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ECONOMIC SURVEY OF LATIN AMERICA

1960

Part One

SHORT-TERM CHANGES IN PRODUCT AND INCOME

Note: This text is incomplete and provisional and subject to changes in substance and presentation which will be incorporated in the final printed version.

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Corrigenda

Page III and ix The title of Part One should read: "Short-term changes in product and income"

Page vii, line 22 For "surplus demand" read "excess demand"

Page xi, footnote 1, line 2 For "on" read "in"

Page xviii, line 18 For "stability" read "instability"

Page xxi, first line of text For "important" read "imperfect"

Page xxix, line 4 For "elements of demand" read "elements of internal demand"

Page xxxi, line 3 For "public consumptions" read "public consumption"

Page xli, table 3 The figure for Argentina in the first column should read "2.4" and not "2.6"

Page liii, line 9 For "policy" read "policies"

Page liii, lines 13 and 14 For "must be prescribed" read "must to this extent be proscribed"

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IMPORTANT NOTE

Attention should be drawn to the fact that in some cases the statistics presented in this Survey (especially those for the year 1960) are preliminary estimates, prepared as a basis for analysis, and should therefore be used with caution.

In the table of contents and in other sections of the Survey - especially in Part Two (E/CN.12/565/Add.1) - references will be found to sections which are not included in the present text. These sections will appear in the printed version, scheduled for publication in October 1961.

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INTRODUCTION

Economic development in Latin America over the past few years may be described as embracing three types of problems which, in one way or another, have left their very individual marks on economic policy. In the first place, exports have tended either to remain static or to expand at a slower rate than in previous years, whereas imports have been increasing slowly but steadily. Secondly, inflation has either gathered great momentum in many cases or has arisen and ousted relative price stability, always bringing with it disequilibria of varying intensity in the balance of payments. Lastly, the gross product for Latin America as a whole has virtually remained at a standstill since 1958.

The reaction of Latin American Governments, in the face of these developments, caused in part by the weakening of the international raw materials markets and also to some extent by the policy followed in earlier years, has taken widely different forms. In most cases, however, they have more or less deliberately taken action aimed at fairly specific immediate objectives, easily identifiable from a comparison with those pursued early in the fifties. On some occasions, for instance, priority was clearly given to the restoration of price stability and/or of the balance of payments. This has very often meant the adoption of a policy very different from one previously applied. In other cases, the authorities have opted for the continuation of a fairly rapid rate of economic growth, which meant that the other two problems were set aside purely and simply. In view of the fact that the objectives of current economic policy are relatively clear, of the striking departure from past policy and of the sharp contrasts as between one group of countries and another, the extent to which it is responsible for the changes that have occurred in the domestic economy of each country can be more readily appreciated.

/ Another common

Another common feature of the economic policy measures adopted by Latin American Governments over the past few years is their basic tendency to resort chiefly to short-term tactics and devices. Long-term measures have been relatively fewer and less consistent. Anti-inflation policy, otherwise known as stabilization policy, has mainly consisted of attempts to cut current national expenditure. The action taken has, of course, included a number of readjustments aimed at restoring the free operation of the laws of supply and demand, on the assumption that the essential bases would thus be laid for the early initiation of a process of spontaneous and balanced development. However, the tangible effect of these readjustments has generally been confined so far to its immediate impact on the level and structure of prices, income redistribution and overall expenditure. In countries beset by more or less temporary difficulties, such as the flight of capital, the Government has been mainly concerned with taking special steps to overcome them. With regard to the policy calculated to eliminate or mitigate the difficulties arising from the persistent weakening of international demand for primary products, it is common knowledge that the action taken in the external sector has been focused on protecting minimum prices for some traditional export commodities. Relatively few or ineffective measures have been taken, at least until now, to rehabilitate the market for these products or to diversify exports. Moreover, the internal measures taken to counterbalance the adverse effects of the inadequate volume of exports have consisted mainly of successive currency devaluations and/or a rather expansionist public finance policy. At any rate, many countries have so far failed, in the development of their economic activities, to promote production for export and import substitution to an extent sufficient to reduce the chronic surplus of imports over exports. The recurring deficit in the balance of payments has been financed through the accumulation of short-term external debts.^{1/} To some extent any country can be regarded as

^{1/} It should be borne in mind, in this connexion, that to be consistent and really effective a compensating policy must be applied not only in periods of foreign trade depression but also during boom periods.
/ an exception

and exception of its import substitution drive has been maintained throughout the fifties - while, at the same time, its capacity to import has kept pace with domestic production - and it has therefore been able, in recent years, to reduce appreciably the pressure on the total external revenue of demand for foreign currency, even when there was a falling-off in that revenue.

However, this limitation of aims and market preference for short-term measures do not mean that Latin American economic policy has been inactive; on the contrary, within the limits indicated it has been apparent in a variety of ways and has been instrumental in dealing with major problems. For example, Governments have resorted to a number of measures - in many cases extremely complex - to modify the behaviour and demand, and these measures have related to taxation, currency, exchange rates, foreign trade, wages and prices. Furthermore, although some of the constant factors affecting Latin American economies limit the Government's room for manoeuvre and at times the effectiveness of its policy, there are others that have the opposite effect and from some standpoints strengthen the Government's hand as compared with the position in developed countries. It may be useful to give a few specific examples of this ambivalent influence.

Foreign trade plays an important part in supplying essential goods - including many raw materials and capital goods - and it is also the factor governing investment incentives. Consequently, alterations in exchange rates have a powerful influence on total demand in national currency and on the level of domestic costs and prices. Moreover, variations in public investment can strongly influence the short-term behaviour of total income, especially when there are violent ups and downs in external demand. But any policy of public expenditure should normally be based on certain possibilities of action with respect to income. Generally speaking, these possibilities offer little scope in Latin America, mainly owing to deficiencies in the structure and administration of the tax system, to the limited nature of the money market, and the often excessive degree of dependence of tax revenue on the taxation of foreign trade.

/ Monetary policy

Monetary policy in Latin America is also conditioned by certain constant factors that largely determine its effectiveness in any given situation. It is well known that quantitative restrictions on the overall creation of means of payment, despite their global character, have certain more specific effects; that is, they affect certain economic activities more than others. This is due, inter alia, to variability in the liquidity coefficient according to sectors, and also to the fact that circulating capital requirements, and the extent to which they are covered by bank loans, vary from one enterprise to another. Thus in Latin America the monetary factor has a most important role to play in the financing of investment in inventories, certain non-essential expenditure, housing construction and speculative operations. From the foregoing it emerges clearly how decisive the responsibility of credit policy can be, for example, in bringing about or controlling an inflationary surplus of demand. However, it must be added that the limited nature and inadequate organization of the money markets have a restrictive effect, on the other hand, on the possibilities of direct Government action with respect to certain fixed investments. In practice such investment is usually largely financed by the profits of enterprises and funds from private non-institutional sources.

The degree of autonomy and the room for manoeuvre in official wage policy in Latin America are probably slightly greater than in the developed countries. In practice the bargaining power of trade unions is somewhat limited, not only by the existence of chronic under-employment, but also by a certain institutional weakness in the trade associations. As to the impact of Government rulings on wages and salaries, this is closely dependent on the characteristic structural features of Latin American industry. In the manufacturing industry, consumer goods such as foodstuffs and textiles hold first place; consequently, the current level of activity of a country's industrial sector as a whole is largely a function of the purchasing power of the community in general, that is, of the income of the wage-earning and salaried workers. In addition, restrictive practices in certain sectors of industry are undoubtedly one of the reasons why wage increases immediately push up prices.

/ Lastly, so

Lastly, so far as prices are concerned, the obstacles impeding Government action in Latin America are far more numerous than the circumstances favouring such action. It is clearly here that economic policy is least effective. The inconsistency between economic and social interests, on the one hand, and the interests of entrepreneurs, on the other, as regards many investments in basic sectors, the lack of flexibility in agricultural supply and the restrictive practices applied in many sectors of the economy all conspire to prevent the price system from channelling investment into the most suitable activities from the point of view of long-term development. As a result, it is difficult for a free price system to be a really effective factor in maintaining overall or sectoral balance between supply and demand. On the other hand, official price control may well - unless it is specifically discriminatory - accentuate the constant distortions of the market. In other cases, price control is simply inoperative owing to consumers' lack of discipline and to shortcomings in the administrative machinery for applying it.

In brief, during recent years, a series of factors have combined in Latin America to restrict the aims and scope of economic policy. The chief of these have been the following: the persistence of institutional and structural weaknesses - lack of a money or capital market, system of land tenure, etc. - peculiar to the area; the unfavourable behaviour of the external market, and also the very decisions taken by the competent authorities.^{2/}

The policy of stabilization and, to a lesser degree, the so-called compensatory measures, have usually had more effect on demand than on supply. In the short term, demand is liable to undergo greater changes than supply, particularly in Latin America where certain branches of production are often greatly lacking in flexibility. Furthermore, even when some effort has been made to overcome the obstacles which partly explain this lack of flexibility, its short term effects on the supply of domestically produced

^{2/} It should be added that administrative and technical shortcomings, although sometimes partially corrected, have frequently continued to hinder the proper application of Government decisions. In addition State action, however well defined it may have been, has sometimes varied in intensity from one period to another during a single year.

goods and services have been limited. This partly explains why it is always difficult for a Latin American country to achieve simultaneously and in the short term the elimination of internal inflationary pressures, equilibrium in its balance of payments and the continuation of economic development. In addition, these objectives tend implicitly, under the economic policy usually followed, if not to be mutually exclusive, at least to have different orders of priority in the short term, when for various reasons - mainly political and social - Government action does not concentrate sufficiently on applying long-term measures to deal with the supply problem. If, furthermore, the capacity to import declines or remains stationary, it becomes virtually impossible for the country affected to enjoy a higher national income, stable prices and balance-of-payments equilibrium at one and the same time.

Yet it would seem that many Latin American countries are beginning to take decisive action towards the gradual solution of the structural and institutional problems which beset them. Although official plans and projects in this respect are still in a preparatory stage or else were unable to influence the economic situation as it was in 1960, it is appropriate to give them some attention.

Whatever the virtues of the different economic policies pursued may be, one aspect of the external sector - and not the least important - escapes their influence, and that is the weakness of the international markets for primary commodities, as reflected in commodity price drops, or the sluggishness they have shown in remaining even at depressed levels. Commodity prices in 1958-59 and in 1960 remained at the lowest level for the last decade. A cursory examination of world primary commodity trends shows that eleven of the main commodities were being quoted at considerably lower prices than in 1950. Only in the case of three items - copper, tin and crude petroleum - did the level of prices continue to be slightly above the 1950 level, although market conditions tended to deteriorate steadily.

Despite this decline in prices, the total value of Latin American exports in 1959 was 22 per cent more than in 1950. This gives an idea of the production effort made by Latin America to overcome that unfavourable circumstance. It should be observed, however, that the main effort was made

between 1951 and 1957, since the value of total sales abroad decreased slowly from 1957 onwards, with the exception of 1960, when a slight recovery was recorded.

This circumstance, combined with others, explains why Latin American imports had to be cut in 1958 and 1959. The contraction took place in sixteen countries in 1958 and in fourteen in 1959. Nevertheless, the deficit on current account was 1,500 million dollars in the former year and led to a drain of 700 million on reserves. Although the deficit was not as big in 1959, it still amounted to about 500 million, and reserves went down by 100 million dollars.

The growth of imports in 1960 reflected, on the one hand, the gradual easing of the restrictions that had been applied in 1958-59 and, on the other, the need to build up inventories and increase supplies of raw materials and capital equipment. Although the trade gap was wider in 1959, the position of international reserves does not seem to have deteriorated up to the end of September, undoubtedly thanks to the considerable external credits that were obtained, particularly by Argentina.

From this it appears that recent developments in the external sector in Latin America have not been propitious for a rapid growth of the product. Furthermore, the policy most widely adopted at the present time in the region has been seen to relate to short term measures, and its chief concern is to solve the problems to which the phenomenon of surplus demand is most frequently expected to give rise. There are grounds for supposing that this policy has also failed to provide the necessary incentives for the vigorous growth of the gross product, at least over the short term.

Be that as it may, the survey undertaken reveals that, in 1958 and 1959, per capita income was at a relative standstill, and that the recovery observed in 1960 was a recovery solely to the extent that it represented an improvement on the level prevailing in the two preceding years.

Moreover, the scanty statistics that could be assembled as provisional data would seem to indicate that, when the policy in question was focused wholly - or mainly - on solving problems of internal and external economic disequilibrium, it coincided with an economic trend which, apart from displaying unmistakable signs of a weakening in per capita income, was

/instrumental in

instrumental in reducing the coefficients of internal saving and gross investment. The maintenance of a situation of this kind for any length of time undoubtedly has an adverse effect on capital accumulation, thereby jeopardizing the product's prospects of vigorous growth in the immediate future. Similarly, the provisional data referred to also seem to indicate - in the case of one country at least - that a policy of the kind described could be applied fairly successfully during a reasonable period, but that, if an attempt was thereafter made to hasten the growth of the economy, the result was a certain amount of external instability.

On the other hand, attempts to expedite the development of the economy without due regard for the problem of disequilibria have been responsible in some instances for a rapid upward price spiral and a chronic deficit in the balance of payments. Despite a high rate of increase in income and the fact that the coefficients of investment and saving have so far shown no signs of deterioration, neither the social cost nor the problems which loom ahead are to be taken lightly.

There are, of course, a few cases in which a fairly sizable growth in income was successfully combined with a relative degree of stability. Nevertheless, both these factors are continually being threatened by the adverse situation of the external sector of the economy, which remains largely outside the sphere of action of the countries concerned.

Part One

SHORT-TERM CHANGES IN PRODUCTS AND INCOME

Chapter I

SHORT-TERM ECONOMIC FLUCTUATIONS
IN THE PERIOD 1948-59^{1/}

I. GENERAL CONSIDERATIONS

Since the end of the Second World War, output in the Latin American region as a whole has grown at an average rate of almost 4.5 per cent per annum, ranging among the individual countries from less than 1 per cent in Bolivia to about 10 per cent in Venezuela. In none of these countries, however, has the rate of growth been smooth and continuous. Furthermore, since 1948 the Latin American economies have been periodically confronted by one or more forms of economic disequilibrium, such as balance-of-payment crises, severe inflationary pressures, excessive productive capacity and unemployment.

There is a natural tendency to take the long-term view of the economic problems of economic development in the region. This is understandable when it is considered that the attainment of a higher trend rate of economic growth is dependent, among other things, upon the introduction of fundamental alterations in the structure of production and trade, as well as the reorientation of existing economic and social institutions; and, of course, such changes can be made only over a relatively long span of years. The process of growth in many of the Latin American countries, however, continues to be surrounded by destabilizing elements, which in turn produce dislocations that tend to become self-aggravating.

Periodic fluctuations in the level of economic activity are hardly a new phenomenon; they are of very remote origin. During the last twenty or twenty-five years, however, the attitude that short-period fluctuations are a natural and immutable condition of economic life has yielded to the view that economic tools are at hand to mitigate, if not completely eliminate, the worst features of cyclical variations in private enterprise

^{1/} This chapter presents a preliminary examination of short-term fluctuations on the Latin American countries and is based on a limited range of statistics and a sample of country experience. The findings, therefore, are to be considered as tentative. For the forthcoming printed edition of the Survey, it is expected that the basis of the study will be broadened.

economies. In the industrial countries of Western Europe and North America, the source of short-period fluctuations is generally attributed to alterations in the level of private investment in fixed capital and inventories. The enhanced role of Government expenditure, in terms both of size and stability, and the introduction of automatic stabilizing devices have helped significantly to check cyclical variations in economic activity in the post-war period. Thus efforts to reduce the great waste of resources that accompanies cyclical fluctuations have met with some success in the industrial countries.

For the under-developed economies seeking to raise the level of per capita real income, variations in the level of economic activity may serve to frustrate the pursuit of longer-term objectives. And given the characteristic structure of these countries, there is always the danger that, as a consequence of excessive swings in economic activity, forces may be set in motion which are not readily reversed. In the absence of built-in stabilizing devices, rapid increases in the demand soon exhaust the limited capacity to expand supply. The consequences appear in the form of new or enhanced inflationary pressures and frequently balance-of-payments difficulties as well. In the downward direction, given the irreducible level of import requirements, a contraction in demand for output is invariably accompanied by foreign exchange crises, while any decline in real income imposes serious hardships upon large segments of the community, further aggravated by rapid rates of population growth. It would appear, furthermore, that in these countries it is the export sector, rather than the level of investment which is the more immediate source of instability.

Whatever the interaction between the long-term rate of growth and cyclical fluctuations in the under-developed countries - a subject which

/is not

is not fully understood by economists -, ^{2/} there can be no doubt that short-term instability gives rise to the most pressing economic problems confronting the Latin American economies. In this chapter, the nature and impact of instability experienced since 1948 will be examined and the inter-relationship among the various contributing factors evaluated.

II. THE SHORT-TERM RELATIONSHIP BETWEEN OUTPUT AND EXPORTS

Stimulated in part by governmental development programmes significant advances have been made by many Latin American countries in diversifying the structure of production. In this way, the internal economic factors contributing to a sustained rate of growth have been enhanced. Despite these advances, however, the pace of economic growth throughout the post-war

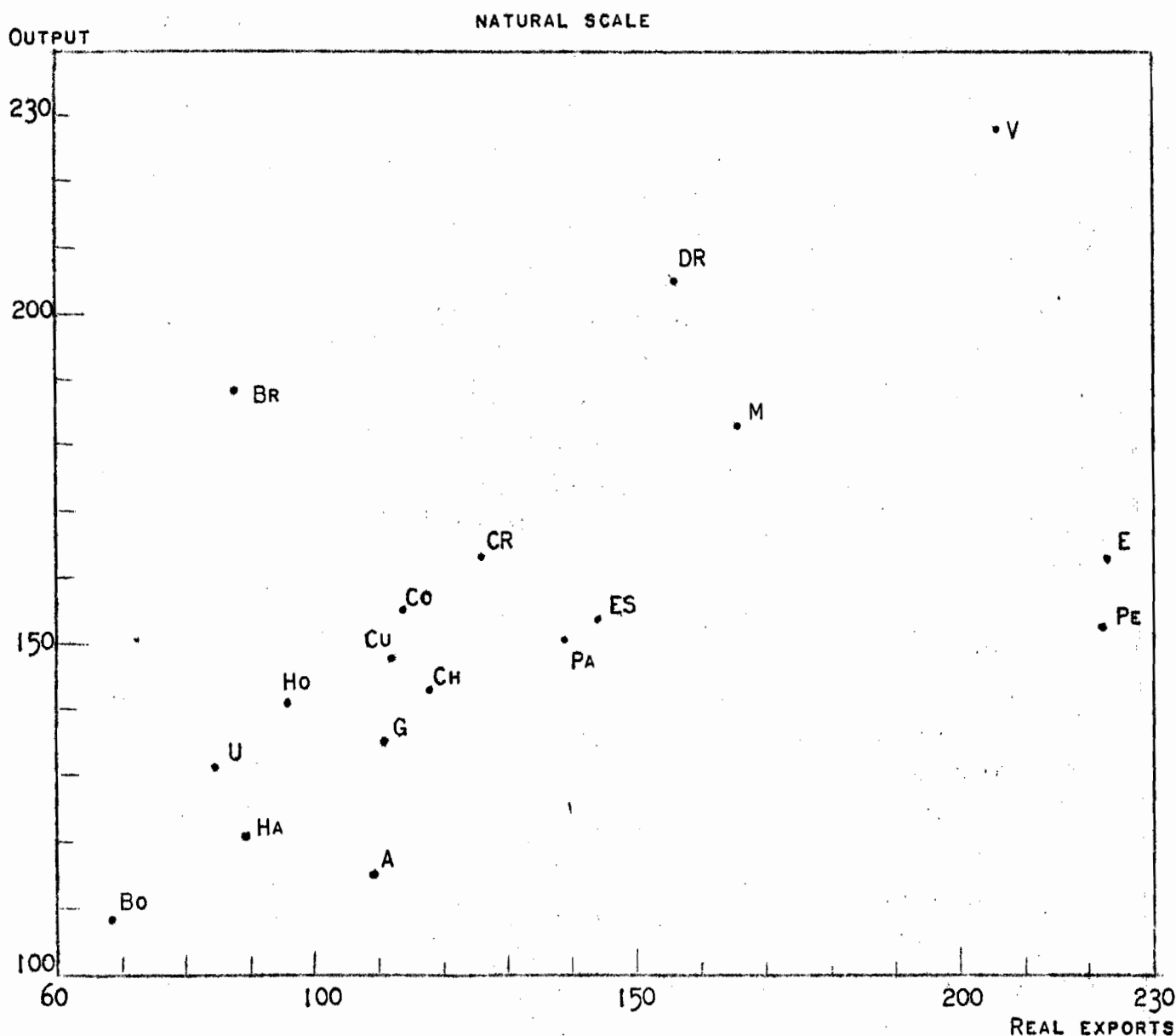
^{2/} There exists a wide divergence of views on the relationship between the growth trend and cyclical fluctuations. At one extreme is the view that the trend and the cycle are inseparably linked and determine each other. At the other extreme, it is held that the trend and cycle are separate phenomena and that there is no necessary interconnexion. Among those who adopt the first hypothesis, however, the question as to whether cyclical fluctuations serve a useful economic function or are to be thought of as an economic dislocation and therefore as a drag upon the potential or normal rate of growth, is the subject of some controversy. It is noteworthy that much of the discussion of this subject has drawn on the experience of industrial rather than primary producing countries and, therefore, its relevance for the Latin American countries is open to question. For example, some economists argue that cyclical fluctuations in economic activity perform the useful function of rewarding economic initiative and enterprise during the upswing phase of the cycle, while during the downswing the inefficient producers are weeded out. While there is some scope for discussing this point of view in reference to the industrialized countries, it would appear to have little or no applicability to under-developed economies. Given such conditions as inflexibility of supply, the pressing need for import substitution and the extremely low opportunity cost for labour, the question of rewarding enterprise or weeding out inefficiency is not entirely relevant.

period has been based largely upon the production of primary commodities for export. The relationship between exports and total product is in part a direct one, since the production and export of primary commodities generates an equivalent flow of national income and output. But more important perhaps is the indirect relationship between these two variables. Given the virtual absence of domestic capital goods industries, it is the primary export sector which provides the major share of foreign exchange resources for obtaining producers' durable equipment, and it is the latter type of investment that is crucial in augmenting the capacity for economic growth in the Latin American economies. Under these circumstances, the course of economic activity in the various countries of the region may be expected to be intimately related to the fortunes of the export sector.

The relationship between the growth of output and the volume of exports over the medium long run are illustrated in figure I, where each point on the scatter diagram represents the experience of an individual country over the period 1948-49 to 1958-59. The arrangement of the points in the diagram suggests that output and exports are positively related in the sense that those countries which have experienced a relatively high rate of expansion in the volume of exports have also enjoyed a relatively large advance in the growth of output over this period. It will be obvious, however, that the relationship between the variables is rather less than perfect, which suggests that over the period the export volume has not been the only factor influencing the rate of growth of output; and, in those countries which lie well beyond the main cluster of points, it may be presumed that special factors were at work which offset the influence of exports on the rate of growth of output.

The discussion of the relationship between output and exports in terms of volume changes, takes account of only one of the sources of fluctuations. Variations in the price of exports, and hence in export receipts, may be a more significant variable to the extent that production and expenditure decisions are based upon changes in money rather than real incomes. Still more important is the indirect influence of exports upon output which, as previously noted, provides the capacity to import capital goods, raw materials and fuels - the necessities for sustaining

RELATIONSHIP BETWEEN GROWTH OF OUTPUT a/ AND REAL EXPORTS b/ 1948-49 TO 1958-59
(1948-49 = 100)



A - ARGENTINA
Bo - BOLIVIA c/
BR - BRAZIL
Co - COLOMBIA
Cu - CUBA c/
CH - CHILE
CR - COSTA RICA c/
E - ECUADOR
ES - EL SALVADOR

G - GUATEMALA
HA - HAITI c/
Ho - HONDURAS c/
M - MEXICO
PA - PANAMA c/
PE - PERU
DR - DOMINICAN REPUBLIC c/
U - URUGUAY c/
V - VENEZUELA

SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA.

a/ GROSS DOMESTIC PRODUCT AT CONSTANT PRICES.

b/ MERCHANDISE EXPORTS AT CONSTANT PRICES.

c/ GROSS DOMESTIC PRODUCT FOR 1948-49 TO 1957-58.

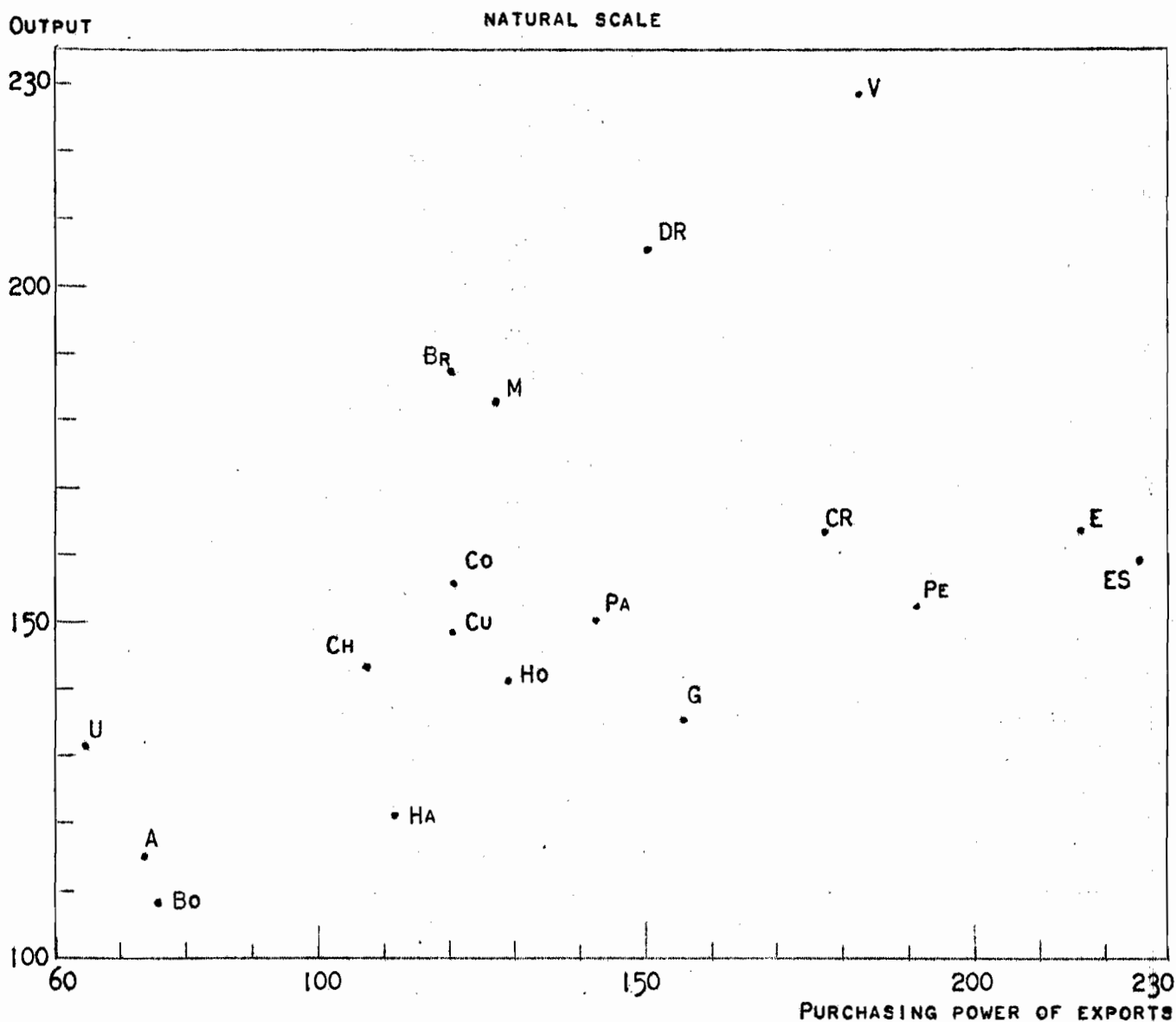
the level and growth of output. This may best be approximated by considering the purchasing power of exports, a concept which takes into account the terms of trade and the volume of exports.

The relationship between the growth in gross domestic product and the purchasing power of exports is shown in figure II. It will be noted that, when compared with the previous figure, the position of a few countries in the plane is shifted owing to the influence of the terms of trade. In particular it will be noted that the position of two of the largest economies in the region are affected. Brazil, which experienced a decline in real exports over the period, at the same time benefited from a sharp improvement in its terms of trade. In Argentina, in contrast, there was a serious deterioration in the terms of trade over the period, with the consequence that the purchasing power of that country's exports fell. Reflected in this divergent experience is, of course, the difference in the composition of commodity exports in the two countries - relatively buoyant prices for beverage crops in the former and stagnant or declining prices for temperate agricultural produce in the latter. The alterations in the scatter of the countries when prices of imports and exports are introduced, however, does not significantly affect the positive relationship between the rate of growth of output and the volume of exports revealed in figure I. The comparison between the two scatter diagrams suggests that, over the period under consideration, changes in the terms of trade have had little or no effect upon the inter-country relationship between output and real exports. This is not to suggest that the terms of trade had no influence upon the course of economic activity in individual countries; rather, the movement in the terms of trade among countries was not so divergent as to alter their relative positions radically in the scatter diagrams.

For almost all the Latin American countries the export sector in fact consists of an extremely narrow range of primary commodities. With the exception of Argentina, Mexico, Paraguay and Peru, the three largest export commodities in each of the countries in the region accounted for at least 75 per cent of the total value of merchandise exports in the year 1957; and, for the region as a whole, five commodities represented approximately 60 per cent of export receipts on merchandise account.

FIGURE 11

RELATIONSHIP BETWEEN GROWTH OF OUTPUT^{a/} AND PURCHASING POWER OF EXPORTS^{b/}
1948-49 TO 1958-59
(1948-49 = 100)



A - ARGENTINA
Bo - BOLIVIA ^{c/}
BR - BRAZIL
Co - COLOMBIA
Cu - CUBA ^{c/}
CH - CHILE
CR - COSTA RICA ^{c/}
E - ECUADOR
ES - EL SALVADOR

G - GUATEMALA
HA - HAITI ^{c/}
Ho - HONDURAS ^{c/}
M - MEXICO
PA - PANAMA ^{c/}
PE - PERU
DR - DOMINICAN REPUBLIC ^{c/}
U - URUGUAY ^{c/}
V - VENEZUELA

SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA

^{a/} GROSS DOMESTIC PRODUCT AT CONSTANT PRICES.

^{b/} MERCHANDISE EXPORTS CORRECTED FOR CHANGES IN TERMS OF TRADE.

^{c/} GROSS DOMESTIC PRODUCT FOR 1948-49 TO 1957-58.

In addition to the extreme nature of export specialization, the particular types of commodities that enter into foreign trade are subject to a high degree of short-period instability in either volume or price or both. Between 1948 and 1957, for example, the average annual fluctuations in the world export value of primary commodities that are important for Latin American countries ranged from 17 per cent for wool to 4 per cent for bananas and crude petroleum.^{3/} The value of coffee exports, the leading export commodity in seven countries of the region, was subject to average annual fluctuations of 9 per cent over the same period. The direct impact of such alterations in export proceeds upon the domestic economy will vary from country to country in accordance with the share of exports in total output.

Thus, the significance of this order of fluctuation may be gauged by a hypothetical illustration of a country in which exports represent a quarter of gross national product and whose export receipts vary on the average by ten per cent annually. This country would be faced with the possibility that, over a period of two years, total output could decline by five per cent as a direct consequence of the instability in the export sector. The displacement of output would be even greater if all the indirect repercussions of the variations in export proceeds were taken into account. Given the characteristic instability in the export sector, the relationship between exports and output in the short term may therefore be expected to reveal some degree of sympathetic fluctuations in the two variables in respect of magnitude and timing.

1. The magnitude of fluctuations

The magnitude of fluctuations in the purchasing power of exports and output over the period 1948 to 1959 are compared in table 1. The countries, selected on the basis of availability of data, are ranked in descending order of the degree of fluctuations in output. It will be obvious from an examination of the data in the two columns that there is no apparent inter-country relationship between the degree of instability in output and that of the purchasing power of exports. Cuba and Guatemala experienced the

^{3/} See United Nations, World Economic Survey, 1958 (Sales N° 59.II.C.1)

greatest degree of annual fluctuations in output among the Latin American countries, yet fluctuations in the purchasing power of their exports were somewhat smaller in magnitude than those experienced by Colombia and Ecuador, the two countries with the greatest stability in output over the period. At the same time, however, it will be noted that the range of fluctuations in the purchasing power of exports was considerably higher than that for output. Indeed, fluctuations in output in the Latin American countries must be considered relatively moderate when compared with those in the United States. Ten out of eighteen countries in the region experienced a degree of fluctuation in output equal to or less than that of the United States - 2.5 per cent - over the period 1948 to 1959. The term "instability" as it is frequently applied to primary producing countries such as those in Latin American must therefore be seriously qualified to the extent that it is based upon the degree of fluctuations in output.^{4/}

As a first approximation, it might be expected that fluctuations in exports would impart a degree of instability to output in proportion to the share of exports in output. But an examination of the data for each country reveals that, while the degree of fluctuations in exports was everywhere higher than that for output, in some countries it was more than and in others less than proportionate to the export coefficient. The following table illustrates the grouping of countries that emerge from this consideration:

^{4/} In many of the Latin American countries, the annual economic series covering the components of gross product and consumption are estimated on the basis of indirect and relatively approximate indicators. It would appear that the nature of the statistical estimation techniques used tends to be such that the figures do not fully reflect the annual variations in the components of the product. It is not possible to make the necessary adjustments to correct this defect. However, among countries where the productive structure and the estimating techniques are similar, comparisons will not be seriously affected.

Table 1
SHORT-PERIOD FLUCTUATIONS IN OUTPUT AND PURCHASING
POWER OF EXPORTS, 1948-59

(Average annual percentage deviation from trend)

Country	Gross domestic product	Purchasing power of exports
Cuba	6.1 a/	10.7
Guatemala	6.1	8.8
Chile	4.6	7.2
El Salvador	3.8	9.2
Uruguay	3.5 a/	21.6
Brazil	3.2	9.6
Honduras	2.8 a/	9.9
Peru	2.6	7.5
Costa Rica	2.5 a/	10.8
Dominican Republic	2.5 a/	9.4
Venezuela	2.5	5.4
Argentina	2.4	17.1
Bolivia	2.4 a/	10.6
Nicaragua	2.3 a/	17.5
Mexico	2.2	7.7
Panama	2.0 a/	7.4
Ecuador	1.1	10.5
Colombia	1.1	12.8

Source: Economic Commission for Latin America, based on official national sources.

a/ 1948-1958.

/Countries where

Countries where the degree of fluctuation in the purchasing
power of exports relative to the degree of
fluctuations in output is

(a) less than proportionate (b) proportionate (c) more than proportionate
to the average share of exports in output 1950-59

Cuba	Dominican Republic	Uruguay
Guatemala		Nicaragua
Brazil		Panama
Peru		Ecuador
Honduras		Colombia
Chile		Costa Rica
Venezuela		
Mexico		
Argentina		
Bolivia		

The composition of the country groups, however, bears an important relationship to the structural characteristics or the degree of economic development of the individual countries. In the first column, countries such as Argentina, Brazil and Mexico, on the one hand, are listed with countries such as Cuba, Honduras and Peru, on the other. Obviously there are many factors interposed between the magnitude of short-period changes in the purchasing power of exports and the consequent impact upon output; and, in the absence of any significant correlations between the two variables, it may be presumed that the influence of these factors differs widely among the various Latin American countries.

2. The timing of fluctuations

In considering the relative magnitude of fluctuations in output and exports only one of the relevant dimensions is taken into account. The nature of the relationship between output and exports may be better understood when the timing or degree of synchronization in the movement of the two variables is considered. In figure III the annual percentage deviation from the trend of gross domestic product and the purchasing power of exports are shown separately for eighteen countries in the region. It will be obvious from an examination of the figure that the annual concordance of movements in the two variables is not very great. Cuba and Ecuador are the only instances where the two series move in fairly close harmony. These two countries, it will be recalled, were at opposite ends of the range defined by the degree of stability of output. Since changes in exports, apart from the influence of other factors, exert an impact upon the internal economy only over a period of time, it is not to be expected that the direction of change of output and of exports will be perfectly phased from year to year.^{5/} Thus, if the variations in the curves are examined from the point of view of a two- or three-year period, some degree of concordance in the movement of the two series does emerge for a number of countries. Among these are Argentina, Colombia, Honduras, Mexico, Venezuela, Uruguay and possibly Bolivia. On the other hand, in Brazil, Chile and Guatemala, deviations in output and the purchasing power of exports appear to be negatively phased. In the remaining countries - Costa Rica, the Dominican Republic, El Salvador, Nicaragua, Panama and Peru -, no obvious relationship appears in the comparison of the movement in the two variables over the period under review. When the above grouping of countries is considered alongside that which emerges from the discussion of the magnitude of fluctuations, it will be apparent that, in taking account of the timing of movements in the two variables, the inter-country

^{5/} It will be noted that the units, in terms of which the two variables are defined, are percentage deviations from a linear trend and therefore any movement in the series is to be interpreted as a relative rather than an absolute change.

relationships between exports and output still does not reveal the essential differences in the stage of economic development among the Latin American countries.

It is noteworthy that, even where a distinct cycle in output and exports is revealed, the pattern that is traced out differs significantly from one country to another. The cyclical movement in output and exports in Mexico and Bolivia, for example, approximates the post-war pattern of economic activity that has been experienced by most of the industrial countries of Western Europe and North America as well as many primary producing countries outside Latin America. In contrast, Argentina, Brazil, Colombia, Uruguay and Venezuela have each experienced distinct patterns of cyclical variations over the whole period which are not obviously related to the general movement of economic activity outside the region. In part, the heterogeneous nature of the cyclical pattern is a consequence of the particular export commodity or commodities in which the individual country specializes. For example, the Korean conflict affected the international markets for minerals and industrial raw materials to a much greater extent than the markets for foodstuffs such as coffee or bananas. But, as previously noted in the discussion of the magnitude of fluctuations, there are a number of influences which may affect the cyclical timing of movements in output and exports within an individual country as well as the pattern of movement as between countries.

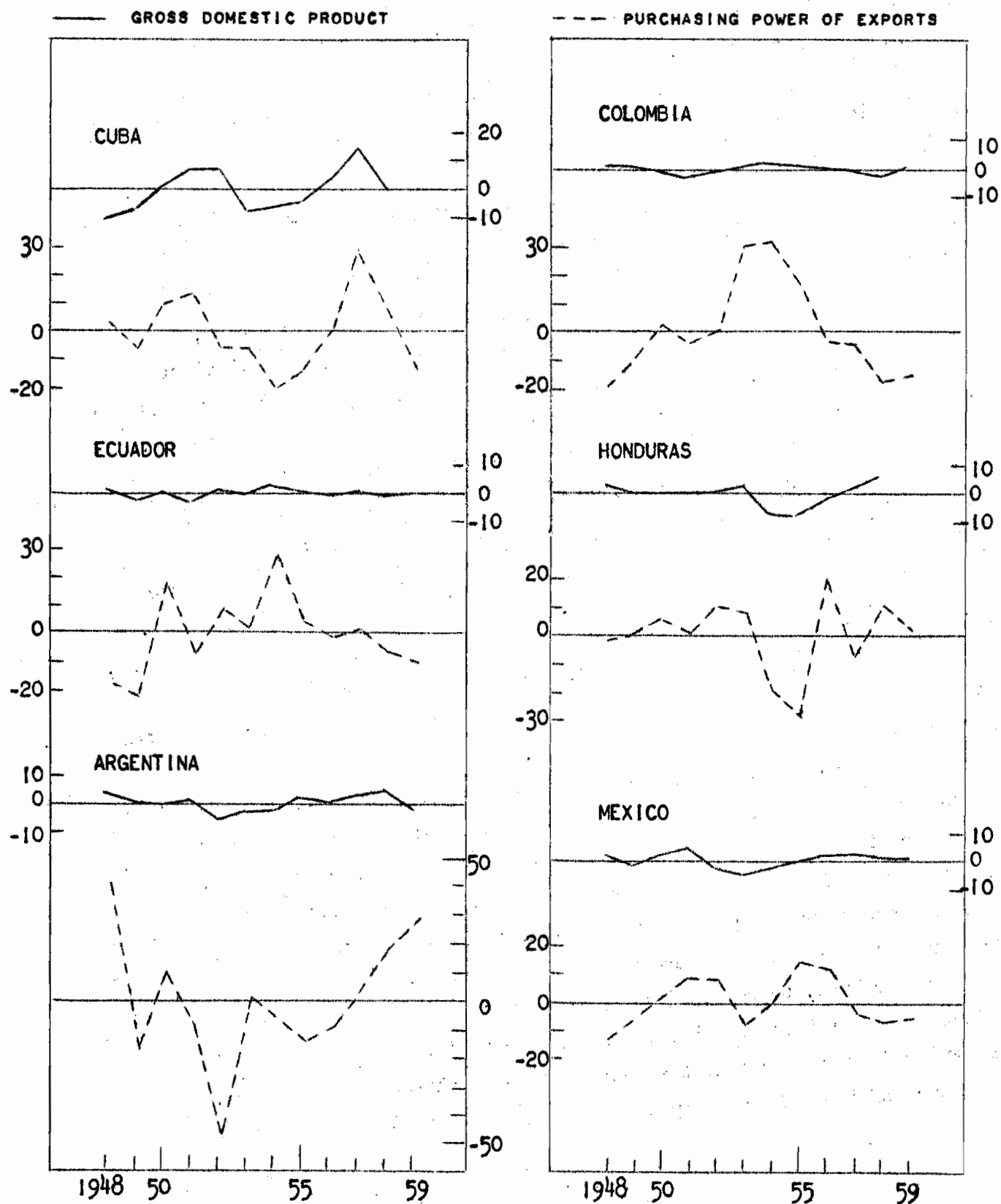
From the previous discussion, it emerges that the relationship between short-period variations in output and the purchasing power of exports is not a very intimate one in respect of either the magnitude or the timing of fluctuations. There are countries which have experienced relatively large fluctuations in exports and which have moved in harmony with the variations in output, yet fluctuations in output have been much smaller. On the other hand, there are instances where the degree of instability of both output and exports has been relatively high, yet the movement of the two variables over time has been oppositely phased. Furthermore, the nature of the relationship between output and exports in individual

FIGURE III

THE TIMING OF SHORT-PERIOD FLUCTUATIONS IN GROSS DOMESTIC PRODUCT
AND PURCHASING POWER OF EXPORTS 1948-1959

(PERCENTAGE DEVIATION FROM TREND)

NATURAL SCALE



SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA BASED ON OFFICIAL NATIONAL STATISTICS

(CONTINUATION)

NATURAL SCALE

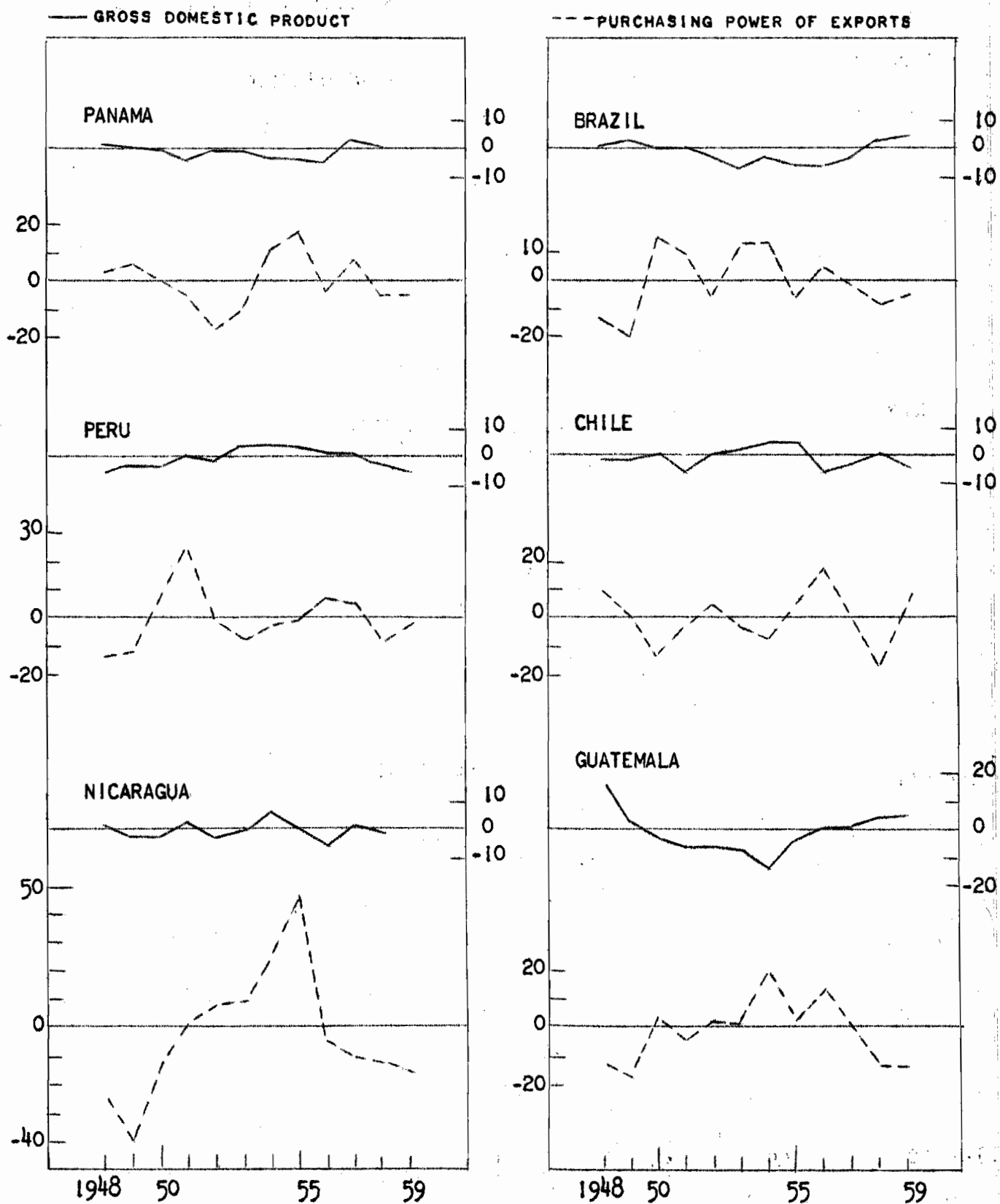
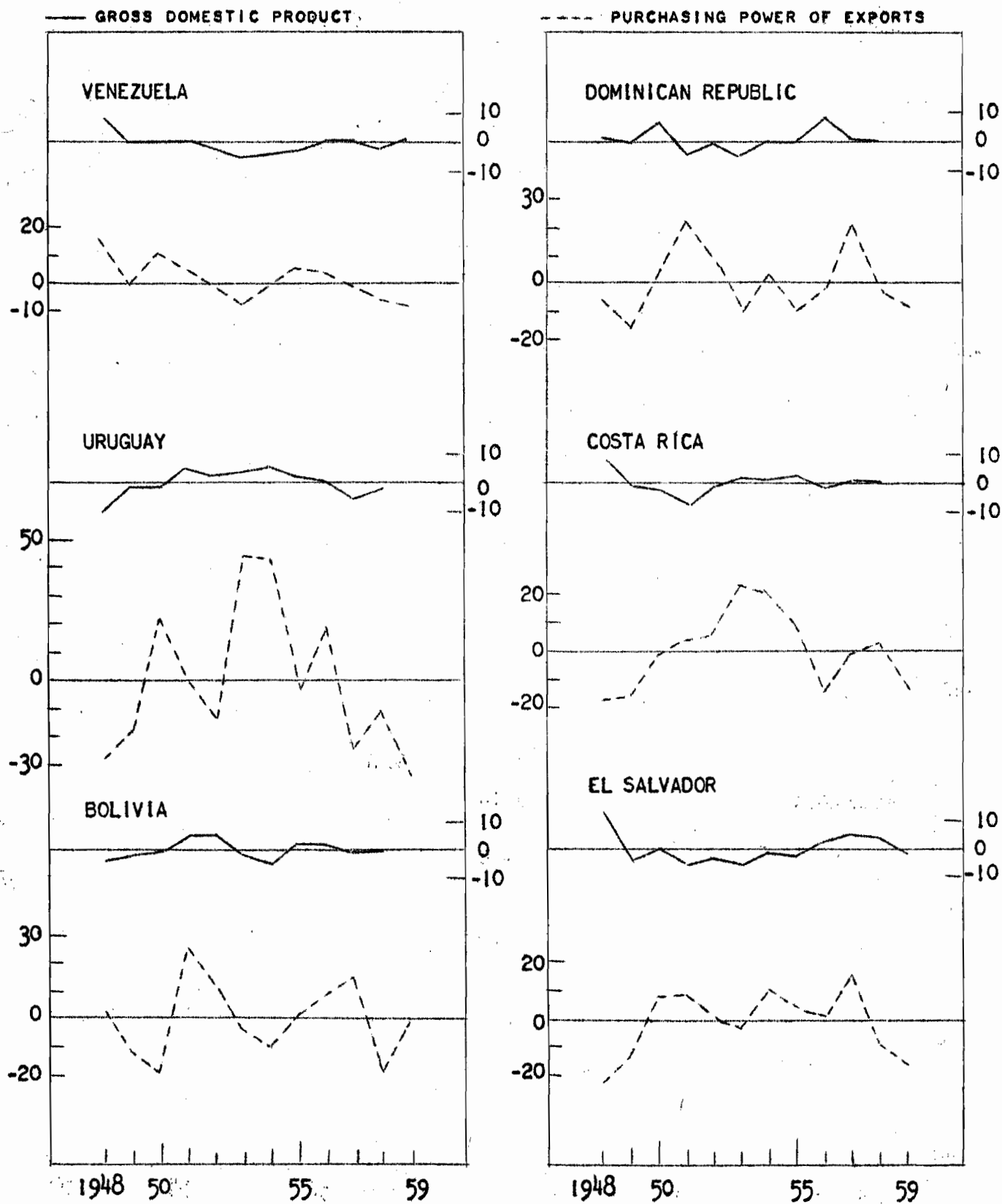


FIGURE III

(CONTINUATION)

NATURAL SCALE



/countries does

countries does not appear to be related in any meaningful way to the different types of economies to be found in the region. Experience in countries such as Brazil and Honduras, on the one hand, and Argentina and Nicaragua, on the other, have been similar, despite the very great differences in their economies. It might be thought that the relationship between exports and output would be revealed to be most intimate in those countries which are extremely dependent upon exports - that is the "open economy" type, frequently applied to some of the Central American republics. It is surprising, therefore, that even among these countries the relationship between exports and output in terms of magnitude and timing of fluctuations is not a very close one. It would appear that, despite the significant relationship between output and exports that obtains over a relatively long period of time, in the short-term, this relationship is obscured by the interposition of other factors.

