect: first, 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 been reaching "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

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4/ CEPAL, op. cit., pp. 158 and 159.

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

/protection was

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 involves 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, and 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 each branch of industry, and represent the technology of the sector. 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 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 a 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

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, to produce finished goods, 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.

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.

/Over the

Over the last quarter of a century the exploitation of natural resources did not develop at the rate required by domestic needs and 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 those who 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, capitalized 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, and lost ground in various others.

Simultaneously major changes took place in national policy. The developed countries tended rather to diversify the 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 nationalizations.

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

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/

The drastic increase in oil prices brought energy problems and policies into the forefront of attention in the countries of the region, including the question of increasing production and limiting consumption growth rates. 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.

7/ CEPAL, The economic and social development and external relations of Latin America, pp. 158 to 163.

/5. Technological

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 they have received the designs of products and productive processes from abroad, the transnational corporations being fundamental instruments in these processes. To this must be added two important facts: 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.

8/ CEPAL, The economic and social development and external relations of Latin America, op. cit., pp. 70 et seq.

/The increase

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 productive 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 turn-key plants and of the sale of technology 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.

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, 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 capial, 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.

/There have

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.

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

/The economically

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 mortaility. According to these same projections the economically active population will increase at an average rate of 3 per cent between 1975 and 2000, i.e., it will increase by more than 100 per cent over that period. 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 of 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.

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

13/ Source: CELADE, Demographic Bulletin, various numbers.

/7. Employment

7. Employment

Emphasis must be laid on the significance of this last fact, which will raise 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 porportion 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 part 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 played only a very limited role from 1950 onwards: the rate of increase in industrial employment was practically equal to that of population, which meant that industry more or less maintained its share in total employment, but 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 of 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

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

/which frequently

which frequently signify disguised unemployment. If an estimate is made of the proportion of disguised unemployment which this last phenomenon implies 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-fifth 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.

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. In Argentina, Brazil, Chile, Uruguay and Venezuela, around 1970 these people represented about a fifth of the labour force, and the proportion was rising rapidly. To this category

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.

/must also

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 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 revenue, 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

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, the size of which - although split up into national markets which in some cases are small - explains 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 in their turn, by force of demonstration, induce an increase in the consumption of the intermdiate 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 American relations with Europe which will be made in succeeding chapters.

/1. Latin American

1. Latin American external economic policy

As was seen above, until the middle of the 1960s the degree of portection 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 intra-zonal 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 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 protection 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

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 important 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 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 whom 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.

17/ Sources: Argentina: Santiago Macario, "Protectionism and industrialization in Latin America", Economic Bulletin for Latin America, vol. IX, N° 1, 1964. Brazil: IPEA, Relatorio de pesquisa N° 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.

/Despite the

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.

On the other hand, where promotion goes beyond these measures, it may still be necessary 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/

18/ See Chapter II, Part B.

/In a

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 rationalize 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 during this last period.

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"

19/ CEPAL, The economic and social development and external relations of Latin America, pp. 198 and 199.

20/ See CEPAL, The economic and social development and external relations of Latin America, p. 185.

/import substitution

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 the 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 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 import 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

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

/decline, that

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 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 peformance 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.

22/ Juan Ayza, G. Fichet and N. González, op. cit.

23/ Ayza et. al., op. cit.

/Between 1965

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 for 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 the following table:

Table 1

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

	1955	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.

/This table

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

In other words, exports of manufactures increased 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 porportion of manufactures in total esports 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).

24/ CEPAL, official data.

/These manufactures

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, 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) account 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 predominate, such as wood pulp, paper and traditional chemical products, while in the smaller countries traditional manufactures reach very high proportions in comparison with other manufactured exports.

The metal-working industries employ more 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

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 consists of 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.

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 imported by the Community. This reflects the fact that in these industrialized economies there is

/specialization in

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). In this respect the European Economic Community comes between the United States and Japan: 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.

/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 Panamá.

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

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 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 it jumped to almost 14,000 million in 1974-1976 (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 this strangulation will continue - unless the improvement glimpsed in 1977 materializes - 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 deficit 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

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, too, 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 there was also 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,

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. 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

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.