III. THE ROLE OF INTERNAL DEMAND AND OUTPUT INELASTICITY

The impact of fluctuations in the level of foreign demand upon total output will be lessened or aggravated depending upon the accompanying movements in the components of internal demand. It is conceivable, for example, that the magnitude and timing of fluctuations in gross fixed domestic investment could perfectly offset the variations in exports with the consequence that output would remain stable. Similarly, public or private consumption represent sources of variation which may exert independent influences upon the movement of total output. It may be presumed, however, that gross investment and public consumption are the more volatile elements of internal demand. Private consumption, on the other hand, represents a less autonomous and hence a more stable component of demand. In a recent study of the consumer market in the United States,^{6/} it is shown that fluctuations in private consumption are considerably less than those in any other component of demand. Moreover, the instability in private consumption arises largely from the fluctuations in the durable goods component. Since, in the Latin American countries, the share of durable goods in total private consumption is considerably smaller than that in the United States, to this extent it represents a smaller source of instability of consumption, in the former countries.

An additional factor that probably contributes to the short-term stability of consumption in many Latin American countries is the bimodal distribution of personal income. Among the higher income groups, traditional consumption standards tend to be maintained in the short-run even if it requires drawing on savings, while, among the lower income groups, the scope for variations in consumption is extremely limited since it is at or near the subsistence level. An important destabilizing factor in private consumption, particularly that of the lower income groups, is the variation in food production arising from natural causes. In many of the Latin American countries the impact of a food crop failure, for

^{6/} United States Department of Commerce, Survey of Current Business, January 1961.

example, cannot be readily mitigated by increasing imports or by drawing upon inventories for the adjustment frequently implies that consumers are forced to eat less.

It is an open question whether the volatile elements of demand - investment and public consumption - are in fact independent influences upon movements in output. As noted previously, capital formation in the Latin American countries is linked directly to the export sector in two ways: as a major source of financing capital imports and as a sector of production which absorbs a significant share of total new investment. More generally, capital formation in the various countries of the region is not based upon endogenous technological developments but rather on imported techniques and to this extent represents a less autonomous and more dependent force in the economy. Thus the capacity for private capital formation to compensate for fluctuations in demand arising from other sources, without at the same time producing dislocations in the balance of payments, is seriously circumscribed. Government investment, on the other hand, takes the form largely of construction and public works - capital formation with relatively little import content. It is, therefore, likely to be less sensitive to developments in the export sector or indeed variations in other demand components.

In many countries of the region, a substantial share of public revenue is derived from the export sector through one or more forms of taxation. The revenue base is particularly narrow in those countries which specialize in one or two export commodities. In this way public consumption is also tied to the variations in export proceeds or export volume. This is not to suggest, however, that Government expenditures must necessarily be trimmed to revenues; indeed deficit financing in the Government sector has been a common characteristic of post-war economic development among the Latin American countries. Frequently, the deficits have arisen as a result of deliberate Government compensatory policy; at other times an excess of current expenditure over revenue has reflected the inability of Governments to cut expenditure commitments readily. Thus, in the face of limited revenue sources and the downward inflexibility of Government expenditure in these countries, variations

in public consumption - whether deliberately compensatory or not - may produce ramifications in other sectors of the economy which in the first instance are revealed in the form of price instability.

Apart from the forces impinging upon total output from the side of demand - foreign and domestic - the supply of output may itself be subject to rigidities which prevent ready adaptation to changes in demand. Thus, the impact of short period fluctuations in exports of whatever magnitude will be greater or less depending upon the inherent responsiveness of production. It is a characteristic of the production of primary commodities, particularly where it is based upon small-scale producing units, that adjustments in output to changing economic forces are sluggish.^{7/} Indeed, it has been the object of various stabilization schemes adopted by many of the primary producing countries of the region to protect the domestic sectors from the sharp variations in the price and volume of exported primary commodities, whatever their source. Apart from the influence of Government policy, however, there are natural limitations which make it difficult to substitute one type of product for another in accordance with changed market conditions or even to alter the volume of output of a single product over the short-term. In addition, many agricultural commodities are not readily storable and even where inventory accumulation is possible the cost of storage is frequently prohibitive. This means of enhancing the degree of flexibility of primary commodity output is, therefore, not generally feasible. In view of these considerations, output in most of the Latin American countries is likely to be inflexible to changes in economic forces, since agricultural production represents a substantial share of total output. It need hardly be added that agricultural production is also subject to a high degree of instability as a result of climatic and other natural events which impinge upon output in a random manner.

^{7/} See General Agreement on Tariffs and Trade (GATT), Trends in International Trade, A Report by a Panel of Experts (Geneva, 1958).

Impediments to flexibility in supply that have no counterpart in the industrialized countries are also found in the industrial sectors of the Latin American economies. These arise from the fact that industrial productive capacity is far from sufficient to meet the current domestic demand for industrial products. Hence, there is little or no margin of excess capacity to permit ready adjustment to upward changes in demand. In some of the Latin American countries in recent years, however, a number of traditional manufacturing industries such as textiles have shown evidence of excess capacity. In part this is a result of a decline in demand, but it may well be that the older established consumer goods industries have outgrown the current volume of domestic demand and must look to export markets and an acceleration in per capita real incomes at home in order to attain full capacity output. No such evidence of excess capacity, however, is to be found in the engineering and metal transforming industries. Finally, it may be noted that industrial output in these countries is less readily adaptable to variations in demand because of the relatively low annual rate of new capital formation that is characteristic of countries in this region.

The role of these factors in the export-output relationship, may be illustrated by the experience of a selected group of Latin American countries. Among these are Cuba and Colombia, which represent the extremes of the range defining the degree of variability of output, while Venezuela has been selected, since it falls roughly in the middle of the range. Also included are Brazil and Argentina, which are among the most industrially advanced countries of the region and may, therefore, provide interesting points of comparison. Finally, El Salvador together with Cuba and perhaps Venezuela exemplify the "open economy" type which has been alluded to above. The object in the selection of these countries has been to present the widest possible range of experience.

The magnitude of fluctuations in the demand and supply components of output are shown in table 2, where the six countries are ranked in descending order of the degree of variability in total output. The degree of fluctuations in total output and the purchasing power of exports are reproduced from table 1. The average annual percentage

/deviation from

deviation from trend for gross fixed domestic investment and for public consumption are shown in columns 3 and 4. The range of variation in investment is rather less and in public consumptions rather more than that of exports. It will be seen however, that in neither case is there a distinct relationship to the ordering of countries in terms of output instability. But, as previously indicated, the magnitude of fluctuations in investment and public consumption may not be as important as the timing of fluctuations where it is desired to evaluate their influence upon the short period relationship between exports and output.

Column 5 of table 2 shows the degree of variability in agricultural production. In four out of the six countries - Brazil and Venezuela being the exceptions - agricultural production is significantly more unstable than total output. It may be presumed that, in these four countries, the magnitude of variations in agricultural output arising from natural causes as well as from economic forces overshadowed the stabilizing elements that are associated with the agricultural sector of production. As will be seen below, however, the weighted impact of fluctuations in agricultural output - including the effects of both magnitude and timing - is, on balance, a stabilizing influence upon total output.

The timing of fluctuations in the various demand and supply components are illustrated in figure IV for the six countries under review and, as in figure III, the curves represent annual percentage deviations from the trend. It will be apparent from a comparison of the data charted for each of the selected countries, that the Cuban experience is rather unique. It is the only country where a pervasive positive correlation in the timing of movements among all the variables is to be found. The sharp fluctuations in agricultural output are to be explained in part by the special characteristics surrounding the production of sugar. Relatively rapid adjustments to changes in foreign demand are feasible, since the harvesting of cane can be postponed for as long as one year without serious loss in yield. In view of the concordance of timing among the variables, it is not surprising that Cuba, of all the Latin American countries, experienced the highest degree of instability in

Table 2
SHORT-PERIOD FLUCTUATIONS IN DEMAND AND SUPPLY COMPONENTS OF OUTPUT
IN SELECTED COUNTRIES, 1948-59

(Average annual percentage deviation from trend)

Country	Gross domestic product	Purchasing power of exports	Gross fixed domestic investment	Public consumption	Agricultural production ^{a/}
	(1)	(2)	(3)	(4)	(5)
Cuba	6.1 ^{b/}	10.7	11.0 ^{b/}	3.8 ^{b/}	9.9 ^{a/}
El Salvador	3.8	9.2	8.5	7.8	5.3 ^{d/}
Brazil	3.2	9.6	9.9	14.3	3.1
Venezuela	2.5	5.4	8.4	21.0	2.6
Argentina	2.4	17.1	7.5	2.9	5.1
Colombia	1.1	12.8	11.1	10.1	5.8

Source: Economic Commission for Latin America, based on official national sources.

^{a/} The average of agricultural production varies from country to country, but in general includes fishing, hunting and forestry.

^{b/} 1948-58.

^{c/} Production of sugar only, which represents approximately 80 per cent of total agricultural output.

^{d/} 1949-59.

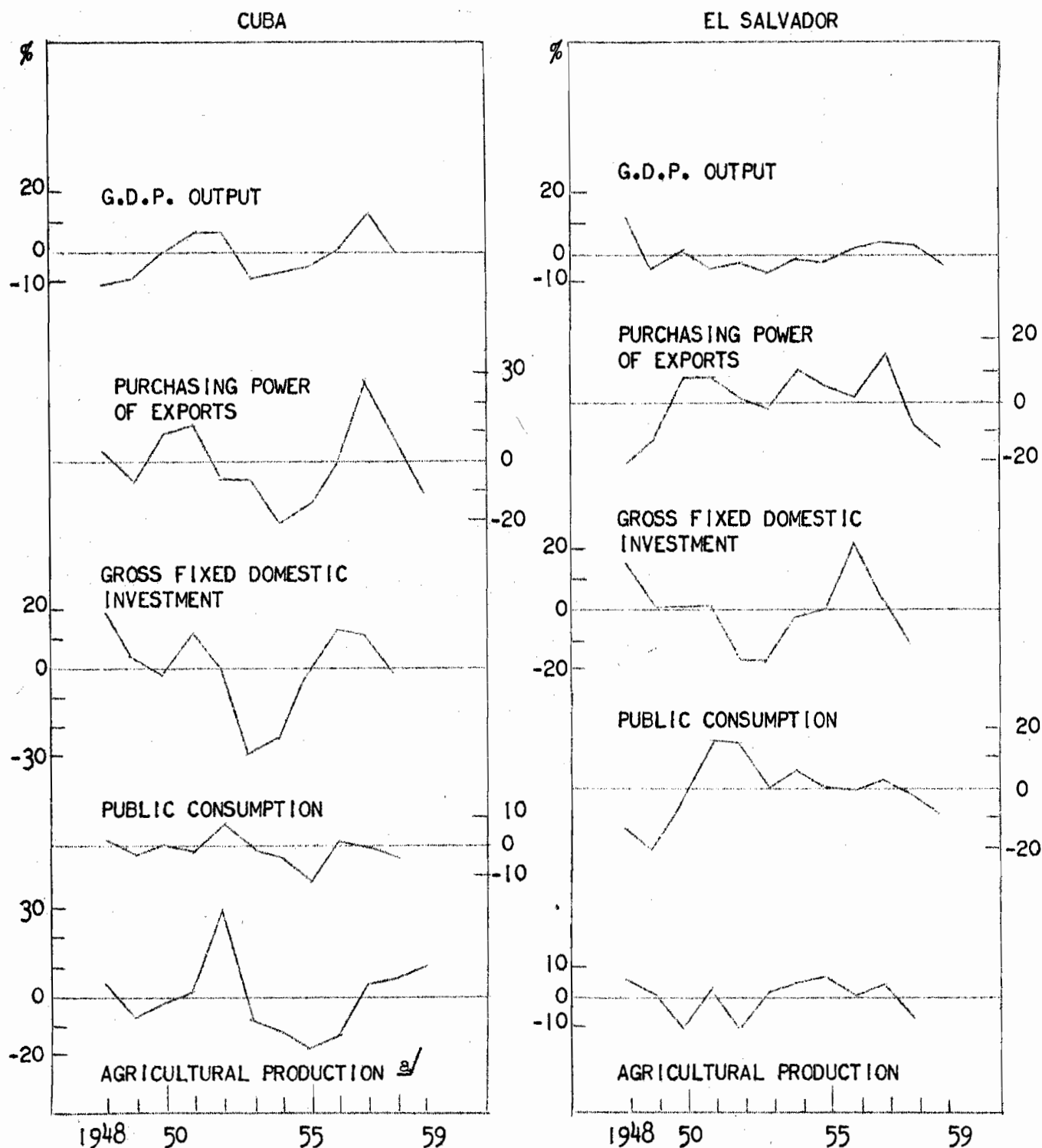
/FIGURE IV

FIGURE IV

TIMING OF SHORT-PERIOD FLUCTUATIONS IN DEMAND AND SUPPLY COMPONENTS OF OUTPUT
1948 - 1959

(PERCENTAGE DEVIATIONS FROM TREND)

NATURAL SCALE



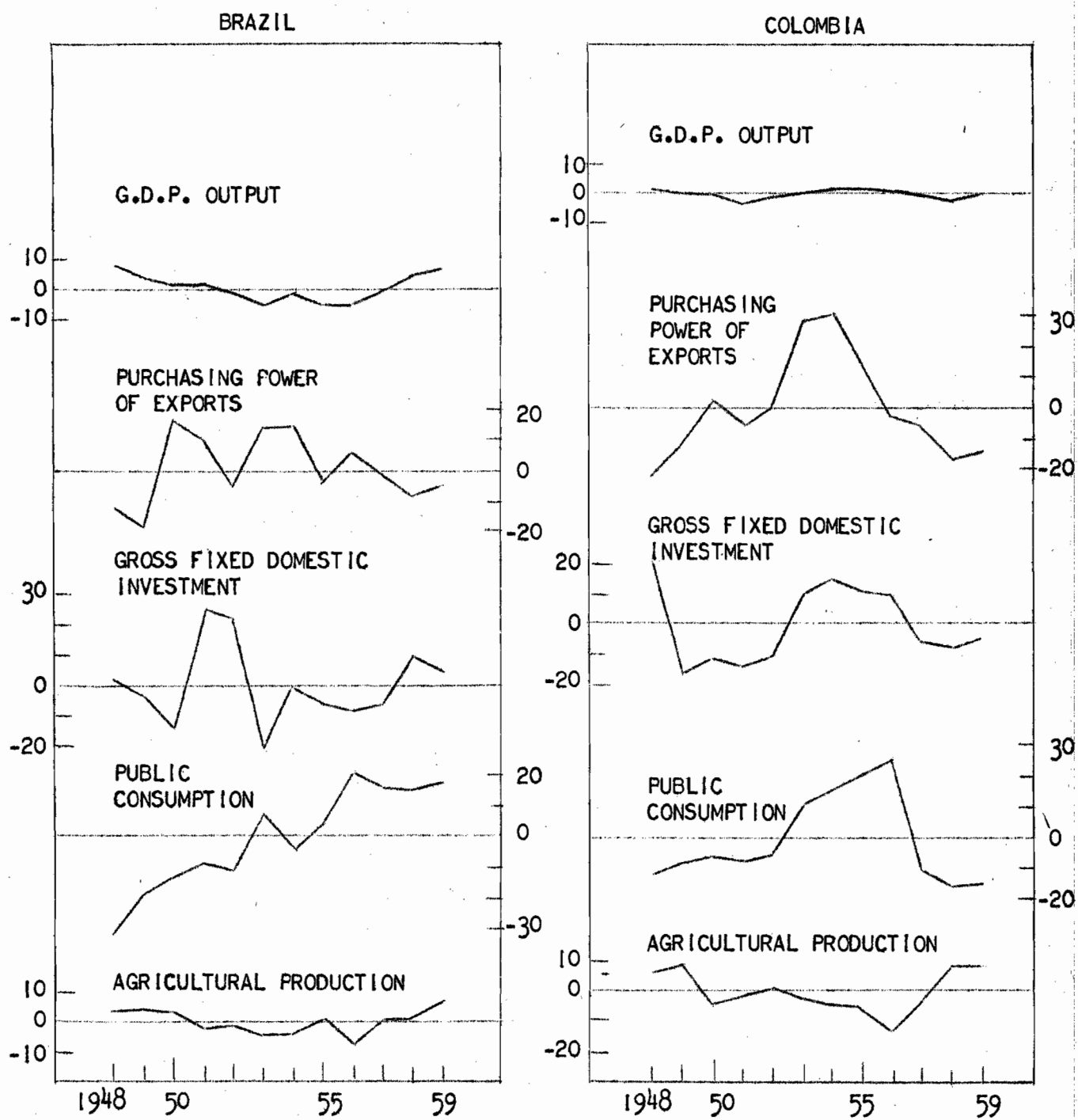
SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA BASED ON OFFICIAL NATIONAL STATISTICS.

^{a/} PRODUCTION OF SUGAR ONLY, WHICH REPRESENTS APPROXIMATELY 80% OF TOTAL AGRICULTURAL PRODUCTION.

FIGURE IV

(CONTINUATION)

NATURAL SCALE

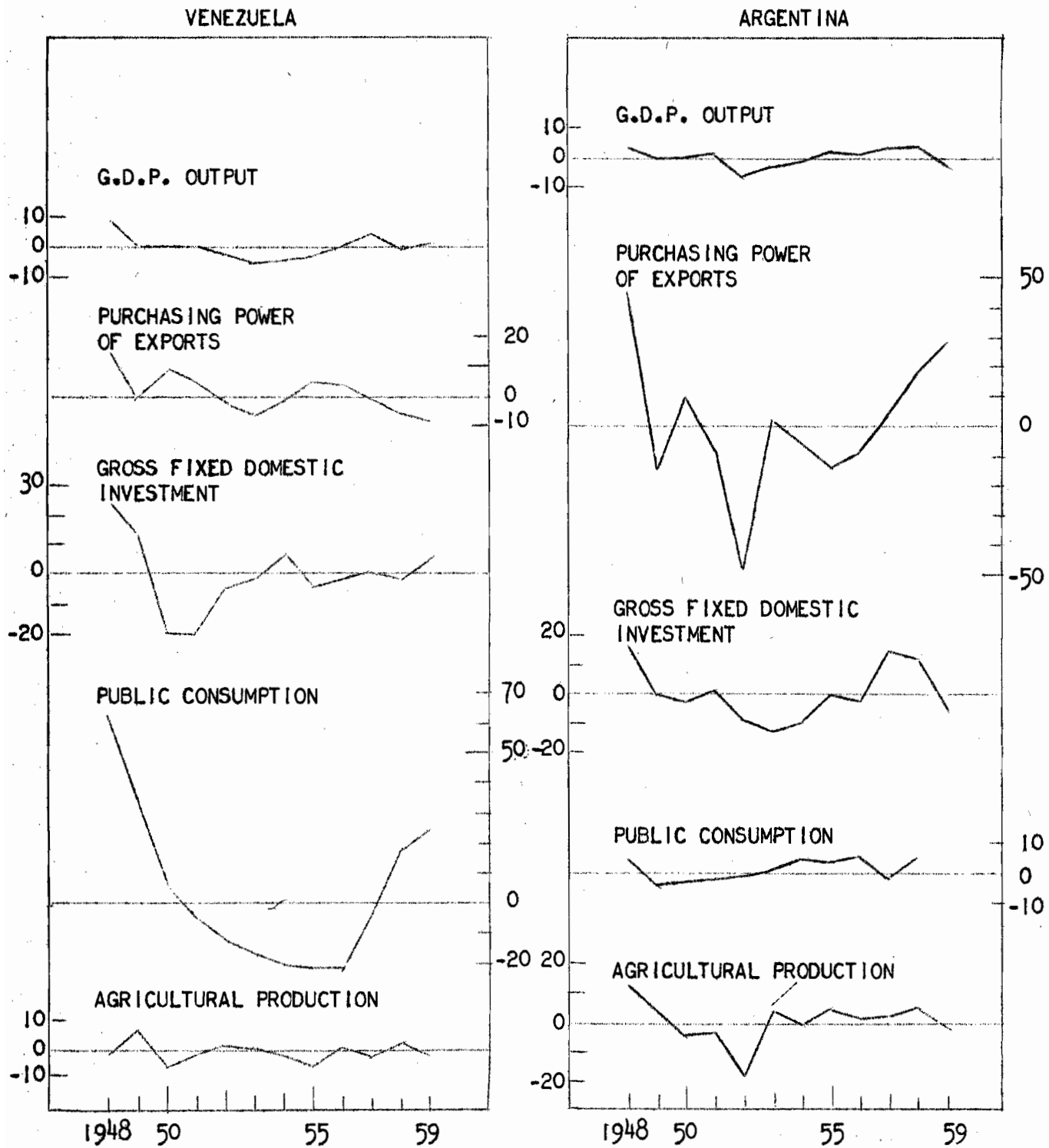


/FIGURE IV (Cont.)

FIGURE IV

(CONTINUATION)

NATURAL SCALE



/total output.

total output. Thus Cuba provides an instance where the impact of autonomous fluctuations in foreign demand have been readily transmitted throughout the various sectors of the economy with the burden of adjustment falling mainly upon total output. Furthermore, the nature of the experience is in accordance with what might be expected in an "open economy".

In El Salvador - also an "open economy" - none of the demand and supply components appears to have exerted a stabilizing influence on the economy, in so far as movement over time is concerned. Total output in El Salvador was less stable than in any of the other selected countries except Cuba, but in the former country deviations from the trend reflected the combined influence of divergent fluctuation in the purchasing power of exports, total investment, public consumption and agricultural production. Although movements in gross investment and agricultural production provide the greatest degree of concordance with variations in total output, nothing emerges to suggest that as in the case of Cuba the experience of El Salvador was in line with the economic repercussions that might be expected from an "open economy".

Among the other countries, a low degree of concordance in the timing of the influencing variables is found in Brazil and Colombia. In the former country, total investment and the purchasing power of exports have moved almost continuously in opposite directions in relation to the trend. Yet, during some periods there are signs suggesting the existence of a time lag between the changes in the two variables. The wide fluctuations in investment during the period 1949-1953 were in large measure due to the huge and non-recurring expenditures made in 1951 and 1952 to exploit new coffee-growing areas. The expansion of investment in this sector of production was in response to the rise in coffee prices which took place in 1949-1950. Nevertheless, at the end of the period, the relative rise in investment was mainly the result of measures taken by the Brazilian Government to offset the depressive impact of the decline in foreign demand.

/This compensatory

This compensatory policy^{8/} is reflected also in the behaviour of public consumption. During the whole period, agricultural production showed a smaller degree of instability than the components of demand referred to above. Deviations from the trend in agricultural output are mainly attributable to random fluctuations in coffee production.

The Colombian experience differs from that of Brazil in two main aspects. Firstly, agricultural output has not itself contributed to the stability in total product except in recent years. Secondly, towards the end of the period under review parallel downward movements in exports, investment and public consumption were recorded. While Brazil at this time was pursuing a compensatory policy, Colombia was mainly concerned with the elimination of the balance-of-payments disequilibrium, through restrictions on imports and internal demand. Earlier in the period, the several variables under review often fluctuated in opposite directions. The variations in agricultural production between 1948 and 1956 were considerably influenced by factors extraneous to economic activity. Total investment, based on substantial imports of capital goods and public consumption, showed high positive deviations from the trend even in 1955 and 1956 when exports declined sharply. The consequence was that large deficits in the balance of payments appeared, which in turn induced the authorities to adopt a programme of stabilization beginning in the middle of 1957.

It will be observed that, in the case of Argentina, the degree of concordance in the timing of the various demand and supply components is rather greater than that in Brazil or Colombia. Movements in the purchasing power of exports, fixed investment and agricultural production are broadly similar, with the notable exception of 1959. The domestic production of capital goods in Argentina is relatively high when compared with that of other Latin American countries. Furthermore, and unlike

^{8/} The term "compensatory policy," as used here, is intended to describe all economic measures that affect the impact of external economic forces upon domestic output and income. This is not to suggest, however, that in the case of Government policy, such measures are always pursued with the compensatory objective clearly in mind.

other countries in the region, agricultural output in Argentina is subject to the competitive demands of both the domestic and the foreign market. In view of these special considerations, it might have been expected that the relationship among these three variables would be affected, but this is not obviously revealed in the timing of fluctuations. But, as will be seen below, when the magnitude of fluctuations is taken into account, the relationship among these variables emerges more clearly. Public consumption, on the other hand, appears to have exerted a stabilizing influence upon total output. There is reason to believe that private consumption in Argentina was also an important stabilizing factor since, for most of the period under review, low prices for consumer goods were deliberately maintained through the overvaluation of the rate of exchange and extensive subsidization. Indeed, it would appear that, until the end of 1955, the level of internal consumption was kept stable at the expense of exports and investment. Thus, total output fluctuated narrowly around a low average rate of growth and balance-of-payments disequilibrium was a common feature of this period. In 1959, drastic measures were taken to correct the external imbalance and to eliminate inflationary pressures. Thus, despite an advance in the purchasing power of exports, there was a relative decline in the volume of gross fixed investment.

In Venezuela, the annual fluctuations in the purchasing power of exports were much less violent than in the other selected countries. If the period under review is taken as a whole, the behaviour of exports appears to have contributed to the relative stability of output. Agricultural production was also relatively stable, but its share in total product is considerably smaller than that of the petroleum sector. On the other hand, investment and, even more, public consumption fluctuated widely in some years. Between 1948 and 1952, the sharp opposite deviations from the trend recorded for total investment can be attributed to the movements in capital expenditure in the petroleum industry. The special nature of capital formation in this industry is likely to make it more volatile than alternative forms of investment. Later in

/the period,

the period, however, investment became more stable because of the increased participation of Government public works projects as well as private capital formation in manufacturing industries. The relative increases in gross investment and public consumption during 1959 reflected the efforts of the Government to compensate for the depressing influence arising from a slackening in the demand for petroleum.

Clearly, the timing of movements in the components of internal demand and in agricultural production have exerted an influence upon the relationship between exports and output in each of the countries examined above. This influence, however, when considered by itself, fails to provide a full understanding of the inter-relationship between the relevant variables and output instability; the magnitude of fluctuations must also be taken into account. Part of the difficulty derives from the fact that it is not feasible to quantify the extent of concordance in the movement of the several variables over time and therefore to know the degree of compensation or aggravation contributed by each. Nevertheless, it is possible to summarize the total impact - both in terms of magnitude and timing - of each of the influencing variables upon the instability of output. Thus, if from total output the volume of say gross investment is subtracted and the degree of instability in the remainder calculated, the latter figure may then be compared with the degree of instability in total output and the difference would be attributable to the influence of gross fixed investment. If the degree of fluctuation in output, excluding investment is, say, 4 per cent as compared with 3 per cent when investment is excluded - that is, if the degree of instability is reduced - it may be presumed that, on balance, the degree of fluctuations and the timing of movements in capital formation had a destabilizing effect on variations in total output. But, it will be noted that, according to this method of calculation, it is the gross impact of the influencing variable that is being isolated since other variables are still contained in the output remainder and these may be closely related to the variable that is excluded. The results of these calculations are presented in table 3. There, the degree of stability of total output, on the one hand, and the weighted influence of the purchasing power of exports, investment, public consumption and agricultural production on the other hand, are shown separately, for each of the six countries under discussion.

Table 3

WEIGHTED a/ INFLUENCE OF DEMAND AND SUPPLY COMPONENTS
ON OUTPUT INSTABILITY IN SELECTED COUNTRIES 1948-59

(Average annual percentage deviation from trend)

Country	Gross domestic product <u>b/</u>	Degree of fluctuation in output excluding:			
		Purchasing power of exports	Gross fixed domestic investment	Public consumption	Agricultural production <u>c/</u>
Cuba	6.1 <u>d/</u>	6.4	6.1 <u>d/</u>	6.1 <u>d/</u>	7.7 <u>e/</u>
El Salvador	3.8	7.6	4.1	4.3	3.9 <u>f/</u>
Brazil	3.2	4.2	3.2	7.0	3.9
Venezuela	2.5	2.9	4.5	2.5	2.8
Argentina	2.6	2.5	1.4	2.9	2.8
Colombia	1.1	2.1	1.4	1.1	1.8

Source: ECLA, based on official national statistics.

a/ Obtained by subtracting each demand or supply component from gross domestic product and calculating the average annual percentage deviation from trend of the remainder.

b/ From table 2 above.

c/ The coverage of agricultural production varies from country to country, but in general includes fishing, hunting and forestry.

d/ 1948-58.

e/ Production of sugar only which represents approximately 80 per cent of total agricultural output.

f/ 1949-59.

There are a number of interesting relationships that emerge from the data appearing in table 3. First, it will be noted that, as regards the country ordering of each influencing variable, there is a fairly high association with that of the degree of instability in output. This is to say that the weighted degree of variations in demand and supply components has tended to be higher in those countries which have experienced a greater degree of instability in output. Second, within each country, differences between the degree of instability in each of the influencing variables and that of total output do not exceed two percentage points except in two instances. This suggests that in general no single variable has exerted an overwhelming influence on output variability in the individual countries; rather, the degree of instability in output is the result of inter-action among the various factors. It would appear, therefore, that there is a fundamental inter-connexion between the degree of instability of output and that of the demand and supply components both within and among the selected group of countries.

The influence of instability in the purchasing power of exports may be seen from the data shown in the second column of table 2. Of all the countries, El Salvador has experienced the greatest instability in the supply of output for the home market - that is the output remainder after subtracting the real value of the purchasing power of exports. Thus the effect of export instability appears to have been readily transmitted to the domestic economy and may be taken to reflect the characteristics associated with an "open economy".

The influence of gross fixed investment appears to diverge most in Venezuela and Argentina. In the former country, the weighted impact of investment, on balance, has contributed to the stability of total output since, the effect of eliminating expenditure on capital formation is to increase the degree of instability in the output remainder. In Argentina, on the other hand, gross fixed domestic investment has apparently been an independent source of instability, a finding which is not surprising given the relatively advanced industrial structure of that country. The stabilizing influence of public consumption was particularly marked in

/Brazil, but

Brazil, but in all the countries this demand component has either contributed to the stability of total output or, on balance, has had no directional impact on output.

The effect of agricultural production in terms of magnitude or timing, considered separately in the previous discussion, has not permitted an unequivocal evaluation of its impact upon variations in total output. On the basis of the calculations presented in the last column of table 3, however, it would appear that, in all countries, output in this sector has either contributed positively to the stability of total output or, at least, has had a neutral impact. The role of agricultural supply in short-term fluctuations of output appears to be that of a stabilizer when its weighted influence is considered. Thus, on the basis of the data being examined here, the characteristic rigidities of production attributed to this sector appear to be confirmed.

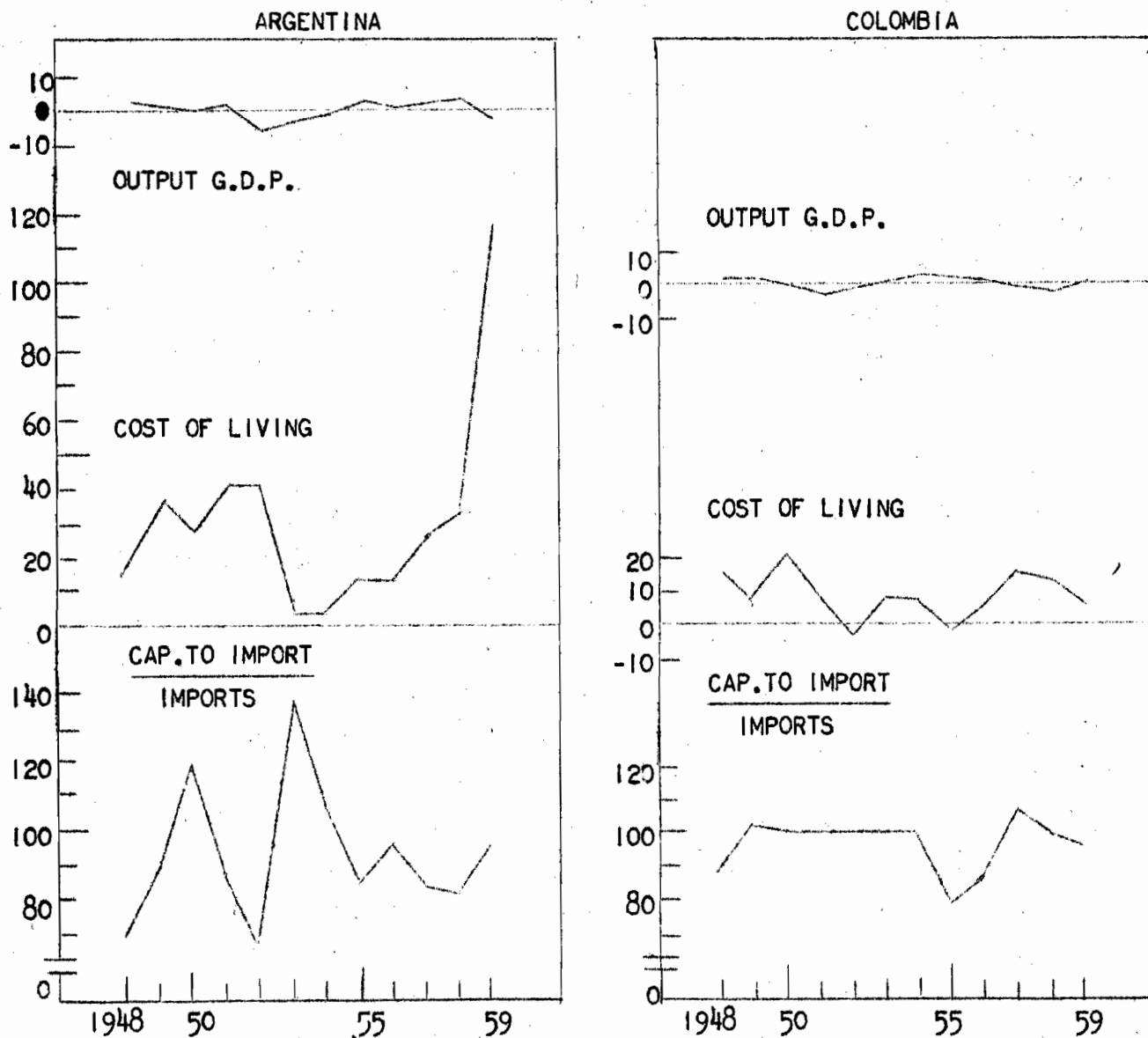
IV. THE SYMPTOMS OF SHORT-TERM INSTABILITY

The preceding analysis of the short-term behaviour of strategic economic variables has shown that, in five out of the six selected countries, one or more factors are interposed between the variations in exports and their impact upon output. These factors are identified with the main components of internal demand and supply. In the Latin American countries, however, the level of domestic savings, on the one hand, and the supplies of capital goods and also of intermediate products for some key sectors on the other, are largely dependent upon variations in foreign demand and imports, respectively. Thus, the relatively weak association between fluctuations in exports and output in some countries suggest that, from one year to another, gaps should have appeared between savings and total investment, - that is to say between internal supply and total demand. The symptoms of these gaps - which can be of an inflationary or deflationary nature - are to be found in the annual changes in the level of domestic prices and the surplus or deficit in the balance of payments. In figure V, the annual percentage deviations of total output from the trend are compared with the actual annual variations in the cost of living and with the ratio of the capacity to import to actual imports. From this

FIGURE V

SHORT-PERIOD INSTABILITY IN OUTPUT ^{a/} PRICES, ^{b/} AND THE BALANCE
OF PAYMENTS ^{c/}

NATURAL SCALE



SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA BASED ON OFFICIAL NATIONAL STATISTICS

^{a/} AVERAGE ANNUAL PERCENTAGE DEVIATIONS FROM TREND OF GROSS DOMESTIC PRODUCT

^{b/} ANNUAL PERCENTAGE CHANGES IN THE COST OF LIVING INDEX

^{c/} RATIO OF THE CAPACITY TO IMPORT TO ACTUAL IMPORTS, EXPRESSED AS PERCENTAGES

FIGURE V
(CONTINUATION)

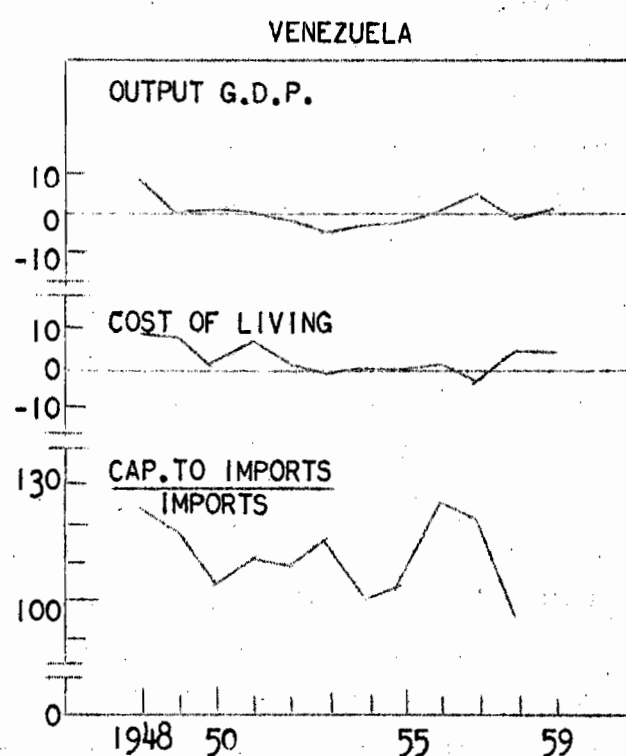
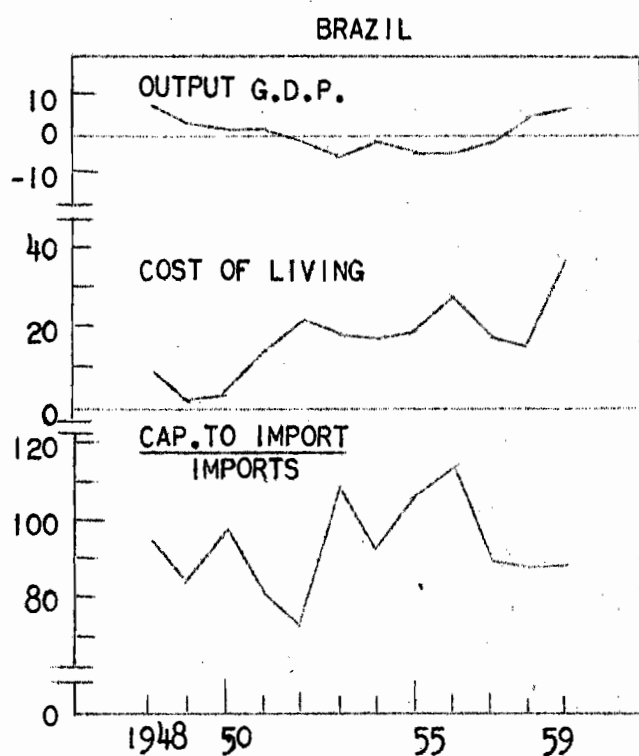
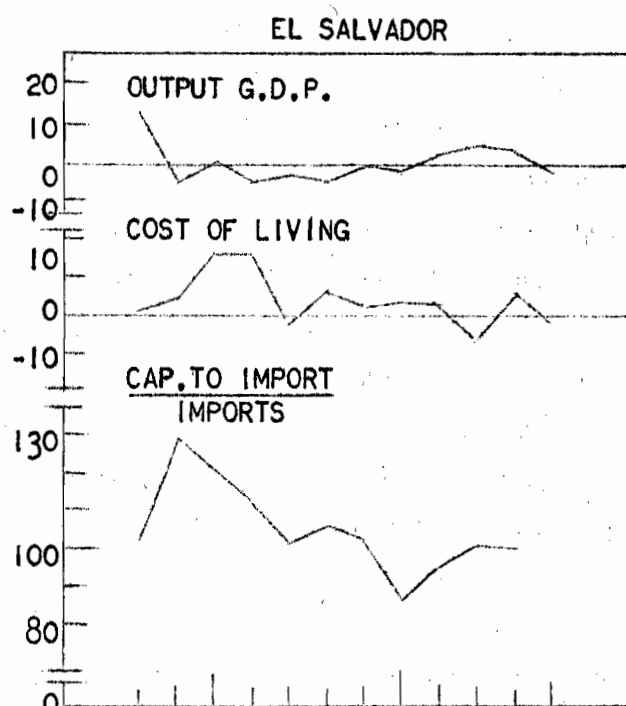
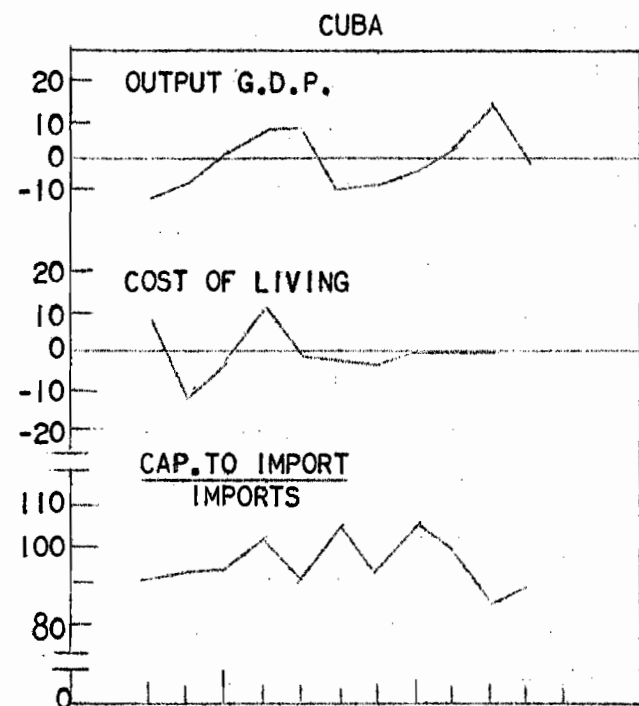


figure it is possible to determine roughly the extent to which the burden of readjustment imposed by the instability in the purchasing power of exports has fallen upon total output or upon prices and balance of payments, or both.

It can be seen that in Cuba, El Salvador and Venezuela, where the degree of stability of total output was relatively low, the upward movements in price were of limited magnitude. In these three countries, where external influences were permitted to exert their full impact, prices fluctuated in opposite directions between 1949 and 1952. This reflected the changing external market conditions and especially those in the United States economy. The recession year 1949 was followed by the Korean boom and subsequently there was a downward movement in prices. If the period under review is taken as a whole, internal prices tended to be stable. In 1958 and 1959, however, the variations in output and the purchasing power of exports in Venezuela tended to diverge, and at the same time noticeable rises in the cost of living were recorded. In El Salvador and Venezuela, the ratio of the capacity to import to actual imports was equal to, or exceeded, 100 in most years of the period under review. But in the latter country, the ratio in 1958 and 1959 showed an import surplus as a result of the Government's internal compensatory policy. In Cuba, an import surplus was recorded in seven out of the eleven years being examined. Thus, although Cuba experienced substantial fluctuations in total output, they were not sufficient to prevent the emergence of frequent deficits in the balance of payments. Furthermore, in all three countries the yearly upward or downward variations in the ratio of the capacity to import to actual imports were very sharp. This characteristic is largely to be explained by the spontaneous lag which inevitably exists in an "open economy" between the fluctuations in the purchasing power of exports and imports, since the impulse of the former is transmitted through various intermediate stages - internal expenditures, output, import requirements and finally import orders.

Total output in Brazil was more stable than in Cuba or El Salvador, but fluctuated as much as in Venezuela. Yet, as already noted, the degree of concordance, both in timing and magnitude, between the movements

/in the

in the purchasing power of exports and output was much lower than in any of the three countries previously discussed. It can be observed from figure V that except in 1949 and 1950, domestic prices in Brazil rose in each year of the period and at an annual rate which tended to increase. Likewise in eight out of the eleven years, actual imports exceeded the capacity to import. This occurred despite the rise in foreign long-term capital inflow and ultimately led to a rapid climb in the short-term external indebtedness of the country. From 1956 onwards, substantial investments were undertaken by the Government to eliminate internal bottlenecks, and in 1957, 1958 and 1959 there was a very large excess of imports of goods and services in relation to exports. Nevertheless, the active compensatory policy followed in these years was accompanied by persistent and growing inflationary pressures within the economy.

Colombia provides an instance of a country where total output was relatively stable and the fluctuation in the purchasing power of exports was reflected mainly in the instability of prices. From an examination of figure V it will be apparent that only in 1955 and 1956 was the stability in total output obtained at the cost of a large deficit in the balance of payments. Subsequently, when the import surplus disappeared, the annual rate of price increase turned upward again. In 1959, however, inflationary pressures diminished, and the balance of payments was virtually in equilibrium. Two factors contributed to this; the stabilizing influence of agricultural output, on the one hand, and the restrictive nature of monetary and fiscal policies, on the other.

In Argentina, both prices and the balance of payments were highly unstable in the short run. At the same time, output experienced relatively small variations, mainly as a result of the stability in public and private consumption. The Government, seeking to reduce these categories of expenditure, introduced a readjustment in the price structure in 1959 by means of a substantial devaluation in the exchange rate and the elimination of official subsidies on food and public utility services. The immediate impact of these measures was a noticeable decline in total output together with a transitory acceleration in the annual rate of increase of prices.

/Undoubtedly, this

Undoubtedly, this acceleration was also a result of the disappearance of the import surplus. It emerges from figure V that an excess of imports was recorded in eight of the twelve years under review, and for the whole period the absolute balance-of-payments deficit was very large.

In Argentina as well as in Brazil and to a lesser extent in Colombia, there were also very wide variations in the ratio of the capacity to import to actual imports from one year to another. But the underlying causes and the significance of these variations were different from those found in the "open economies" of Cuba, El Salvador and Venezuela. In the former countries - Argentina and Brazil -, a system of direct controls on imports was a permanent feature of trade policy. From time to time purchases abroad were drastically curtailed in order to help offset the balance-of-payments deficit incurred during most of the years between 1948 and 1959. In this way, foreign exchange reserves were prevented from being completely exhausted and the rate of increase of external short-term indebtedness was somewhat reduced. Similar features characterized the import policy in Colombia from 1954 onwards.

V. THE POLICY IMPLICATIONS OF SHORT-PERIOD INSTABILITY

It emerges from the previous discussion that the proximate source of short period fluctuations in most of the Latin American countries is the external sector. The symptoms of short-period fluctuations are most frequently revealed in the form of price instability and recurring balance-of-payments difficulties. Moreover, the conditions of disequilibrium have been especially apparent in those countries where output variations have not been relatively large. This is to say, to the extent that output has not readily adjusted to the periodic shocks imposed upon the economy, there has been a tendency for the burden of adjustment to be shifted on to the price system and the balance of payments. This is not to suggest that one form of adjustment to periodic fluctuations is in any way less burdensome for an economy than another. Sharp variations in output, and hence in incomes and employment, may produce serious dislocations in a country's economy, although in a different form than those which accompany price instability or balance-of-payments disequilibrium.

None of the economic influences that we have examined above arise solely from the interplay of market forces; Government policy in one form or another has intervened to shape the direction and magnitude of these influences. It is reasonable to expect that Government policy seeking to mitigate the worst features of short-term economic fluctuations would be directed in the first instance toward the major source of instability, that is the external sector. Some Latin American countries, at various times, have attempted to secure better terms for their export commodities by intervening in the international market. These efforts have not been generally successful because the necessary conditions for such intervention have rarely obtained in the international market for primary commodities. Governments have therefore, had to fall back on policy measures to mitigate the impact of short-term fluctuations on the internal economy. As we have seen, where compensatory measures have been taken, they have contributed to the stability of output but at the same time have produced other dislocations in the economy.

It may be argued that, where Governments choose to pursue a compensatory policy as opposed to one which permits fluctuations to exert their impact directly on output, the choice implies an inconsistency between short-term stability objectives and longer-run goals such as a higher rate of growth. One widely held theory of economic growth postulates that, in a dynamic economy experiencing a rapid rate of economic growth, the accompanying fluctuations of output about the trend will tend to be of greater magnitude than in the case of a relatively stagnant economy. Underlying this hypothesis, is the assumption that periodic fluctuations perform the useful economic function of shifting resources from less productive to more productive activities in a way that will enhance the efficiency of output and its growth over time. To the extent, however, that resources are not readily mobile, as is frequently assumed to be characteristic of the Latin American economies, the scope for an enhancement in the efficiency of output and growth is considerably reduced. Indeed, from a consideration of the experience of Latin American countries over the period 1948 to 1959, it emerges that output growth and output stability

/are not

are not positively related. This may be seen from the scatter of points appearing in figure VI. There, the cumulative rate of growth of output for each of the countries in the region between 1948/1949 and 1958/1959 is plotted against the degree of annual variability in output over the same period. The points fall along a relatively narrow horizontal band, suggesting that a given degree of instability in output is consistent with a wide range of rates of growth of output. On the basis of this evidence, therefore, there is no reason to assume that the achievement of higher rates of economic advance must necessarily be accompanied by a greater degree of output instability. Thus, for the period under review, it is not obvious that the rate of economic growth has been adversely affected in these countries which followed policies of compensation.

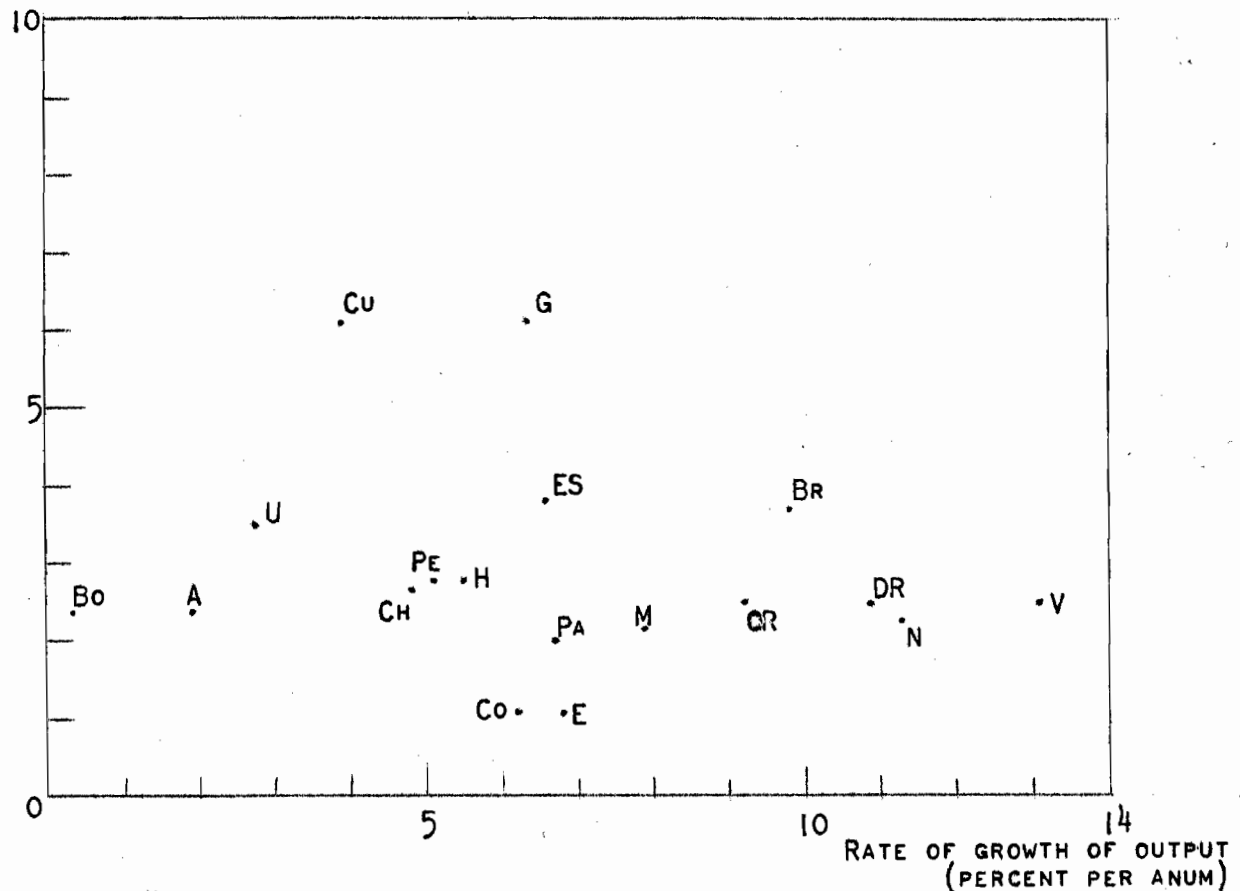
It is inaccurate perhaps to categorize the nature of Government policy in terms of mutually exclusive alternatives, as the previous discussion appears to do. Most commonly, Government policy embraces a range of measures which can only roughly be described as either active intervention or passive adaptation to market forces. Irrespective of the nature of Government policy response in the short run, however, it would appear that, in at least one important respect, policy has not been effective. If the experience of a group of ten Latin American countries is considered as a whole, it emerges that there is a significant positive association between the degree of instability in the purchasing power of exports and that of gross fixed domestic investment. This is to say, those countries which were subjected to relatively large short-period variations in real export proceeds also experienced large variations in gross investment. This may be seen in figure VII, where the relevant data are shown in the form of a scatter diagram. It will be noted that three countries - Argentina, Peru and Venezuela - deviate most from an imaginary line defining the main cluster of countries. Investment in Argentina appears to have been proportionately more stable than the average for the other Latin American countries, given the degree of variation in the purchasing power of its exports. This is in accordance with that country's relatively more advanced economic structure such that the dependence of investment on the external sector is less intimate. In Peru and Venezuela,

FIGURE VI

RELATIONSHIP BETWEEN THE RATE OF GROWTH AND
INSTABILITY OF OUTPUT a/ 1948-59

NATURAL SCALE

DEGREE OF INSTABILITY IN OUTPUT
(AVERAGE ANNUAL PERCENTAGE DEVIATION FROM TREND)



A - ARGENTINA
BR - BRAZIL
Bo - BOLIVIA b/
CH - CHILE
Co - COLOMBIA
CU - CUBA b/
CR - COSTA RICA b/
E - ECUADOR
ES - EL SALVADOR

G - GUATEMALA
H - HONDURAS b/
M - MEXICO
N - NICARAGUA b/
PA - PANAMA b/
PE - PERU
DR - DOMINICAN REPUBLIC b/
U - URUGUAY b/
V - VENEZUELA

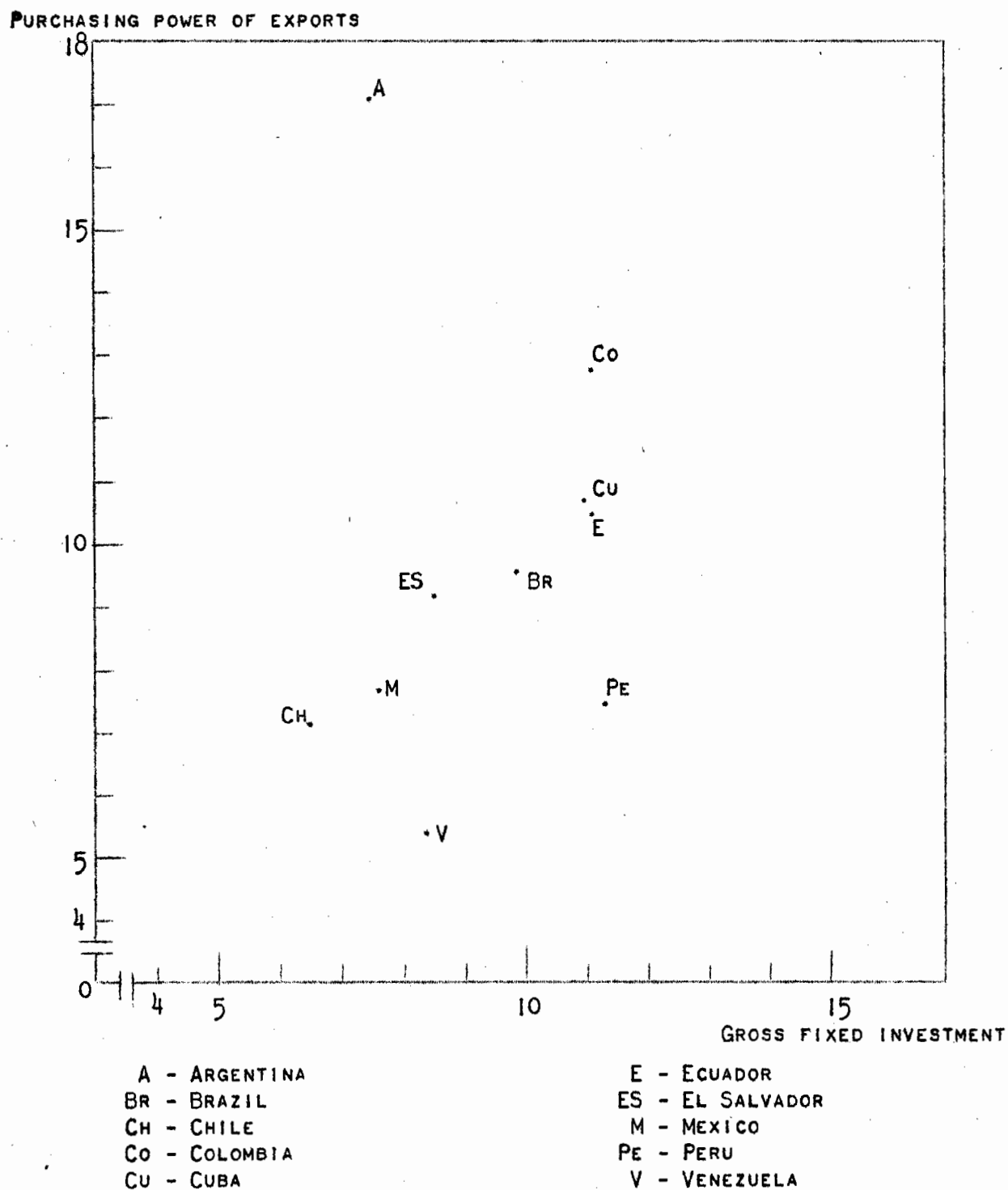
SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA.

a/ GROSS DOMESTIC PRODUCT IN CONSTANT PRICES.
b/ GROSS DOMESTIC PRODUCT FOR THE PERIOD 1948-1958.

FIGURE VII

RELATIONSHIP BETWEEN PURCHASING POWER OF EXPORTS
AND GROSS FIXED DOMESTIC INVESTMENT 1948 - 1959
(AVERAGE ANNUAL PERCENTAGE DEVIATION FROM TREND)

NATURAL SCALE



SOURCE : ECONOMIC COMMISSION FOR LATIN AMERICA.

on the other hand, investment has been relatively more unstable than might be expected from the indicated degree of variations in the purchasing power of exports. This is to be attributed to the substantial volume of direct foreign investment that has flown into both countries - a category of capital formation which is not related directly to the movements in purchasing power of exports.^{9/}

Thus the ineffectiveness of Government policy - whether active or passive in breaking the link between instability in exports and domestic investment is not to be attributed entirely to inadequacies in the policy and the vigour with which they were pursued. Since the unstable impulses emanate largely from economic forces outside the Latin American countries and are, therefore, beyond their control, the successful implementation in Latin America of economic measures designed to check them must be prescribed.

The consequences of short-period instability in the external sector and concomitant fluctuations in investment may now be added to the long-run problem of economic growth confronting the Latin American countries. Both problems arise fundamentally from the fact that the rate of economic advance continues to depend largely upon the growth of the external sector, that is, the production and export of a relatively narrow range of primary commodities. Instability in the volume of capital formation for countries in the region is, on balance, likely to impede the introduction of the structural changes necessary to enhance the rate of economic growth. This follows from the fact that the investment function in Latin American countries, unlike those in Western Europe and North America, is not an instrument for the absorption of a dynamic technology - a process which may be enhanced by fluctuations in the volume of investment. Rather, investment in the former countries is geared to augmenting domestic productive capacity for import substitution and for alleviating the serious bottlenecks in economic and social overheads. Under these

^{9/} Since the purchasing power of exports is compounded of movements in both the volume of exports and the terms of trade, it is of interest to note that there is also a significant positive inter-country association between the degree of instability in the terms of trade and that of gross fixed domestic investment.

circumstances, the forced postponement of new investment or delay in projects already under way represents an absolute loss that cannot be recouped. Windfall gains associated with a boom in exports may, of course, stimulate capital formation that would otherwise not have occurred. Nevertheless for the Latin American countries faced with the long-term problem of raising existing low levels of per capita real income, a stable and sustained rate of capital formation would appear to contribute most to the achievement of this goal.

Chapter II

RECENT ECONOMIC TRENDS

I. INTRODUCTION

If the rate of economic development is judged by the growth of the per capita gross domestic product, the economy of Latin America as a whole in 1960 showed signs that are characteristic of a year of recovery. This may be seen from the provisional figures collected so far, which contrast with the figures for 1959, a year of obvious stagnation. The insignificant rise in the product and the fall, in per capita terms, of income and available goods and services which occurred in 1959 was followed by an increase in 1960 which was of really substantial proportions in the case of available goods and services: 4.6 per cent.^{1/}

This contrast between the two years is not confined solely to the foregoing measurements of the final results of economic activity -- product and income -- but may also be extended to other variables in the economy. Account should first be taken of developments in the external sector. The favourable trend in the physical volume of exports in 1959, which showed a substantial improvement over 1958, was cancelled out by a deterioration in the terms of trade, the final result of which was a loss of more than 2 per cent in the total purchasing power of exports. Despite this, the overall balance of payments for Latin America was favourable in 1959. A number of the Latin American countries, whose figures carry considerable weight in the total, were confronted by strong pressure on their balance of payments and an appreciable amount of internal disequilibrium whose most visible effect was an increase in prices and distortions in the price structure. The need to re-establish the internal and external equilibrium

^{1/} In this connexion, see below -- beginning of section II-, table II-1.

of the economy meant that in some of those countries certain economic policy measures, designed mainly to restrict internal demand and imports, were applied more rigorously or introduced for the first time. Nevertheless, and despite the temporary easing of pressure on current international accounts, internal prices in 1959 climbed in many cases much more rapidly than in the preceding year. This happened - notwithstanding the attempts to keep internal demand within reasonable limits - as a result of the greater liberalization of the economy and the need to correct the existing distortions in the price system, including exchange and interest rates. The first effect of these corrective measures was a swift rise in the price of many domestic goods, and when this coincided with devaluation there occurred almost simultaneously a virtually all-round rise in prices. The unfavourable behaviour of internal demand and the contraction of imports must undoubtedly be added to the adverse trends in the purchasing power of exports as factors explaining much of the economic stagnation of 1959.

In 1960, the external sector developed relatively more favourably for the Latin American countries as a whole, and although there was no large-scale improvement in the depressed terms of trade of the preceding year, there was a recovery in the physical volume of exports and in general an increase in their purchasing power. As a result, external demand provided a stimulus to current economic activity. As in some countries imports simultaneously increased to some extent, the supply of raw materials and capital goods was more satisfactory, and this undoubtedly aided in the recovery. Internal prices also rose more slowly thanks mainly to the relative stabilization of internal demand in many countries. At the time this information was being collected, a tendency towards balance-of-payments disequilibrium had reappeared in quite a number of countries.

This is not the place to analyse or determine the relationship which may exist between faster growth of the national economy, an improvement in the external sector and the balance of payments problems which must frequently be faced, as actually occurred in 1960. But a brief examination of the economic position of most Latin American countries enables the main factors hindering swift and better balanced development to be determined in a general way.

/The growth

The growth of the product has so far tended, in many countries, to be directed into the domestic market, and production for exports, if it expanded, did so only meagrely. In many cases the export coefficient - the purchasing power of exports as compared to gross product - tended to decline or remain stationary. In very few countries did the export coefficient increase at all significantly. Of course, the unfavourable terms of trade played an important part in this process.

It is true that the aforementioned growth of the product made import substitution of many articles possible. But either because substitution was mainly concentrated in secondary branches - durable consumption goods - or because the output and substitution of capital goods and many raw materials was insufficient to meet the heavier demand which growth brought in its train, the fact remains that there was considerable pressure on the balance of payments as a result of the increase in imports. As import substitution had simultaneously practically eliminated external purchases of non-essential consumer goods in many countries - at least in the short term -, this pressure on the balance of payments led to the restriction of imports of essential items, and not just capital goods but also raw materials, in order to safeguard the balance of payments situation. A frequent result of this was a shortage of goods essential to current economic activity.

In addition to this structural problem observed in many countries, whose solution requires long-term measures and programmes, factors of another and frequently inter-related type came into play. The behaviour of the currency, current public expenditure, compensatory public expenditure, public investment and the tax structure have, in specific cases, tended to accentuate the internal and external disequilibrium of the economy.

In recent years a fairly generalized trend in Latin American countries has been to influence these factors, usually by the use of short-term measures, with a view to correcting disequilibrium. But the long-term treatment which this structural problem undoubtedly demands resulted - if the problem was faced at all - only in the application of isolated measures whose effectiveness cannot yet be judged. In only very few of the countries of Latin America did a sectorally balanced development of the economy enable relative stability of prices and of the balance of payments to be maintained simultaneously with more or less swift economic growth.

II. PRODUCT AND INCOME IN 1959 AND 1960

In 1960, the gross domestic product of the Latin American countries as a whole attained the level of 63,000 million dollars at 1950 prices; this figure, in addition to being the highest to date, means that, at constant 1950 prices, there was an annual average product of 315 dollars per person. Almost all the Latin American countries contributed, in varying degrees, to the attainment of this level; the exceptions will be referred to below. The figure for gross income, obtained by subtracting from the gross product losses due to deterioration in the terms of trade compared with 1950, soared in 1960, much more so than the other two items.

Table II-1 shows that gross product per capita and gross income per capita increased by 1.2 and 1.4 per cent respectively, both figures contrasting noticeably with those for 1959, when the modest growth in the product was accompanied by a fall in income. This contrast is even sharper with respect to the per capita supply of goods and services; in 1959 this fell by 1.9 per cent, whereas in 1960 it increased by 4.6 per cent.

It is common knowledge that an increase in goods and services greater than that in the gross product can only be possible in one of the following circumstances:

- (a) an improvement in the terms of trade whereby, with a given volume of exports, imports may be stepped up without upsetting the balance of trade;
- (b) a deficit in the international current account, whether this is covered by an influx of long-term capital, or by losses of reserves or increases in the country's trade debts.

In 1960, this considerable increase in goods and services was made possible by the reappearance of imbalances in the balance of payments of Latin America as a whole. In some countries this imbalance was offset by the influx of foreign capital, whereas in others there was a sharp reduction in monetary reserves or an increase in the short-term external debt.^{2/}

^{2/} See chapter III, section II, of this first part of the Survey.

Table II-1

LATIN AMERICA: PRODUCT, INCOME AND AVAILABLE GOODS AND SERVICES, 1958-60

	1958	1959	1960 a/
<u>Millions of dollars at 1950 prices</u>			
Gross domestic product	59 062	60 738	62 987
Terms-of-trade effect	-722	-1 148	-1 100
Gross domestic income	58 340	59 590	61 887
Surplus of exports over imports	+715	+1 644	-200
Goods and services available	57 625	57 946	62 087
<u>Percentage variation compared with the previous year</u>			
Gross domestic product	+4.1	+2.8	+3.7
Gross domestic income	+2.7	+2.1	+3.9
Goods and services available	+3.5	+0.6	+7.1
<u>Annual percentage variation per capita b/</u>			
Gross domestic product	+1.6	+0.3	+1.2
Gross domestic income	+0.2	-0.6	+1.4
Goods and services available	+1.0	-1.9	+4.6

Sources: For 1958 and 1959: United Nations, Yearbook of National Accounts Statistics, and official foreign trade statistics. For 1960: ECLA estimates based on official statistics from seven countries representing 87 per cent of the total product for Latin America.

a/ Provisional.

b/ The estimated annual population increase was 2.5 per cent.

As Latin America is an international debtor, which means that every year it has to remit payments abroad in respect of the servicing of the foreign capital invested in the region, its international accounts should normally show a positive balance in the trade account. However this may be, the tendency towards an external imbalance has been obvious in a number of countries in recent years. Consequently, in both 1958 and 1959 the Latin American countries devoted considerable effort to seeking means of reducing this imbalance. This trend was most marked in 1959, when the surplus of exports over imports reached the extraordinary figure of 1,100 million dollars at 1950 prices (see again table II-1). In many cases this result was achieved by a vigorous cut in imports. The countries that resorted to these extremes in 1959 were faced with difficulties of supply not only as regards capital goods but also as regards many items essential to their current economic activity. Hence import policy was somewhat modified in 1960 and increased imports were encouraged. This had the effect of relieving the shortage of imported raw materials, but led to a net surplus of imports. Thus, to be viewed in its proper perspective the increase in the supply of goods and services in 1960 must be considered in relation to the decrease in 1959 and to the sluggishness of economic activity. In any event, the economic recovery in 1960 brought with it a more rapid change in the structure of production than in previous years (see table II-2).

Although higher figures are shown for all the sectors of production included in this table, they are of varying orders of magnitude. Thus for the agricultural sector -- including animal husbandry, forestry and fishery -- the increase was 2.5 per cent, but there was a sharp contrast between production for domestic consumption, which in many cases tended to remain static or even decrease, and production for export. In the mining and petroleum sector, there was a small but steady rise throughout 1958, 1959 and 1960. In the case of petroleum, too, the trend was not the same in the countries which produce it for internal consumption as in those which export it; in the first group there was a fairly general expansion in production, whereas Venezuela was affected by a weakening of external demand,

Table II-2

LATIN AMERICA: AGGREGATE GROSS DOMESTIC PRODUCT OF SEVEN SELECTED
COUNTRIES, BY SECTORS OF ACTIVITY 1955 AND 1958-60

Industrial sector	1955	1958	1959	1960 ^{a/}
	<u>Millions of dollars at 1950 prices</u>			
Agriculture	8 776	9 577	9 823	10 074
Mining	776	865	934	1 018
Petroleum ^{b/}	1 513	1 870	2 010	2 086
Manufacturing	8 048	10 138	10 871	12 032
Construction	1 504	1 673	1 611	1 662
Services ^{c/}	<u>20 591</u>	<u>23 487</u>	<u>23 878</u>	<u>24 282</u>
Gross domestic product of seven countries	<u>41 208</u>	<u>47 610</u>	<u>49 127</u>	<u>51 154</u>
	<u>Percentage of the total</u>			
Agriculture	21.3	20.1	20.0	19.7
Mining	1.9	1.8	1.9	2.0
Petroleum ^{b/}	3.7	3.9	4.1	4.1
Manufacturing	19.5	21.3	22.1	23.5
Construction	3.6	3.5	3.3	3.2
Services ^{c/}	<u>50.0</u>	<u>49.4</u>	<u>48.6</u>	<u>47.5</u>
Gross domestic product	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: As for table II-1.

^{a/} Provisional.

^{b/} Venezuela and Mexico; the figures for the other producing countries are included under "Mining".

^{c/} Including financing, Government, trade and other services proper.

/evidenced mainly

evidenced mainly by the price actually received for its exports. In the rest of the mining sector, production for Latin America as a whole was more or less static, the main exception being Peru, where there was a spectacular spurt in the production of copper and iron. There was an increase of something over 3 per cent in construction, which usually constitutes about 50 per cent of gross investment in Latin America, but its absolute level was still below that for 1958 (see again table II-2). In the services sector, where the figures are mainly determined by trade and personal services proper, the rate of growth was similar to that for the preceding year. Nevertheless it was lower than the rate of the total gross product for Latin America. Lastly, the highest growth (10.7 per cent) was recorded in the industrial sector and it stands in marked contrast to the rates in the other sectors.

As a result of this unequal development in different sectors, the agricultural, services, and construction sectors became less important in the total, the petroleum sector maintained its position, and the manufacturing sector gained in importance. The last-named constituted 23.5 per cent of the total gross product in 1960, compared with 22.1 per cent in 1959.

The general trends previously outlined for Latin America as a whole do not actually represent the uneven behaviour as between countries of the economic concepts analysed; that is to say, they relate to a total that covers situations varying greatly from one country to another.

In Argentina, the absolute level of the gross domestic product was below that for 1958, despite the recovery compared with 1959, when the product shrank considerably (5.3 per cent). The slow rate of growth of the gross product that there has been for some years in Chile continued in 1959 and 1960. In Peru, on the other hand, where the situation was more or less static in 1958 and 1959, there was an appreciable improvement in 1960, mainly because of the extraordinary boom in the sector exporting certain ores.

/Venezuela, after

Venezuela, after the slackening of its economic activity in 1958, rallied strongly in 1959 but in 1960 entered a new period of stagnation. Although the growth of the Colombian economy is patent, the relevant figures do not reveal any sizable increments. Brazil and Mexico, on the other hand, are the two countries with the highest rates of growth for the gross product in 1960. It should be noted, however, that this rate had slowed down somewhat in Mexico in 1958 and 1959, and that in Brazil, despite its rapid pace, it had also declined between 1958 and 1960.

The best way to follow the economic development of the countries under consideration is to trace the growth of the gross product per capita. Except for Brazil, Colombia -- in 1959 only -- and Mexico, where it increased in each of the years covered in table II-3, the other countries either recorded a decline in 1960 (e.g. Chile and Venezuela), or the relative increment that took place in that year failed to wipe out the decrease of 1959. (e.g. in Argentina and Peru). Uruguay, for which the few data available are of a fragmentary nature, is one of the exceptions to the rule, since the per capita product apparently expanded in 1958 and 1959 only to contract later in 1960.

III. OUTLINE OF THE ECONOMIC SITUATION IN SELECTED COUNTRIES

The factors which combine to produce variations in the gross product in the insufficiently developed -- as distinct from the highly developed -- countries are the external sector, public expenditure and import substitution. These factors together tend to determine incentives to private investment. Moreover, prospects for buying abroad the capital goods required for this investment depend upon the purchasing power of exports -- in so far as it constitutes the chief element of the capacity to import. However, the economic policy followed by the countries concerned can both exaggerate and neutralize the effect on the domestic economy of the fluctuations in these factors.

/Table II-3

Table II-3

LATIN AMERICA: GROSS DOMESTIC PRODUCT OF SEVEN SELECTED COUNTRIES, 1958-60

Country	1958	1959	1960 a/
<u>Millions of dollars at 1950 prices</u>			
Argentina	11 627	11 014	11 290
Brazil	16 528	17 620	18 675
Chile	2 320	2 350	2 383
Colombia	4 087	4 286	4 455
Peru	1 325	1 300	1 370
Mexico	9 019	9 380	9 942
Venezuela	6 415	6 920	6 982
<u>Annual percentage variation</u>			
Argentina	2.4	-5.3	2.5
Brazil	9.3	6.6	6.0
Chile	2.2	1.3	1.4
Colombia	2.3	4.9	2.9
Peru	3.1	-1.9	5.4
Mexico	4.4	4.0	6.0
Venezuela	1.3	7.9	0.9
<u>Annual percentage variation per capita b/</u>			
Argentina	0.7	-7.0	0.8
Brazil	6.9	4.2	3.6
Chile	-0.3	-1.2	-1.1
Colombia	0.1	2.7	0.7
Peru	-0.2	-5.2	2.1
Mexico	1.4	1.0	3.0
Venezuela	-1.7	4.9	-2.1

Source: As for table 1.

a/ Provisional.

b/ The estimated annual population increase was: Argentina 1.7 per cent; Brazil 2.4 per cent; Colombia 2.2 per cent; Chile 2.5 per cent; Peru 3.3 per cent; Mexico 3.0 per cent; and Venezuela 3.0 per cent.

/Economic policy

Economic policy has been far from uniform in face of the problems confronting the Latin American countries, whether they assume the form of stagnation or of internal and external economic imbalance. However, in 1959 and 1960 there was a fairly general tendency to seek a solution of the problem of imbalance by means of rather short-term measures.

Argentina and Uruguay took steps to stabilize the value of the currency both at home and abroad, redress the adverse balance of payments and eliminate the distortions which had occurred in the price structure. During the past two years Chile and Peru applied with greater rigour their stabilization policy, which was more or less similar to that of the two countries previously mentioned. Bolivia, Ecuador and Paraguay maintained their position without substantially altering the direction and execution of their long-established economic policy. Brazil and Mexico forged ahead with their policies, clearly directed towards economic development and diversification and combined from time to time with attempts to set aright certain imbalances arising from their rapid rate of growth.^{2/} Lastly, after four years of stabilization policy, Colombia attempted to spark its economic development by means of expansionist measures, whereas Venezuela, which in 1959 emerged from the contraction it had experienced in 1958, was confronted by a sharp drop in its monetary reserves and a spurt in domestic prices which caused the Government to adopt restrictive measures of various kinds to correct imbalances.

1. Argentina

The serious external bottleneck from which the Argentine economy has been suffering for some time continued to have an adverse impact on economic activity and therefore on product and income. The consequences of the structural problem have been felt more acutely as a result of the losses which have been suffered for years through deterioration in the terms of trade and the weak recovery in the volume of exports. The fact that the authorities were anxious to maintain domestic demand at a low level in 1959 and 1960 is explained by the unfavourable prospects of obtaining from abroad the supplies

^{2/} It should be noted that Mexico was more concerned with the problem of imbalances than Brazil.

of vital raw materials and capital goods which determine the country's balance-of-payments situation -- very unfavourable up to 1958 -- and the sharp rise in domestic prices -- which gained considerably greater momentum in 1959.

The industries producing goods for mass consumption could certainly have been aroused from their sluggishness. The import content of the goods these industries produce is very small. However, in the absence of the dynamic stimuli of foreign trade, and because of the desirability of not further encouraging the price rises caused by inflated costs resulting from massive and indiscriminate wage increases, the necessary dynamic spark could only be provided by public investment. The pressure which the resulting increase in demand was able to exert in other directions appears to threaten the precarious balance of payments. That is why it was decided in 1959 and 1960 to keep not only public investment but also internal demand as a whole at a low level.

It does not appear that the serious structural problem of the external bottleneck can be solved by ad hoc readjustments; the structural crisis in Argentina's economy demands a long-term solution, and therefore obviously also necessitates a long-term programme that should cover three clearly-defined areas: agricultural production, the basic sectors and import substitution.

Despite the stimulus of prices and other factors that have been used for some time to encourage agricultural production, the reaction has not been sufficiently flexible to be reflected in increased exports with a resultant expansion in the capacity to import. Action with respect to the basic sectors included the formulation of measures to give petroleum production a strong impetus, the entry into operation of the blast furnace at San Nicolas, and an expansion -- although still insufficient -- of electric power plants. It is probable that the sharp rise in petroleum production in 1959 and 1960 will prove to have resulted in a very modest saving of foreign currency for 1960, as a consequence of which the payments that have to be made in respect of servicing the petroleum debt and of the programme undertaken by the companies will likely amount to some 75 million dollars. Lastly, with respect to import substitution -- mainly in capital goods, raw materials and intermediate products -- there has been no significant progress as yet.

/In 1958,

In 1958, the Argentine economy barely succeeded in raising the per capita product. There was a recovery of 5 per cent in the purchasing power of its exports, but this was accompanied by a marked internal and external disequilibrium, as evidenced by the increase in the cost of living (32 per cent) and the deficit of 200 million dollars in the balance of payments. During that year the price structure was already becoming very distorted, despite the adjustments in agricultural prices and the lowering of the rate of exchange which at one time (1955-56) tended partly to correct some of the most striking distortions. In 1959, the application of a policy that was specifically and almost exclusively aimed at stabilization coincided with a decline in the purchasing power of exports. The limitation of internal demand resulting from the tightening of bank credit, wage policy, the abolition of the last remaining direct and indirect subsidies, and the 100 per cent devaluation of the country's currency were undoubtedly the main factors in bringing about the 7-per-cent decrease in the per capita gross product (see table II-4).

If one considers some of the instruments of economic policy that had perforce to be used to eliminate the price distortion and limit internal demand - abolition of subsidies and devaluation -, it is not surprising that the cost of living more than doubled during 1959. As Argentine exports consist of foodstuffs and raw materials for clothing, the main items that determine the cost of living, a 100-per-cent devaluation tends in practice to raise the domestic prices of these goods by the same amount, and thus to double the cost of living. Consequently the stabilization policy, which is clearly intended to provide an eventual basis for balanced economic growth founded on the free play of the price system, played a major part in 1959 in restoring balance-of-payments equilibrium, and also in raising prices and reducing the per capita product.

In 1960, when domestic prices tended to become stable, there was a rise in the purchasing power of exports, but the recovery of imports from their low 1959 level resulted in a slight deficit in the balance of trade. However, there was a large influx of foreign capital in 1960.^{4/} The gross product increased slightly in per capita terms, after its steep fall in 1959.

^{4/} See chapter III, section III, of this first part of the Survey.

Table II-4

ARGENTINA: ANNUAL CHANGES IN THE COST OF LIVING, THE PRODUCT AND
PURCHASING POWER OF EXPORTS, AND BALANCE-OF-PAYMENTS,
SITUATIONS, 1958-60

Year	Cost of living	Per capita product	Purchasing power of exports	Balance-of- payments situation (millions of dollars)
		Percentage change		
1958	+32.0	+0.7	+5.1	-212.0
1959	+111.0	-7.0	+2.5	+22.0
1960 b/	+9.0 c/	+0.8	+10.9	+232.0

Sources: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ At 1950 prices.

b/ Provisional.

c/ January-September.

Table II-5

ARGENTINA: CONSOLIDATED CAPITAL ACCOUNT, 1958-60

(Percentage of national income at current values)

	1958	1959 a/	1960 a/
<u>Gross capital formation and sources of financing</u>	<u>20.3</u>	<u>17.6</u>	<u>19.2</u>
Depreciation	10.8	11.9	11.9
Domestic savings	7.1	5.8	6.7
National deficit on current account	2.4	-0.1	0.6

Source: As for table II-1.

a/ Provisional.

/There was

There was another setback in 1959 and 1960: the coefficient of gross investment was lower than in 1958, when it was already lower than in 1957. (See table II-5). The coefficient of gross total savings, public and private, was also lower in 1959 and 1960, but since this decrease in the savings the coefficient was accompanied by a similar drop in the investment coefficient, external financing of the excess of investment over savings through the international current account, which was considerable in 1958, was unnecessary in 1959 and negligible in 1960.

Although it is true that the first step in solving the structural problem of Argentina's economy must be to obtain sufficient external resources to expand its precarious capacity to import, it is equally true that the present scanty external resources must be directed towards investment, especially key investment of the type referred to above. On the other hand, repeated drops in the investment coefficient tend to retard the growth of the product, vitally necessary for the solution of certain acute problems such as the fall in real income of certain sectors of activity and certain sections of the population and the imbalance of public finance.

2. Brazil

Owing to the deterioration of the world coffee market, in the last few years Brazil's economic growth lost a mainstay which, in 1949-56, had enabled it to advance at one of the highest rates recorded for Latin America. In order to soften the blow of the coffee slump at the international and internal levels, the Brazilian authorities bought and stored an increasing proportion of exportable coffee surpluses. These compensatory measures helped to ward off an even sharper fall in international quotations and a contraction in the local currency receipts of the export sector. Moreover, governmental policy maintained the investment coefficient at fairly high levels. Heavy public investment was made in the basic sectors under a comprehensive economic and social programme, and all kinds of incentives and credit facilities were provided, together with protection for national and foreign private investment, especially in manufacturing industry. Hence, during 1957 to 1960, Brazil's economic development was based primarily on Government expenditure and import substitution (see tables II-6 and II-7). At the same time, the export coefficient, i.e. the relation between the purchasing power of sales abroad and income, fell gradually but implacably below its level in the first half of the fifties.

Table II-6

BRAZIL: ANNUAL VARIATIONS IN THE COST OF LIVING, THE PRODUCT AND THE PURCHASING POWER OF EXPORTS, AND BALANCE-OF-PAYMENTS SITUATION, 1958-60

Year	Cost of living	Per capita product	Purchasing power of exports	Balance-of- payments situation (millions of dollars)
	Percentage variation			
1958	+16	+6.9	-8.0	-207
1959	+42	+4.2	+4.2	-177
1960 <u>b/</u>	+23 <u>a/</u>	+3.6	-2.0	-199

Sources: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ At 1950 prices.

b/ Provisional.

c/ January-september.

Table II-7

BRAZIL: CONSOLIDATED CAPITAL ACCOUNT, 1958-60

(Percentage of national income at current prices)

	1958	1959	1960
<u>Gross capital formation</u>	<u>14.9</u>	<u>14.5</u>	...
Depreciation	5.0	5.0	...
Net capital formation	9.9	9.5	...
National deficit on account (millions of dollars at current prices)	-264	-340	-350 <u>a/</u>

Sources: As for table II-1.

a/ Provisional.

/Despite the

Despite the fact that the Brazilian economy was highly diversified, the import coefficient did not drop far enough to prevent a widening of the trade gap. This deficit was partly covered by long-term contributions of foreign capital, mainly in the form of imports of capital goods. But a call also had to be made on the country's gold and foreign exchange holdings and external very-short-term credits. At the end of 1960, Brazil's total external debt - excluding direct foreign investment - was four times greater than its international reserves, and the Government was obliged to ask for the deferment of pending commitments.

The strong pressure exercised by import demand on the capacity to import derived mainly from structural factors. Brazilian purchases abroad continued to include a large proportion of fuels. Although domestic production of petroleum and its derivatives between 1955 and 1958 showed a great improvement in comparison with the low level from which it started, it failed to maintain the same rate of progress in 1959 and 1960. Moreover, as the industry producing end goods tended to develop more rapidly than that manufacturing intermediate goods, current manufacturing activity in the aggregate continued to be heavily dependent on external supplies. Imports of foodstuffs also displayed great inflexibility in 1959, owing to the almost complete stagnation of agricultural production for the internal market. Although this branch of the national economy rallied in 1960, its expansion over the long term has not kept pace with that of industry and of total income. This is partly attributable to the more or less sporadic application of official controls on the prices of certain foodstuffs. In addition, the prevailing institutional and structural conditions in Brazil have not been very propitious for the development of intensive high-yield farming.

The external imbalance from which Brazil has been suffering is both the result of internal inflation and one of its symptoms. In the last few years, total investment exceeded internal saving to an increasing extent. A considerable budget deficit existed even before the Government began to expand its basic investment and to accumulate stocks of coffee. Expenditure on the

/latter has

latter has so far been financed from the profits yielded by the multiple exchange-rate system.^{5/} But this inevitably entailed the transfer of sizable resources from the private to the public sector, to cover part of the Government's current consumption and investment expenditure. Despite progressive increases in the rates of direct and indirect taxes, as much as 25 per cent of the State's overall budget had to be financed by bank credit in 1959. In practice, there were various factors which continued to militate against the flexibility of the Brazilian tax system, of which the following are worthy of mention: (a) the complexity of the Federal structure of tax organization; and (b) the fact that the yield from a vast number of taxes is always earmarked for certain purposes which are fixed by law.

While the Government endeavoured, with only partial success, to obtain additional funds to cover its increased expenditure, the battle between entrepreneurs and wage-earners to maintain or expand their share of income was intensified between 1958 and 1960. For many years, adjustments in workers' wages had been few and far between in Brazil, and, in the meantime, the reduction in real wages had led to a drop in consumption among the less well-off population groups. At the same time, entrepreneurial profits had climbed, followed inevitably by investment resources, although luxury expenditure in the higher-income groups remained at a fairly high level. Nevertheless, from 1958 onwards, wage increases became much more frequent and, on several occasions, their rate was higher than that of the rise in the cost of living. In these circumstances, credit policy was a great help to entrepreneurs in covering not only their current financial requirements but also their productive expenditure. As a result, the maintenance of the coefficient of private investment had a greater inflationary impact than in earlier periods and simultaneously speeded up the cost-price spiral.

^{5/} In addition to financing coffee stocks, exchange profits constituted an instrument for absorbing the means of payment. Their importance in this respect tended to wane in the last few years, because the margin of exchange profits shrank as the result of a drastic devaluation in various purchasing rates aimed at stimulating secondary exports.

3. Colombia

Colombia's experience during the period 1958-60 differed from that of Brazil in many ways, although both countries' exports were equally affected by the critical situation in the world coffee market. The Colombian economy as a whole did not develop rapidly, but neither did it suffer from any very serious internal and external disequilibria (see table II-8). This is attributable not only to dissimilar trends in the economic policy of Brazil and Colombia, but also to the influence of structural conditions and circumstantial factors.

In 1957, to eliminate the heavy balance-of-payments deficit deriving from the fall in the export coefficient, the Government depreciated the average external value of the peso by 100 per cent. In addition, severe import restrictions were applied. Nevertheless, despite the scale on which they took place, the impact of the exchange reform and the curtailment of purchases abroad raised internal prices only temporarily and to a relatively limited extent (see again table II-8). In reality, when the restrictions were first imposed, imports still included a high proportion of non-essential and capital goods;^{6/} that is, there was a wide margin for a short-term contraction with no risk of major repercussions on the level of current economic activity and the total supply of basic consumer goods. Furthermore, domestic production of foodstuffs has greatly expanded in the last few years. The production capacity of certain industries was also more fully utilized, in consequence of the rise in the prices of imported goods and a selective increase in customs duties. Again, internal official policy ceased to be systematically expansionist on the side of domestic demand. A programme of relative austerity was adopted in respect of the current expenditure of the public sector and the Banco de la República reduced the rediscount facilities granted to commercial banks. From 1957 to mid-1960 there was no overall wage increase.

In view of the reduction of the import coefficient and certain restrictive

^{6/} It should be stressed that Colombia's fuel imports are insignificant and therefore do not constitute a factor making for rigidity in aggregate imports, in contrast with the position in Brazil and some other Latin American countries.

aspects of internal economic policy, it is surprising at first glance that the rate of investment should have been maintained at high levels (see table II-9). There are in reality several reasons for this. In the first place, the accumulated coffee stocks were financed with special loans from the Banco de la República and, in increasing measure, with exchange profits.^{7/} Secondly, the reduction of the wage-earning sector's share in national income caused a relative contraction in consumer expenditure and a corresponding expansion of the savings available for the financing of investment. The very import restrictions applied to non-essential goods operated in the same direction. Thirdly, while quantitative controls were imposed on bank credit, some degree of flexibility was maintained in this respect, and they were supplemented by qualitative controls. The main object of these measures was to channel more financial resources towards high-priority sectors such as import substitution industries and production of foodstuffs for domestic consumption. Lastly, the percentage of total imports represented by capital goods, although smaller than before, was still fairly substantial, because the level from which the process of reduction started had been very high. A considerable proportion of the imports in question was financed with long-term development loans.

In conformity with a new legislative decree adopted in December 1959, in mid-1960 the Government ordered an overall readjustment of minimum wages to meet the rise in the cost of living. The restrictions applied to credit expansion were thenceforward relaxed, to permit the financing of heavier production costs. The Government in its turn decided gradually to increase its fixed investment, especially in public works. Consequently, the net rate of capital formation rose slightly, but on the other hand the savings coefficient declined. While in 1958 and 1959 the total volume of gross saving - public and private - had more than sufficed to cover gross internal investment, almost the whole of the increment in the investment coefficient in 1960 was financed by means of the deficit in the international current account (see again table II-9).

^{7/} As in Brazil, a specific proportion of exportable coffee production was withheld under the terms of the international agreement for the protection of coffee prices, to which Colombia had acceded.

Table II-8

COLOMBIA: ANNUAL VARIATIONS IN THE COST OF LIVING, THE PRODUCT
AND THE PURCHASING POWER OF EXPORTS, AND
BALANCE-OF-PAYMENTS SITUATION, 1958-60

Year	Cost of living	Per capita product ^{a/}	Purchasing power of exports	Balance-of-payments situation (millions of dollars)
	Percentage variation			
1958	+14	+0.1	-7.0	-29
1959	+5	+0.7	+3.0	+34
1960 ^{b/}	+3 ^{c/}	+0.7	-7.5	-30

Sources: As for table II-1 and International Monetary Fund, International Financial Statistics.

^{a/} Provisional.

^{b/} January-September.

^{c/} At 1950 prices.

Table II-9

COLOMBIA: CONSOLIDATED CAPITAL ACCOUNT, 1958-60

(Percentage of national income at current prices)

Year	Gross capital formation and sources of financing	Depreciation	Private saving	Public saving	National deficit on current account
1958	19.0	12.1	3.5	4.5	-1.1
1959	19.2	11.2	4.9	4.8	-1.7
1960	20.2	11.0	4.5	4.0	0.7

Sources: As for table II-1.

/These facts.

These facts reveal the extent to which the stabilization of Colombia's balance of payments continues to depend upon a distinctly regressive distribution of national income and a cautious monetary and fiscal policy. As for the current capacity to import, its principal determinants are still constituted by the fluctuations in exports of a single product - coffee. The progress recently achieved in agricultural production for domestic consumption - whose evolution is also of fundamental importance for the possibility of combining economic development with stability - is partly due to circumstantial factors.

In such circumstances, particular significance attaches to several long-term governmental projects which are just being put into execution or are in course of preparation. Among these may be mentioned the programmes for the diversification of exports and of industrial production, the plan to modernize the railways and the land reform bill.

4. Chile

During the last two years Chile made an exceptional effort to give its economy the basic stability it had been lacking for so long. The want of internal and external stability was clearly attributable - perhaps to a greater extent than in other Latin American countries - to structural factors deriving from the nature and characteristics of Chile's economic development.^{8/} In any case, the factors responsible for the persistent and serious disequilibrium were also responsible for the fact that the Chilean economy has been showing unmistakable signs of stagnation for many years, if the level of the per capita product is taken as a yardstick.

The main obstacles currently impeding a stable economic development process seem to be related to the investment coefficient, the external sector and the public sector. The Chilean economy's propensity to save has been very low for a long time and has kept the coefficient of gross saving fluctuating at levels of only 8 to 10 per cent. In the case of net saving, excluding depreciation, its coefficient very seldom rose higher than 3 per cent. As a result, the coefficient of gross investment has

^{8/} For a detailed analysis of the origin of instability and of development trends, see the Economic Survey of Latin America, 1957 (E/CN.12/489/Rev.1), United Nations Publications, Sales No.: 58.II.G.1, pp. 197 et seq.

also been very small, even on the occasions when the country has had foreign capital at its disposal.

The weakness of the external sector of the Chilean economy is apparent in two aspects: (a) the marked instability and relative inflexibility of exports; and (b) the structure of imports. Chilean exports, in which one commodity is pre-eminent, reflect in their wide fluctuations the variations in external demand for that commodity, as revealed in the volume exported and market price. These fluctuations have exercised an unbalancing effect not only because of their magnitude but also because the coefficient of external sales shows no inclination to rise. For example, export value departed from their main line of development by more than 15 per cent in 1948-58. With respect to imports, their structure is highly individual reflecting in the first place, the inelasticity of agricultural production for the home market and, secondly, the raw material requirements of a number of industries that operate on the basis of imports. In fact, owing to the rigidity of agricultural production, the heavier demand for food-stuffs arising out of the growth of population and income has to be satisfied by imports. Suffice it to say that foodstuffs purchased abroad constituted 19 per cent of total imports in past years. Thus, the structure of external purchases left very little margin for goods that are essential to the vigorous process of capital formation required for the product to grow.

The disturbing effects of the fiscal sector are revealed in two ways: (a) the inflexibility and structure of public expenditure; and (b) the inflexibility and regressive nature of the tax system in relation to the increase in national income. A possible third factor is the heavy dependence of fiscal revenue on foreign trade taxes.

In 1959 and 1960, the Government concentrated on solving the more salient problems of the Chilean economy, especially those deriving from instability. It is not surprising therefore that the measures taken should have been directed primarily towards the stabilization of internal demand and the achievement or maintenance of balance-of-payments equilibrium. Provisional results were a notable slowing-down of the upward price spiral in 1960 and the carry-over into that year of the balance-of-payments surplus already registered in 1959 (see table II-10).

Table II-10

CHILE: ANNUAL VARIATIONS IN THE COST OF LIVING, THE PRODUCT AND THE PURCHASING
POWER OF EXPORTS, AND BALANCE-OF-PAYMENTS SITUATION, 1958-60

Year	Cost of living	<u>Per capita</u> product	Purchasing power of exports	Balance-of- payments situation (millions of dollars)
	Percentage variation			
1958	+20.0	-0.3	-12.4	-31.0
1959	+38.0	-1.2	+29.3	+52.0
1960 <u>b/</u>	+ 4.0 <u>c/</u>	-1.1	+6.4	+26.0

Sources: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ At 1950 prices.

b/ Provisional.

c/ January-September.

The purchasing power of exports which, in 1959, had risen considerably, showed an increment of only 6 per cent in 1960. Even so, the per capita product declined for the third year in succession, although this was undoubtedly partly attributable to the results of the earthquake which had devastated the country.

Although attempts at stabilization met with a certain amount of success as regards prices and the balance of payments, the negative aspects of economic development in 1959 and 1960 included the fall in the per capita product and the low investment coefficient. In 1959, this coefficient sank to the same level as in 1958 and in 1960 was barely sufficient to cover depreciation (see table II-11). There is no doubt that its deterioration was also a result of the earthquake. But, in any case, economic development in 1960 did not seem to have been such as to justify an investment coefficient that was appreciably higher than that of 1959.

It should be asked whether, with the achievement of relative stability, it was not an opportune moment to give an impetus to economic development by removing the impediments in its path. In the meantime, the reconstruction of the areas laid waste by the earthquake has begun, and this will encourage greater economic activity. As a contribution to the work of reconstruction, Chile has received large amounts of foreign capital which will presumably make it easier to import the goods required on a scale compatible with a stable balance of payments. In addition, the Government has prepared a coordinated economic development programme with specific targets, which aims at eliminating what have hitherto been the main obstacles Chile's economic growth.

Table II-11

CHILE: CONSOLIDATED CAPITAL ACCOUNT, 1958-60

(Percentage of national income at current prices)

	1958	1959	1960 <u>a/</u>
<u>Gross capital formation and sources of financing</u>	<u>10.3</u>	<u>10.4</u>	<u>9.1</u>
Depreciation	7.4	7.3	9.1
Private saving	-2.3	2.3	-1.7
Public saving	2.9		
National deficit on current account	2.3	0.8	1.7

Sources: As for table II-1.

a/ Provisional.

5. Mexico

Mexico is one of the few Latin American countries where rapid and, extensive economic development has been accompanied by relative stability. The magnitude of this development may be judged from the balanced growth of all sectors of the economy while its speed may be estimated from the rate of increase of the gross product. Mexican economic policy has been clearly and definitely directed towards economic development. Both public investment and the promotion of the domestic and export industries were directed towards that end. This does not mean that no attention has been paid to the short-term economic problems which a drop in external demand often brings in its train. Indeed, faced with certain setbacks in the external sector, Mexico has taken the necessary steps to overcome them through public expenditure, export taxes, its policy of money supply and even devaluation.

Unquestionably there has been intense development of the Mexican economy in conditions of relative stability, both in the basic sectors of the economy and in the domestic and export sectors (including the tourist industry). Even though this development was consistent as between sectors and although the export coefficient tended to remain stable - that is to say that income from the external sector increased at the same rate as the gross product -, the external sector has nevertheless usually threatened the rate of growth of the product and economic stability. This relative weakness of the external sector, despite its very considerable development, seems to be linked to the high income-elasticity of the demand for imports and this is to some extent an indication that the considerable degree of import substitution achieved by the Mexican economy is still not enough to meet the requirements of rapidly expanding demand.

In 1960, the economy grew faster than in the three preceding years despite static conditions in agricultural output occasioned by bad weather affecting the maize, wheat and other staple food crops (see table II-12).

One factor contributing to the growth of the product in 1960 was the rise in external demand resulting mainly from higher returns from the tourist industry. In addition, the value of merchandise exports, estimated at some 761 million dollars, was little more than 1 per cent higher than

Table II-12

MEXICO: ANNUAL VARIATIONS IN THE COST OF LIVING, PRODUCT, INVESTMENT, THE PURCHASING POWER OF EXPORTS, AND BALANCE-OF-PAYMENTS SITUATION, 1958-60

Year	Cost of living	Per capita product <u>a/</u>	Pur- chasing power of exports	Balance- of-pay- ment sit- uation	Gross invest- ment
Percentage variation					
1958	+11.0	+1.4	+4.3	-81.0	-0.6
1959	-1.0	+1.0	+3.5	+64.0	+7.2
1960 <u>b/</u>	+3.0 <u>c/</u>	+3.0	-1.2	-48.0	+10.1

Source: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ At 1950 prices

b/ Provisional.

c/ January-September.

in 1959, for the smaller volume of exports largely cancelled out the 4-per-cent rise in average export prices.

The factors giving the economy greater impetus were internal, and included in particular public investment, which rose 25 per cent at current prices and 20 per cent at real prices as compared with 1959; in fact greater public investment was the determining factor in the 10-per-cent expansion in total gross investment. Private investment increased more modestly (6 per cent), partly because of the decline in direct foreign investment in the latter half of the year.

As in 1959, there was a further factor boosting industrial output in 1960: the process of import substitution of raw materials intermediate products and capital goods which has been in operation for a number of years. Because of the extra productive capacity in these sectors - as in the basic sectors of power, fuels and transport -, there has been a steady increase in the internal supply of chemical products, fertilizers, steel sheet, paper and petroleum derivatives. The larger output of construction materials resulting from the boom in this sector led to an expansion of more than 14 per cent in the output of capital and production goods. Furthermore, the output of consumption goods grew at a slower rate (7 per cent) owing partly to a fall in demand in the agricultural sector where real income declined following upon smaller crops of staple foodstuffs. Manufacturing output as a whole increased by 10 per cent, a figure slightly higher than for 1959, and similar improvements occurred in the power and petroleum sectors. Trade, transport and other services increased by 5 and 7 per cent approximately, while mining remained stationary as a result of static external demand.

The sharp rise in investment and, to a lesser extent, in manufacturing was counterbalanced by an appreciable increase in imports resulting mainly from heavier purchases abroad of raw materials, intermediate goods, machinery and equipment. Imports reached a level of 1,169 million dollars in 1960 and this represented a rise of 16 per cent over 1959; this increase was the determining factor in the deficit on current account estimated at more than 150 million dollars. Pressure on the balance of payments, however, arising from this deficit was offset by a substantial rise -

approximately 100 million dollars in comparison with 1959 - in medium and long-term external credits. Although there was also an increase in amortization payments and a decrease in direct foreign investment, it is estimated that net capital income was sufficient to cover the deficit on current account. Accordingly, there was no appreciable change in public gold and foreign currency reserves.

Under the influence of the growth of internal demand, prices which had tended to remain stable in 1959 resumed their upward trend in 1960 and climbed about 5 per cent. As regards supply, the rise in prices was a reflection (a) of lower output of cereals which affected the cost of food; and (b) of higher production costs in 1959 as a result of revised railway tariffs and power rates and an increase in the price of fuels.

6. Peru

Any description of the present economic situation in Peru calls for an account, however brief, of the nature, type and extent of the economic development that has taken place since 1950. From 1950 to 1955 the per capita gross product grew at an annual rate of 3.5 per cent, one of the highest recorded for Latin America. The principal factors jointly responsible for this high rate were (a) the expansion of export production; (b) the favourable terms of trade; (c) the high coefficient of gross investment, and (d) the steady increase of the output-capital ratio during that period.

Despite the great improvement in the capacity to import brought about by expanded exports and by the favourable course of the terms of trade, the increase in imports was even greater because of the higher income-elasticity of the demand for foreign goods. Thus the balance of trade was unfavourable for a number of years. However, these imbalances were easily redressed by the abundant influx of foreign capital. As a result of this continuous excess of imports over exports, the supply of goods and services grew even more than the product, and consequently, although consumption rose rapidly, Peru was able to maintain a high level of investment and a satisfactory balance of payments. It should be pointed out, however, that domestic savings were wholly inadequate to finance this investment.

By 1956 there was already some question as to whether future growth could continue on the same scale as it had since 1950. The total value of consumption and investment could be maintained at a higher level than the gross product only by condoning a sizable deficit in the balance of trade, unless foreign capital continued to enter the country in increasing volume to finance this deficit and the servicing of the capital invested previously.

The weakening of the external sector in Peru, which began at the end of 1957 and was clearly apparent in 1958 and 1959, now confirms that the misgivings of 1956 were well founded. Steps had to be taken in 1958 to bring about some equilibrium in the balance of payments, and these measures were applied more vigorously in 1959. As a result there was a reduction in the gross product, in income and in the supply of goods and services. Neither the level of per capita consumption nor the investment coefficient could be maintained in those two years, or at least not at the level of the three preceding years.

In 1960, on the other hand, Peru recorded a growth of 2.1 per cent in the per capita product (see table II-13). This was made possible by the extraordinary improvement in the current value of exports, namely, 39 per cent. Moreover, in 1960 Peru did not have an official policy of expansion; official action tended rather to accentuate the stabilizing trend in economic policy. In 1960, the first objective was to effect a lasting improvement in public finance, and the second to apply a tighter monetary policy. Despite all this, the growth in the product took place as described.

But it is perhaps in the consolidated capital account that the effects of economic development in 1959 and 1960 can best be observed. During 1950-57, the favourable trend in the external sector - exports and influx of capital - as well as providing the incentive necessary for vigorous growth of the product, brought about at the same time an increase in consumption and in the investment coefficient. In 1960, this trend in exports continued, but there was a considerable drop in the investment coefficient. Maintenance of equilibrium in the balance of payments in 1960 involved some import cuts; consequently the supply of goods and services did not exceed the gross product (see table II-14).

Table II-13

PERU: ANNUAL CHANGES IN THE COST OF LIVING, PRODUCT AND PURCHASING POWER OF EXPORTS,
AND BALANCE-OF-PAYMENTS SITUATION, 1958-60

Year	Cost of living	Per capita product	Purchasing power of exports	Balance-of- payments situation (millions of dollars)
1958	+8.0	-0.2	-9.3	-12.0
1959	+17.0	-5.2	+11.6	+16.0
1960 b/	+6.0 o/	+2.1	+39.0	+7.0

Sources: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ At 1950 prices.

b/ Provisional.

o/ January-September.

Table II-14

PERU: CONSOLIDATED CAPITAL ACCOUNTS, 1958-60

(Percentage of national income at current prices)

	1958	1959 a/	1960 a/
<u>Gross capital formation and sources of financing</u>	<u>26.0</u>	<u>23.3</u>	<u>22.5</u>
Depreciation	21.3	21.5	24.2
Domestic private saving	0.7		
Public savings sector	-2.7		
National deficit on current account	6.7	1.8	-1.7

Sources: As for table II-1.

a/ Provisional.

Developments in 1959 and 1960 once more underline the fact that despite the vigorous expansion in Peru's exports in earlier periods, there is still a structural weakness most clearly apparent in the external sector. If this is so, efforts to attain a rate of growth comparable with that of 1950-57 must depend on one or both of the following: (a) an expansion in the external sector - exports and influx of capital - so that vigorous growth can take place in the supply of goods and services; and (b) a radical change in the structure of domestic production, with greater diversification, to modify the former pattern of growth. In other words, a substantial measure of import substitution must be achieved.

7. Venezuela

The weakening of the petroleum market, although less pronounced than that of other markets, was a serious problem for Venezuela. During the period 1950-57, the petroleum sector - a decisive element in the economic growth of Venezuela - provided 70 per cent of Government revenue. When external conditions took a turn for the worse, the impact on the economy created a series of tensions.

What countermeasures could be adopted by the Venezuelan economy, particularly as regards domestic supply? These were limited by the fact that export supplies represented around 30 per cent of the total product. Large-scale internal investments were made prior to 1958, but much of them were of little social value or had a very low output-input ratio. National production of some manufactured consumer goods met much of the domestic demand. With regard to intermediate products, however, industrial development still lacked diversification and in any case fell far short of the country's needs. Similarly, in spite of the rapid progress achieved in some branches of agricultural production, the supply of many food items still largely depended upon imports.^{2/} However, imports offered a fairly broad margin for retrenchment since they included a substantial volume of luxury goods.

^{2/} For a detailed study of these problems, see "Economic developments in Venezuela in the 1950's", Economic Bulletin for Latin America, Vol. V, No. 1, pp. 21 et seq.

In any event, the Venezuelan authorities adopted a series of measures in 1958 and 1959 designed to counteract the effect of weaker external incentives. They also attempted to make the distribution of the national income less regressive. The profits tax of petroleum enterprises was raised and a blanket wage increase was ordered. The Government also made investments calculated to create new sources of employment. Customs duties were increased both to promote domestic production and to reduce the flight of foreign exchange. A brake was applied to imports of non-essential items by the application of direct and indirect controls. However, no change was made in the present policy of freedom with respect to financial transactions abroad or in the rate of exchange.

Notwithstanding higher current tax revenue, the budget showed a deficit, one of the reasons being that heavy outstanding debts had to be paid. Part of the public expenditure was financed out of Government deposits in the Central Bank which had steadily mounted over the years and had thus become a factor absorbing means of payment. Conversely, its reduction was in some measure responsible for the monetary expansion which occurred in 1959. Again, it seems that the change in income distribution in favour of the wage-earning sector produced a corresponding increase in consumer expenditure. In view of the structure of domestic demand and its relative short-term rigidity, supply, if viewed as a whole and by sectors, failed to adapt itself adequately to the changes in the demand pattern. While the import coefficient declined, it remained at a high level compared with the export coefficient, which dropped sharply. In these circumstances it is not surprising that in 1959 the increase in per capita product was accompanied by a rise in domestic prices and a deficit in the balance of payments (see table II-15).

Together with other factors, partly unrelated to economic matters, the internal and external disequilibria which affected the Venezuelan economy led to active currency speculation towards the middle of 1959. In fact, the inflationary pressures during that year were relatively mild. But even before they made themselves felt the level of price was already

Table II-15

VENEZUELA: ANNUAL VARIATIONS IN THE COST OF LIVING, PRODUCT AND
PURCHASING POWER OF EXPORTS AND BALANCE-OF-PAYMENTS
SITUATION, 1958-1960

Year	Cost of living	<u>Per capita</u> product	Export purchasing power	Balance-of- payments situation (millions of dollars)
Percentage variation				
1958	+5	-1.7	-5.6	-396
1959	+8	+4.9	-6.9	-345
1960 <u>b/</u>	-	-2.1	-6.3	-126 <u>c/</u>

Source: As for table II-1, and International Monetary Fund, International Financial Statistics.

a/ 1950 prices.

b/ Provisional.

c/ Estimate for January-June 1960.

very high with respect to the prevailing exchange rate.^{10/} In order to discourage the speculative flight of foreign exchange - amounting to several hundred million dollars - the Government substantially altered its domestic economic policy in 1960. The Central Bank ceased to expand the volume of its rediscount operations, the growth in Government expenditure was slowed down and a large part of the budget was financed by foreign loans.

As a result of the weakening of governmental countermeasures, a further drop in export purchasing power and the deflationary effect of the drain on international reserves, economic activity contracted in 1960, a development which was reflected in the lower per capita product. Moreover, domestic prices became relatively stable again (see again table II-15). Towards the end of the year and in view of the continued external imbalance, the Venezuelan authorities made an important change in the free exchange regulations. The Central Bank was authorized to limit its issues of foreign exchange to the private sector in keeping with its reserves and external obligations, as well as to buy and sell foreign exchange on the free market.

The serious problems confronting Venezuela had a positive rather than negative effect on official action aimed at gradually correcting the more chronic weaknesses of the national economy. Thus, a land reform act came into force early in 1960. Henceforth investment of public funds will be made in the amounts and according to the order of priority laid down in a five-year plan. An industrial development programme is being prepared which will have a triple purpose: to encourage substitution, to solve the unemployment problem and to reduce production costs. As in some other Latin American countries, the influx of long-term capital is being encouraged so that it can contribute to the financing of various projects.

^{10/} While there were various rates of exchange, the average external value of the bolivar may be said to be basically related to petroleum productivity levels. The high wages which this sector had to pay had spread to the rest of the economy and thus caused an inflationary rise in production costs.

Chapter III

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

I. DEVELOPMENTS IN THE EXTERNAL MARKET

In 1960, for the third consecutive year, external market conditions continued to be unfavourable for Latin America in comparison with the 1956-57 average. Either as a result of the smallness of the increase in world demand for primary commodities or because of over-production and the accumulation of abnormally large inventories (both inside and outside the area), the prices of most Latin American export commodities have shown a persistent decline over the last three years, without the occasional expansion achieved by some countries in their sales volume having been sufficient to counterbalance the effects of the fall in prices. Consequently, income derived from total exports in the period 1958-60 contracted considerably as compared with the aforementioned 1956-57 average, despite its slight recovery in the early months of 1960.

This deterioration in the external sector of the Latin American economy is in direct contrast to what has occurred in the industrialized areas of the world. World exports showed a vigorous growth over the decade ending in 1959 (see table III-1 and figure III-I). Latin America did not, however, achieve an equitable share in this expansion of the world trade and, at the end of the period, its relative position in the total had declined as compared with the beginning of the period.

As is clear from the following table, Latin America's smaller relative share in the world total reflects, on the one hand, a slower rate of growth in terms of volume than in the industrialized areas and, on the other, a deterioration in the unit values of exports in sharp contrast with the increases registered by those areas.

/Table III-1

Table III-1

WORLD EXPORTS BY SELECTED AREAS AND PERCENTAGE CHANGES, 1950-59

	Value (thousands of millions of dollars)		Relative changes in the indices (Percentage)	
	1950	1959	Quantum	Unit value
North America ^{a/}	13.0	22.8	+43	+23
Western Europe	20.4	44.7	+86	+17
Latin America	6.8	8.3	+35	-10
World total ^{b/}	56.3	100.6	+62	+11

Source: United Nations, Monthly Bulletin of Statistics, October 1960.

a/ Canada and the United States.

b/ Excluding countries with a centrally planned economy.

It is an already sufficiently well-known fact that the expansion of world exports has occurred mainly in trade between the industrialized areas. Similarly, it has been observed that the maintenance of high levels of industrial activity in those areas bears no close correlation with their demand for imports of primary commodities. Over the last decade, the industrialized areas have become less dependent on supplies of raw materials and foodstuff from the under-developed areas. The reasons for this are to be found in agricultural protectionist policies applied by the United States and the majority of Western European countries and also in certain changes in industrial structure which have promoted better use

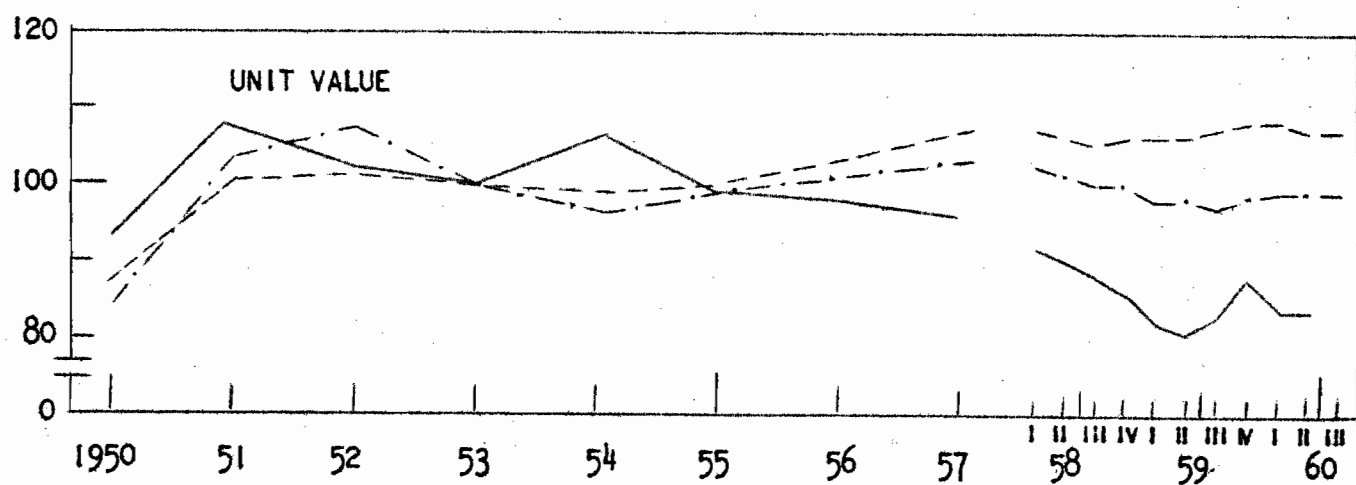
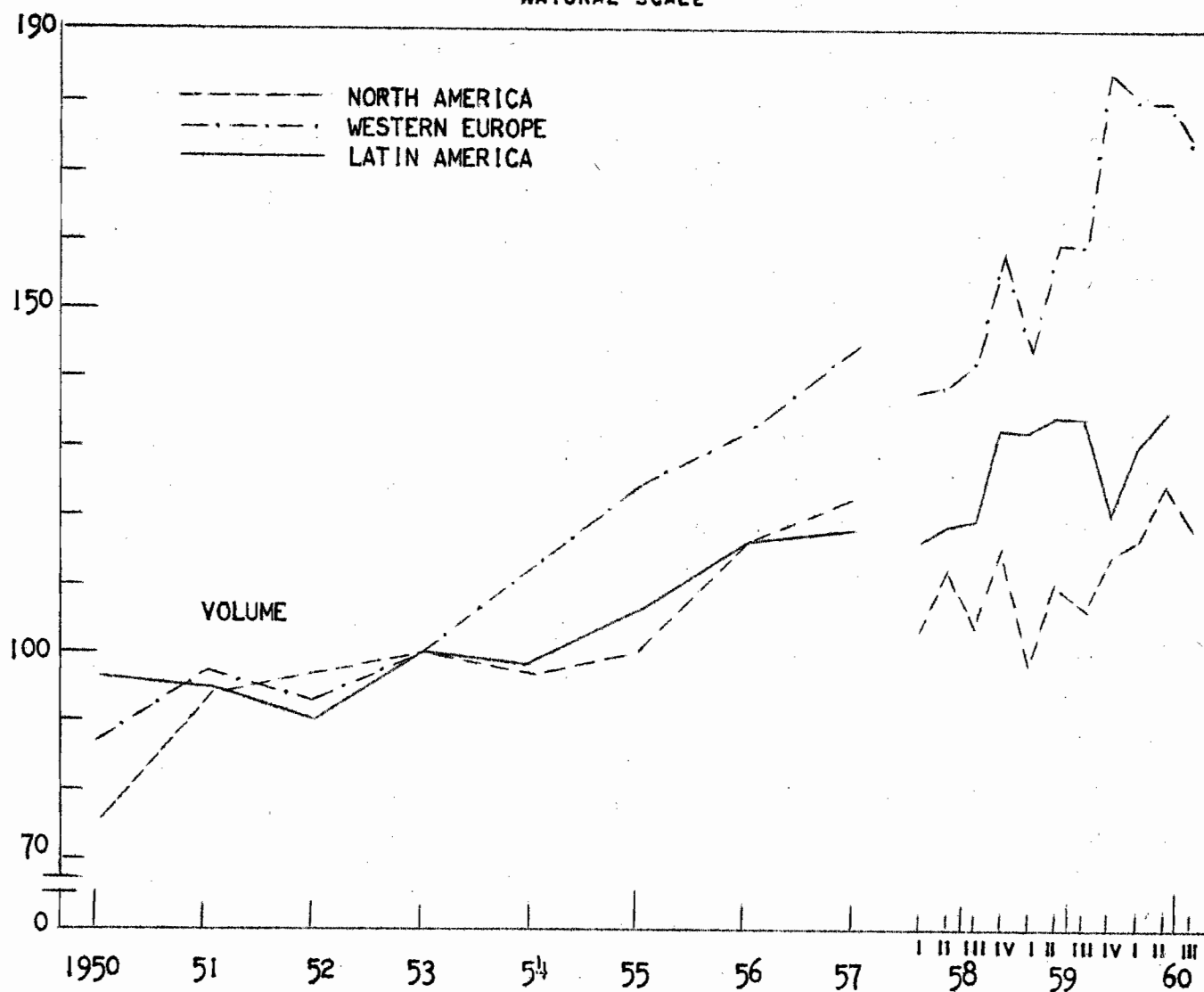
/Figure III-I

FIGURE III - 1

E/CN.12/565
Page 41

INDICES OF VOLUME AND UNIT VALUE OF EXPORTS
(1953 = 100)

NATURAL SCALE



SOURCE: UNITED NATIONS, MONTHLY BULLETIN OF STATISTICS, JANUARY 1961.

/of traditional

of traditional raw materials or the replacement of these by others manufactured by industrial processes.^{1/}

It is therefore not surprising that, after the 1957-58 recession in the United States and the slight lull in Western Europe during the same period, industrial recovery in those areas has led to no noticeable improvement in the export market for Latin American primary commodities. This, naturally, is a sweeping judgment; external market conditions vary for each individual product and these should be studied briefly.

1. Coffee

The coffee market entered a slump in 1958, although the drop in prices for some grades was felt as early as the middle of 1957. The Mexico Agreement of October 1957, in which seven Latin American coffee-exporting countries took part, and the subsequent international agreements of 1958/59 and 1959/60^{2/} (in which all Latin American coffee producers took part), met with only very limited success in so far as the stabilization of external prices was concerned, although they did serve to introduce a certain degree of order into competition for markets by the use of export quotas. This was the proposed aim of the international coffee agreements, as such agreements, unlike those concerning other products, had previously fixed no scales of prices such as to limit price fluctuations.

By and large, the world coffee crisis in the period 1958-60 was caused, on the one hand, by exceptionally bumper harvests and, on the other, by relative stagnation in world consumption. In the United States (the main world importer), per capita consumption over the years 1950-59 remained practically stationary at an average level three pounds lower than in

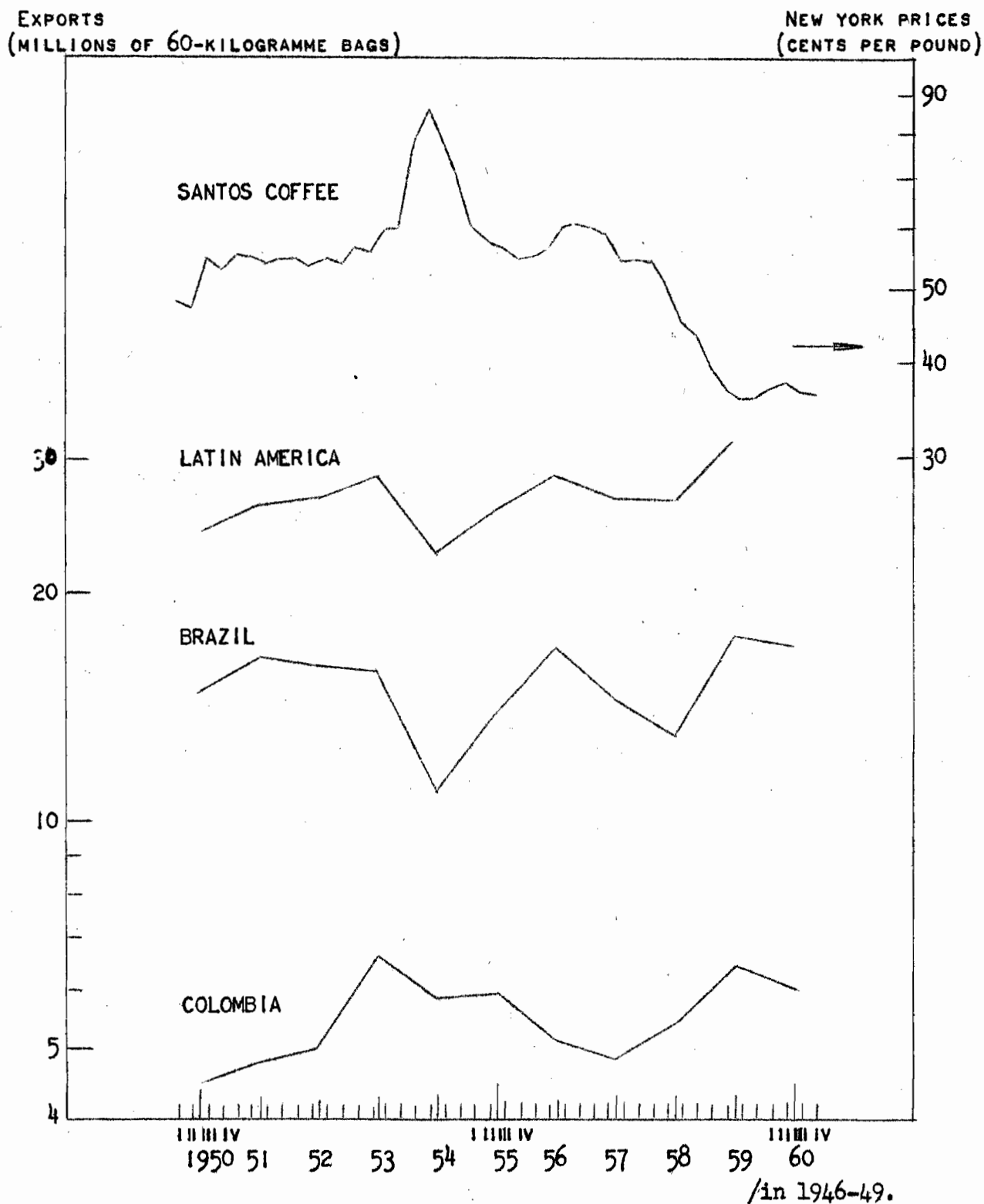
^{1/} Plastics and synthetic fibres have, in various instances, taken the place of natural fibres (cotton, wool, jute) and of soft woods and metals. Aluminium has replaced copper for various purposes, and for many years now technical progress has been reducing the amount of tin needed in the manufacture of plate. In other cases, one quality of a particular raw material may be replaced by another: extra-long-staple cotton by shorter staples - which are cheaper - or the use of coffee of poorer grades - in the preparation of soluble coffee - to the detriment of the better grades.

^{2/} The latter was renewed for a further year (October 1960 - September 1961) with the participation of a group of African countries.

FIGURE III - II

COFFEE

SEMI-LOGARITHMIC SCALE



in 1946-49. In Europe, only in 1955 did the average volume of imports rise above the 1935-39 level for the first time since the end of the war.

There has in addition been a gradual decrease in Latin American participation in the world market owing to increased African production and exports. This decrease, which occurred during the whole period 1946-58 was interrupted only in 1959 when Latin American exports reached a higher figure than ever before. Even so, Latin America's share of world exports was 74 per cent in 1959 as against 86 per cent for the period 1945-49 and 85 per cent for the period 1935-39.

As is clear from figure III-II, there were two periods during the last ten years when price fluctuations and variations in exported volume were of great magnitude and tended to compensate each other. The first of these, in 1954, when prices reached record levels, was accompanied by a reduction in the volume exported and this nullified the effect of the price rise; the second occurred in 1959, when an unprecedented volume of exports was accompanied by a fall in prices which more than absorbed the effect of the greater volume of exports. In fact the 31.3 million bags of coffee sold abroad by Latin America in 1959 represented an income of 1,473 million dollars, while in 1950 exports of 24.2 million bags brought in an income of 1,434 million dollars.

Export control by means of the quotas provided for in the International Agreement at present in force has helped to maintain relatively stable prices during 1960, although at the lowest levels in the last decade. As regards the volume of exports during this period, a small decrease is to be noted in exports from Brazil and Colombia and this means that Latin American income from coffee exports shrank further in 1960.

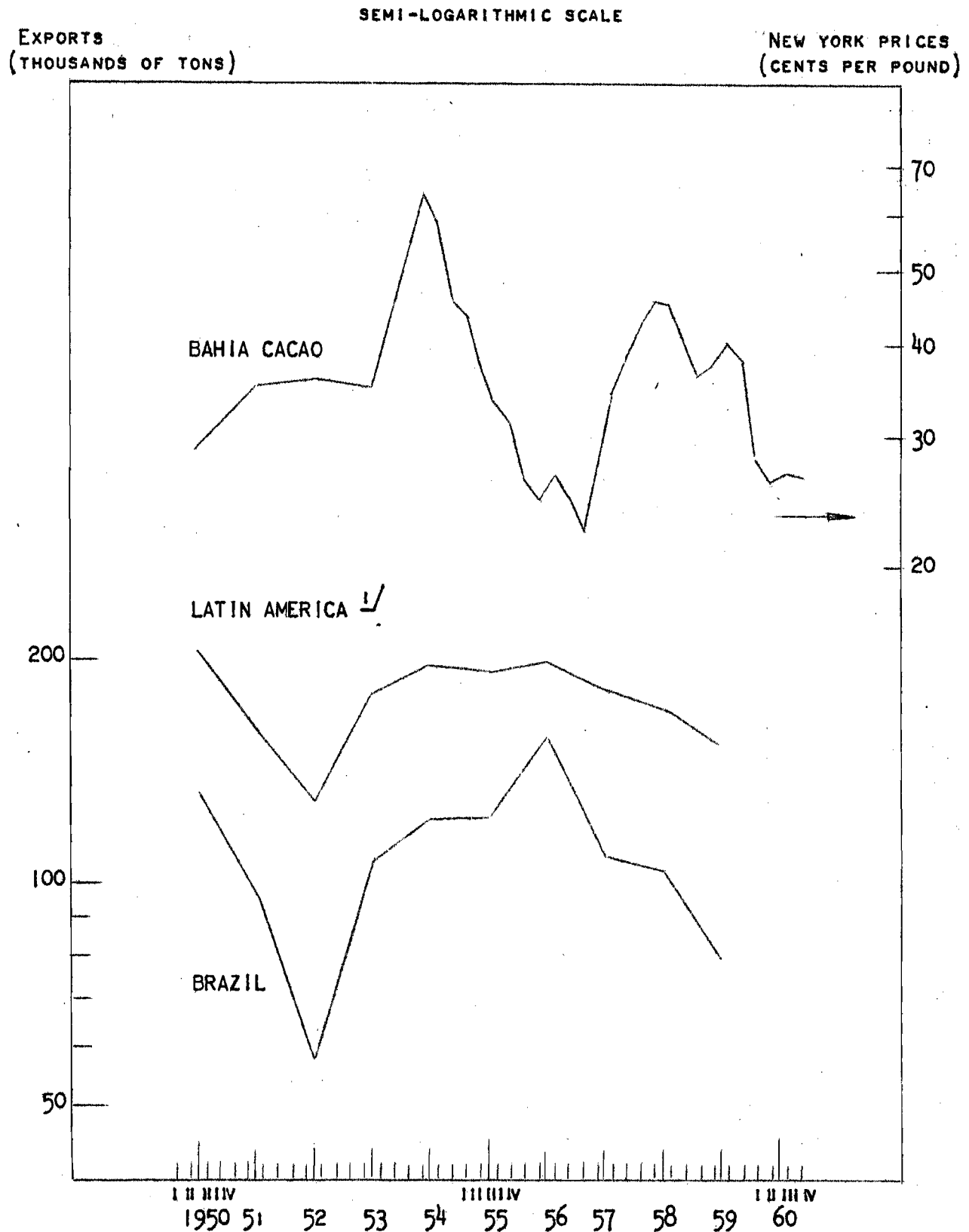
2. Cacao

The fall in external cacao prices, which has continued since the end of 1958, has been influenced - as is also true of coffee - by the boosting of output to figures which are substantially in excess of consumption. It is true that the accumulation of surpluses has not reached the same levels as with coffee, nor are such surpluses confined solely to the Latin American area, but instead the downward movement of prices was

/Figure III-III

FIGURE III - III

CACAO



1/ INCLUDING BRAZIL, COSTA RICA, DOMINICAN REPUBLIC, ECUADOR AND VENEZUELA.

/accompanied by

accompanied by a contraction in the volume of exports from the area.

Figure III-III shows that the fluctuations in external prices for cacao have been of considerable magnitude over the last ten years and more frequent than for other Latin American exports. For the most part, these fluctuations have occurred in inverse ratio to the volume of African harvests which usually account for more than two thirds of world exports. Figure III-III also indicates that the volume of Latin American exports stayed at levels below those of 1950 during the whole period, although in some years (1954-56) exports came fairly close to the 1950 level. The decline in exports between 1957 and 1959 (during which period prices went through a complete fall-rise-fall cycle) was in the main a reflection of the smaller volume of Brazilian sales which, in its turn, was partly the result of the fixing of minimum export prices by that country.

During 1960, external cacao prices were lower than during the preceding period, because of the expectation that the 1960/61 crop would be as abundant as in 1959/60. By way of compensation, the volume of Latin American exports in the 1960 period is substantially higher than for the 1959 period.

3. Sugar

World sugar production has shown successive rises during the last ten years. Although world consumption has also shown a firm upward trend, heavier consumption has been met to some extent by stepped-up output in importing countries. Consequently, the world sugar trade has not thrived to the same extent as world production and consumption. The accumulation of relatively large inventories in exporter countries has accordingly been frequent during most of the last decade. This has in turn resulted in sugar prices on the international market being generally maintained at levels lower than during the period 1948-50. Only on two occasions, and then for short periods did this situation change: in 1951, during the Korean hostilities, and in the first half of 1957, during the Suez crisis. On both occasions, once the fears aroused by these conflicts had subsided, prices fell to their former levels or even lower (see figure III-IV).

Even at such low levels, and apart from the aforementioned periods

/of emergency

of emergency, the relative stability of prices depended to a large extent on export controls which the States members of the International Sugar Agreement have been applying since 1953. In 1959, however, the application of maximum export restrictions was inadequate to prevent a slump in prices to a level lower than the minimum laid down in the International Agreement - a level which was in fact the lowest recorded since 1941. A further result of these restrictions was that the volume of Latin American exports was smaller in 1959 than in 1957 and 1958.

During 1960, important changes occurred in the traditional pattern of the Latin American sugar trade. The signing of a trade agreement between Cuba and the Soviet Union whereby the latter undertook to purchase one million tons of sugar annually during the period 1960-64, substantially improved market conditions from the beginning of 1960. This was so at least so far as the volume of exports was concerned, as these were easily outstripping - month by month - the figures for the preceding year. Although prices did not recover to the same extent, there was at least a slight improvement.

But other events had unfavourable implications. The progressive deterioration in relations between Cuba and the United States culminated, early in July 1960, in the cancellation of Cuba's quota in the United States preferential market; this meant not only the closing of the market for some 700,000 tons of Cuban sugar^{3/} but also the sacrifice of the higher price usually paid for sales on that preferential market as compared with prices on the open market. The cancellation of part of the Cuban quota on the United States sugar market meant bigger quotas for, or purchases over and above the quota from other Latin American countries, particularly the Dominican Republic.^{4/}

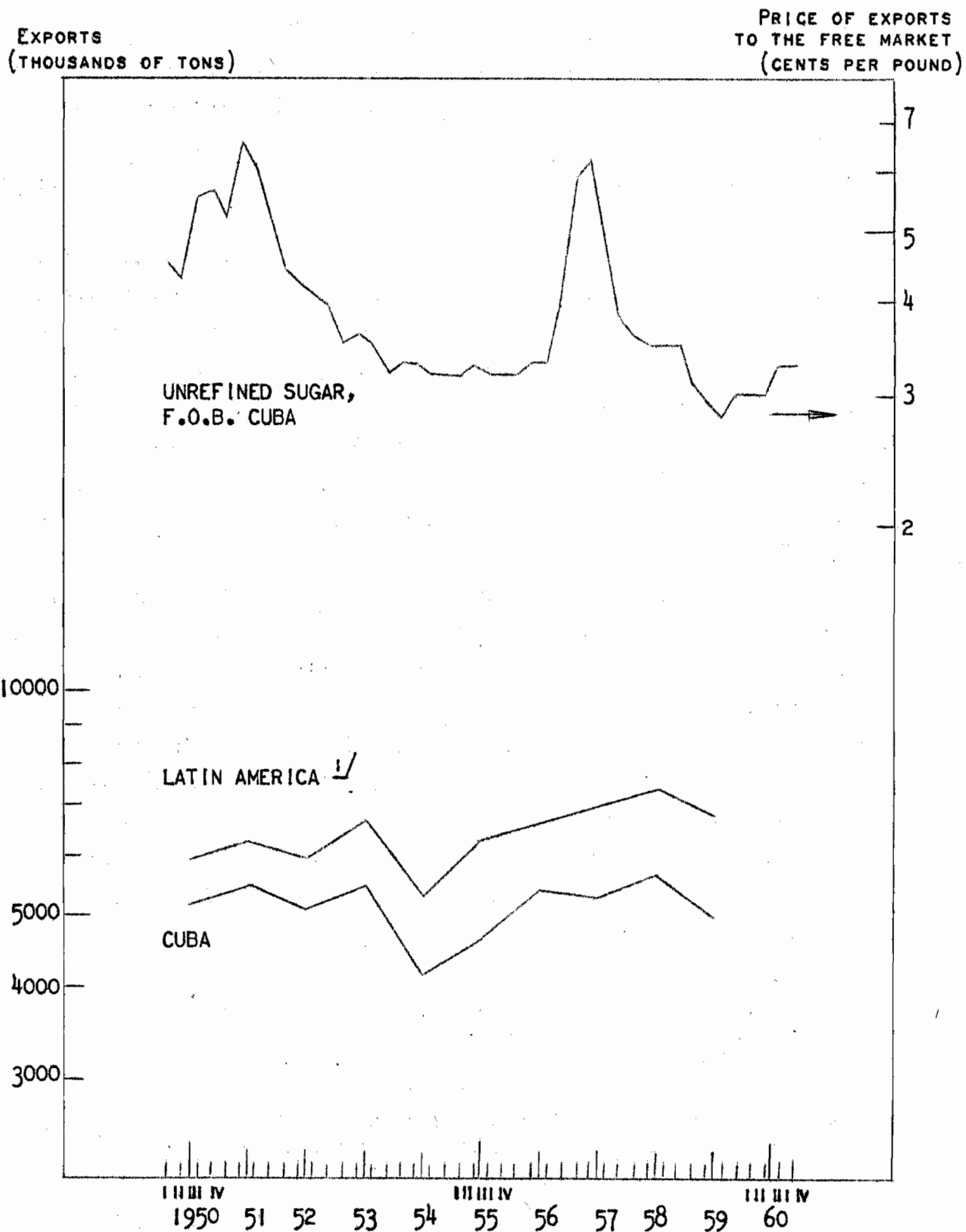
^{3/} The basic quota for Cuba for 1960 was 3.1 million tons. At the time of the cancellation of the quota, imports effected or contracted for by the United States had reached 2.4 million tons. Hence the cancellation affected only the unimported balance.

^{4/} In the case of the Dominican Republic, the purchases over and above the quota did not enjoy the higher price paid for amounts purchased under the quota system.

FIGURE III - IV

SUGAR

SEMI-LOGARITHMIC SCALE



^{1/} INCLUDING BRAZIL, CUBA, DOMINICAN REPUBLIC AND PERU.

/4. Cotton

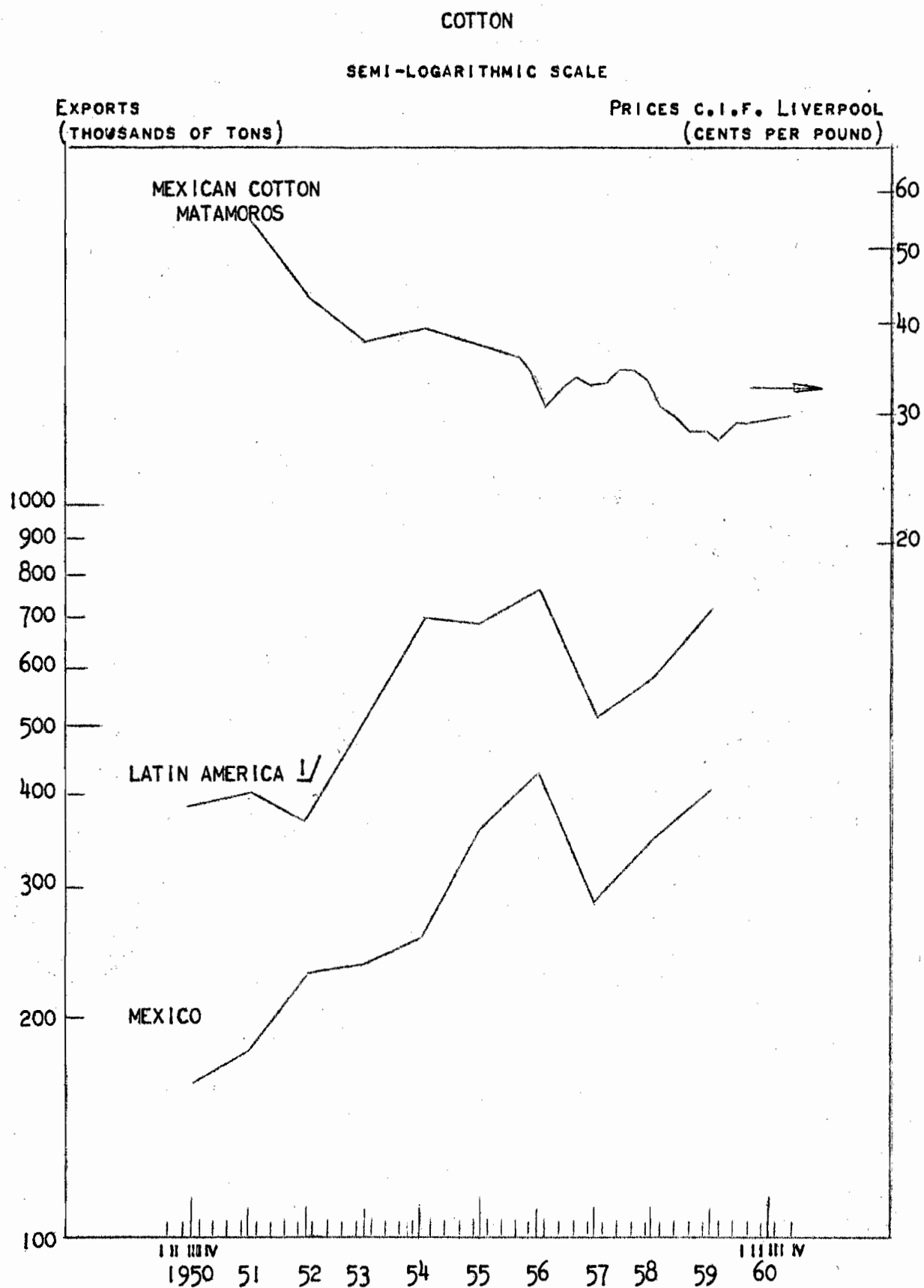
4. Cotton

As has already been pointed out in the case of sugar, world trade in cotton during the last decade has expanded less than world production and consumption. Yet the changes that took place during the period in the geographical distribution of cotton production and trade were more far-reaching than for sugar. On the one hand, Latin American output showed a clear upward trend, particularly as a result of rapid increments in production achieved by countries which had previously produced little or no cotton. On the other hand, the growth in production not only promoted greater per capita consumption of cotton in the area but also enabled Latin American exports to expand so that they had a larger share in overall world trade.

However, the conditions which favoured the increase in Latin American production and exports have practically disappeared in recent years. Until early 1956, the system of guaranteed prices (or support prices) for cotton produced in the United States acted as a stimulus to stepped-up production in other areas, while at the same time discouraging exports from the United States owing to the fact that producers outside the United States could compete on the international market at prices slightly lower than those guaranteed to producers in the United States. Accordingly, although the system of guaranteed prices was accompanied by controls limiting the area cultivated,^{5/} inventories accumulated in the United States between mid-1951 and mid-1958 grew more than fivefold, reaching in the latter year a figure in excess of world exports for one year. In those circumstances, the United States Government, in the early part of 1956, adopted a new sales policy directed, on the one hand, at winning back what is called its "historical share" of the world cotton market and, on the other, at reducing its volume of inventories. Under this new policy, a dual price system was set up for cotton: a guaranteed price for the internal market

^{5/} Control of the area cultivated was partly nullified by bigger yields per hectare.

FIGURE III-V



1/ INCLUDING BRAZIL, MEXICO, NICARAGUA, PARAGUAY AND PERU

/and another

and another price - approximately 20 per cent lower - for sales abroad.^{6/}

A study of figure III-V shows that cotton prices on the international market followed a downward trend throughout the last ten years. The levels prevailing in 1951 were clearly influenced - as was the case with many other raw materials - by the Korean hostilities. The decline in subsequent years was therefore partly a result of the re-establishment of normal market conditions. But the change in United States sales policy in the early part of 1956 accentuated the downward trend, because from the middle of that year the large surpluses accumulated in that country were available for export at levels competitive with the cotton prices of other areas.

During 1959-60, no changes of any importance occurred in the cotton market. Price fluctuations remained within relatively narrow limits although at the lowest level of the decade. Furthermore, the volume of exports which fell off sharply in 1957, has again reached levels comparable to those of the period 1954-56, which were the highest ever.

5. Wool

Latin American wool production and exports have remained virtually stagnant during the period under review. As can be seen from figure IV-VI, the volume of wool exports from Argentina and Uruguay - which supply almost the whole of Latin America - have undergone such sharp and frequent changes that no definite trend can really be discerned. It should, however, be pointed out that world exports scarcely increased between 1949 and 1959 and that fluctuations from one year to the next have been almost as great and frequent as in the case of Argentina and Uruguay.

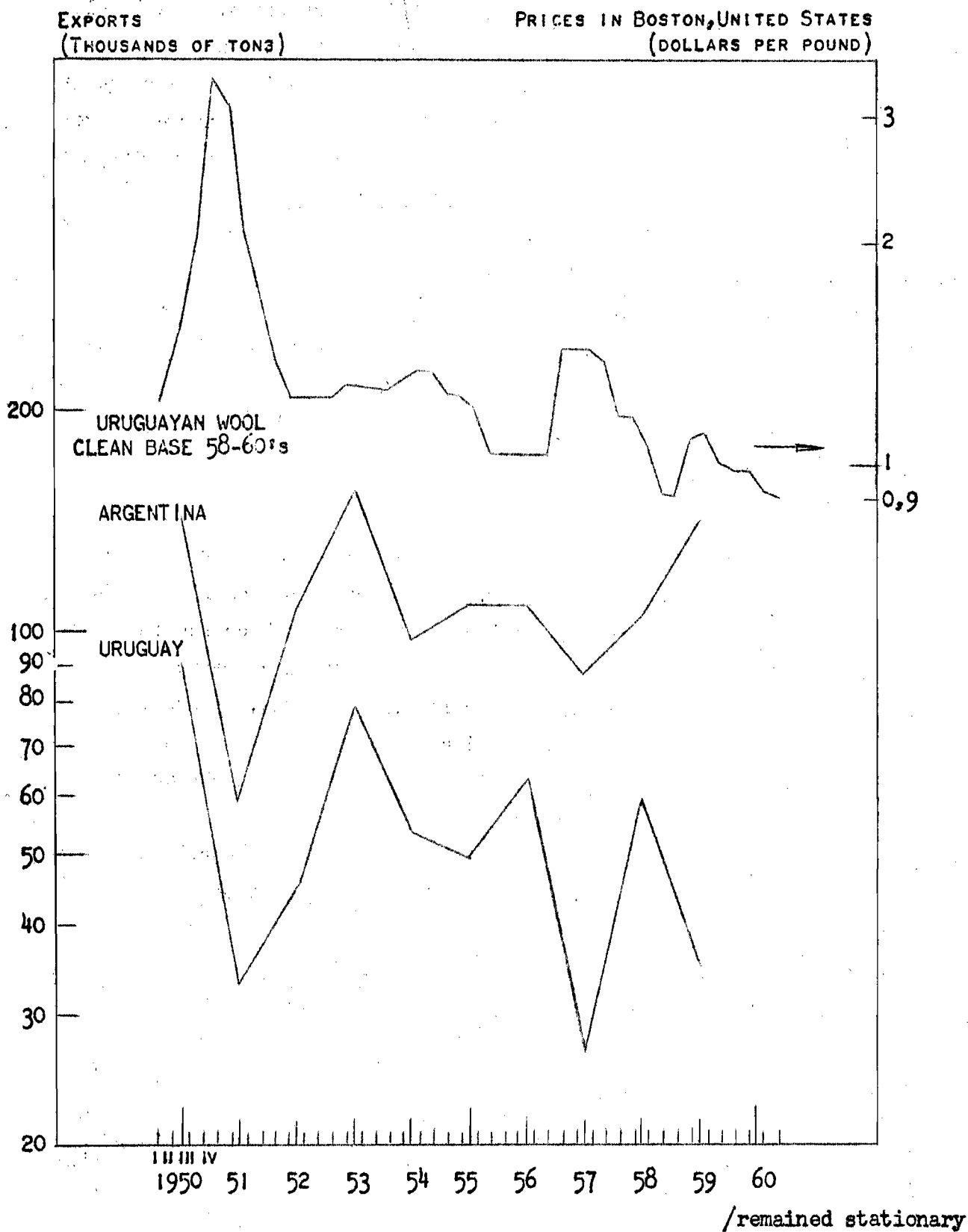
Although it is clear that the exchange policy of the exporting countries has helped, over the short term, to intensify such fluctuations, it is quite evident also that the stagnation in the total volume of Latin American exports is to a large extent a reflexion of the failure of world wool consumption to expand. Between 1948 and 1957 world wool consumption

^{6/} At the beginning, the programme of selling abroad at prices lower than on the domestic market applied only to a part of the surpluses in the hands of the Government, but the programme was soon extended to all the inventories. In addition, it should be pointed out that the dual price system was later replaced by a system of export subsidies which is still in force to this day.

FIGURE III-VI

WOOL

SEMI-LOGARITHMIC SCALE



remained stationary at 0.46 kg per capita,^{7/} rising for the first time to 0.47 kg per capita in 1958.^{8/}

As regards prices on the international market, with the exception of a few short months between 1950 and 1951 when prices rose abruptly only to fall back to their previous levels just as quickly, the trend in later years has been a steady decline interrupted only occasionally before resuming an even steeper downward trend (see figure IV-VI).

6. Copper

Latin America's position in the world copper market has changed but little during the past decade. Both production and exports have shown a moderate upward trend, more or less in accordance with the rising tendency in world copper production and consumption (see figure III-VII). A similar tendency to climb - which was not free from fluctuations of varying intensity - was observed in prices between the end of the war and the first months of 1956, despite the fact that during a part of this period prices were subject to Government control in the United States and the United Kingdom, the two main international markets for this commodity.^{9/}

This upward movement in prices, which reached its peak in the first quarter of 1956, was supported by a great increase in the copper consumption in Europe^{10/} and by the bulk purchases for strategic stockpiling by the United States and other countries. From the second quarter of 1956, however, there was a period of successive price drops which continued until

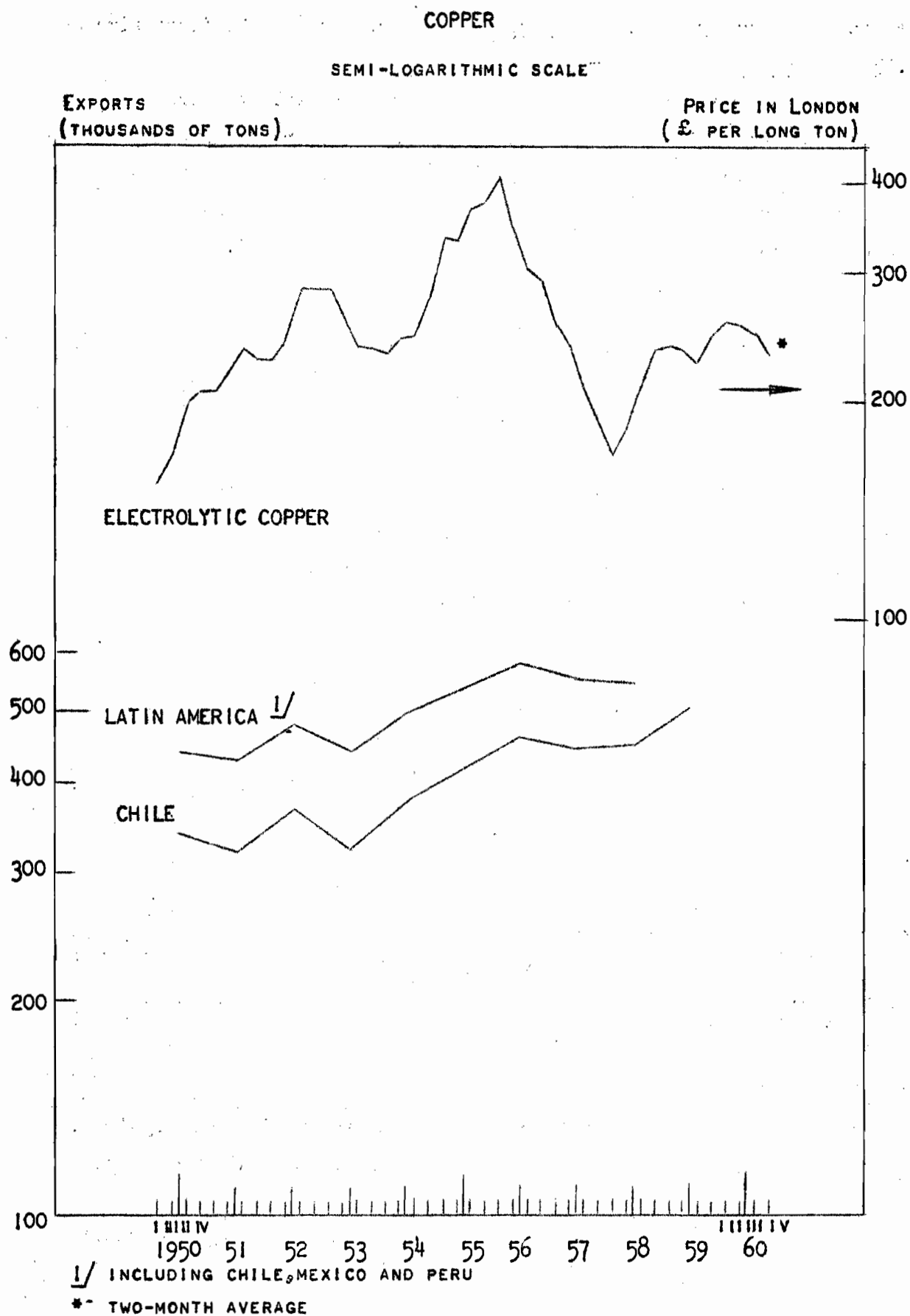
^{7/} In 1952, it dropped to 0.42 kg per capita.

^{8/} See FAO, "Per Caput Fibre Consumption Levels", Commodity Bulletin Series 31, Rome 1960. In contrast with the stagnation of per capita wool consumption, it is stated in this document that world consumption of cellulosic fibres increased from 0.46 kg to 0.58 kg per capita between 1948 and 1958, while in the same period world consumption of synthetic fibres increased from 0.01 to 0.15 kg per capita.

^{9/} Copper prices were subject to Government control in the United Kingdom until August 1953, while in the United States Government controls were reintroduced in early 1951 and were not removed until February 1953.

^{10/} European consumption expanded by 50 per cent between 1950 and 1955.

FIGURE III-VII



the first months of 1958. Among the causes of this phenomenon were the suspension of purchases for strategic stockpiles, smaller consumption in the United States and the larger supplies of copper as a result of substantial increases in world output in 1955 and 1956.

Copper market conditions were relatively stable in 1959 and 1960. Price fluctuations remained within moderate limits, while the volume of Latin American exports has stayed at the high levels of recent years. The most salient fact in recent years was the re-establishment in the United States of the copper import tax which had been suspended since the last world war.

7. Tin

Purchases for strategic stockpiling played an important part in the international tin market during the first years of the last decade. They absorbed the surplus of world output over consumption, particularly as the latter has increased only very slightly in certain areas, e.g. in Europe, or has remained static or tended to decline in others, as in the United States.

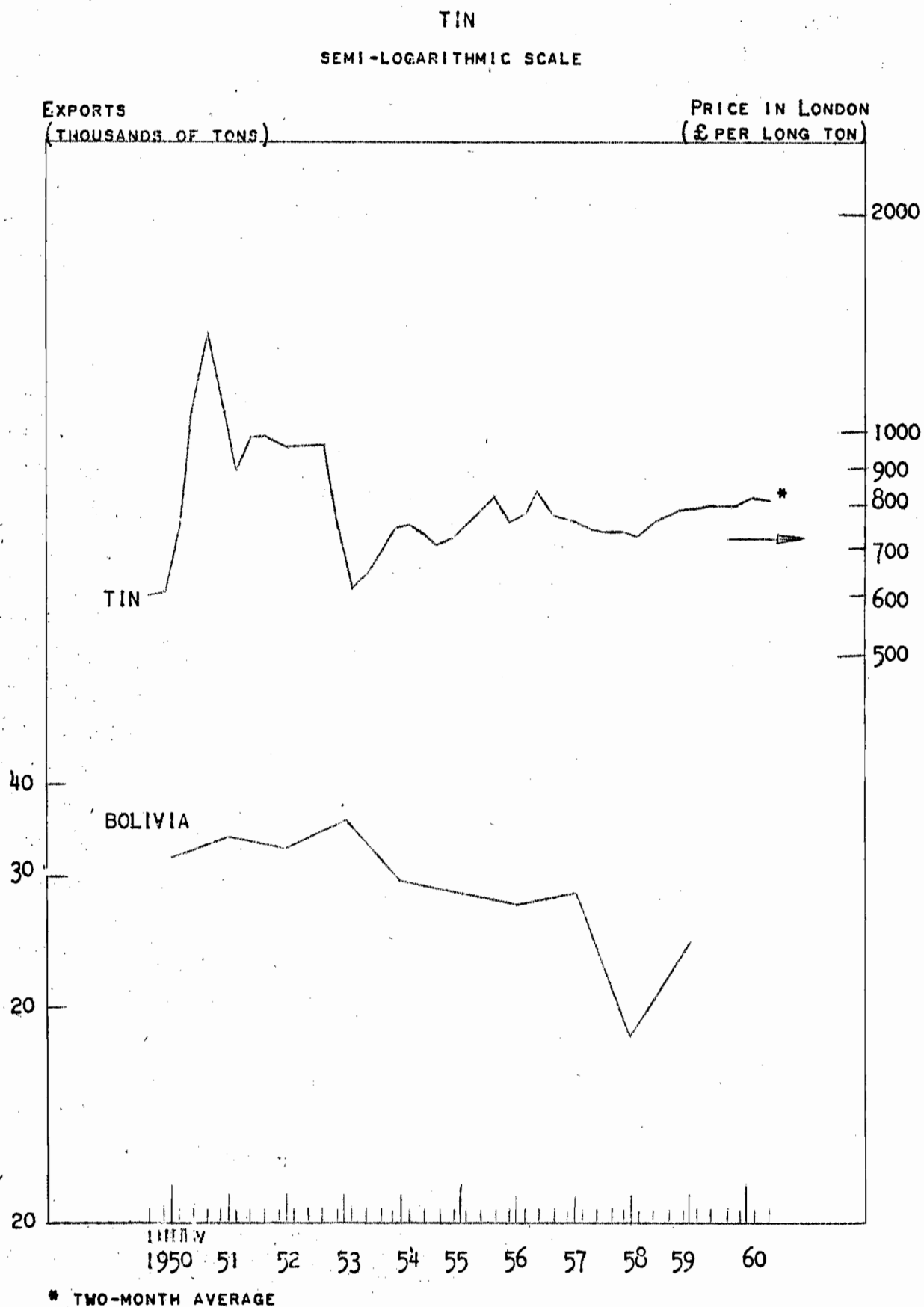
In an attempt to stabilize the market, which was in a state of serious disequilibrium after the conclusion of the Korean hostilities and the gradual cessation of purchases for strategic stockpiling, the main producer and consumer countries signed an International Agreement, which came into force in mid-1956, authorizing the imposition of quantitative restrictions on exports and, at the same time, direct intervention in the market through the establishment of a Buffer Stock. These export restrictions were widely used in 1958 and 1959 and resulted in a considerable decline in world output in the aforementioned years.

The operations of the Buffer Stock, combined with export restrictions, have held price fluctuations within moderate limits over the last three years (see figure III-VIII).

Clearly, the restrictions substantially reduced the volume of exports from States signatories of the International Agreement, and this included Bolivia the leading Latin American tin exporter.^{11/} But, from the middle

^{11/} Figure III-VIII shows that exports from Bolivia declined considerably in 1958 but recovered partially in 1959. This was, however, attributable to a barter arrangement with the United States for 5,000 tons which were not subject to export restrictions as they were intended for the United States strategic stockpile.

FIGURE III-VIII



of 1959 a slow but firm recovery of the world tin market took place and the effect of this has been a gradual relaxation of export restrictions, which were virtually abolished in the last quarter of 1960, and the sale of more than half the tin inventories held by the Buffer Stock. To a certain extent, this improvement in the tin market was made possible by smaller exports from the Soviet Union in 1959-60, since that country's exports, which is not a signatory of the International Agreement, were an important factor in the serious tin market crisis in 1958.

8. Lead and zinc

The almost parallel price course followed by lead and zinc, which was characteristic of the international market for those metals during most of the last decade, showed marked divergencies from the end of 1958. The steep fall in prices, which continued for both metals until the end of that year, was followed in 1959-60 by a recovery in zinc prices while lead prices remained at the lowest levels for the last ten years, (see figures III-IX and III-X).

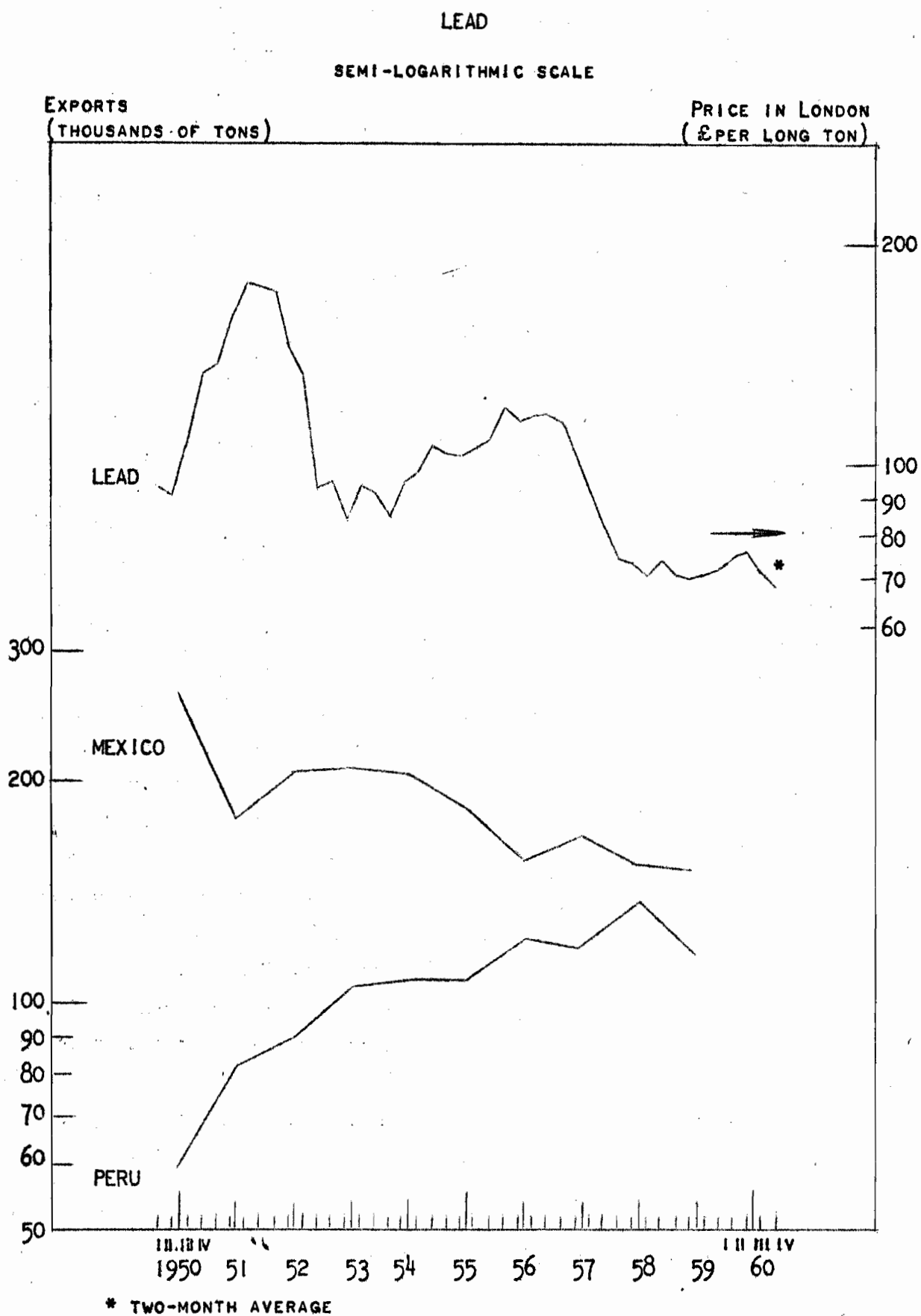
Apparently the main cause of this divergence in prices lay in certain changes in the use of the metals which resulted in lower consumption of lead. In addition, the imposition of import quotas on lead and zinc by the United States in October 1958 led to a sharp drop in lead imports, while zinc imports continued at almost the same level as in 1958.^{12/}

At the beginning of 1960, the United Nations Lead and Zinc Study Group agreed to uphold its recommendations for the voluntary restriction of lead production made during its 1959 meetings and to cancel its recommendations to the same effect as regards zinc. This meant that market prospects, at least for zinc, were more encouraging. However, in the middle of 1960 a further decline took place in the prices of both metals, this being attributable in part to a larger supply from the Soviet Union on the London market.

Latin American lead and zinc exports, which come mainly from Mexico and Peru, followed the trend of prices for, while lead exports fell in 1959, zinc exports increased.

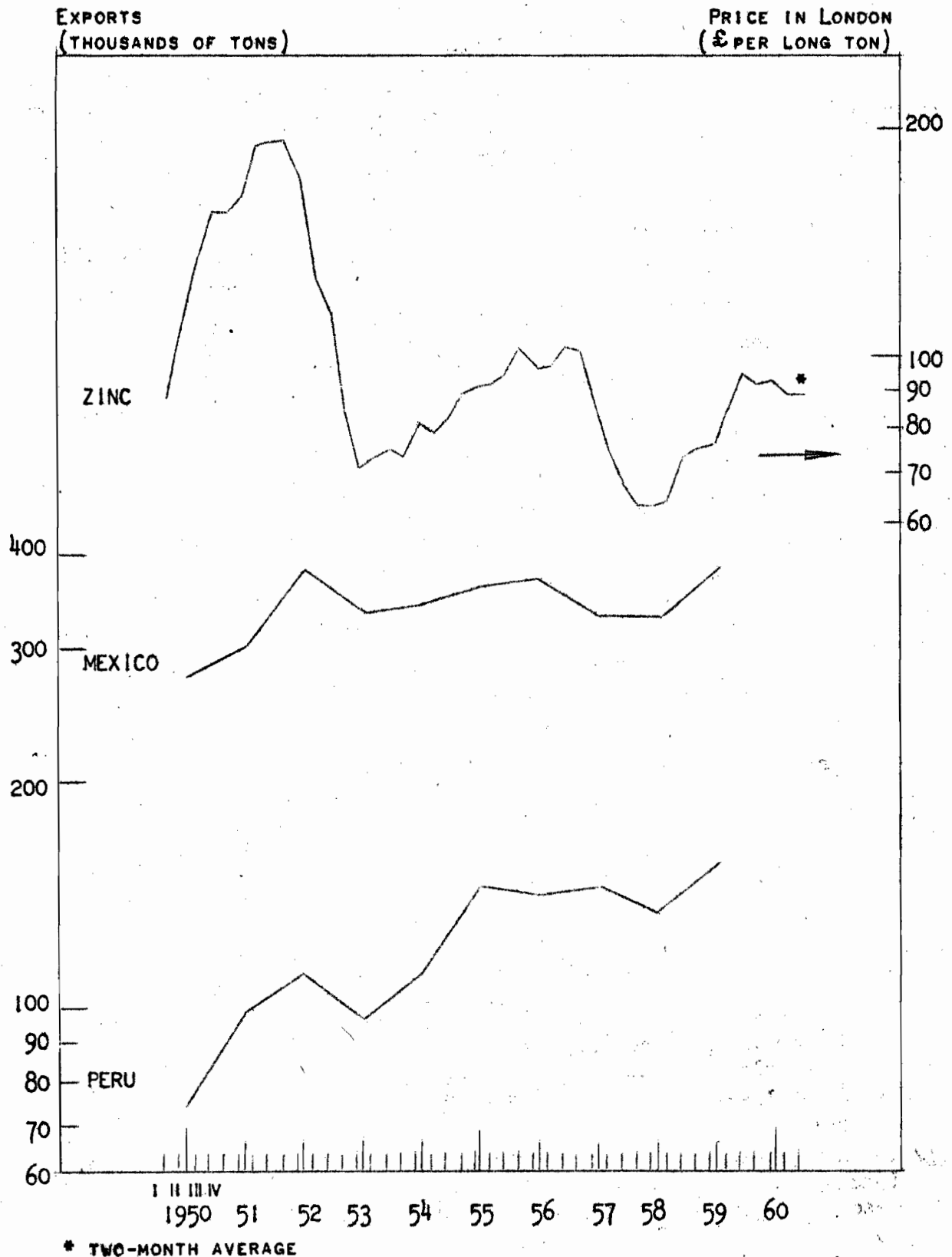
^{12/} Quotas were fixed at 80 per cent of average annual volume for the period 1953-57.

FIGURE III-IX



ZINC

SEMI-LOGARITHMIC SCALE



9. Petroleum

The dominant feature of the world petroleum market during 1959-60 was over-production on a large scale and stronger international competition which led to price cuts in the main exporting areas. At the beginning of 1959, producers both in the Middle East and in Venezuela reduced their prices for the various types of crude petroleum by 8 to 10 per cent. This reduction was first considered as a return to the market conditions existing before the Suez crisis, but in August 1960 the leading Middle Eastern producers agreed on a further price cut which was not - at least nominally - followed by Venezuelan producers as a result of opposition by the Venezuelan Government.^{13/}

Over production is no new phenomenon in the world petroleum industry, but in addition to the fact that present surplus is the highest since the world depression of the thirties,^{14/} the situation has been complicated this time by other developments in recent years, as for example the protectionist policy of the United States, the expanding volume of exports from the Soviet Union - which is also claiming its "historic share" in the world petroleum market - and the higher level of output in a number of countries which previously depended on imports to satisfy their requirements.

Figure III-XI shows that crude petroleum prices followed a very slight upward movement between 1950 and 1957. This trend is in sharp contrast with the frequent and wide price fluctuations experienced by all the other stable Latin American export commodities. Moreover, the fall

^{13/} Although the Venezuelan Government was opposed to producers changing their posted prices, the latter have in fact been selling at prices lower than in the previous year through the granting of discounts which vary with the amount of the transaction and the market of destination. The practice of discount sales became so general that the Venezuelan Government was obliged to recognize it, confining itself to recommending that discounts should be kept within reasonable limits.

^{14/} In this connexion, see the comments of the Petroleum Press Service, London, May 1959, and of the National Institute of Economic and Social Research, Economic Review, September 1960.

in petroleum prices in 1959 meant nothing more than a return to 1956 levels, i.e. to the prices being paid before the Suez crisis interfered with Middle East production and exports.^{15/} In this respect too, petroleum prices have followed a course different from that of other primary commodities for some of which present prices are now lower than in 1950.

As to the volume of exports, figure III-XI shows that exports from Venezuela showed a firm upward trend between 1950 and 1957, in the latter year reaching the highest figure ever recorded. The fall in exports in 1958 was temporary, since in 1959-60 their volume remained at a level approximately equivalent to that of 1957. At all events, this means that in the last three years a halt has been called to the expansion of Venezuelan exports of crude petroleum and refined products from 1946 to 1957.

One event which may have far-reaching effects on the world petroleum market was the recent creation of the Organization of Petroleum Exporting Countries. Venezuela, Iraq, Iran, Kuwait and Saudi Arabia, which are members, together control 90 per cent of world exports. Among the aims of the Organization mention should be made of the study of ways and means of keeping petroleum prices stable and of ensuring co-ordinated action in matters connected with production.^{16/}

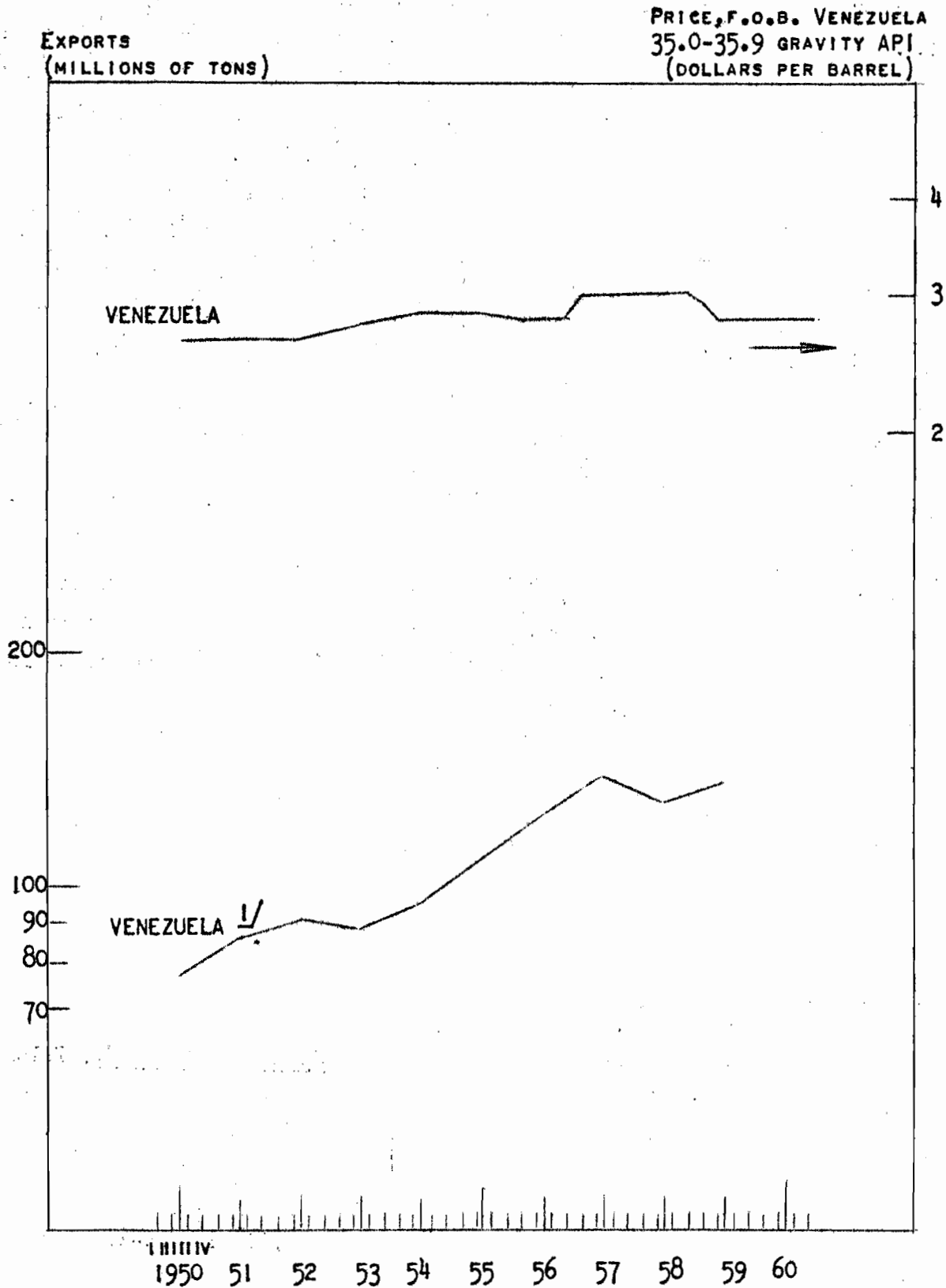
^{15/} But see footnote 13.

^{16/} According to information appearing in the Oil and Gas Journal, Tulsa, United States, 26 September 1960.

FIGURE 111-XI

PETROLEUM

SEMI-LOGARITHMIC SCALE



I/ INCLUDING CRUDE PETROLEUM AND DERIVATIVES

/II. EXPORTS,

II. EXPORTS, IMPORTS AND BALANCE OF TRADE

1. Exports

In 1959, two trends which had been apparent in Latin American exports since 1955 reached their highest intensity: on the one hand, the fall in primary commodity prices on the international market; and, on the other, the increase in the quantum exported. As regards prices, the drop registered in 1959 brought their index to the lowest level for the whole of the fifties, while by way of contrast the index of the quantum exported for the same year reached the highest point for the whole decade.^{17/} A comparison of the indices for the beginning and end of the decade shows that the increment in the quantum exported exceeded the drop in prices, which was reflected in the greater value of exports in 1959 in relation to 1950. This result is, however, far from satisfactory for the rise in Latin American exports is very low in comparison with increase over the same period in other areas of the world.

Table III-2 shows the variations in Latin American exports over the last three years. For the area as a whole the decline in the total value of exports was relatively strong in 1958 (approximately 7 per cent as compared to 1957) and was felt mainly in the countries exporting coffee, sugar, non-ferrous metals and petroleum. In nearly all the countries affected by the reduced value of exports, the dominant factor was the fall in prices on the international market. In Venezuela, however, the main cause was the decline in exports of crude petroleum and its derivatives, which was in its turn a result of the return to pre-Suez conditions.

In 1959, there was a further deterioration in external prices of coffee, sugar, cacao, cotton, lead and zinc, with the prices of petroleum also beginning to fall. In some cases this fall in prices was counterbalanced in part or in whole by increases in the volume of exports, as was the case for the main exporters of coffee (Brazil, Colombia and Guatemala) and of petroleum (Venezuela). In other cases, e.g. that of sugar exporters: Cuba and the Dominican Republic, the drop in prices was aggravated by a simultaneous contraction in exports. By way of contrast the copper and tin exporting countries - Chile and Bolivia, respectively - not only achieved a substantial growth in their export volume but also earned higher external

^{17/} In this connexion, see the quantum and unit value indices for exports published in the United Nations Monthly Bulletin of Statistics, January 1961.

Table III-2

LATIN AMERICA: VALUE OF EXPORTS IN MILLIONS OF DOLLARS AND PERCENTAGE
VARIATION AS COMPARED WITH THE PREVIOUS PERIOD

Commodity and exporter country	1958		1959		January- June a/ 1959	January- June a/ 1960	Vari- ation
	Value	Vari- ation	Value	Vari- ation	Value		
<u>Coffee</u>							
Brazil	1 243	-10.7	1 282	3.1	577	605	4.8
Colombia	461	-9.8	470	1.9	218	210	-3.7
Costa Rica	92	10.8	77	-16.3	48	52	8.3
El Salvador	116	-16.0	113	-2.6	85	83	-2.4
Guatemala	107	-6.1	108	1.0	65	72	10.7
Haiti	39	14.7	28	-28.2	14	17	21.4
Nicaragua	64	0.8	65	1.6	52	39	-25.0
<u>Sugar</u>							
Cuba	763	-9.7	638	-16.4	...	...	...
Dominican Republic	137	-14.9	130	-5.1	78	77	-1.3
<u>Bananas</u>							
Ecuador	133	0.0	140	5.3	63	68	7.9
Honduras	69	6.1	70	1.4	...	...	...
Panama	33	9.3	34	3.0	18	19	5.5
<u>Wheat and Agri- cultural com- modities</u>							
Argentina	994	1.9	1 009	1.5	490	540	10.2
Uruguay	139	8.6	98	-29.5	66	81	22.7
<u>Metals</u>							
Bolivia	50	-32.4	59	18.0	28	24	-14.3
Chile	389	-15.3	498	28.0	242	260	7.4
<u>Miscellaneous</u>							
Mexico	735	1.1	753	2.4	397	361	-9.1
Paraguay	34	3.0	31	-9.8	15	11	-26.7
Peru	292	-12.1	323	10.6	132	185	40.1
Total	5 890	-6.6	5 926	0.6	2 588	2 704	4.5
Venezuela	2 510	-8.4	2 314	-7.8	1 174	1 100	-6.3
Grand total	8 400	-7.1	8 240	-1.9	3 762	3 804	1.1

Sources: International Monetary Fund, International Financial Statistics.

a/ See note 18, page 65.

b/ With the exception of Venezuela these figures do not include adjustments made by the International Monetary Fund in its balance of payments statistics.

/prices for

prices for their products, so that the value of their exports considerably exceeded figures for the preceding year. For Latin America as a whole, however, the total value of exports in 1959 fell by 2 per cent as compared with 1958.

Preliminary information for the first six months of 1960 shows a slight improvement over 1959. The total value of exports for that period, excluding Cuba and Honduras, exceeded exports for the same period in 1959 by 1 per cent, but, if Venezuela is excluded, the increase is 4.5 per cent (see again table III-2).^{18/} The greater volume of exports of cereals from Argentina, of copper from Chile and Peru, and of wool and meat from Uruguay contributed greatly to this rise in the total value of exports. Total sugar exports also expanded substantially, as is shown by the higher value of exports from the Dominican Republic. On the other hand, there was a fall in the exports of the main coffee producing countries - Brazil and Colombia - and Venezuelan exports also shrank as a result of the drop in real export prices of crude petroleum, for export volume remained at approximately the same level as in the previous year.^{19/}

2. Imports

The export crisis led to a slump in Latin American imports in 1958-59. The fall affected 16 out of the 20 Latin American countries in 1958 and for the area as a whole represented a decline of 8.6 per cent as compared to 1957. In 1959, 14 countries - many of them for the second consecutive year - had again to employ various methods to reduce the value of their

^{18/} Total figures for the first nine months of 1960 for a smaller number of countries show a rise of 4.9 per cent over the same period in 1959. The breakdown by countries is as follows:

	<u>January - September</u>		<u>Variation</u>
	<u>1959</u>	<u>1960</u>	
Argentina	745	826	10.9
Brazil	980	960	-2.0
Chile	373	397	6.4
Colombia	359	332	-7.5
Costa Rica	61	70	14.7
Dominican Republic	101	119	17.8
Mexico	578	571	-1.2
Panama	27	25	-7.4
Paraguay	24	19	-20.9
Peru	218	303	39.0
Uruguay	88	106	20.4
Total, 11 countries	3,554	3,728	4.9

^{19/} See footnote 13 above.

/purchases abroad

purchases abroad and this led to a fall of 7.4 per cent in total Latin American imports in that year as compared to 1958.

To sum up, in 1958 and 1959 total imports fell off by 1,452 dollars (15.3 per cent) as compared to the 1957 level and in one year or the other - all twenty countries were affected. For the most part the result was curtailed imports of goods since their price index moved down by only three per cent as compared to 1957.

A reduction on such a scale has adverse effects on the level of economic activity in the Latin American countries in view of the great share represented by capital goods and industrial raw materials in the imports of each of them. Accordingly, during the first six months of 1960 there was a tendency for imports to grow and this was, in some cases, favoured by improved export revenue - in Chile, Peru and Uruguay, for example - and in others - mainly in Argentina - it reflected the availability of external credits to support stabilization programmes. Furthermore, it should be pointed out that in 1960 various countries had liberalized or continued to liberalize the import restrictions which had been imposed during the two previous years by means of exchange surcharges, prior deposits and schedules of prohibited imports. On the other hand, the establishment of a system of exchange controls in Venezuela with effect from November 1960 and the legislative provisions which in Cuba gave a State organism a monopoly over a part of imports show that in those countries import controls are liable to become more severe.

In the first six months of 1960, imports into sixteen countries for which figures are available expanded 18 per cent over the equivalent period in 1959 (see table III-3). Increases occurred in 14 of the 16 countries appearing in the table and although the increase was 15

/Table III-3

Table III-3

LATIN AMERICA: VALUE OF IMPORTS C.I.F. IN MILLIONS OF DOLLARS AND PERCENTAGE
VARIATION AS COMPARED WITH THE PREVIOUS PERIOD

Importer country	1958		1959		January- June a/ 1959	January- June a/ 1960	Vari- tion
	Value	Vari- tion	Value	Vari- tion	Value		
Brazil	1 353	-9.1	1 374	1.5	712	674	-5.3
Colombia	400	-17.2	415	3.7	202	244	20.8
Costa Rica	99	-3.9	103	4.0	50	51	2.0
El Salvador	108	-6.1	99	-8.3	49	55	12.2
Guatemala	150	2.0	134	-10.7	69	71	2.9
Haiti	43	10.2	30	-30.2	15	19	26.7
Nicaragua	78	-3.7	67	-14.1	32	34	6.2
Cuba	888	-0.7	736	-17.1	...	...	...
Dominican Republic	149	9.5	135	-9.4	73	53	-27.4
Ecuador	105	-1.9	108	2.8	49	55	12.2
Honduras	75	-5.1	71	-5.3	...	...	...
Panama	109	-6.8	116	6.4	52	63	21.1
Argentina	1 233	-5.9	993	-19.5	363	566	55.9
Uruguay	151	-40.8	160	6.0	69	100	44.9
Bolivia	80	-13.1	65	-18.8	...	...	...
Chile	415	-6.1	413	-0.5	178	265	48.9
Mexico	1 129	-2.3	1 007	-10.8	486	572	17.7
Paraguay	38	18.7	31	-18.4	14	18	28.6
Peru	335	-16.3	294	-12.8	143	179	25.2
Total	6 938	-7.2	6 351	-8.3	2 556	3 019	18.1
Venezuela	1 714	-14.0	1 667	-2.8	...	...	...
Grand total	8 652	-8.6	8 018	-7.4	...	...	...

Source: International Monetary Fund, International Financial Statistics.

a/ See footnote 20, page 68.

/per cent

per cent for a longer period and a smaller number of countries,^{20/} it seems to be beyond doubt that total imports in 1960 are bound to exceed the 1959 figures.

3. Total balance in the goods and services account

The contraction of imports in 1958-59, which was relatively sharper than that of exports, led to a substantial reduction in the balance-of-trade deficit for Latin America as a whole, excluding Venezuela,^{21/} although the deficit persisted in the case of a large number of these countries. In fact, from a glance at the table III-4 it is apparent that, although the deficit was lessened in some of them - Bolivia, Brazil, Cuba, Guatemala, Haiti, Honduras and Nicaragua -, the most important changes took place in Argentina, Chile and Peru, where the balance was negative in 1958 and

^{20/} The value of imports for the first nine months of 1959 and 1960 was as follows, in terms of values c.i.f. and millions of dollars:

	January - September		Variation
	1959	1960	Percentage
Argentina	692	850	22.8
Brazil	1,057	1,047	-1.0
Chile	285	382	34.0
Colombia	311	368	18.3
Costa Rica	75	79	5.3
Dominican Republic	107	76	-29.0
Mexico	739	882	19.3
Panama	82	93	13.4
Paraguay	23	28	21.7
Peru	218	278	27.5
Uruguay	116	182	56.9
Total for 11 countries	3,705	4,265	15.2

^{21/} Venezuela's trade balance is traditionally well on the credit side, but the surplus is offset by remittances made under the head of foreign investment returns in the services account.

Table III-4

LATIN AMERICA: TRADE BALANCE SITUATION

(Millions of dollars)

Country	1957	1958	1959	January- June 1959	January- June 1960
Brazil	-97	-110	-92	-135	-69
Colombia	28	61	55	16	-34
Costa Rica	-20	-7	-26	-2	1
El Salvador	23	8	14	36	28
Guatemala	-33	-43	-26	-4	1
Haiti	-5	-4	-2	-1	-2
Nicaragua	-17	-14	-2	20	5
Cuba	-49	-125	-98	...	...
Dominican Republic	25	-12	-5	5	24
Ecuador	26	28	32	14	13
Honduras	-14	-6	-1	...	...
Panama	-81	-76	-82	-34	-44
Argentina	-335	-234	16	127	-26
Uruguay	-127	-12	-62	-3	-19
Bolivia	-18	-30	-6	...	...
Chile	17	-26	85	64	-5
Mexico	-428	-394	-254	-89	-211
Paraguay	1	-4	0	1	-7
Peru	-68	-43	29	-11	6
Total	-1 172	-1 043	-425	4	-339
Venezuela	746	796	647	...	...
Grand total	-426	-247	222	...	...

Sources: Tables III-2 and III-3.

/positive in

positive in 1959.^{22/} But, in the early months of 1960, the situation altered again. Two of the countries which, in 1959, had recorded a positive trade balance (Argentina, Colombia), showed a deficit in 1960, while Mexico's negative balance became even larger.^{23/}

The goods and services account for Latin America as a whole in 1957 showed a negative balance of 1,827 million dollars. About a third of this (538 million) corresponded to Venezuela, but the new petroleum concessions granted in that year raised the Government's revenue from royalties and other charges, and increased the inflow of foreign capital. As a result, the large deficit in Venezuela's current account was not reflected in a decline in its international reserves which, on the contrary went up by 504 million dollars in 1957 (see tables III-5 and III-6). If Venezuela is excluded, the deficit in Latin America's goods and services account totalled 1,289 million dollars, chiefly because of the high negative balances registered in Argentina, Brazil, Chile, Mexico, Peru and Uruguay. Owing to an inflow of foreign capital, however, most of these countries were able to finance a sizable part of the total deficit, thereby ensuring that their overall international holdings - again exclusive of Venezuela's - shrank by only 364 million dollars, i.e. by roughly a third of the overall deficit.

^{22/} Mexico and Panama also have trade deficits, but their services accounts usually show a surplus.

^{23/} In order to supplement the figures in table III-4, the following information is given on the trade balance for the first nine months of 1959 and 1960 (in millions of dollars):

	<u>January - September</u>	
	<u>1959</u>	<u>1960</u>
Argentina	53	-24
Brazil	-77	-87
Chile	88	15
Colombia	48	-36
Costa Rica	-14	- 9
Dominican Republic	- 6	43
Mexico	-161	-311
Panama	-55	-68
Paraguay	1	- 9
Peru	0	25
Uruguay	-28	-76
Total	<u>-151</u>	<u>-537</u>

/Table III-5

Table III-5

LATIN AMERICA: TOTAL BALANCE ON CURRENT ACCOUNT (GOODS AND SERVICES)

(Millions of dollars)

Country	1957	1958	1959
Argentina	-301	-256	14
Bolivia	-34	-36	-14
Brazil	-285	-264	-340
Chile	-122	-108	-45
Colombia	71	44	57
Costa Rica	-20	-9	-26
Cuba	-67	-128	...
Dominican Republic	23	-11	-3
Ecuador	-6	-15	-1
El Salvador	2	1	0
Guatemala	-43	-49	-37
Haiti	-3	2	0
Honduras	-6	-9	-2
Mexico	-175	-203	-24
Nicaragua	-11	-14	4
Panama	-24	-16	-15
Paraguay	-9	-13	-2
Peru	-157	-119	-39
Uruguay	-122	-4	-44
Total	-1 289	-1 207	-517
Venezuela	-538	-81	1
Grand total	-1 827	-1 288	-516

Source: International Monetary Fund, Balance of Payments Yearbook, vols. 11-12

Table III-6

LATIN AMERICA: NET VARIATION IN INTERNATIONAL RESERVES

(Millions of dollars)

Country	1957	1958	1959	As on 30 September 1960
Brazil	-135	-11	-27	-12
Colombia	14	15	52	-49
Costa Rica	0	8	-7	1
El Salvador	1	-2	0	-4
Guatemala	4	-26	-8	6
Haiti	-5	-1	1	1
Nicaragua	4	-3	1	-1
Cuba	-38	-68	-116	29
Dominican Republic	9	-1	-7	7
Ecuador	7	-4	5	4
Honduras	-2	-8	4	2
Panama	-13	19	-8	...
Argentina	-96	-157	220	278
Uruguay	-19	-3	7	7
Bolivia	5	1	6	-5
Chile	-30	13	71	-32
México	-36	-81	41	-45
Paraguay	-1	1	-4	-4
Peru	-33	-3	21	6
Total	-364	-311	252	189
Venezuela	504	-396	-349	-126
Grand total	140	-707	-97	63

Sources: International Monetary Fund, International Financial Statistics.

/A big

A big change took place in 1958-59 both in the goods and services account and in international reserves. The deficit of 538 million dollars in Venezuela's current account in 1957 dropped to 81 million in 1958 and was virtually wiped out in 1959. But in both years, this country suffered a substantial loss in its international reserves (of 396 and 349 million dollars, respectively), apparently because of the flight of capital, for which part of the responsibility must be attributed to the financial difficulties besetting the country and part to the frequent rumours on a possible devaluation of the bolivar. For the other countries as a whole, the deficit on current account remained much the same - 1,289 million dollars in 1957 and 1,207 million on 1958 - as substantial negative balances persisted in Argentina, Brazil and Peru, and those of Cuba and Mexico became ever larger. Notwithstanding, the deficit in 1958 brought about a drop of only 311 million dollars in international holdings, of which Argentina accounted for 157 million. A large proportion of the current account deficit in 1958 was financed by compensatory foreign credit, since the inflow of capital for direct investment or in the form of long-term loans for specific development projects was less than in 1957.

As the trade deficit was considerably reduced in 1959 owing to the drastic curtailment of imports by a good many countries, this was instrumental in bringing down the total deficit on current account - excluding Venezuela - to 517 million dollars from 1,207 million in 1958. Brazil was practically the only country which still had a high negative balance in its current account. As it continued to finance the deficit from external compensatory credit the drop in its international holdings was fairly small (barely 27 million dollars). Because of this circumstance and the large foreign credits obtained by Argentina in support of its stabilization programme, the total deficit on current account for all the countries, except Venezuela, had no adverse impact on the international reserves in 1959, which, on the contrary, showed an improvement of 252 million dollars. Cuba and Venezuela were the only two countries to lose a large part of their international holdings in that year, mainly - in Venezuela at least - because of the flight of capital.

/During the

During the first few months of 1960, a large increment was recorded in the trade balance deficit, which was undoubtedly reflected in an increase in the current account deficit. Nevertheless, the position of the region's aggregate international holdings had not deteriorated to any marked extent by the end of September, although fairly sizable reductions had been noted in the case of Colombia, Chile and Mexico. Moreover, although Venezuela's international holdings continued to dwindle in 1960, they did so on a much smaller scale than in the two previous years. It should be pointed out, however, that, in 1959 as in 1960, the increment in Argentina's international holdings, which had a decisive effect on the regional total, was attributable to the large external credits obtained by that country.

III. THE BALANCE OF PAYMENTS

1. Capital movements

It has been stated elsewhere in this chapter^{24/} that 1957 was the year in which Latin America's total imports reached their peak in value. Some of these additional imports were financed from export earnings which also climbed to a record level in that year. However, since the deficit in current transactions - goods and services - in the balance of payments was exceptionally high (see table III-7), a major share of the rise in imports were paid for by foreign capital, either in the form of direct investment or of official and private credits. The above-mentioned table gives an outline of the total movement of capital, in which the position of Venezuela is shown separately in view of the importance attaching to foreign investment in that country's petroleum industry. Most of the high net inflow of foreign private capital into Latin America in 1957 went to Venezuela as a result of the new petroleum concessions which it had granted to foreign capital in that year. The suspension of investment in the Venezuelan petroleum industry in the next two years meant that the net inflow of foreign capital into that country came almost to a total standstill. This, together with the reduction in the net private capital entering Brazil, Mexico and Peru (see also table III-8),

^{24/} See sub-section 2.

Table III-7

LATIN AMERICA: BALANCE OF PAYMENTS, 1957-59

(Millions of dollars)

	1957	1958	1959
A. Current transactions			
(1) Net balance of goods and services			
Venezuela	-538	-81	1
Other countries	-1 289	-1 207	-517
Total	-1 827	-1 288	-516
(2) Unilateral transfers			
Venezuela	-29	-31	-30
Other countries	59	70	65
Total	30	39	35
Total net balance (1 + 2)			
Venezuela	-567	-112	-29
Other countries	-1 230	-1 137	-452
Total	-1 797	-1 249	-481
B. Movements of capital			
(3) Private capital			
Venezuela	1 005	27	136
Other countries	708	470	516
Total	1 713	497	652
(4) Net change in international reserves (increase -)			
Venezuela	-504	396	349
Other countries	364	311	-252
Total	-140	707	97
(5) Other official and bank capital			
Venezuela	0	-7	117
Other countries	304	655	250
Total	304	648	367
(6) Errors and omissions a/			
Venezuela	66	-304	-573
Other countries	-146	-299	-62
Total	-80	-603	-635
Total capital and gold bullion (3 + 4 + 5 + 6)			
Venezuela	567	112	29
Other countries	1 230	1 137	452
Total	1 797	1 249	481

Source: International Monetary Fund, Balance of Payments Yearbook

a/ The minus sign for the item Errors and omissions indicates a net underestimate of debits or a net overestimate of the credits recorded, whereas a plus sign indicates a net underestimate of credits or an overestimate of debits.

Table III-8

LATIN AMERICA: NET MOVEMENTS OF FOREIGN PRIVATE CAPITAL

(Millions of dollars)

	1957	1958	1959
Argentina	61	-12	55
Bolivia	10	15	19
Brazil	352	231	212
Chile	49	42	59
Colombia	-79	-13	20
Costa Rica	3	0	7
Cuba	49	-13	...
Dominican Republic	11	33	-9
Ecuador	3	4	3
El Salvador	-4	1	-6
Guatemala	17	18	24
Haiti	-13	-4	-8
Honduras	1	-6	-4
Mexico	143	86	117
Nicaragua	9	3	3
Panama	9	11	12
Paraguay	0	6	-2
Peru	64	57	24
Uruguay	23	11	-10
Total	708	470	516
Venezuela	1 005	27	136
Total	1 713	497	652

Source: International Monetary Fund, Balance of Payments Yearbook,

/led to

led to a sharp cut in Latin America's total net receipts. Moreover, although the movements of capital largely consisted of private direct investment, they also included - especially in certain countries such as Brazil - trade credit from foreign suppliers.

In 1958, the deficit on current account was still fairly high and, if Venezuela is left aside, was roughly equivalent to the 1957 deficit. Following the decline in net private capital receipts, the financing of the 1958 deficit had to be left mainly to official and bank capital. Part of the movement of these two types of capital consisted of external credits to defray the cost of specific development projects (e.g. those of the International Bank, the Export-Import Bank, etc.), and another part was constituted by compensatory credits, such as those from the International Monetary Fund, the United States Treasury, and certain foreign banks. As the movement of these compensatory credits will be reviewed later,^{25/} the only credits considered in the present section are those granted by external sources for development purposes.

(a) International Bank

The new credits authorized for Latin America in 1960 far exceeded the amount approved in 1959. In 1960, as in the two preceding years, the bulk of the new credits was allotted firstly, for financing electric energy projects and, secondly, for railway and road construction and improvements (see table III-9). The new credits for electric energy development were granted to Colombia, El Salvador, Honduras, Nicaragua and Peru while those for communications went to Colombia, Mexico, Panama and Peru.

Although the net inflow of fresh capital for basic development projects has been declining recently owing to the increase in the yearly amortization of credits granted in the past, the fact that the new credits authorized in 1960 will be larger may be expected to modify that tendency.

(b) Export-Import Bank

The operations of the Eximbank in Latin America also increased in number and value in 1960, partly as a result of the expansion in the United

^{25/} See section III.

States export programme and of some innovations in financing methods which enabled the Bank to accept a larger share of the risk when guaranteeing credits. But, although the total amount of new credit authorized in 1960 was considerably more than in 1959 (see table III-10), the net inflow of capital from the Eximbank was cut to the minimum. This was due, on the one hand, to the fact that most of the new credits were authorized in the last few months of the year, disbursements thus falling considerably below the total granted and, on the other, to the high level currently reached by yearly amortizations of credits given in previous years.

(c) Development Loan Fund

The activities of this United States Government agency continued to expand in Latin America during 1960 not only as regards the amount of new credits authorized but also with respect to the purposes for which such credits were granted. In accordance with a new line in United States foreign policy, the Development Loan Fund included in its operations the granting of credits for projects of a social nature such as the construction of housing. Colombia, Peru and Venezuela received credits for this purpose in 1960, even though the majority of operations continued to be linked to basic development projects (electric power, roads, etc.). Some of the new credits approved in 1960 were granted in the currencies of the respective recipient countries (Guatemala, Honduras, Panama and Peru) and were intended to cover the costs in local currency of projects financed - in foreign currency - by the International Bank and the Export-Import Bank.

(d) International Finance Corporation

Investment in Latin America by the International Finance Corporation, which was on a very small scale during the Corporation's first two years of operation, increased considerably in 1959, when it rose to approximately 14 million dollars, and continued in 1960 at a level comparable to that of 1959. Clearly, the investments made by the Corporation are small when compared with the credits which Latin American countries have secured from bodies with greater financial capacity, such as the Export Import Bank and the International Bank; but this can be explained by the very

Table III-9

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT:
OPERATIONS IN LATIN AMERICA

(Millions of dollars)

	1957	1958	1959	1960
Net credits authorized	<u>46.9</u>	<u>174.3</u>	<u>80.7</u>	<u>156.8</u>
Disbursements	81.9	72.0	68.6	34.3 ^{a/}
Amortizations	21.2	32.3	35.5	18.9 ^{a/}
Net receipts	60.7	39.7	33.1	15.4 ^{a/}
Destination of new credits				
Electric energy	5.0	134.2	65.2	91.7
Roads and railways	15.1	20.5	5.0	43.1
Miscellaneous	<u>26.8</u>	<u>19.6</u>	<u>10.5</u>	<u>22.0</u>
Total	46.9	174.3	80.7	156.8

Sources: International Monetary Fund, International Financial Statistics, and International Financial News Survey.

^{a/} January-June.

Table III-10

EXPORT-IMPORT BANK: OPERATIONS IN LATIN AMERICA

(Millions of dollars)

	1957	1958	1959	1960
New credits authorized	250.0	477.4	239.3	384.2
Disbursements	234.5	485.2	345.7	163.8
Amortizations	120.6	133.3	153.3	159.7
Net receipts	113.9	351.9	192.4	4.1

Source: Export-Import Bank, Press Release, 16 January 1961.

/nature of

nature of the Corporation. Furthermore, it should be pointed out that the investments made by the Corporation involve simultaneous investment of private capital, national or foreign, and accordingly the part the Corporation plays in promoting new industrial enterprises and in the expansion of existing ones is greater than might be imagined from the amount of investment it provides. The projects carried through in 1960 included two plants - one in Argentina and the other in Venezuela - for the manufacture of steel products, a pulp plant for the manufacture of paper in Argentina and a plant for the manufacture of metal containers in Colombia.

(e) Other international credit agencies

At the end of September 1960, the International Development Association was legally constituted as an affiliate of the International Bank. The founding charter of the new Association authorizes the granting of credits on more liberal terms than are at present allowable by the International Bank. At the end of 1960, 37 countries members of the International Bank had completed the necessary formalities to become members of the Association and these included three Latin American countries: Chile, Honduras and Nicaragua. Other Latin American countries were going ahead with legal procedures to become members of the Association.

During 1960, final arrangements also went forward so that the Inter-American Development Bank could start operations. The Bank's creation was approved by the majority of Latin American countries and the United States at the end of 1959.^{26/}

2. Balance of payments

The worsening of conditions in the export sector in 1958, mainly a result of the fall in external prices, brought about a substantial decline in Latin America's foreign currency income, and although most countries simultaneously reduced the value of their imports, the trade deficit and the overall deficit in current transactions continued at a level as high as in 1957, with the added adverse circumstance of a decline in the inflow of foreign capital in 1958. As a result, some countries - Argentina, Cuba,

^{26/} The authorities of the Inter-American Development Bank announced the granting of the first loans in February 1961.

Guatemala, Honduras, Mexico and Venezuela - experienced a sharp decrease in their international holdings, while others - mainly Brazil - had to draw on external stabilization credits. The balance-of-payments deficit for the area as a whole amounted to 1,152 million dollars, a third of which was accounted for by Venezuela (see table III-11).

The balance-of-payments position showed a marked improvement in 1959, not as a result of any real change in the depressed state of the export sector but rather because a number of countries continued to reduce the value of their imports. The total deficit on current transactions was cut in 1959 to slightly less than half the 1958 figure. Only two countries - Cuba and Venezuela - suffered a further substantial decline in their international reserves in 1959 although, by way of contrast, compensatory external credit continued to run at a high level in Argentina, Brazil and Colombia. For Latin America as a whole, the balance-of-payments deficit was reduced in 1959 to 480 million dollars, although, as may be seen from table III-11, the position of some countries underwent important changes. In Argentina and Mexico, the balance of payments was favourable, partly as a result of cuts in imports and also of a slight improvement in export income. Chile had a relatively large surplus as a result of a considerable rise in the value of its exports, while its imports remained at the same level as in 1958. Lastly, the surpluses registered by Bolivia and Peru were a reflection both of the greater value of exports and, of the lower value of imports. It should also be noted that, in the aforementioned countries but with the exception of Peru, net foreign capital contributions were higher in 1959 than in 1958. By contrast, the balance-of-payments deficit continued to be sizable in Brazil, Cuba and Uruguay and particularly in Brazil.

In the first nine months of 1960, there were further substantial changes in the situation. Total imports expanded to a much greater extent than exports and, as a result, the trade deficit was higher than in 1959. In addition, although complete information regarding the inflow of foreign capital is not available, the figures of the balance of payments of the United States with Latin America show that the net flow of public and private capital in 1960 was smaller than in 1959. The greatest pressure on the

Table III-11
LATIN AMERICA: BALANCE-OF-PAYMENTS SITUATION AND COMPENSATORY FINANCING

(Millions of dollars)

Country	Balance-of-payments situation			Gold and foreign exchange reserves			Compensatory financing				
	1958	1959	1960 ^{a/}	1958	1959	1960 ^{a/}	International Monetary Fund credits		Other compensatory credits		
							1958	1959	1958	1959	
Argentina	-244	25	37	-157	220	278	0	-40	-87	-155	-195
Bolivia	-1	7	-5	1	6	-5	-2	1	0	0	...
Brazil	-253	-154	-199	-11	-27	-12	-38	20	-204	-147	-172
Chile	-11	73	-26	13	71	-32	-11	6	-13	-4	...
Colombia	-62	8	-30	15	52	-49	-5	21	-72	-65	...
Costa Rica	8	-7	1	8	-7	1	0	0	0	0	...
Cuba	-68	-116	29	-68	-116	29	0	0	0	0	...
Dominican Republic	-1	-6	-2	-1	-7	7	0	1	0	0	...
Ecuador	1	6	4	-4	5	4	5	1	0	0	...
El Salvador	-2	-10	1	-2	0	-4	0	-4	0	-6	...
Guatemala	-26	-8	6	-26	-8	6	0	0	0	0	...
Haiti	-6	0	0	-1	1	1	-2	-1	-3	0	...
Honduras	-4	0	3	-8	4	2	4	-4	0	0	...
Mexico	-81	64	-45	-81	41	-45	0	23	0	0	...
Nicaragua	-4	4	-1	-3	1	-1	2	3	-3	0	...
Panama	19	-8	...	19	-8	...	0	0	0	0	...
Paraguay	0	-2	-4	1	-4	-4	-1	2	0	0	...
Peru	-13	16	7	-3	21	6	-10	11	0	-16	...
Uruguay	-8	-23	7	-3	7	7	0	0	-5	-30	...
Total	-756	-131	-217	-311	252	189	-58	40	-39	-423	-367
Venezuela	-396	-349	-126	-396	-349	-126	0	0	0	0	...
Grand total	-1 152	-480	-343	-707	-97	63	-58	40	-39	-423	-367

Sources: Prepared from basic data in the Balance of Payments Yearbook, op. cit., and International Monetary Fund, International Financial Statistics.

^{a/} Provisional figures for the first nine months of the year.

Latin American balance-of-payments came from the decrease in the international reserves of certain countries - Chile, Colombia, El Salvador, Mexico and Paraguay -, although for the area as a whole international holdings improved because of an increase in Argentina. The rise in Argentina's international reserves, however, resulted to a large extent from the large amount of external stabilization credit that it obtained. But the most important change in 1960 was perhaps the stabilization credits granted by the International Monetary Fund. In 1959, a fair number of countries paid off their debts to the Fund in part or in whole, so that as a result Latin America as a whole transferred 40 million dollars to the Fund; in 1960, on the contrary, the stabilization credits granted by the Fund amounted to a net sum of 39 million dollars. Furthermore, the use of external compensatory credit from sources other than the International Monetary Fund reached high figures in Argentina, while in Brazil it exceeded the figures for the preceding year. By and large, the balance-of-payments deficit of Latin America - excluding Venezuela - was higher in the first nine months of 1960 than in 1959 owing to a larger deficit in Brazil and to deficits in Chile, Colombia and Mexico, countries which had shown a surplus in 1959. If Venezuela is included, the total balance-of-payments deficit in 1960 was less than in 1959 as a result of Venezuela having lost less foreign currency in the former year.

IV. TRADE IN SELECTED COUNTRIES

1. Argentina

During the last five years Argentina's exports have registered small annual increments within a trend towards recovery which by 1959 had not yet climbed above the levels reached in 1953-54, although these were not the highest attained in the decade just ended. In the first 9 months of 1960, however, the upswing gained momentum, the value of exports increasing by 11 per cent in relation to the corresponding period in 1959. In both relative and absolute terms, this represents the greatest annual improvement in Argentine exports since the decline recorded in 1955.

Broadly speaking, the recovery in the value of exports reflects an expansion in their quantum, which in fact rose by 30 per cent between 1955 and 1959; but the deterioration in the external prices of most export commodities offset a considerable proportion of this increment, so that total values increased by only 8 per cent between the same years. The larger volume of exports also accounted for their higher value in 1960, this time in conditions of relative stability as regards the external prices of some commodities - mainly cereals -, while those of others, such as meat and milk, improved slightly.

At the beginning of 1959 the Government adopted a substantive exchange reform which replaced by a régime based on a fluctuating free rate the complex system of multiple rates (partly controlled and partly free) in force up to that time. Nevertheless, the devaluation of the external exchange rate which resulted from this reform exerted no very significant influence on exports in 1959, partly because it normally takes some time for action of this kind to affect producers' plans, and partly because a proportion of the additional income accruing to exporters in consequence of the devaluation was absorbed by the Government through the duties (retention percentages) applied to most export commodities. This helps to explain why the increase in total exports in 1959 was so small, amounting to barely 1.5 per cent over the 1958 figure - a lower increment than in the two preceding years.

The gradual abolition of the duties referred to and the higher support prices established for most agricultural commodities permitted a substantial

/expansion of

expansion of exports in 1960. Other contributory factors were the reduction of the sales tax on certain products - including meat and Quebracho extract - and the change of policy which authorized the export of such volumes of linseed as exceeded local industry's oil-producing capacity. Exports of linseed had formerly been prohibited.

Imports reacted sharply to the exchange reform, not only because the devaluation itself implied a rise in their cost, but also owing to the measures by which it was accompanied, i.e., surcharges representing varying percentages of the exchange rate, and prior deposits of up to 300 per cent of the value of the goods concerned. Although in the course of the same year several different changes were introduced which modified this system's powerfully restrictive effect on imports,^{27/} the value of these latter was almost 20 per cent less than in 1958, practically all groups of commodities being affected, but particularly machinery, vehicles and iron and iron manufactures.

After two years of successive import contractions, in the first 9 months of 1960 purchases abroad showed marked symptoms of recovery, exceeding those registered in the corresponding period of 1959 by 23 per cent. It was the increase in export earnings and the successful negotiations of several external credits that made such a recovery possible. No less important was the inflow of foreign capital for the motor vehicle industry, as a result of the official incentives provided in respect of this activity. Part of the expansion of imports observable in 1960 is in fact represented by the high value of those of machinery and vehicles, which rose from a total of 260 million dollars in the whole of 1959 to 375 million in the first 9 months of 1960, during which period they accounted for 44 per cent of total imports.

Changes of indubitable significance also took place in imports of fuel and lubricants. From the high value of 317 million dollars - that is, 24 per cent of total imports - which they had attained in 1957, they declined to 251 and 211 million dollars in the two subsequent years - 20 per cent of total imports in 1958 and 1959 -, and in the first 9 months of 1960 stood at

^{27/} By the end of 1959 prior deposits were no longer required.

124 million dollars, or only 14 per cent of the imports effected in that period. This decrease in value partly reflected the fall in world market prices and freight charges for crude petroleum in 1958 and 1959, but was attributable in greater measure to the vigorous expansion of domestic production, which in 1959 increased by 25 per cent in relation to the preceding year, and in the first 8 months of 1960 kept up the same rapid rate of growth.^{28/} The predictions which suggest that by 1961 Argentina will be able to reduce its imports of crude to a minimum, or do without them altogether, thus look like being fulfilled.

In the first 9 months of 1959 Argentina's trade balance registered a surplus of 53 million dollars, thanks to the contraction of imports. Conversely, the increase in the value of sales abroad during the first 9 months of 1960 was responsible for a deficit of 24 million dollars, which did not, however, affect the level of the country's international reserves - the highest since 1956 -, owing to the substantial foreign credits obtained in the course of 1960. But with these new loans the servicing of the country's external debt will absorb a substantial proportion of foreign exchange resources in the next few years. Outlays under the head of the external debt (taking this to include credits utilized up to the end of 1958) are estimated for 1960 at 269 million dollars, a figure which represents approximately 25 per cent of total export income.^{29/}

2. Brazil

The decline which took place in 1959 in external prices for Brazil's staple export commodities (coffee, cacao, sugar, cotton, and iron and manganese ores) had no unfavourable repercussions on total foreign exchange

^{28/} In this connexion an illustrative example is afforded by the number of wells drilled in the first half of 1960, - 524 as against 573 throughout the whole of 1959, according to data given in the Oil and Gas Journal, Tulsa, United States, 10 October 1960.

^{29/} According to Central Bank estimates reproduced in Business Conditions in Argentina, September 1959.

income in that year, thanks to an increase in the volume exported in the case of some of these products (coffee, cotton and ores). In fact, price reductions notwithstanding the total value of exports was 3 per cent higher in 1959 than in 1958. Nevertheless, the weakening of external prices necessitated the adoption of compensatory measures in the internal market, the chief of which consisted in the raising of the cruzeiro bonuses granted to some products and the authorization to sell on the free market the foreign exchange earnings accruing from other exports. The outcome of the successive modifications of the exchange régime introduced in the course of 1959 was that by the end of the year the foreign exchange deriving from most of Brazil's export commodities could be sold on the free market (at rates a good deal higher than the official market rate plus the bonus), while at the same time there had been an increase - also significant - in the bonus accorded to exports of coffee, cacao, castor-oil seed and crude petroleum.^{30/}

The devaluation of the cruzeiro continued in 1960, when, as from July of that year, the bonuses granted to the above-mentioned four commodities were again raised, so that the effective exchange rate reached 90 cruzeiros to the dollar for coffee and 100 for exports of cacao, castor-oil seed and crude.^{31/} Other export products remained subject to the free-market régime described.

In the first nine months of 1960, the total value of Brazilian exports was 2 per cent lower than in the corresponding part of 1959. During the period in question, coffee exports were approximately equivalent in volume

^{30/} The régime in force for products enjoying the free market exchange rate is as follows: exporters receive 130 cruzeiros to the dollar plus the difference between this and the free market rate in Banco do Brasil I.O.U.'s for 6 months at an annual rate of interest of 6 per cent. The free market rate fluctuates between 180 and 190 cruzeiros to the dollar. Furthermore, the increase in the coffee bonus raised the real rate of exchange for this product from 37.06 cruzeiros to the dollar at the end of 1958 to 76 cruzeiros at the close of 1959.

^{31/} In order to prevent the rise in cruzeiro earnings per dollar from leading to a deterioration in external coffee prices, simultaneously with the increase in the bonus the register price per bag of coffee exported was also raised. The measure adopted in Brazil was similar to one applied in Colombia when the coffee export exchange rate was modified.

to those effected in the same months of the preceding year, but in the last quarter of 1960 they underwent a moderate decline, so that the total for the year fell 3.5 per cent below the 1959 figure. The volume of exports of sugar, cotton, cacao and ores was larger than the year before, whereas those of pinewood and crude petroleum contracted.^{32/} The decrease in the value of exports in the first 9 months of 1960 resulted partly from the lower level of coffee prices (in relation to the first 9 months of 1959), and partly from the reduction of prices for cacao and ores.

As regards imports, the bidding system by which most of them are governed altered little in the two years under discussion, but what did take place was a rise in the average rate for the foreign exchange auctioned, from 119 cruzeiros to the dollar in 1958 to 208 cruzeiros to the dollar in 1959. In this latter year the higher cruzeiro cost of imports was not reflected in a contraction of purchases abroad, partly because they had already declined sharply in 1958. During the first 9 months of 1960 the rate for auctioned foreign exchange continued to climb, although rather more slowly than in the previous year. At all events, the value of imports in that period was 1 per cent less than in the corresponding months of 1959. The decrease in export earnings in the second half of 1960 and the fall in international reserves (in relation to 1959) suggest that this trend towards a contraction in imports was probably maintained throughout the rest of 1960 and that the total for the year in question will prove to have been lower than that registered in 1959.

The changes observable in the composition of imports in the last two years are relatively slight, only those relating to the fuels and lubricants group being of any significance. Domestic production of crude petroleum continued to expand^{33/} and so did refining capacity. And if this increment in domestic output was not reflected in a higher degree of self-sufficiency

^{32/} The falling-off in petroleum exports was due to the utilization of a larger proportion of domestic production in Brazil's own refineries. Early in 1960 a new refinery with a daily capacity of 38,000 barrels entered operation, thus augmenting Brazil's total refining capacity.

^{33/} In the first half of 1960 it amounted to 13.6 million barrels as against 10.4 million in the first six months of 1959.

because consumption also substantially increased, at least foreign exchange expenditure on such imports diminished, with the reduction of the share of refined products in total imports.^{34/}

As in the three previous years, Brazil's trade balance for the first 9 months of 1960 registered a deficit of 87 million dollars, which exceeded the negative balance for the same period in 1959 (77 million dollars). However, the decline in international reserves was slight in 1960, partly because relatively large external credits were obtained. But, on the other hand, the magnitude of the compensatory foreign credits utilized by Brazil in recent years has considerably raised the cost of servicing the external debt. According to an official estimate,^{35/} in 1960 and 1961 the servicing in question will represent external payments amounting to over 300 million dollars (in each of the two years), or almost 25 per cent of total export earnings in 1958-59.

3. Colombia

Production for export reached high levels in 1959, and although external market conditions were not very favourable, the volume of Colombia's total exports substantially increased. With 18-per-cent and 16-per-cent increments - in relation to 1958 - in the volumes of coffee and crude petroleum exports respectively, external sales of these commodities soared to record figures. But despite the fact that coffee and petroleum account for over 90 per cent of Colombia's total exports, the larger volume of these two products exported was reflected in a rise of only 2 per cent in the value of the country's aggregate exports in 1959. The decline in world market prices (14 per cent in the case of coffee and 8 per cent in that of petroleum) in great measure absorbed the additional income that might have accrued from the peak volumes exported.

^{34/} Domestic refineries satisfied 37.2 per cent of consumption of petroleum products in 1955 and 63.5 per cent in 1959 (see Desenvolvimento e Conjuntura, Rio de Janeiro, April 1960).

^{35/} See Department of Currency and Credit (Superintendencia da Moeda e do Credito), Boletim, N° 10, October 1959.

In 1960, notwithstanding the relative stability of external coffee prices, the total value of exports in the first 9 months of the year was 7 per cent lower than in the corresponding period of 1959. This decrease was mainly due to a 15-per-cent contraction in the volume of coffee exports.^{36/} It should be pointed out, however, that this shrinkage had nothing to do with the quota system to which coffee exports are subject in countries members of the relevant International Agreement, but more probably reflected a certain weakening of external demand, on the one hand, and, on the other, temporary mobilization difficulties at the ports of embarkment.^{37/} In contrast to the falling-off in coffee exports, those of crude petroleum continued to expand, and their value was 20 per cent higher in the first 7 months of 1960 than in January-July 1959, despite the deterioration in external prices for crude.

Colombia's secondary exports - bananas, tobacco, wood, etc. - showed only negligible changes, whereas certain new export lines, of which the most important were shrimps, cement and cotton, showed signs of steady growth. Particular significance attached to cotton exports, since up to a very short time ago a major share of domestic consumer requirements was met with imported cotton.

Total imports increased by 4 per cent in 1959 in relation to 1958, and by 18 per cent in the first 9 months of 1960 in relation to the same period in 1959. The increment registered in 1959 was relatively tiny in view of the fact that in 1958 imports had dropped to their lowest level in the previous 6 years, but it was obtained in circumstances which obliged Colombia to earmark a part of its foreign exchange resources for the amortization of trade debts in arrears, and in a year when customs tariffs were raised, as

^{36/} During the last months of the year a slight recovery was observable, so that the total volume of coffee exports was 8 per cent smaller than in 1959.

^{37/} A report published by Foreign Commerce Weekly, 21 November 1960, states that in October 1959-September 1960 (the quota year under the International Agreement) coffee exports amounted to 297,829 bags less than Colombia's total authorized quota for that period. Another source of information, however, estimates the quantity required to complete the quota at 7 per cent of the total, or 438,000 bags (see El Tiempo, Bogotá, 1 December 1960).

well as the percentages of prior deposits on imports. Thus, the expansion witnessed in the first 9 months of 1960 reflected, up to a point, the process of recovery which had begun in 1959. Furthermore, the reconstitution of international reserves - which by the end of 1959 stood higher than at any time since 1955 - favoured a more liberal import policy, which found expression in a considerable reduction of the various prior deposit percentages as from May 1960.

Nevertheless, this expansion of imports in 1960 placed Colombia in a difficult position owing to the decline in exports and the unpromising outlook on the coffee market. Indeed, the traditional trade-balance surplus disappeared in 1960, and a deficit of 41 million dollars was shown in the first 9 months of 1960, as against a positive balance of 48 million dollars in the same period of 1959. Consequently, by the end of September 1960 international reserves had fallen considerably below their 1959 levels.

4. Cuba

The 1959 depression on the world sugar market had severe repercussions on the Cuban economy through the fall in external prices, the contraction in the volume of exports and the considerable increase in inventories accumulated by the end of the year. The first two factors were reflected in a 16-per-cent drop in the total value of exports in 1959 in relation to the 1958 figure, while the volume of inventories expanded from 547,000 tons at the end of 1958 to 1.2 million tons at the close of 1959. The decline in the value of sugar exports corresponded in the main - as regards both prices and volume of sales - to free market consignments,^{38/} while it was less intensive, particularly in respect of prices, in the case of shipments to the United States preferential market. It must also be noted that among secondary exports those of coffee and ores decreased; but the proportion of the total represented by these is insignificant.

^{38/} For Cuba and other Latin American exporters the free market for sugar comprises all countries except the United States.

The restrictions on sugar exports adopted by the States members of the International Sugar Agreement did not suffice to prevent free market prices from falling in the second half of 1959 to levels far below the minimum contemplated in the Agreement. This was chiefly due to the weakening of world market demand as a result of the higher degree of self-sufficiency achieved in that year by the leading European importers. The trade agreement between Cuba and the USSR, whereby the latter engaged to buy 1 million tons of Cuban sugar yearly during the period 1960-64, therefore constituted a factor in the revival of demand which, although it did not immediately affect price levels (among other reasons, because the stock available in Cuba and other exporter countries guaranteed an adequate volume of supplies), at least considerably broadened the market for Cuba's exports, which even in the early months of 1960 had already begun to rise above the 1959 figures. But the favourable prospects opened up for the Cuban economy by this recovery in its export trade and the relative stabilization of external prices were partly offset by the progressive deterioration of diplomatic relations with the United States, which culminated in the partial annulment of Cuba's sugar quota in the United States market.^{39/} This development had no very serious effects on the volume of exports in 1960, in the first instance because when it took place about three quarters of the total quota had already been shipped, and secondly because Cuba was able to find a sale in other countries for the quantity of sugar that the United States decided not to buy. Indeed, by the beginning of November 1960 its sugar exports totalled 4.9 million tons, as against 4.05 million in the corresponding period in 1959, thus increasing by 22 per cent. But free market sugar prices are lower as a rule than those quoted on the United States preferential market; and in this sense the partial cancellation of the quota signified a loss for Cuba.^{40/}

The contraction in exports, the reduction of income from the tourist industry, and partly, too, the flight of capital, gave rise to heavy pressure on Cuba's international reserves, which necessitated the application of import restrictions and the adoption of an exchange control régime. As from

^{39/} See above, section I,3, of the present chapter.

^{40/} The amount of the loss cannot be estimated, however, owing to the complete absence of data on the value of exports in 1960 and on the effective prices obtained for the sugar sold to the USSR and other countries.

the end of September 1959, imported goods were classified in 5 categories on which ad valorem surcharges were established, ranging from 30 to 100 per cent. Although it was already late in 1959 when these surcharges came into force, and their incidence on that year's imports was therefore only partial, the value of purchases abroad was 17 per cent lower than in 1958.

The data available on trade in 1960 are too scanty for the effect of the surcharge system on imports to be determined. Moreover, although this system has apparently undergone no change, other measures adopted by the Cuban Government are directed towards States control of foreign trade. In April 1960 the Banco de Comercio Exterior was created, the functions of which include the promotion and financing of exports, direct importing and exporting and the administration of accounts deriving from bilateral agreements. Halfway through the following July this Bank was authorized to act as sole importer of a schedule of goods comprising certain foodstuffs, sewing-machines and office mechanical equipment, gramophones, records, wireless and television sets, refrigerators, raw materials for the pharmaceutical industry, raw cotton and other products.^{41/}

The decision adopted by the Government of the United States, at the end of October 1960, to ban all exports to Cuba except food and medicines was another of the events of great significance for the Cuban economy in that year. In the months preceding this ban, trade with the United States had already substantially decreased, in consequence of the partial cancellation of the sugar quota. The effect of the prohibition of exports to Cuba is therefore to reduce trade in both directions to virtually negligible figures. Thus, the changes in the geographical distribution of Cuba's foreign trade will be considerable, since the United States supplied about three quarters of its imports and absorbed some two thirds of its exports.

Cuba's international reserves declined appreciably in the course of 1959 (from 373 million dollars at the end of 1958 to 257 million at the close of 1959), largely on account of the heavy trade-balance deficit

^{41/} In the same decree that granted the monopoly of these imports to the Banco de Comercio Exterior, provision was made for private firms to continue effecting them until such time as the Bank should be in a position to take up the monopoly.

registered in that year. During 1960 the position improved slightly (the reserves in question had reached 286 million dollars by the end of September), but the trade balance situation cannot be established for want of data on trade values in this latter year.

5. Chile

The recovery of world market copper prices (after the drop registered in 1957-58) enabled the total value of exports in 1959 to show a 28-per-cent increase over the 1958 figure. But the recovery referred to was not the only determinant; another was the substantial volume of production achieved in 1959 by the copper and iron mining industries, exports of whose products reached the peak level attained in recent years. On the other hand, exports of nitrate and iodine remained at a relative standstill, and production and exports of coal declined.

The upward trend in copper prices lasted until the first quarter of 1960, and although in later months a downward movement was noted, the average for the year was higher than in 1959. Since at the same time the volume of copper and iron exports exceeded the 1959 figures, the total value of exports in the first 9 months of 1960 again registered an increase - of 6 per cent - in relation to the corresponding period in the preceding year. However, there is no evidence that this improvement was maintained in the last few months of 1960, copper prices having weakened as compared with those quoted in the first half of the year, and output having been affected by strikes.

In comparison with the sharp decline in exports in 1958, the falling-off in imports was relatively moderate, amounting to barely 6 per cent in relation to the preceding year. The size of the trade-balance deficit in 1958 partly explains why import restrictions had to be tightened in 1959, with the result that the total was less for the latter than for the former year. But no doubt the reason is also largely to be found in the fact that the abolition of the permits system and the institution of the free exchange rate régime rendered it necessary to forestall excessive pressures of demand on foreign exchange supplies. At all events, the free market exchange rate remained stable during 1959, and Chile's international reserves rose from 69 to 149 million dollars between the end of March and the end of September of that year.

/The severely

The severely restrictive import policy pursued during the greater part of 1959 showed signs of relaxing in the last quarter of that year and still more in early months of 1960. The result of this gradual liberalization was the substantial increment in total imports registered in the first 9 months of 1960, when they exceeded by 34 per cent those recorded in the corresponding part of 1959. Of course, so great an increase, far outstripping that of exports, radically altered Chile's trade-balance position; the surplus of 88 million dollars achieved in the first 9 months of 1959 dropped to 15 million in January-September 1960. Even so, the complete stabilization of the exchange rate was successfully maintained, although at the cost of a gradual decline in the country's international reserves. As against 149 million dollars in September 1959, these reserves stood at 98 million dollars in September 1960.

6. Ecuador

.. Ecuador's exports developed almost without interruption during the past decade. This was largely the result of the expansion of banana exports, which increased from 170,000 tons in 1950 to 891,000 tons in 1959, while their share in the total value of exports rose from 16 per cent in 1950-51 to a little over 60 per cent in 1958-59. Bananas are a commodity in respect of which price fluctuations have not been so wide and so frequent as those characterizing the market for coffee and for cacao, Ecuador's other staple export products. Thus the expansion of banana sales enabled the country to mitigate in some instances, and offset in others, the effects of a decline in income from the rest of its export commodities caused either by the instability of the external market (as was true of coffee and cacao) or by the stagnation or reduction of output (as was the case with rice, tagua and balsa wood).

The preponderance of banana exports became still more marked in 1959-60, not only because of the continued increase in the volume exported, but also owing to the fall in world market coffee and cacao prices. Furthermore, coffee exports, besides suffering the impact of the price decline, were in addition affected by a substantial falling-off in production in the aggregate, even so, the value of total exports was 5 per cent higher in 1959 than the preceding year.

The relative stability of coffee prices in 1960 and the recovery in the volume of coffee exported, combined with further increments in the volume of banana exports, strengthened the upward trend of total exports in the first half of 1960, when they exceeded those registered in the same months of 1959 by 8 per cent.

Total imports, too, had shown successive increments between 1950 and 1954, but in subsequent years they fluctuated around a figure slightly below that of the latter year. In 1959 they increased by 3 per cent in relation to the preceding year, but even so did not succeed in regaining their 1954 level. From mid 1959 onwards, however, a more liberal imports policy was adopted, and the percentages fixed for prior deposits on certain groups of goods were reduced. This liberalization policy was maintained in the early months of 1960, when the prior deposit percentages on many products were lowered still further and other commodities were

/ transferred from

transferred from the schedule of prohibited imports to that of non-essential or luxury goods (on which prior deposits are required) or to that of essential goods (on which no prior deposits are payable). In consequence of this gradual liberalization, total imports were 12 per cent higher in the first half of 1960 than in the first six months of 1959.

Up to mid-1960 Ecuador's traditional trade-balance surplus had been maintained, although it was a little smaller than in the corresponding period of 1959. The country's international reserves, however, were larger in 1960 than the year before.

7. Mexico

Mexico's exports in 1959 exceeded those of 1958 by 2 per cent, despite the unfavourable world market conditions with which some of its staple export commodities had to contend. In fact, the fall in external cotton, coffee, sugar and lead prices combined with a decrease in the volume of exports of the three last-named products, as well as of cattle and frozen meat. ^{42/} These adverse circumstances, however, were easily offset by the substantial increment achieved in the volume of cotton exports, the improvement in copper and zinc prices and the higher value attained by other exports, notably shrimps, animal feeds, sulphur and henequen. In the aggregate, as already pointed out, the factors favourable to the expansion of exports carried the greater weight, so that the year 1959 witnessed a continuance of the trend towards recovery after the abrupt contraction registered in 1957. However, the 1955-56 levels have not yet been regained.

The aforesaid upward trend seems to have been interrupted in the early months of 1960. In the first 9 months of the latter year exports declined by 1 per cent in relation to the same period in 1959, largely because of the severe contraction in the cotton harvest. The volume of cotton exports was 60 per cent smaller in the first half of 1960 than in the first six months of 1959, while the drop in external sales of crude petroleum and petroleum products amounted to 40 per cent. Exports

^{42/} The decline in exports of cattle and frozen meat was due to the restrictions imposed as a means of preventing major price increases on the domestic market for these commodities. External sales of cattle - mainly to the United States - had increased from 8 million dollars in 1956 to 53.5 million dollars in 1958.

of lead, copper, cattle, sugar, ^{43/} henequen and animal feeds also decreased, by smaller percentages. The contraction in the volume of exports was a factor of greater importance than changes in external price levels in reducing the value of exports in 1960.

The movements of Mexico's imports in 1959-60 were in the opposite direction to those of its exports. In 1959 total imports were 11 per cent lower than in 1958, mainly owing to the decrease in purchases of railway material and equipment and other capital goods and the almost complete elimination of imports of maize, the value of which had been high in 1958. Again, the Government's decision to subject the public sector's imports to some degree of prior supervision, ^{44/} with the aim of promoting increased substitution of domestic production for imported goods, also helped to curtail external purchases of a certain number of products.

Nevertheless, in January-September 1960 there were signs of a revival of demand for imported goods. The value of imports during this period was 19 per cent higher than in the corresponding 9 months of 1959, the increment being concentrated in the railway equipment, iron and steel tubing and machinery groups, that is, in the goods that were most affected by the decline in imports in 1959. At the same time, an increase in imports of passenger cars, spare parts and accessories for vehicles, industrial raw materials and chemical fertilizers was also observable.

The values registered by the tourist industry and border trade in 1959 exceeded the 1958 figures, although net foreign exchange earnings under these heads were approximately the same in the two years. In the first half of 1960, on the other hand, net income from these sources showed an increment of 5 per cent. But the marked expansion of imports considerably raised the trade-balance deficit, with the result that Mexico's international reserves declined.

^{43/} The increase in Mexico's quota in the United States sugar market may radically alter the situation in respect of Mexican exports during the second half of 1960.

^{44/} To this end a Committee on Public Sector Imports (Comité de Importaciones del Sector Público) was set up for the purpose of authorizing imports by public agencies only in those cases where no adequate domestically-produced substitutes existed.

8. Paraguay

Paraguay's exports have appreciably fallen off in the last two years. The decrease in production in certain branches of agriculture (the most important being cotton), the fall in prices for cotton, quebracho extract and mate and lastly, the repercussions of Argentina's exchange reform on Paraguay, were all circumstances whose combined effect on export activities was depressive. The value of exports was 10 per cent lower in 1959 than in the preceding year, and in the first 10 months of 1960 a drop of 17 per cent was observable in relation to January-October 1959. In this latter year the largest reductions took place in wood and cotton exports, in the case of the first of these products because sales to Argentina were at a standstill for several months and in that of the second in consequence of the fall in prices and the contraction in the volume exported. In 1960 the export values of these same commodities once again diminished, but for different reasons; wood exports recovered their previous years' volume, but prices dropped by over 30 per cent, while exports of cotton shrank to an insignificant figure (little more than 10 per cent of what they had been in 1957-58) because the crop was ruined by severe frosts. Yet again, an increase in the volume of quebracho exports was more than absorbed by the fall in prices for this product.

The decline in exports in 1959 induced the Government to restrict imports, and to this end a surcharge on their c.i.f. value of 5 per cent at first and 10 per cent later was imposed. Towards the end of the year, however, the prior deposit percentages established for various import categories were lowered. In the upshot, total imports in 1959 fell by 18 per cent in relation to the preceding year. Considerable though this reduction was, it served only to bring them down to levels comparable with those prevailing before 1958.

Despite the increasingly critical situation in the export sector, the first 10 months of 1960 witnessed a marked expansion of imports (14 per cent in relation to the same period in 1959), although in mid-April the above-mentioned surcharge was raised to 15 per cent. Later a ban was placed on imports of a certain number of goods (including cement, beer, cigarettes, cigars, whisky and motor vehicles). It should be pointed out, however, that the surcharges are not applicable to imports from

/adjacent countries

adjacent countries or from Uruguay, nor to foodstuffs (a group which represents about one fourth of Paraguay's total imports).

In consequence of the fluctuations in opposite directions registered by exports and imports, the trade balance showed a heavy deficit (amounting to little less than one third of the value of imports) and international reserves sank to minimum levels.

9. Peru

The new copper and iron ore mines, at Toquepala and Acari respectively, gave vigorous impetus to Peru's exports in the first 9 months of 1960. The total value of exports was 39 per cent higher in that period than in the corresponding months of 1959, notwithstanding the fact that some of Peru's traditional exports (cotton, sugar, lead and zinc) slightly declined, or were barely able to keep their levels approximately the same, during this interval. The products of the fishing industry, on the other hand, in the first 7 months of 1960 had already outmatched the total export volume achieved in the whole of 1959, while exports of crude petroleum and derivatives entered upon a spell of recovery which was partly attributable to the petroleum legislation reforms introduced in the preceding year.

What is significant in the economy's recent development, however, is that the rising trend in export activities chiefly reflects the dynamic growth of the fishing industry,^{45/} and the expansion of the copper and iron mining industries, in which substantial foreign investments were sunk in previous years.

The boom in exports and an increased inflow of foreign capital, together with the currency stabilization measures adopted in the second half of 1959, helped to eliminate pressures on the stability of the external exchange rate in the following year and also enabled the Central Bank to reconstitute the country's international reserves, which had dropped

^{45/} Its contribution to Peru's income has been quadrupled in the last three years, and now exceeds that of traditional commodities such as sugar and cotton.

to very low levels towards mid-1959. Moreover, this was achieved without recourse to additional import restrictions; on the contrary, early in last June the Government lifted the surcharges established in May 1958 and April 1959 on imports of passenger cars, tools, printing and textile machinery and other capital goods. But even before these surcharges were abolished, there had been signs of a revival of imports, which by the end of the first half of 1960 had already shown a 25-per-cent increase over those effected during the first six months of 1959. The upward trend continued in the following quarter, so that the value of total imports was 27 per cent greater in the first 9 months of 1960 than in the corresponding period of 1959.

As a result of the import restrictions in force in 1959, Peru's trade balance showed a surplus in that year for the first time since 1951. A still larger positive balance was obtained in the first 9 months of 1960, under a more liberal import régime and even in association with an improvement, as mentioned above, in the international reserves position.

10. Uruguay

Uruguay's export trade passed through a crucial period in 1957-59. The contraction in the volume of wool exports in 1957 and the decline in their external prices in 1958, together with the problems that presented themselves in connexion with exchange policy, were the chief causes of the deterioration in the export sector during those years. In 1959 the decline in wool prices became sharper, and other factors, of internal origin, helped to depress export activities still further. On the one hand, torrential rainfall and floods caused livestock losses and spoiled the wheat, maize and sunflower crops. On the other, the prolonged parliamentary debate on the reform of the Uruguayan monetary system brought about a gradual contraction of sales abroad in anticipation of the devaluation of the Uruguayan peso, and this trend sharpened in the last three months of the year. The contraction in question and the decrease in exportable surpluses caused by the floods were the basic causes of the falling-off in export activities in 1959, in which year external sales dropped to the lowest value recorded in the last two decades.

/The exchange

The exchange reform adopted at the end of 1959 substituted a fluctuating free rate system for that of multiple rates previously in force. The exchange rates applicable to exports, which under the former régime had ranged from 4.80 to 7.26 Uruguayan pesos to the dollar, were replaced by the free market rate (on an average, 11.47 pesos to the dollar in the first quarter of 1960), but the effective increment obtained by exporters was rather less than these figures suggest, owing to the imposition of taxes in the shape of certain retention percentages on staple export commodities. Some of these percentages were reduced halfway through 1960 in order to provide more powerful export incentives.

With the end of the period of uncertainty that preceded the exchange reform and the improvement in export exchange rates which the new measures involved, sales abroad began to revive, and by the end of the first 9 months of 1960 already showed a 20-per-cent increase over the figures for the same period in the preceding year. Although this increment will probably prove to have raised total exports in 1960 above the depressed levels of 1957-59, those registered in 1950-56 are still a long way off.

In consequence of the crisis in the exporter sector, imports underwent an abrupt contraction in 1958 (when they were 41 per cent lower than in 1957) and although in 1959 they rose slightly, they remained far below those effected in any year during the period 1950-57. But even at their low 1958-59 levels, their value exceeded that of exports in the same years, so that the trade balance showed substantial deficits which were reflected in a considerable increase in Uruguay's trade debt.

The exchange reform radically altered the imports régime. The application of the free market exchange rate to payments for external purchases implied the discontinuance of the preferential rates formerly granted to certain groups of essential goods. This provision was supplemented by the establishment of surcharges amounting to 25, 50, 75 and 100 per cent of the c.i.f. value of the goods imported, which were subject to an additional requirement in the shape of prior deposits of 50, 100 or 150 per cent, according to the import category in which they were classified. At the same time a schedule of prohibited imports was drawn up, comprising articles considered to be non-essential or luxury goods or those competing with similar domestic products.

The system described above was modified at the end of September 1960, in fulfilment of a commitment contracted with the International Monetary Fund during the negotiations for a stabilization credit. The principal changes consisted in the elimination of the schedule of banned imports, the reduction of the categories subject to surcharges (these being fixed at 40, 75 and 150 per cent) and the establishment of a maximum prior deposit of 100 per cent, with a retention period of 270 days instead of the 180 days previously stipulated.

Despite the restrictive bias of the measures adopted under the exchange reform, imports in January-September 1960 exceeded those of the same period in the preceding year by over 50 per cent. Although such a percentage increment is obviously very high, it must be remembered that in 1958-59 import levels had been extremely low and that in consequence inventories had to be built up again and supplies of raw materials for domestic industry augmented. Such an expansion of imports was naturally reflected in a considerable trade-balance deficit, almost three times as large as that registered in 1959.

11. Venezuela

Production and exports of crude petroleum and derivatives developed almost uninterruptedly between 1946 and 1957. In the latter year, the distortions that affected production in some of the Middle East countries during the Suez crisis led to a rise in world market prices and created circumstances favourable to the expansion of Venezuela's exports, which thus attained record figures in respect of both volume and value. Since 1957, Venezuela has been passing through a period of readjustment to changed conditions in the world petroleum market, which began with a decrease in the volume of exports in 1958 and continued in 1959 with the fall in international prices for crude, followed by a further price

/decline in

decline in mid-1960. In consequence, the total value of Venezuela's exports^{46/} diminished by about 8 per cent in each of the years 1958 and 1959 and by approximately 6 per cent in the first half of 1960.

With respect to exports other than those of petroleum and its derivatives, it must be noted that while external sales of iron ore have expanded every year since this product was first exported in 1951, the value of those of coffee and cacao has dwindled in recent years, partly on account of the drop in world market prices and partly because the volume exported has been smaller.

Venezuela's total imports also reached their peak value in 1957, as a result of that year's higher export earnings and the additional imports of equipment effected by the companies that obtained new petroleum concessions in 1956-57. Moreover, the sums received by the Government in return for the new concessions granted made a substantial contribution to the growth of the country's international reserves, which rose from 526 million dollars at the end of 1955 to 942 million at the close of 1956 and 1,446 million by the end of 1957. In the last of these years, therefore, exceptional circumstances combined to raise Venezuela's trade and international reserves to all-time record levels.

^{46/} Total export figures for Venezuela differ significantly according to the sources of data consulted. In the balance-of-payments statistics published by the International Monetary Fund, the value of petroleum exports is based on the data supplied by producer and exporter companies to the Central Bank and the Ministry of Mines and Hydrocarbons for taxation purposes, and represents market prices for the goods exported. In Venezuela's own foreign trade statistics, on the other hand, the value of petroleum exports is determined by the application of a posted prices average to the total volume exported. These two methods of computation give results which differ considerably, as can be seen from the following data expressed in millions of dollars:

	<u>Value of total exports</u>	
	<u>A</u>	<u>B</u>
1957	2,366	2,740
1958	2,320	2,510
1959	2,369	2,314

A = National Department of Statistics of Venezuela (Dirección General de Estadística), Boletín de Comercio Exterior.

B = International Monetary Fund, Balance of Payments Yearbook, vols. 11 and 12.

/This exceptional

This exceptional concatenation of events in 1957 partly accounts for the falling-off in both trade and international reserves during the next two years. The value of imports was 14 per cent lower in 1958 than in the preceding year, and in 1959 it decreased a further 3 per cent in relation to 1958.^{47/} Nevertheless, the pressure of demand on international reserves was highly intensive, with the result that the reserves in question dropped from 369 million dollars in 1958 to 349 million in 1959. The chief cause of this decline in international reserves was a flight of capital of a speculative nature.

In the course of the second half of 1959 the Government began to adopt measures with a view to controlling demand for imports and with it the downward movement of Venezuela's international reserves. Although no data are as yet available on the value of imports in 1960, at least the shrinkage of reserves in the first 9 months of the year was more moderate than in 1958 and 1959. At the close of September 1960 international reserves stood only 126 million dollars below their level at the end of 1959. Furthermore, at the beginning of November 1960 the Government decided to introduce an exchange control régime along lines designed to reduce or eliminate foreign exchange outflows not corresponding to effective trade transactions or to the servicing of external investment in Venezuela. Another requirement established at the same time was that of prior deposits of 20 and 40 per cent of the value of the foreign exchange applied for to finance imports. These deposits are to be reimbursed when import formalities are completed.

^{47/} Even so, total imports were almost 50 per cent higher in 1959 than in 1955, and the increment was still greater in relation to any other previous year.



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Ninth Session
Caracas, May 1961

ECONOMIC SURVEY OF LATIN AMERICA
1960

Part Two

SECTORS OF PRODUCTION

Note: This text is incomplete and provisional and subject to changes in substance and presentation which will be incorporated in the final printed version.

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Part Two

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Corrigendum

Pages 57 and 58 : Delete the final paragraph on page 57 beginning with the words: "The main item imported....." and ending on page 58 with the words: "....of the outstanding debt."

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Part Two

SECTORS OF PRODUCTION

Corrigenda

Page 53, line 2: For "natural resources for sugar production" read
"natural conditions for production".

Page 55, lines 23 to 26: Amend to read as follows: "exporting countries.
Subsequently, as a result of the expected increase in United
States consumption, the aggregate quotas were increased from
9.4 million to 10.4 million tons (see table III-3)".

Page 55: Delete footnote 4.

Page 57, lines 23 to 34, and page 58, line 1: Delete.

Page 60, lines 7 to 9: Amend to read as follows: "Moreover, in the
last months of the year transactions were taking place at prices
below the minimum set by Cuba".

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Chapter I

INDUSTRY

I. GENERAL DEVELOPMENT

A decline in the growth rate in 1959 - following two years of rapid expansion - and its subsequent recovery in 1960 have marked the recent trend of industrial production for Latin America as a whole. The rate of increase of the product in the area's manufacturing sector was about 7 per cent in 1959, compared with rates of a little over 10 per cent in the two previous years. In 1960, according to the provisional data available, there was a further improvement of 10 per cent as compared with the previous year.

These general features of the development of the product in the manufacturing sector reflected trends which varied substantially from one country to another. But the temporary decline in the general growth rate in 1959 was connected with a drop in overall demand and also with labour disputes which were particularly protracted and severe that year in Argentina - whose figures carry great weight in Latin American totals - and also occurred in Peru and Uruguay.^{1/} In 1960 - or at least during part of the year -, the adverse effects of the decline in demand were felt in Argentina and Uruguay. On the other hand, they seem to have been overcome in Colombia and Peru. In Argentina, industry showed signs of rallying during the second half of the year.

The general increase over these two years can be attributed largely to the large-scale expansion of the manufacturing industry in Brazil and Mexico resulting from the investments of previous years and the growing external savings achieved by industry in those countries. Moreover, the apparent recovery of Argentine industry towards the end of 1960 seems to be related to the development of a few specific activities.

The industrial boom in Venezuela was interrupted in 1960, reflecting a generally less favourable development related, among other things, to problems affecting the market for its chief commodity. In Chile, one third of the

^{1/} Moreover, the supply of electric power in Uruguay was severely cut for several months as a result of floods in the Negro River Valley

population suffered the effects of the violent earthquakes which occurred in May and industrial output dropped slightly following a widespread recovery in 1959.

As in previous years, a general feature of the development of the Latin American manufacturing industry was the vigour shown by the newer industries - those engaged in the manufacture of intermediate products and metal transforming - compared with the barely vegetative growth of many industries manufacturing current consumer goods. The fact that these dynamic branches of the industrial complex already account for a considerable share of the total manufacturing output of the relatively more advanced countries helps to maintain the high annual growth rate of the industrial product. Many of these branches of industry are engaged in the production of import substitution items, although the limited capacity of some, in spite of their rapid development, has not kept pace with the rapid rise in demand.

II. ANALYSIS OF SELECTED BRANCHES OF INDUSTRY

1. Industries producing basic and intermediate materials

(a) Iron and steel industry

The iron and steel industry, a key industry in the development of manufacturing activities in Latin America, continued to progress at a rapid rate in 1959 and 1960 both with respect to volume of production and plant expansion.

Output of crude steel - rising rapidly in Brazil and Mexico and at a more moderate rate in several other countries - exceeded 4.5 million tons in 1960, which was three times the volume produced ten years before. (see table 1). In the final stages of this expansion process, a growth rate of nearly 13 per cent was reached in 1959 - higher than the rates for the two previous years - and of 11.5 per cent in 1960. The latter figure represents the maximum use of installed capacity, including the capacity already available and the additional facilities which subsequently entered into operation. In view of the expansion programmes now being carried out, there is every reason to believe that the slowing down in the growth rate in 1960 was only temporary.

/A substantial

A substantial increase was also achieved in the manufacture of finished steel, although it should be noted that the rate of expansion followed a somewhat different pattern - lower in 1959 and higher in 1960 - than for cast ingots. This discrepancy is normally due to the fact that complete synchronization in the rate of expansion of the two items cannot always be achieved, although under present circumstances it is also attributable in part to the structure of the steel industry in Argentina. Because the production of rolled steel in Argentina is much higher than that of steel castings - the difference being made up by imports of billets -, adverse factors affecting the general trend of the Argentine steel industry also produce an impact on the respective Latin American totals in one way or another. In this particular case, the protracted labour dispute which occurred in Argentina in 1959 affected the growth rate of Latin American steel production more seriously in the rolled steel sector than in that of crude steel.

Growth rates of nearly 16 and 13.5 per cent in 1959 and 1960 respectively, both figures much higher than in previous years, ^{2/} were registered in the production of pig iron. This improvement in the growth rate of first castings may be attributed chiefly to the increases achieved in Brazil and Mexico during those two years, the resumption of normal operations at the Chimbote plant in Peru during 1959, and the entry into operation of the blast furnace at San Nicolás and the expansion of the military plant at Zapla in Argentina in 1960. While this first stage of manufacture is still lacking in some countries which have steel making and rolling mills, some changes are likely to occur soon. The new processes for reducing iron - which require less capital investment than blast furnaces - have paved the way for the establishment of integrated plants adapted to the size of the domestic market in countries such as Cuba where steel making activities have been limited so far to the two final stages.^{3/}

^{2/} The annual cumulative growth rate for the three-year period 1956-58 was only 6.5 per cent.

^{3/} Ecuador, a country which has no industry of this type whatsoever, is also considering this possibility.

Table 1
LATIN AMERICA: PRODUCTION OF PIG IRON, STEEL INGOTS AND FINISHED STEEL,
1950, 1955, 1959 AND 1960
(Thousands of tons)

Country	Pig iron a/			Steel ingots c/			Finished steel		
	1950	1955	1959	1960b/	1950	1955	1959	1960b/	
Argentina	18	35	32	151	130	218	214	258	
Brazil	729	1 069	1 560b/	1 690	769	1 162	1 866	2 037	
Chile	112	256	290	280	68	310	441	465	
Colombia	-	125	126	152	4b/	27	126	159	
Cuba	-	-	-	-	-	-	30b/	70	
Mexico	227	328	631	752	391	725	1 265	1 426	
Peru	-	-	39	39	-	-	52	60	
Uruguay	-	-	-	-	10b/	10b/	14b/	13	
Venezuela	-	-	-	-	5b/	22	81b/	78	
Others d/	-	-	-	-	-	-	10b/	10	
Total Latin America	1 086	1 813	2 697	3 064	1 377	2 534	4 099	4 576	
Growth rates compared with previous year			15.9	13.6			12.8	11.6	
Annual cumulative growth rates for 1950-55 and 1955-60 respectively		10.8		11.1		13.0		12.5	
							13.7		
								11.1	

Sources: Official and international statistics, technical publications and direct information.

a/ For Mexico the pig iron figures for 1959 and 1960 include all first casting iron (including sponge iron).

b/ Provisional, based on data for most of the year or on the main capacity of the plants.

c/ Including crude steel cast in smaller shapes (i.e. billets) for some semi-integrated plants.

d/ El Salvador, Guatemala and Panama.

The gap between output and demand^{4/} which is widening, at least temporarily, in spite of these important advances, have made the steel industry a critical element in the economic development of Latin America. This drawback, which can only have unfavourable effects on future prospects for balanced industrialization, is even more serious if examined in the light of the limited capacity to import prevalent in most of Latin America - particularly in Argentina and Brazil - which prevents the shortage from being entirely made up by purchases abroad. The upsurge in the demand for steel products is closely linked with the characteristic dynamism of certain manufacturing sectors in the present phase of Latin American development, particularly the new metal transforming industries. The heavier demand can also be attributed to the steel requirements of other branches of economic activity such as plant construction, engineering and replacement of transport equipment. The extension and relaying of oil and gas pipelines is another major source of demand, particularly in Argentina and Venezuela.

In the circumstances, virtually every steel producing country in Latin America has been compelled to prepare projects for the large-scale expansion of its basic iron and steel industries and to devote considerable effort to carrying them out. On the basis of projects already under way or in an advanced stage of preparation, the production of crude steel is estimated to amount to over 10 million tons by 1965, which implies an annual cumulative growth rate of between 16 and 17 per cent in the intervening years, compared with 13 per cent in the period 1950-60.

As impressive as this increase may be, it cannot be considered adequate. The findings of a recent survey undertaken by the ECLA secretariat^{5/} show that demand within the next few years will rise at such a rate as to create

^{4/} Although Latin American production of steel ingots rose from 1.4 million tons in 1950 to 3.6 million in 1958, steel imports - in terms of the crude steel equivalent by weight of steel at various stages of processing - climbed during the same period from 2.8 million to nearly 3.8 million tons.

^{5/} See "Rolled iron and steel products in Latin America: prospective production and demand", Economic Bulletin for Latin America, Vol. IV, No. 2, pp. 1 et seq.

a deficit of some 4 or 5 million tons even in 1965, which is higher than the amount of steel imported in 1958.^{6/} While Argentina and Venezuela will continue to have the largest adverse steel balance for several years, virtually every other country - including Brazil and Mexico - will have to import steel, although on a smaller scale.

Two obstacles impede an expansion in installed capacity. One is the time required to begin operations, always long in the steel industry but excessively so at times, particularly in countries setting up large integrated plants for the first time.^{7/} The other is the fact that, while the major problems relating to the external and internal financing of the large-scale investment required have been solved in principle, unexpected difficulties arise in practice, very often of an internal nature, when the time comes to earmark the necessary funds in national budgets.

In Argentina a radical change in the volume and structure of steel production is under way now that the San Nicolás plant, whose blast furnace began functioning in the middle of 1960, has started operations. In 1961, it is hoped that integrated production will begin, including steel casting, rolling and tin-plating, so that the plant can start to turn out rolled products. Moreover, the extension and integration of the Zapla plant^{8/} is due to be completed by 1962. These two projects will raise Argentina's steel making capacity to about 1 million tons, compared with the present figure of 250,000 tons, and its rolling capacity to over 2 million tons, as against the present rate of about 950,000 tons.^{9/} Total steel-casting capacity may exceed 1.5 million tons when the second stage of the San Nicolás plant has been completed or when the other important projects now under

^{6/} The volume of steel products for the two years is calculated in terms of the crude steel equivalent.

^{7/} This is confirmed by the recent experience of Argentina, Colombia, Peru and Venezuela.

^{8/} Construction of the two new charcoal blast furnaces and the new power station were completed at this plant in 1959.

^{9/} Moreover, equipment for rolling a million tons of billets from blooms has been purchased for San Nicolás.

consideration -- the Sierra Grande steel centre or a second plant on the Paraná River -- have been carried out. Yet even then Argentina will still require large-scale imports of crude and rolled steel.

In Brazil, the State-owned Volta Redonda plant and the seven other integrated plants -- many of them smaller -- are either undergoing or are about to undergo major expansion. ^{10/} New projects include the construction, now under way, of the great Cosipa plant in São Paulo and a Brazilian-Japanese concern in Minas Gerais, which will mainly supply steel to the motor vehicle and shipbuilding industries respectively. While these expansion programmes are forging ahead, plans are being formulated for co-operation among various plants which, at least temporarily, will have a surplus capacity in one stage or another of production and will be complementary (Volta Redonda -- Cosipa). In view of the present trend of most iron and steel processing plants, substantial additional capacity for the production of non-current and quality steels is being developed. By the end of 1962, or a little later, completion of the major projects now under way will raise Brazil's steel making capacity to over 3.5 million tons.

In Venezuela, the complicated legal and financial problems which have delayed completion of the proposed major integrated plant at the confluence of the Orinoco and Caroní rivers have recently been solved. A rapid solution to the remaining technical problems bearing on fuel and transport and to the training of staff is now being sought. Integrated operations are expected to begin in 1962, but the manufacture of seamless tubes from imported semi-finished products will probably start earlier. It should be pointed out that about half of the production capacity of 750,000 tons of crude steel originally planned for the first stage of the plant ^{11/} will be used to manufacture tubing. A substantial increase is anticipated in the not too distant future.

^{10/} In the past two years, the State-owned enterprise has put into operation several coking and steel making plants. With the inauguration of the eighth steel furnace, capacity thus came close to 1.3 million tons in 1960.

^{11/} According to recent data, the original plan has been changed to provide for a new initial capacity of 1 million tons.

Mexico is one of the Latin American countries in which the consumption of rolled steel has increased most rapidly. For a number of years it had to import large quantities of steel - from one-fifth to one-third of its requirements - in spite of a steady expansion in its steel output.^{12/} During the period under review, the expansion plans of the three integrated plants, particularly the State-owned Monclova plant, were in an advanced stage of preparation or completion.^{13/} These and a few minor expansion plans for semi-integrated plants - which make an important contribution to total steel production - will raise Mexico's capacity to over 2 million tons by the end of 1963. Moreover, steps are now being taken to carry out the project for a new large integrated centre on the Pacific coast with a capacity of 500,000 tons.^{14/}

In Chile, the second stage of the Huachipato programme has been completed with the installation of a continuous cold mill for flat sheet. This will both reduce unit production costs and improve quality. Lower costs and higher quality are particularly important for Chile, which is the only exporter of relatively large quantities of steel products. The next expansion stage ^{15/} will boost capacity to 650,000 tons and is based on the expectation of large-scale sales abroad.

With regard to the relatively smaller integrated plants in other countries, mention should be made of the Paz del Rio plant in Colombia, which is now expanding its facilities mainly with a view to manufacturing flat products. A project for greater expansion in the near future is also being prepared. Peru is considering the possibility of expanding the electro-metallurgical plant at Chimbote.

^{12/} Some cost factors were also involved, arising from transport difficulties in some parts of the country and from competition by United States products in some branches of the steel industry, particularly the supply of cheap scrap which can be used instead of iron reduced locally.

^{13/} In 1960, Altos Hornos completed the first stage of its expansion programme with a target capacity of 600,000 tons, and began the second stage which is intended to raise capacity to 1 million tons.

^{14/} The draft project for another large plant is now being studied.

^{15/} Construction of a second blast furnace and related equipment, and additional steel-making facilities.

Progress has also been made with certain schemes to set up semi-integrated plants, which are easier to build. Projects relating to plants of this type are already being carried out in Argentina, Brazil, Mexico and Venezuela. In Cuba, plants for steel making and rolling, with a capacity of about 100,000 tons, have recently started operations. Work is also under way in Venezuela to set up additional facilities for raising the capacity of semi-integrated plants. Lastly, mention should be made of the fact that in Mexico the first Latin American plant for the manufacture of sponge iron (reduction of certain iron ores to "synthetic scrap") has begun operations and that Brazil is preparing to introduce the same process.

(b) Chemical industries

The chemical industries are playing an increasingly important role in Latin American economic development, particularly because they supply an ever larger quantity and variety of intermediate products used in other industries, the chemical industry itself, agriculture and transport.

Nevertheless, however obvious the advances recorded for various chemical items (for example, in the petrochemical industry in Mexico and the manufacture of pharmaceuticals in a number of countries), and however great their recent development and their impetus, the gap between present requirements and achievements thus far is still considerable. Latin American imports of chemical products, which averaged some 750 million dollars during the years 1956-58, are a considerable burden on the balance of payments of a number of countries, and the fact that these imports are not greater still is largely due to restrictions on foreign trade or to high prices resulting from various import charges. Furthermore, the steady economic and technological progress in Latin America means that a further large-scale and rapid expansion of demand is to be expected in the near future.

In striking a balance of recent developments, two other considerations must be borne in mind: (a) that the principal raw materials, especially those produced by the exploitation and refining of petroleum and natural gas, are available in abundance in most of Latin America, generally at low cost; and (b) that the unit costs of chemical industries - especially those of the heavy or intermediate type - are usually highly sensitive to the scale of production, and also to the possibility of selling their

/co-products and

co-products and by-products on a reasonably sure market.^{16/}

One of the most important developments recorded in 1959 and 1960 was the increased rapidity with which basic petrochemical industries were established in Brazil and Mexico, and the progress in plans for similar projects in Argentina. Venezuela has been striving to solve the technological and economic problems of the Morón group. A recent feature in this connection has been, in many cases, the guiding role that the State has assumed, directly or indirectly, in the development of these resources. This trend, which is very marked in Brazil, Mexico and Venezuela, is evidenced not only by Government financing of the necessary construction work, but also in some cases by a number of restrictive legislative provisions. However, whereas the Morón petrochemical group has to be entirely run by the State, in the other two countries referred to private capital is encouraged to participate in the subsequent stages of the processing of many of the basic petrochemical products produced by the State enterprise. In Argentina, in line with the new petroleum policy, the guiding hand of the State is active mainly in the authorization of the relevant private investments.

The products for which present or projected demand provides the main stimulus to the development of the petrochemical industries are fertilizers, synthetic resins for plastics,^{17/} synthetic rubber and detergents, although such products as explosives, insecticides and fungicides, and paints are assuming growing importance.

In Brazil, continuing the development begun a few years ago, the operations of the nitrogenous fertilizer plant linked with the Cubatão petroleum refinery reached the normal level of operations in 1959 and 1960. In addition, construction was begun on the synthetic rubber plant attached to the large refinery being erected near Río de Janeiro. There are a number of other projects still in the planning stage.

^{16/} In most Latin American countries, this problem of markets can be partly solved by progressive integration of the chemical industry at the national or regional level.

^{17/} Between 1955 and 1959, the volume of production of synthetic resins for plastics in Brazil rose from 15,000 to 49,000 tons, and during the period 1957-59 the annual cumulative rate of increase was even maintained at 26 per cent.

In Mexico, after some years of activity on a rather specific and limited scale, a broader programme has been drawn up for the petrochemical industry. Before the end of 1959, the first plant for the production of dodecylbenzene (a detergent base) began operating; two other plants were established for the production of anhydrous ammonia, and another for the extraction of aromatics. At the beginning of 1960, construction was begun on a polyethylene plant. There are also plans for other plants or additional installations for the processing of detergents, butadiene, styrene, synthetic rubber and tetraethyl lead.

In Argentina plans for the petrochemical industry mainly concern the manufacture of synthetic rubber, carbon black, nitrogenous fertilizers and synthetic resins (polyethylene). Other new lines of production include the production of plastic resins from urea and, more especially, the production of polyvinyl chloride from calcium carbide, and of synthetic abrasives and plasticizers. ^{18/}

Latin American projects for the manufacture of synthetic rubber that are either being carried out or are at an advanced stage of preparation together represent the creation of a total capacity of some 145,000 tons, of which approximately 40,000 are to be provided by Argentina, 65,000 by Brazil and 40,000 by Mexico. It is estimated that, once these projects are in operation, their output will approximate the amount required to meet the needs of the countries concerned. However, it should be remembered that Latin American requirements for this product increase much more rapidly than average world requirements.

In Peru, a plant for the production of explosives and nitrogenous fertilizers began operating in 1959; in Colombia, on the other hand, a similar project has been subject to a number of delays. ^{19/} In Venezuela, operations at the nitrogenous fertilizer plant are at present of an experimental nature.

It is particularly interesting to note that the chemical industries may be extended to Central America, where there are a number of projects, especially

^{18/} Mainly plasticizers made from phthalic anhydride of carbo-chemical origin.

^{19/} In addition, negotiations have been concluded in Colombia for obtaining the funds required to complete the Barrancabermeja plant.

with respect to the production of fertilizers, that seem to offer good prospects of materializing shortly.

In Brazil, the outlook is promising for the development and expansion of the production of phosphate fertilizers; in other countries similar plans are being studied or prepared.

There has been little reduction in Latin America's deficit of sodium alkalis, despite recent marked increases in production. Towards the end of 1960, the Solvay plant in Brazil was completed, with a capacity of 100,000 tons of sodium carbonate. An investment plant has recently been approved for a soda plant in the south of Argentina. The Galerazamba project in Colombia is still at the study stage. There has been considerable expansion in electrolytic soda production capacity in Brazil, Colombia, Mexico and Peru; steps in the same direction have been taken in Argentina, but there a lack of sufficient power has prevented full use of the equipment.

(c) Manufacture of paper and pulp

In the Latin American paper industry there has been a continuation of the significant expansion begun some five years ago, particularly in Brazil, Chile, Colombia, Cuba, Mexico and Venezuela. The pace of this steady expansion is illustrated by the fact that in 1955-60 there was an annual cumulative growth rate of 16 per cent in the production of various paper and board pulps, including mechanical, semi-chemical and chemical pulps. The corresponding figure for the manufacture of paper and paperboard was lower - 9.5 per cent -, but still fairly high. The rates of growth for the last five years, for both industries, compare favourably with the rates for 1950-55, which were 6 and 6.5 per cent respectively (see table 2).

Total figures for pulp output for 1959 and 1960, considered separately, confirm the rising production trend, as the respective rates of increase were 17 and 20 per cent. There was also a fairly steady increase in the production of paper and paperboard, with growth rates of 7 and 9.5 per cent respectively for 1959 and 1960; these figures are much the same as those for the previous five years.

Total consumption of paper and board increased during 1955-59 somewhat more slowly than production, but this difference was not enough to produce

Table 2
LATIN AMERICA: PRODUCTION OF PULP, PAPER AND BOARD, 1950, 1955, 1959 AND 1960
(Thousands of tons)

Country	Paper and board pulps				Paper and board (total)				Newsprint			
	1950	1955	1959	1960a/	1950	1955	1959	1960a/	1950	1955	1959	1960 a/
Argentina	38.0	55.9	86.2	90.0	211.0	283.6	346.3	360.0	2.8	21.6	12.0	6.0
Bolivia	-	-	-	-	0.5	0.8a/	0.9a/	0.9	-	-	-	-
Brazil	150.8	187.5	275.5	290.0	306.2	426.4	549.9	600.0	37.9	39.5	67.2	68.0
Chile	19.9	20.1	60.2	115.0	44.8	67.3	105.3	120.0	11.0	11.5	48.6	60.0
Colombia	0.8	1.3	2.8	3.0	8.2	29.2	48.7	53.0	-	-	-	-
Cuba	-	-	10.0	25.0	35.8	43.6	65.3	87.0	-	-	8.0	15.0
Ecuador	-	-	-	-	0.6	0.6a/	0.8a/	0.8	-	-	-	-
El Salvador	-	-	-	-	0.3	0.3a/	0.5a/	0.5	-	-	-	-
Guatemala	-	-	-	-	0.3	0.3a/	0.6a/	4.0	-	-	-	-
Mexico	63.0	93.9	198.5	239.0	180.0	228.6	349.9	380.0	-	-	14.0	20.0
Paraguay	-	-	-	-	-	0.4a/	0.5a/	0.5	-	-	-	-
Peru	5.0	13.0	25.8	30.0	14.9	26.7	45.1	50.0	-	-	-	-
Uruguay	3.0	5.3	4.8	5.0	24.1	30.0	35.6	36.0	-	-	-	-
Venezuela	-	-	-	-	8.4	12.2	45.0	55.0	-	-	-	-
Total Latin America	280.5	377.0	663.8	797.0	835.1	1 150.0	1 594.4	1 747.7	51.7	72.6	149.8	169.0
Growth rates compared with previous year			17.1	20.0			7.1	9.6			13.0	12.9
Annual cumulative growth rates for 1950-55 and 1955-60 respectively		6.1		16.2		6.6		8.7		7.0		18.4

Sources: Data obtained for producers or their trade associations and from Government bodies; the figures for some countries with a small volume of production are estimates.

a/ Provisional. (All the figures for 1960 are to a certain extent estimates.)

/any considerable

any considerable increase in self-sufficiency. Latin America now produces two-thirds of the paper of all types that it consumes: in 1959, the total domestic output of paper and board amounted to 1.6 million tons, while imports were 800,000 tons.^{20/}

The structural changes in the industry were more significant. Pulp output increased more rapidly than paper production, as evidenced by the coefficient of the production of pulp to paper; in 1950 this was 0.30 and, in 1955, 0.32, whereas in 1960 it was 0.45.

Given the present operating conditions of the Latin American paper industry, it can be assumed that a coefficient of about 0.65 would amount to self-sufficiency in pulp as the remaining requirements could be supplied by waste paper. But although at present only something over a third of the consumption of pulp is supplied by imports, it should be remembered that, if Latin America's total consumption of paper and board came from domestic production, the present level of pulp production would supply barely half the required amount.

The outlook appears generally promising for a steady expansion with increasing substitution, and it has been ascertained that the woods and fields in much of Latin America could provide enough raw materials to constitute a constant source of supply if they are properly exploited.^{21/} Programmes for the development of this industry usually provide for the establishment of integrated plants or for the gradual supplementing of existing paper plants with new pulp plants.

The subject of newsprint production deserves separate treatment. This is the most dynamic activity in the finished products category and the one with the highest percentage growth rates during the period under review. Nevertheless, this type of paper is manufactured in only five Latin American countries, and total output still represents less than a quarter of Latin American consumption (23 per cent in 1959). This shortage, which is felt all the more because of the rapid growth of demand, is due to the difficulty of

^{20/} As there were supply shortages in some countries, actual requirements can be regarded as somewhat higher than the apparent level of consumption.

^{21/} This conclusion does not apply, except subject to certain reservations, to the raw materials required to produce newsprint.

using non-coniferous raw materials for the competitive production of newsprint.

Brazil is one of the countries that has enough suitable pulp wood to meet its newsprint requirements; it is a heavy consumer and up to now has had a large deficit to make up. Present plants are to raise capacity to 150,000 tons within the next three years or so, which would be tantamount to more than doubling present production. The most significant recent development in the Brazilian paper industry is the steady growth in the production of eucalyptus pulp, and the beginning of production of pulp from non-conventional fibres (bamboo, sisal, etc.). It should be added that the industry is gradually replacing its obsolete equipment with modern machinery.

The greatest advance in the newsprint field has been made in Chile, which has excellent artificial forests and is planning to exploit them on an increasing scale. The Bfo-Bfo plant, which completed its third year of operation in 1960, has not only made the country self-sufficient, but has made possible a steadily increasing volume of exports. (Chile is the only Latin American country that exports this item.) The expansion of the capacity of this plant to 60,000 tons was completed early in 1960, and fortunately the equipment was not damaged in the earthquake of May 1960. In addition, a sulphate pulp plant with a capacity of 70,000 tons began production in 1959; this is the first Latin American factory to produce this item for export, and in 1960 it had already sold considerable quantities abroad. There are plans to double the capacity of this plant.

In Cuba, bagasse was increasingly used to make pulp; this activity, begun in 1958, is intended mainly for the production of newsprint, which has increased considerably.

In 1958, Mexico also became a producer of newsprint, with the installation of the Tuxtepec plant, which reached full use of its installed capacity in 1960, and in the same year a start was made on its first expansion.

In Colombia, work progressed on the building of a large new integrated plant, which is expected to begin operating towards the middle of 1961.

Lastly, it should be mentioned that a small-scale plant has begun operating in Guatemala, and that in Honduras there are plans to establish a large industry whose output will be mainly for export.

/((d) Cement

(d) Cement

Cement production (see table 3), which up to 1956 had shown a high growth rate,^{22/} slowed down markedly in the three-year period 1957-59: in 1957, the rate fell to 8 per cent; in 1958 to under 4 per cent; and in 1959 to under 3 per cent. Had it not been for expanded production in Colombia, Mexico and Venezuela, and for the return in Chile to the 1955 level of production - after a three-year slump - output in Latin America as a whole would have fallen in 1959, since it dropped in Argentina, Cuba, the Dominican Republic, Peru and Uruguay, and remained almost static in Brazil.

In 1960, there was a growth rate of 6 per cent compared with the previous year in the region's total production, indicating some general recovery in demand.

In a number of Latin American countries the industry is continuing to expand, or there are plans for its expansion; these countries include Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and also Peru, which in the past five years has virtually doubled its capacity, although recently it has been unable to use a large part of this increased capacity.

2. Metal transforming industries(a) Metal transforming industries in general, household appliances and miscellaneous machinery^{23/}

Expansion and diversification of the metal transforming industries were not confined to Argentina, Brazil and Mexico, where there was a spectacular expansion - which also spread to the development of highly elaborate processing equipment and even to some heavy machinery -, but were evident, in addition, in Chile, Colombia, Cuba, Peru, Uruguay and Venezuela. Moreover, the forthcoming entry into operation of new steel plants or the expansion of existing plants is likely to give a new impetus to industries based on steel manufacturing.

^{22/} For a number of years growth rates fluctuated in the region of 10 per cent.

^{23/} Excluding electrical machinery.

Table 3

LATIN AMERICA: CEMENT PRODUCTION IN 1950, 1955, 1959 AND 1960

(Thousands of tons)

Country	1950	1955	1959	1960 ^{a/}
Argentina	1 558	1 687	2 370	2 590
Bolivia	38	38	29	35
Brazil	1 386	2 736	3 841	4 222
Central America	59	167	257	278
Chile	513	804	807	860
Colombia	580	1 047	1 348	1 425
Cuba	316	463	678	644
Dominican Republic	73	240	193	200
Ecuador	58	146	157	178
Mexico	1 388	2 086	2 678	3 058
Panama	56	75 ^{a/}	90 ^{a/}	97
Paraguay	-	12	13	14
Peru	331	545	580	565
Uruguay	300	292	409	402
Venezuela	501	1 282	1 872	1 640
Total, Latin America	7 157	11 620	15 292	16 208
Growth rates compared with previous year			2.8	6.0
Annual cumulative growth rates for 1950-55 and 1955-60 respectively		10.2		6.9

Sources: Official and international statistics, technical publications and other specialized periodicals, and direct information.

^{a/} Provisional.

/Household appliances

Household appliances - refrigerators and electric washing machines - are manufactured from domestic components - with the occasional addition of imported parts - in Argentina, Brazil, Chile, Colombia, Mexico and Uruguay, and some mechanical equipment for offices (typewriters, etc.) is also made in the first three. Likewise, assembly or production activities using a larger proportion of imported parts are also being carried out, or are about to start, in the countries listed and in Peru.

With respect to miscellaneous non-electric industrial machinery, steady progress has been made in Argentina, Brazil and Mexico in the production of machine-tools and complete or semi-complete equipment for certain types of industry. As encouraging results have been obtained in the production of certain equipment for the textile, paper and construction industries, plants have been installed in the three countries for the manufacture of some important elements for petroleum extraction and refining.

One outstanding event was the setting up of heavy industry in Brazil - together with its development in Argentina - for the production of high-capacity industrial equipment in the form of compressors, pumps, boilers, etc. It will also be able to provide heavy electrical equipment for the energy sector, as well as important parts - travelling cranes, electric furnaces, etc. - for the installation of iron and steel works and the non-ferrous metal plants.

(b) Manufacture of electrical equipment and stationary engines

The progress achieved in this field is confined for the time being to the more industrialized countries of Latin America. The rapid advances made recently by Brazil in the production of increasingly powerful units of heavy electrical equipment - including electric motors - is worthy of mention. This country, which before 1956 had virtually not manufactured any big generators, produced units of 4,200 kVA in 1958 and of 34,000 kVA in 1959. The largest transformers it had manufactured prior to 1956 were of 4,000 kVA (for a tension of 88 kV). It is now turning out units of 50,000 kVA and hopes to go up to 58,000 kVA. Before 1955, the big electric motors produced there had a rating of not more than 200 H.P., whereas three years later units of 500 H.P. were possible and by 1959 mass assembly lines had been set up for units of up to 800 H.P. (some of 1,250 H.P. also being produced). Over 300,000 electric motors for industry are produced yearly,

/apart from

apart from fractional units under 1 H.P., of which the output is about a million. A start was recently made on the manufacture of steam turbines of 1,000 H.P., and there are facilities for making hydraulic turbines of up to 50,000 H.P. Moreover, Brazil's largest heavy engineering works is building new installations to enable it to manufacture, as from 1961, equipment for hydraulic power stations of any size and capacity.

Argentina has several plants producing high-power electric motors of up to 900 H.P., variable-speed units - such as the Ward Leonard - of up to 250 H.P., three-phase generators of up to 1,400 kVA, and rotary convertors of up to 300 H.P. with their control panels. As regards low- and medium-power electric motors (up to 10 H.P.), the total produced in 1956 was 220,000 H.P., 35 per cent of which consisted of fractional units.

The production of non-current steels has boosted the manufacture of electrical equipment in Chile. Latterly transformers of up to 5,000 kVA have been assembled. The production of electric motors consists largely of fractional units, in accordance with the trend of demand.

In Mexico some big and numerous small enterprises produce a variety of electrical equipment. Transformers rating up to 1,500 kVA are made, together with other heavy items, including motors. With regard to electrical equipment for industry, the output of transformers rose from 43,000 units in 1955 to 104,000 in 1958. The manufacture of switches increased during the same period from 68,000 to 151,000 and that of electric motors from 23,000 to 51,000.

As regards the manufacture of stationary diesel and petrol engines, the level reached by Argentine industry is outstanding. It has some 30 plants devoted to the manufacture of stationary petrol engines of up to 10 H.P. and diesel engines of up to 150 H.P. (though the bulk of its production does not exceed 30 H.P.). A plant for diesel engines of up to 1,500 H.P. was recently erected. This plant proposes to manufacture several types with a rating of up to 2,050 H.P. and of rapid low-power engines. Production will aim primarily at covering railway, shipbuilding and rural electrification requirements.

In Brazil, this industry is still virtually at the stage of producing low-power units. Latterly it has begun to manufacture diesel engines ranging

from 5 to 44 H.P., for which about half the parts are imported. Current plans for the manufacture of heavy diesel engines are mainly intended to cover shipbuilding requirements.

The production of prime movers in Mexico is limited to units in the small and fractional categories, although assembly facilities for diesel engines of 175 H.P. are also being developed. Steps have been taken to encourage this industry.

Lastly, it should be noted that the use of national components and raw materials in the manufacture of electrical equipment and prime movers is generally fairly high, except in Mexico. In Argentina and Chile, the proportion of imported parts - chiefly ball-bearings, some non-ferrous metals and alloys - rarely exceeds 20 per cent of the sales value, but is often less, even considerably so. In Brazil, the percentage of foreign parts was higher until recently, but domestic production of silicon steel sheet is gradually reducing it.

(c) Motor vehicle industry

In Argentina and Brazil, the motor vehicle industry is developing and is being progressively and thoroughly integrated at the national level, since an increasing proportion of locally-manufactured parts is being used in the assembly. The process of transformation in the manufacturing structure of both countries has been speeded up by the development of this industry. In the near future, the evolution of this industry is likely to involve a certain degree of integration in Mexico as well, where the assembly plants are using mainly imported parts and few local components. ^{24/} Assembly is also being carried on in Venezuela, and to a lesser extent in Chile, and there are assembly plants that are unfinished or not yet in operation in Colombia and Cuba.

In order to illustrate the levels of production reached by these industries in terms of finished vehicles, all available data on the number of vehicles produced in Latin America since 1955 are given in table 4, a distinction being made between those which may be considered as "of national manufacture" because of the incorporation of a large proportion of domestic

^{24/} The Mexican components used in this branch recently fluctuated between 8 and 22 per cent of the total value.

Table 4

LATIN AMERICA: MANUFACTURE AND ASSEMBLY OF MOTOR VEHICLES, 1955-60 ^{a/}

(Thousands of units)

Country	1950	1955	1956	1957	1958	1959	1960 ^{b/}
A. "National" manufacture ^{c/}							
Argentina	-	6.7	5.2	15.3	26.6	29.7	40.0
Brazil	-	4.6	6.6	29.7	61.1	96.2	130.0
Latin America	-	11.3	11.8	45.0	87.7	125.9	170.0
B. Assembly of vehicles imported in unassembled or semi-assembled form ^{d/}							
Argentina	...	3.9	2.6	15.4	5.8	3.5 ^{b/}	...
Brazil	...	...	...	1.0	0.2	-	-
Mexico	21.6	31.7	41.5	40.7	39.0	50.8	...
Venezuela	2.9	18.1	13.8	14.8	13.4	14.9	12.0
Latin America	...	...	...	71.9	58.4	69.2	-

Sources: Official statistics, technical publications and direct information.

^{a/} Not including scooters, motor-bicycles and similar vehicles. In Argentina -the chief producer of this kind of vehicle- the total number of motor-bicycles and scooters manufactured in 1959 was 79 000, more than ten times as many as in 1955.

^{b/} Provisional estimates.

^{c/} For the definition, see footnote 25.

^{d/} Not including data for Chile, which, do not, however, represent large amounts (nor data for Uruguay, which apart from being very limited, refer only to the final stages of assembly or to the fitting of coachwork).

/parts, and

parts, and those assembled from imported items.^{25/}

Three quarters of the approximate total of 170,000 vehicles manufactured in Latin America in 1959 and 1960 was produced by Brazil, whose motor vehicle industry has already entered upon the fifth year of its development programme. Its production statistics show that notable progress has been made each year although the annual totals are well behind the original estimates. In 1959, output represented 83 per cent and in 1960 less than 66 per cent of the projections. The differences derive from certain changes in the plans of enterprises, delays in installing plant and the limits to effective external demand.^{26/}

In 1959, the Argentine motor vehicle industry failed to reach its targets. Most of the vehicles manufactured came from one enterprise which has been in operation for over four years and whose programme was considerably affected by the labour disputes that took place during the period. The manufacturing totals for 1960 show that a more active part was played by other enterprises whose investment and production programmes were approved by the authorities in the last two years. At the present time, these enterprises are concentrating on building, installing or adding to their plants and on organizing their collaboration with sub-contractors.

Although the number of units manufactured and the annual increments show that the new motor vehicle industry is becoming increasingly important as a domestic supplier of local requirements (in Brazil, transport has already improved noticeably thanks to the industry's contribution), the figures

^{25/} An endeavour has been made in table 4 and in the present commentaries to adopt a uniform standard of classification for dividing the vehicles produced in Latin America into two groups: "national manufacture" and "assembled from imported unassembled or semi-assembled parts". The first group consists of vehicles, of whose weight at least one third consists of domestically-manufactured parts, provided that the relevant production programme contemplates a gradual increase in that proportion.

^{26/} One factor limiting internal demand is the still unresolved problem of purchasing credits.

presented do not give a complete picture of the magnitude of its development in both countries.

In the first place, the data show the development of manufacture in terms of finished units only, and give no indication of the progressive replacement of imported components by those produced in the country, a process in which Brazil - and even Argentina - have made great strides lately. As regards Brazilian results, the share of domestic parts as an average of the different kinds of vehicle, and as an average for 1959 (when their contribution became larger) amounted, on a rough estimate, to nearly 70 per cent and more than 80 per cent in 1960.^{27/} As regards Argentina, the use of locally-manufactured components by the chief producer enterprise exceeded 70 per cent in 1959 and expanded to over 80 per cent in 1960. The proportion was also fairly high in two other smaller plants.

Moreover, in order to appreciate the scope of the progress made by this industry, the substantial contributions of foreign capital and the preparatory and construction studies undertaken should also be taken into account. Special attention should be paid to the simultaneous development of ancillary industries which, while meeting the requirements of motor vehicle factories, can supply other engineering branches with important parts. In Brazil, the sector supplying parts comprises more than 1,200 factories, of which about 100 are big plants. In Argentina, it is developing steadily and diversifying production to a marked and increasing extent.

In the course of development, this sector of ancillary industry had to make radical changes in its production systems and invest large amounts in

^{27/} It should be remembered that Brazilian regulations governing the gradual "nationalization" of parts state their requirements only in terms of percentages of the weight of the finished vehicle, but do not stipulate the proportions of the vehicle's total value to be constituted by these parts, or specify which are to be manufactured in Brazil. Nonetheless, the progressive replacement of parts, expressed in terms of weight, keeps in fairly close line with the growing share of national components in the total value of the vehicle. Thus, according to secretariat estimates, the proportion of national parts prescribed for mid-1960 in terms of weight - 90 per cent for some kinds of vehicles and 95 per cent for others - would average more than 80 per cent of the total value (the imported parts being calculated at their c.i.f. value). This relationship - and its relative constancy from approximately 40 per cent onwards - is associated with the fact that the consecutive substitution of different groups of components usually follows a logical order (with, of course, certain differences as among the various types of vehicle). In Argentina, the scales for the gradual replacement of parts have been laid down in terms of value.

new machinery, tools and measuring and testing instruments in order to comply with the standards of quality and quantity imposed by the mass production of vehicles. For the technical aspects of production methods and installations, it often had to draw upon the experience of specialized firms. In this respect, the assembly enterprises acted in an advisory capacity on several occasions. Likewise, they brought interested parties into touch with big firms in the field, thereby enabling the domestic enterprises to acquire numerous patents.

Another salient factor emerges from the development of ancillary industry. In Brazil and Argentina, subsidiaries of several international firms have been established and have launched new lines of production in more than one case. It is hoped that, in the near future, some gaps in the provision of supplies to the assembly plants will be filled; for instance, that they will be given a wider range of forged and cast parts. In Brazil, the manufacture of ball-bearings on a large scale is imminent.

Although the rapid development of the motor vehicle sector has naturally given a powerful impetus to the industries producing the relevant basic inputs, their expansion has failed to keep pace with the rate of growth of demand.

The most pronounced bottleneck is clearly in the manufacture of iron and steel products, but the increasing shortage of raw rubber is also posing serious problems. Both Argentina and Brazil are currently preparing to manufacture synthetic rubber, and Brazil is also trying to enlarge its rubber plantations.

Another delicate problem is the increasing need for fuels, particularly in Brazil. Although large increases in petroleum output have been achieved recently, Brazil continues to have to import considerable quantities of fuel and its internal market reflects the pressure of growing demand. The position in Argentina is less critical, but even if that country manages to become an exporter of petroleum, the sharp increase in internal consumption will reduce potential exchange revenue.

The uneven growth of the productive resources which are required also raises problems which may slow down the rate of development of the motor vehicle industry. There are still difficulties as regards the supply of skilled labour, despite the partial success which Brazil in particular has

had in overcoming its initial problems in that respect and the efforts which are still being made towards that end.^{28/} Another difficulty is the scarcity of foreign currency necessary for importing the parts not produced in the country and these inevitably represent large sums of money in the early stages. It should not, however, be forgotten that the main purpose in setting up this branch of industry was to meet the acute need for automotive transport without having to pay out enormous sums in foreign currency. If it is supposed that the same number of vehicles as is manufactured in the country would otherwise have been imported, the resulting balance is unquestionably favourable. Again, it must be realized that the need to earmark a large amount of foreign exchange every year for imported spare parts to keep the new industry in operation is a further element reducing import flexibility, particularly during the initial stages of the programme.^{29/}

^{28/} Towards the end of 1959, the total number of workers in the Brazilian automobile industry and its subsidiaries had already reached a figure of some 70,000, and, according to forecasts, this figure was expected to exceed 100,000 two years later. As to the training of labour, programmes in Government technical schools have been intensified and the enterprises themselves organize training programmes, for which purpose the recruitment of workers ante-dates the date of their full employment. Similarly, measures have been taken for the intensive training of technicians and administrators.

^{29/} In this respect, it is of interest to mention the results of an estimate made by the ECLA secretariat regarding the "gross savings in foreign currency" attributable to the development of the motor vehicle industry in Brazil. The value of output for the years 1957-60 would seem to amount to 1,200 million dollars in terms of the c.i.f. value of the imported equivalent and would appear to represent a gross savings in foreign currency of the order of 700 million dollars. This latter figure was obtained by deducting from the value of output the import costs of spare parts, payments of royalties and remittances of profits abroad (although not including indirect inputs: steel sheets, etc.). As from 1961 the manufacturing programme should represent an annual value of 540 million dollars and a gross savings in foreign currency of approximately 360 million. These estimates are based on the supposition that the original production plans as submitted by the firms concerned and approved by GEIA (Grupo Executivo da Industria automobilistica) were met. Those plans have, however, been partially modified mainly as a result of the withdrawal of a number of projects by the firms concerned and of certain new arrangements between them. For this reason the foregoing amounts may be considered as over-estimates. There is, however, reason to suppose that, by and large, the most important argument still holds good, namely, the relation between the number of motor vehicles produced and the amount of foreign exchanges involved.

/In addition

In addition, as the growth of motor transport must keep pace with the development of the road network and the extension of works for its maintenance, there is a clear need for large-scale public investment and, at the same or almost the same time, domestic private capital must make a serious effort to assist with the creation of a large new industry, however great the part played by foreign capital may be.

(d) Manufacture of tractors

The manufacture of tractors in some Latin American countries is being encouraged by the great need for mechanization in agriculture, by the notorious inadequacy of foreign currency reserves to achieve an overall solution through imports, and by the fact that industry in a number of Latin American countries is already sufficiently advanced technically for this branch of manufacture to be feasible. As in the motor vehicle industry, various foreign firms have for many years shown an interest in establishing subsidiaries in various Latin American countries; plans usually provide for the assembly of tractors locally with the gradual replacement of imported parts by nationally manufactured components.

So far, tractors have been manufactured only in Argentina, where the industry dates back to the middle of the fifties (see table 5). In 1959 and 1960, Argentine output reached 12,000 and 16,000 units respectively; the majority of these were assembled with a relatively large percentage (about 70 per cent) of domestically manufactured parts, the remainder being assembled with only a small percentage of national parts. In 1959, the Government issued further regulations governing the development of the industry. Under the new rules, interested firms must submit production plans to the competent authorities for at least five years ahead, stating the successive percentage use of locally produced materials; the minimum for this, as fixed by decree, is 40 per cent for the first year and 80 per cent for the fifth year. In order to encourage substitution even within those margins, the regulations lay down a sliding scale providing that during the successive years of the transition period a constantly decreasing proportion of imported parts may be used without payment of duty; the regulations also fix an upward sliding scale with regard to maximum output in relation to the proportion of nationally produced components used.

Table 5

LATIN AMERICA: OUTPUT OF TRACTORS IN ARGENTINA AND BRAZIL, 1954-60 AND
ANTICIPATED OUTPUT IN 1961 ^{a/}

(Units)

Country	1954	1955	1956	1957	1958	1959	1960 ^{b/}	Anticipated output in 1961
Argentina	355	3 926	8 195	8 522	9 569	11 938	16 200	(21 800)
Brazil	-	-	-	-	-	-	600	(15 000)
Total	355	3 926	8 195	8 522	9 569	11 938	16 800	(36 800)

Source: For Argentina, 1954-59, National Department of Statistics and Censuses, (Dirección Nacional de Estadística y Censos); for 1960 and Brazil, estimates based on official information and information supplied direct.

^{a/} In Mexico, smaller numbers were assembled in 1958 and at the beginning of 1959.

^{b/} Provisional.

/It is

It is hoped that total output in 1961 will increase to approximately 22,000 units and in 1962 to 25,000, a figure which, according to the most recent estimates, would just about meet normal domestic requirements and cover replacement needs and a gradual increase in the number of tractors in use. At the beginning of 1959, some 94,000 tractors were in use, about one third of which had been manufactured or assembled in Argentina. Some plans provide for the manufacture of certain parts for tractors in conjunction with those that will be used in other agricultural machinery and lorries, with a resulting reduction in unit costs.

In Brazil, the tractor industry is still in process of formation, the relevant regulations having been laid down at the beginning of 1960 with rules similar to those governing the manufacture of motor vehicles. The projects submitted by ten out of twenty firms were approved and in December the first domestically produced tractors left the works. The plans as approved provide for a total output of approximately 15,000 tractors for 1961 with an initial "national" proportion of 70 per cent; the plans include proposals to construct 31,000 units in 1962 with increasing import substitution. This capacity would be sufficient for present needs, estimated at 10,000 units annually if agricultural mechanization is to be increased and replacement requirements met. At the end of 1959, the total number of tractors in Brazil was 74,000, used for the most part in rice, cotton, millet, sugar cane and coffee growing.

New plans have recently emerged for setting up a tractor industry in Mexico, where tractors were already being assembled in 1958. Meanwhile, in Venezuela a study is being made of whether tractor assembly should be encouraged as a national industry.

(e) Shipbuilding

The shipbuilding projects recently drawn up in a number of countries have gone forward in various respects and this is a sign that the manufacturing industry in Latin America has begun another important stage in its development.

Brazil has the most ambitious programme which includes the creation of a number of new shipyards, some of them of medium size, and also the extension and modernization of existing yards. By the end of 1959, work had been started in ten shipyards and a number of vessels are now on the stocks. In

/the first

the first stage, ships of up to 5,000 tons, and even some of 10,000 tons gross displacement will be built, while in the second stage larger vessels (25,000 tons) will also be constructed. Within a few years, capacity will be such that a total of 150,000 tons gross displacement can be built each year.

In Argentina, new large-scale projects are in preparation or are already under way. There are two yards in the country with modern facilities and, in one of these, three sister ships of 5,000 tons gross displacement each are at present on the stocks.^{30/}

Both Brazil and Argentina have a nucleus of ancillary industries which, once developed, should be able to supply a large part of the materials needed in shipbuilding. Imports of certain parts and of a proportion of the required steel will, of course, considerably increase foreign currency commitments. As to specialized technical knowledge, an important part will be paid by foreign firms participating in the majority of the projects in Brazil and two new proposed projects in Argentina.

In Peru, there has also been progress in shipbuilding. In the Callao yards - whose expansion is now projected - the first ship of 8,000 tons was recently launched. In Peru itself and in some other countries - among them Chile and Mexico - the building of shallower-draught vessels for fishing and other purposes is being developed.

(f) Construction of railway rolling stock

In contrast to the lively development characterizing all the foregoing transport equipment producing industries, there is very little progress - at least in the southern part of Latin America - in the manufacture of railway rolling stock, despite the fact that needs are great, particularly for replacements. Nearly all South American railways are using a large proportion of outdated rolling stock and equipment. The railway enterprises, which are frequently State-owned, suffer from lack of resources and, as a result, renewal of equipment is slow, and the low yield of the old equipment is one of the specific

^{30/} New decrees were issued in the latter half of 1960 to protect the Argentine shipbuilding industry. They establish preference for local enterprises in orders placed by the Government and public bodies and lay down a system of subsidies and exemptions from import duties.

causes of persistent operating deficits.^{31/}

In 1959, the construction of goods wagons in the four producer countries of Latin America reached the figure of some 3,800 units, and it is estimated that, in 1960, it will amount to almost 4,100, (see table 6). Output figures for 1959 show stagnation for the second consecutive year at the regional level. This was due to the Mexican goods wagon industry - whose production had increased more in earlier years - having to interrupt the building of luggage vans in December 1959 because it had failed to obtain the necessary raw materials as a result of the steel strike in the United States. Another labour dispute affected orders placed in Argentina. In the first months of 1960, the industry continued to suffer from these troubles, but later resumed its expansion.

The construction of goods wagons in Argentina, Brazil and Chile started some time ago. In Mexico, however, the industry began only five years ago. In the first three countries, many of the component parts are nationally produced, while in Mexico gradual substitution of components is only just beginning; it is the aim of the present programme to reduce the imported proportion to 25 per cent of the total.

In the three South American countries, passenger coaches are also built, although in rather small numbers. In Mexico, it has been decided to include this production line in the activities of the building enterprise, and it is proposed to manufacture 500 ordinary passenger coaches for the national railways within five years.

Until recently, no traction equipment was constructed in Latin America. In 1959, the assembly of diesel locomotives was begun in Argentina with the intention of progressively replacing imported components. The assembly of railcars is also starting.^{32/} However, the capacity of the only plant

^{31/} The availability of adequate credits for purchases has a decisive influence on the buying policies of the railway enterprises. As the Mexican wagon industry was in a position to grant credit facilities, it was able to increase its sales. However, the absence of such facilities in other countries obliged the railways to opt for imports.

^{32/} In the first six months of 1960, the Argentine State railways ordered 150 railcars from the new factory at Córdoba.

Table 6

LATIN AMERICA: CONSTRUCTION OF RAILWAY ROLLING STOCK, 1955-60

(Units)

Country	1955	1956	1957	1958	1959	1960
<u>A. Goods wagons</u>						
Argentina	194	255	218	380	352*	...
Brazil	1 881	1 949	2 030	1 644	1 950*	...
Chile <u>a/</u>	50	35	50	-	16	57
Mexico	858	1 134	1 518	1 792	1 730	1 517
Latin America	<u>2 983</u>	<u>3 373</u>	<u>3 816</u>	<u>3 816</u>	<u>4 048</u>	<u>...</u>
<u>B. Passenger coaches</u>						
Argentina	14	7	14	12	...	...
Brazil	17	7	6	49	...	...
Chile	31	70	28	28	12	33
Latin America	<u>62</u>	<u>84</u>	<u>48</u>	<u>89</u>	<u>...</u>	<u>...</u>

Sources: Official communications from, or information supplied direct by, Argentina, Brazil and Chile; La Nacional Financiera, and information supplied direct by Mexico.

a/ In Chile the following numbers of narrow-gauge (one metre) goods wagons were also built: 1955 - 20; 1956 - 210; 1957 - 220; there was no production in 1958.

b/ Provisional.

/making sufficiently

making sufficiently powerful diesel engines is rather limited, particularly if account is taken of the needs of other countries which it is proposed to meet. Studies have recently been carried out and efforts made to find a solution to the problem of renewing equipment and ensuring expansion within a regionally integrated programme. It is proposed in the near future to export Brazilian rolling stock to Argentina, and similar plans are being studied for exports to Uruguay.

Chapter II

MINING

Introduction

Generally speaking, the Latin American mining industry continued to be highly dependent on foreign markets. Although local consumption of some products denotes a growing market, Latin America exports the bulk of its ore, especially metals. With respect to mineral fuels, the coal mined is mainly for domestic consumption, but on the other hand almost all the petroleum produced in Venezuela, and small amounts produced in other countries, are exported.

The world market for non-ferrous metals, which had been unfavourable since the second half of 1957, improved somewhat during 1959 and 1960, but this improvement was accompanied by fairly wide fluctuations, and there was no evidence of any long-term strengthening. Petroleum, on the other hand, which still had a favourable market in 1958 as a result of the aftermath of the Suez crisis, felt the effects of an abundant supply in 1959 and 1960, mainly because of the boom in Middle East production and growing sales by the USSR. The iron ore situation was very different, because of the links between many Latin American production centres and the great steel companies in the United States. The demand for iron ore expanded considerably during the last decade and exports did not suffer as a result of the recession in the United States in 1958, the long steel strike in 1959, or the new recession that began in 1960. This favourable course of events was due partly to the fact that the mines worked by the United States steel firms in their own country, being of the marginal type, are the first to feel the effects of shrinking demand. Another favourable factor was the growing interest shown by Japanese steel companies, and even some European companies, in Latin American ore. This explains why the mining and export of iron ore now exceed in value such traditional

/items in

items in the region's mining sector as tin, lead and zinc, and why even better prospects of steady and rapid progress are opening up for iron.

Despite the not very favourable conditions prevailing in the non-ferrous metals market, the volume of output and export in that sector continued to rise. The reduction of income in that sector does not appear to have affected the execution of the expansion programmes drawn up previously; this applies particularly to copper. The production of petroleum was also encouraged in a number of countries, but to meet domestic needs rather than for export. Although in 1956 and 1957 there was considerable investment in Venezuela, the rate of increase seems to have fallen instead of rising.

1. Iron ore

Production of this ore was outstanding for its high rate of growth (see table II-1). The cumulative growth rate for the last decade was 22 per cent; after a temporary decline in 1958, the rate recovered again in 1959, when the growth coefficient was almost 24 per cent. The possibility of increased exports in some cases - especially in Brazil - depends partly on the expansion of transport or harbour facilities, or the completion of existing projects of this type.

Although the Latin American steel industry is in a period of full expansion, the decisive factor in the rapid growth rate of iron ore production was undoubtedly the foreign market. Venezuela, whose output constitutes more than half the region's production, has thus far exported all the ore mined. There were also large-scale exports from Brazil, Chile and Peru, not only to the United States, but also on an increasing scale to Europe and Japan. The favourable outlook for external demand was a powerful stimulus to the preparation and execution of the present expansion programmes in almost all of the producer countries, especially in Brazil, Peru and Chile. In the first two countries new investments, were outstandingly large.

In Argentina, on the other hand, domestic requirements were the

Table II-1

LATIN AMERICA: IRON ORE PRODUCTION IN SELECTED YEARS

(Thousands of tons of iron content)

Country	1950	1955	1959	1960 <u>a/</u>
Argentina	18	38	47	68
Brazil	1 351	2 300	4 353 <u>a/</u>	4 873
Chile	1 771	940	2 549	2 920
Colombia <u>b/</u>	-	105	123 <u>a/</u>	158
Cuba	4	79	20 <u>a/</u>	50
Dominican Republic	-	51	100	80
Mexico	286	429	535	515
Peru	-	1 059	1 950	3 400
Venezuela	<u>127</u>	<u>5 401</u>	<u>11 177 <u>a/</u></u>	<u>13 736</u>
Latin America Total	3 557	10 402	20 854	25 800
Growth rate compared with the preceding year			12.1	23.7
Annual cumulative growth rates for the periods 1950-55 and 1955-60 respec- tively		24.0		20.0

Sources: National and international statistics, technical publications and direct information.

a/ Provisional.

b/ Including only crude and medium ore, as fine ore, which represents about 40 per cent of production, is not used.

main factors determining the programme recently drawn up for mining the large deposits in Patagonia.^{1/}

As to the possibility of future expansion in Latin America as a whole, surveys of new areas have raised proven reserves of iron ore to over 60,000 million tons; about half of this is in Brazil, where present production is little more than 40 million tons a year.^{2/}

2. Copper

Latin American copper production has also made great strides in the last two years, particularly in 1960 (see table II-2). The prime factor determining the increment was the partial equipping of the Chilean mine of El Salvador in 1959 and of the Peruvian mine of Toquepala at the end of that year. Substantial new investment was involved.

As already observed in the case of non-ferrous metals in general,^{3/} the copper market was slightly better in 1959 than in 1958, prices remaining stable until nearly the end of 1960. Two of the factors that affected market trends were the strike in the United States and the uncertain situation in the Congo. It was not until the last weeks of 1960 that prices took a further downward turn in relation to the substantial increase in stocks and the industrial recession in the United States.

1/ In 1960, a concession was granted for mining the Sierra Grande deposits, but actual production is not expected to begin for four or five years.

2/ Both figures are expressed in terms of crude ore.

3/ See the introduction to this chapter.

Table II-2

LATIN AMERICA: COPPER ORE PRODUCTION IN SELECTED YEARS

(Thousands of tons of high-grade copper content)

Country	1950	1955	1959	1960 a/
Chile	362.9	433.5	545.0	532.0
Mexico	61.7	54.7	57.0	60.0
Peru	30.2	43.4	50.7	171.4
Other countries	26.3	21.4	18.4	27.2
Latin America Total	481.1	563.0	671.1	790.6
Rate of increase with respect to previous year			9.9	17.8
Annual cumulative rate of increase in 1950-55 and in 1955-60		3.2		7.1
-World total (excluding the USSR, Mainland China and Eastern Europe)	2 280	2 730	3 093	...
Latin America as a percentage of the world total	21.1	20.3	21.9	...

Sources: Official and international statistics; technical publications and direct information.

a/ Provisional.

b/ Apart from the three major producers, a certain amount was produced during the period in question by Argentina, Bolivia, Brazil, Cuba, Ecuador and Venezuela.

3. Lead and zinc

Production of lead and zinc ore fluctuated fairly extensively and in opposite directions during the last two years. After increasing slightly more than 12 per cent in 1959, zinc mining declined again in 1960, and in both years the volume produced was less than in 1955 (see table II-3).

A very different trend is observable for lead ore production; this dropped in 1959 only to recover in 1960 when it reached a higher level than in 1955. But if 1950 is taken as the base year, the output of both types of ore will be seen to have increased to much the same extent - 28 per cent in the case of lead and 34 per cent in that of zinc. The lead market apparently deteriorated in the last few years for technological reasons: the competition of plastics in the manufacture of cables and piping for building, and of synthetic chemicals in the preparation of paint.

The two leading lead and zinc producers in Latin America are Mexico and Peru. In Mexico, lead output is decreasing while in Peru it more than doubled in the last ten years.

Table II-3
LATIN AMERICA: LEAD AND ZINC ORE PRODUCTION IN SELECTED YEARS
(Thousands of tons of metal content)

	Lead				Zinc			
	1950	1955	1959	1960 <u>a/</u>	1950	1955	1959	1960 <u>a/</u>
Mexico	238.1	210.8	191.0	196.0	223.5	269.4	264.0	253.0
Peru	64.9	118.8	115.2	158.0	78.9	166.1	143.1	130.0
Other countries <u>b/</u>	56.5	54.6	75.6	81.0	33.7	57.3	66.7	69.3
Latin America								
Total	359.5	384.2	381.8	435.0	336.1	492.8	473.8	452.3
Rate of increase with respect to previous year			-5.8	13.9			12.3	-4.5
Annual cumulative rate of increase in 1950-55 and 1955-60		1.3		2.5		8.0		-1.7
World total (excluding the USSR, Mainland China and Eastern Europe)	1 560	1 930	1 778	...	2 060	2 690	2 664 <u>a/</u>	...
Latin America as a percentage of the world total	23.0	20.0	20.8	...	16.8	18.3	17.8	...

Sources: As for table II-2.

a/ Provisional.

b/ The other countries are headed Argentina and Bolivia; the remaining producers in the region are Brazil, Chile, Guatemala and Honduras (Ecuador produces only small quantities of lead)

4. Tin

Production of tin ore in Latin America - carried on almost entirely in Bolivia - made a partial recovery in 1959 after the losses it had sustained in 1958, although it failed to regain the volume it had reached in previous years. In 1960 it fell again to a level only slightly higher than that of 1958 (see table II-4).

The salient factor in the expansion of Bolivian production and exports in 1959 was the barter agreement with the United States, which made provision for the exchange for 5,000 tons of tin for agricultural surpluses. In the same year international tin prices improved, with, however, scarcely any effect on the volume of exports, since this is fixed by quota arrangements with each of the signatories of the International Tin Agreement. Nevertheless, exports to the United States under the barter agreement, which were intended for strategic stockpiling, did not form part of the above-mentioned quotas.

In 1960 Bolivia was unable to maintain its previous level of production or even to use its export quota to the full. Efforts were therefore made to reorganize production, to bring some of the plants up to date and launch new geological surveys.

Table II-4

LATIN AMERICA: TIN ORE PRODUCTION IN SELECTED YEARS

(Tons of high-grade tin content)

Country	1950	1955	1959	1960 ^{a/}
Argentina	260	90	220	230
Bolivia	31 710	28 370	23 810	19 690
Brazil	190	150	180	240
Mexico	450	610	380	400
Peru	40	-	-	10
Latin America				
Total	32 650	29 220	24 590	20 570
Rate of increase with respect to previous year			28.3	-20.1
Annual cumulative rate of increase in 1950-55 and in 1955-60		-2.2		-6.8
World total (excluding the USSR, Mainland China and Eastern Europe)	166 500	181 000	136 000	...
Latin America as a percentage of the world total	19.5	16.2	18.5	...

Sources: As for table II-2.

^{a/} Provisional.

5. Coal

In Latin America as a whole, coal mining was distinguished by a slow and even declining rate of growth, but with no sharp fluctuations (see table II-5).

Fluctuations at the national level were mainly caused by labour disputes, while the overall slow growth was a result of the fact that most of the coal obtained was consumed in the producer countries themselves or in other parts of Latin America.

So far as its time-honoured uses are concerned, coal is losing ground to petroleum and petroleum derivatives; moreover, except in Colombia and Mexico, it is only used for coking and has an admixture or imported grades.

The slump in Chilean output during recent years was caused by the increased use of fuel oil and the contraction in exports to Argentina. An extensive programme is being carried out to modernize coal mining and thereby reduce the present high production costs.

Table II-5
LATIN AMERICA: COAL PRODUCTION IN SELECTED YEARS

(Thousands of tons)

Country	1950	1955	1959	1960 ^{a/}
Argentina	26	133	300	300
Brazil	1 959	2 268	2 330	2 500
Chile	2 217	2 305	1 890	1 600
Colombia	1 100	1 850	2 480	2 600
Mexico	912	1 342	1 586	1 700
Peru	196	136	173	147
Venezuela	28 ^{b/}	31	34	32
Latin America				
Total	6 438	8 065	8 793	8 879
Rate of increase with respect to previous year			1.6	1.0
Annual cumulative rate of increase in 1950-55 and in 1955-60		4.6		2.0

Sources: As for table II-2.

^{a/} Provisional.

^{b/} 1951.

6. Petroleum

Despite unfavourable world market trends, in 1955-60 the extraction of petroleum in Latin America kept up a cumulative annual rate of growth almost as rapid as that achieved in the preceding five-year period. But the increase in output was a good deal smaller in 1960 (see table II-6).

In order to interpret this evolution aright, the case of Venezuela, which is essentially an exporter country, must be distinguished from that of the other countries which produce petroleum mainly or entirely for their own consumption. During the period 1950-55 it was Venezuela that registered the most dynamic development, in relation to the buoyancy of external demand. Conversely, in the second five-year period - to be more exact, when the Suez crisis and its aftermath had died down - the world market situation deteriorated. In the course of this second quinquennium, too powerful an impetus was given to production in Argentina, in Brazil and in Chile, although in the last-named country on a smaller scale. A comparison between five-yearly rates of growth in Venezuela, on the one hand, and in the rest of the Latin American countries on the other, clearly illustrates this change of trends (see again table II-6).

Another characteristic feature of the development of the petroleum sector is the rapid rate at which refining has increased. Most of the Latin American countries - even those which do not produce crude - are tending to expand their refining capacity and to replace imports of petroleum derivatives either by importing crude or by the more efficient utilization of their own primary resources. In the case of Venezuela, of course, the chief objective pursued is to raise the unit value of exports by incorporating a higher percentage of value added in the goods concerned. It should be pointed out that in the other countries refining capacity is steadily growing, and that even in States whose population is small, like El Salvador, Guatemala and Panama, petroleum refineries are in course of construction.

/Table II-6

Table II-6

LATIN AMERICA: EXTRACTION AND REFINING OF CRUDE PETROLEUM IN SELECTED YEARS

(Thousands of tons)

	Extraction				Refining			
	1950	1955	1959	1960 a/	1950	1955	1959	1960 a/
Argentina	3 357	4 365	6 384	9 150	6 389	8 652	11 364 a/	...
Bolivia	80	351	413	415	81	351	412	408
Brazil	38	264	3 083	3 850	71	3 586	7 653	...
Chile	82	336	838	943	-	670	1 222	1 201
Colombia	4 699	5 493	7 404	7 708	1 253	1 955	3 350	3 353
Cuba	2	48	30	48	289	320	1 200 a/	...
Ecuador	347	466	364	370	213	265	373	503
Mexico	10 363	12 793	15 570	15 987	8 056	11 272	15 423	15 630
Peru	2 007	2 303	2 364	2 360	1 628	1 979	2 376	...
Uruguay	-	-	-	-	780	1 130	1 530	...
<u>Total</u>	20 975	26 419	36 450	40 831	18 760	30 180	44 903	...
Annual rate of growth b/			10.4	12.0			6.0	...
Cumulative rate of growth c/		4.7		9.1		10.0		...
<u>Venezuela</u>	79 975	115 169	147 936	153 370	13 377	28 649	44 011	47 500
Annual rate of growth b/			6.4	3.7			12.6	7.9
Cumulative rate of growth c/		7.6		5.9		16.5		10.7
<u>Latin America</u>	100 950	141 588	181 386	194 201	32 097	58 829	88 914	...
Annual rate of growth b/			7.2	5.3			9.2	...
Cumulative rate of growth c/		7.0		6.5		12.9		...
<u>World (excluding Mainland China)</u>	522 900	772 800	978 400	1 051 700				
Latin American percentage of world total	19.3	18.3	18.5	18.5				

Sources: As for the table II-2.

a/ Provisional.

b/ Rate of variation in relation to the preceding year.

c/ Rate of cumulative growth for the five-year periods 1950-55 and 1955-60, respectively.

Chapter III

AGRICULTURE^{1/}

I. THE OVERALL SITUATION

In the two-year period 1959-60, Latin American agriculture continued to develop at the slow rate characteristic of recent years. Over the short term, agriculture has remained virtually at a standstill in Latin America, owing to diverse factors, whose incidence has varied in nature and intensity from one part of the region to another. Over the longer term, production in a number of countries is still suffering from the ill-effects of a defective agrarian structure, which retards agricultural development and therefore the growth of the economy in general.

Furthermore, in many Latin American countries agricultural production for domestic consumption has not been increasing at the same rate as the population. Such was the case in 1959, when the production of crops for domestic consumption expanded by only 2.4 per cent as against a population increment of 2.5 per cent in Latin America as a whole. To judge from the preliminary data available, this trend seems to have persisted in 1960.

The practice of making up deficits in food supplies by means of the palliative of imports has been kept up, with the consequent diversion of large amounts of foreign exchange from more productive uses, such as, for example, imports of capital goods. In the fiscal year which ended in June 1959, exports of foodstuffs from the United States - the region's leading supplier - to the 20 Latin American republics represented approximately 460 million dollars. In 1959/60, their value rose to 495 million dollars, i.e., by 8 per cent.

Latin America is at present passing through a period of demographic expansion in which the rate of growth of its population is one of the highest in the world. If agricultural production continues to develop as slowly as at present, it will remain incapable of satisfying the population's food requirements, and imports of foodstuffs will have to be increased if per capita consumption is to be maintained at least at current levels. Expressed

^{1/} This chapter was prepared by the Joint ECLA/FAO Agriculture Division.

in terms of energy, these levels in 1958 averaged slightly more than 2,600 calories daily in Latin America as a whole, ranging from a minimum of some 1,900 calories daily in Haiti and Bolivia to a maximum of a little over 3,000 in Argentina.^{2/}

In 1959 unfavourable weather conditions - in particular, heavy rainfall, sometimes followed by torrential floods - severely affected agricultural production in the southern countries of Latin America (Argentina, Brazil, Chile, Paraguay and Uruguay), and in some of them caused serious material damage, the effects of which were still making themselves felt well on into the year 1960.

In the last two years under consideration, the trend of world prices for Latin America's staple agricultural exports was distinctly unfavourable. In fact, quotations for cotton, coffee, cacao, sugar and bananas declined perceptibly in the course of this period. Linseed oil prices, which fell in 1959, recovered to some extent in 1960, but without regaining the level registered two years before. Beef prices rose slightly, while those of hard fibres - henequen, sisal and agave -, which are products of less economic significance for Latin America, substantially increased.^{3/}

As an example of the prejudicial impact of international prices on agricultural production in Latin America in 1960, the case of cotton may be cited. The fall in world prices registered in 1959 reduced sowings in Mexico, Guatemala, El Salvador and Nicaragua - which, together with Peru, are Latin America's leading exporters -, with the result that in all of them the output of cotton decreased sharply in 1960, dropping to the lowest levels recorded in recent years. This affected agricultural production figures in the four countries mentioned, and determined a substantial contraction of Latin American exports (22 per cent) in the cotton year 1959/60.

2/ United States Department of Agriculture, Food Balances in Foreign Countries, Part III: Estimates for 20 Republics of Latin America, Washington, November, 1960.

3/ See the present Survey (E/CN.12/565), Part One, chapter III, for further details on prices of primary commodities and their fluctuations.

As the coffee supply cannot be altered at will from one year to another, output continued to increase in 1959 and 1960 despite the downward trend of prices. Hence new surpluses went to swell the already over-abundant coffee stocks. However, the Latin American countries were successful in their efforts to regulate exports inasmuch as an International Coffee Agreement was concerted, which entered into force on 1 October 1959, for a period of one year, and which covers approximately 85 per cent of world trade in this commodity. The Agreement, which constitutes a means of methodically placing coffee on foreign markets, was prorogued for a further year in 1960, and seems to have halted the downward movement of prices for the Latin American varieties (arabica), stabilizing them at their 1959 level. Prices of African coffees - especially the robusta variety - continued to decline.

In Argentina, which is Latin America's leading producer of cereals and stands alongside the United States, Canada and Australia as one of the world's principal wheat exporters, exportable production of fine grain - wheat, oats, barley, rye and linseed - contracted from 6.5 million tons in 1956/57 to 4.9 million in 1959/60. Preliminary estimates suggest that in 1960/61 the volume in question will be reduced still further, to 2.2 million tons. In 1958/59, exportable production of wheat, which amounted to 4.0 million tons, exceeded that of the preceding year by 18 per cent, but in 1959/60 it shrank to 3.1 million tons. Estimates for 1960/61 place it at 900,000 tons, one of the smallest volumes hitherto registered in Argentina. The chief cause of the decline in production was the drought which hindered sowings and affected the crop.

The change in the United States Sugar Act at the beginning of July 1960, together with the elimination of Cuban sugar from the United States market during the remainder of that year and the first quarter of 1961, constituted an event of supreme importance for the agricultural economy of Latin America, and altered the structure of the world sugar market. Cuba's quota was redistributed among other producer countries, 675,811 short tons falling to the share of Peru, the Dominican Republic, Mexico, Nicaragua, Haiti, Panama, Costa Rica, Brazil, Guatemala and El Salvador, over and above the normal quota of 90,440 short tons which corresponded to the first eight of the countries listed.

/Cuba, in

Cuba, in its turn, sold 2,350,000 metric tons to the centrally planned economies - mainly the USSR -, at world market prices, requiring 20 per cent to be paid in cash while the remainder was covered by barter arrangements. The immediate effect of these significant changes in the direction of the sugar trade was an exceptional boom in Latin American exports during the last half of 1960.

It seems that in 1961 the above-mentioned Latin American countries, as well as Colombia and Ecuador, will continue to benefit by the better sugar prices prevailing on the United States market. Cuba has concerted a new trade agreement with the USSR and other centrally planned economies, under the terms of which it will sell 4 million tons of sugar in 1961, at a price of 4 dollar cents per pound.

II. SITUATION OF SELECTED COMMODITIES

1. Sugar

The most important development in the international sugar market in 1960 was the amendment in July of the United States Sugar Act, which had the effect of excluding Cuban sugar from the United States market for the remainder of that year and the first quarter of 1961. In recent years, Cuban exports of sugar to the United States had amounted to 3 million tons a year, which is almost a third of United States consumption. It should be added that, because of the protectionist character of the Sugar Act, the price of Cuban sugar was 2 or 2 1/2 cents more in the United States market than in the world market.

In the last two years, world production of centrifugal sugar has reached record levels. Meanwhile Latin America's contribution to world production remained steady, and its exports, which had declined slightly in 1959 compared with the previous year, appeared to have recovered during the first six months of 1960. World prices, which on the average had dropped by 15 per cent between 1958 and 1959 - from 3.50 to 2.97 cents a pound - rose somewhat in the third quarter of 1960, after the Cuban Sugar Stabilization Institute (Instituto Cubano de Estabilización del Azúcar (ICEA)) set a minimum price of 3.25 cents f.o.b. for its sales. However, in the last months of the year other producers offered consignments on the world market

at a price much lower than the Cuban minimum, and quotations for unrefined sugar c.i.f. London were the equivalent of less than 3 cents a pound f.o.b. ports in the north of Cuba.

(a) Production

In 1959, world output amounted to the record high figure of 50.9 million tons, an increase of almost 4 million tons compared with the previous year, and in 1960, 50.3 million tons were produced. Preliminary estimates for 1961 make it seem likely that a new record of 55.5 million tons will be set.

Latin American production of centrifugal sugar remained more or less stable during 1959 and 1960, while the total sugar crop for the region rose to 14.6 million tons in 1959 and 14.8 million in 1960. The contribution of this crop to world production remained stable during the period, with a slight change from 28.6 per cent in 1959 to 29.4 per cent in 1960. Preliminary estimates for 1961 indicate that Latin American production exceeded 15.8 million tons.

Cuba is the principal Latin American producer of centrifugal sugar and until 1959 it was the leading world producer. In that year, the USSR for the first time produced more than 6 million tons, thus surpassing Cuba, which produced only 5.96 million.

In 1960, Cuban output (5.86 million tons), although 100,000 tons less than in 1959, constituted approximately 40 per cent of all Latin American production. Next came Brazil with 3.38 million tons, Mexico with 1.62 million, Argentina with 1 million, the Dominican Republic with 940,000 tons and Peru with 815,000 tons (see table III-1).

The countries listed are Latin America's main sugar producers; taken together, their output amounted to 13.62 million tons, more than 90 per cent of the Latin American total.

(b) Exports

Latin America's share of world exports is larger than its share of production; whereas the latter is only about 30 per cent of the world total, its exports are over half of the world total.

This is a result of both ecological and political factors. As sugar is an item of prime necessity, attempts are made the world over to produce either beet or cane sugar in almost all climates. This widespread production

Table III-1

LATIN AMERICA: SUGAR PRODUCTION 1959-60 AND ESTIMATES FOR 1961

(Thousands of tons)

Country	1959	1960	1961
Cuba	5 962	5 862	6 715 ^{a/}
Brazil	3 591	3 379	3 600
Mexico	1 368	1 620	1 690
Argentina	1 139	1 001	800
Dominican Republic	781	940	950
Peru	706	815	840
Colombia	283	330	355
Venezuela	163	202	270
Ecuador	92	95	100
Nicaragua	70	73	75
Guatemala	67	70	75
Chile	55	79	36
Haiti	49	60	66
Costa Rica	56	57	60
El Salvador	46	51	50
Paraguay	39	36	29
Panama	24	24	25
Bolivia	17	17	27
Uruguay	32	37	36
Honduras	16	21	20
Total, Latin America	14 556	14 769	15 819

Sources: F.O. Licht, Segunda estimación de la producción Europea de Azúcar and Primera estimación de la producción mundial de azúcar (2 December 1960).

^{a/} Cuban sugar production according to the Decree of 18 January 1961.

/undoubtedly results

undoubtedly results in greatly varying degrees of economic efficiency. In many cases where natural resources for sugar production are inadequate, or where there is no clear comparative advantage in undertaking it, these deficiencies are usually offset to some extent by such measures of economic policy as protective tariffs or import quotas.

Cuba, the largest Latin American producer, produces almost entirely for export, its domestic consumption being only 300,000 tons yearly. The situation is similar in the Dominican Republic, which also exports the bulk of its production. Latin America's other traditional exporter, Peru, exports approximately two thirds of a sugar it produces. Brazil, which was formerly a large producer and exporter, has begun to emerge again as a producer in recent years; in 1959, of a sugar output of 3.6 million tons, it exported 600,000 tons, or 17 per cent. Until recently Mexico was an importer, but in the last three years it too has been exporting a certain amount; in 1959, its exports of 135,000 tons amounted to less than 10 per cent of its output of 1.4 million tons (see table III-2).

In 1959, Cuban exports amounted to 39 per cent of the world total and 71 per cent of Latin American exports. Cuba's exports, added to those of Brazil, Peru and the Dominican Republic, constituted 97 per cent of all Latin American exports in 1959. With one or two exceptions the other countries produce only to meet their own needs, or are deficit producers or marginal exporters.

In 1959, Latin American sugar exports were almost 800,000 tons less than in 1958. Most of this reduction was due to the drop in Cuban exports, which fell from 5.63 million tons in 1958 to 4.95 million in 1959. In Brazil, exports shrank by 170,000 tons and in Mexico by about 50,000 tons. Peruvian exports, on the other hand, expanded by almost 90,000 tons, while those from the Dominican Republic remained at a level of about 700,000 tons.

Incomplete data available for 1960 indicate that Latin American sugar exports will be substantially higher than for 1959. Cuban exports of 4.8 million tons for the first ten months were 14 per cent higher than the 4.2 million tons exported during the corresponding period in 1959. Brazilian exports increased more rapidly (28 per cent) during the first eleven months of 1960, while Mexico's exports of 439,000 tons during the first nine months

Table III-2

LATIN AMERICA: EXPORTS OF CENTRIFUGAL SUGAR, 1958-60

(Thousands of tons)

Country	1958	1959	Months	1959	1960
Cuba	5 632	4 952	I-X	4 166	4 789
Brazil	776	606	I-XI	569	729
Dominican Republic	669	668	I-VIII	545	617
Peru	411	499	I-XI	437	458
Mexico	187	135	I-IX	135 a/	439
Nicaragua	22	18		...	...
Ecuador	22	31		...	...
Paraguay	0	15		...	...
El Salvador	8	7		...	...
Costa Rica	1	7		...	...
Haiti	6	6		...	...
Panama	5	5		...	...
Guatemala	0	1		...	...
Venezuela	9	0		...	...
Argentina	0	0		...	...
Total	7 748	6 950		5 852	7 094
World exports	13 678	12 881			

Sources: International Sugar Council, Statistical Bulletin (January 1961).

a/ Total exports for 1959, since the data for the first nine months alone are not available for purposes of comparison.

/were more

were more than triple its total sugar exports for 1959. Moreover, the radical structural changes in the international sugar market that took place in the second half of 1960 are an indication that the sugar exports of the other countries had increased to an extraordinary extent, and that all the Latin American totals must have set records.

(c) Structural market changes

In February 1960, the USSR concluded a trade agreement with Cuba under which it undertook to import one million tons a year of Cuban sugar for a five-year period, 20 per cent to be paid for in cash, and the rest by barter. This sugar is not to be re-exported to what might be regarded as Cuban markets. In due course the USSR granted Cuba credit to purchase goods to the value of 100 million dollars. It should be recalled that, during the five-year period 1955-59, Cuba had sold an annual average of 298,000 tons to the USSR for cash.

On 6 July, 1960, the United States Congress amended the Sugar Act, authorizing the President to fix the Cuban sugar quota for the rest of that year and the first quarter of 1961. The United States President used this power to establish a Cuban sugar quota of 39,752 short tons for the remainder of 1960. This constituted a reduction of 700,000 short tons, compared with 3,119,655 short tons originally established for 1960 on the basis of a total United States sugar consumption of 9.4 million tons, plus 156,000 that Cuba hoped to have added to its quota to make up the deficit left by other exporting countries. As a result, the aggregate quotas were increased from 9.4 to 10.4 million tons; the corresponding increments for the other producer countries were mainly at the expense of the original Cuban quota^{4/} (see table III-3).

Hence the additional quota allocated to the Latin American countries for the remainder of the year totalled 914,924 short tons. The 321,957 short tons assigned to the Dominican Republic were bought at about the same

^{4/} A United States consumption of 10.4 million tons would have implied a Cuban quota of 3,415,555 short tons, hence the cut in the Cuban quota for 1960 actually amounted to 995,900 tons, plus the 156,000 of quota deficit, that is, a total of 1,151,900 tons on which Cuba failed to obtain the premium of 2 to 2 1/2 cents per pound that it had been receiving until then for its sales in the United States.

Table III-3

SUGAR QUOTAS AND BREAKDOWN OF NON-QUOTA PURCHASES AUTHORIZED IN
THE UNITED STATES, 1960

(Short tons)

	Altered quotas	Non- quota purchases authorized	Total
<u>Domestic production</u>			
Beet sugar	2 514 945	-	2 514 945
Cane sugar	773 873	-	773 873
Hawaii	940 444	-	940 444
Puerto Rico	893 620	-	893 620
Virgin Islands	8 618	-	8 618
	<u>5 131 500</u>		<u>5 131 500</u>
<u>Foreign production</u>			
Reduced Cuban quota	2 419 655	-	2 419 655
Philippines	980 000	176 426	1 156 426
<u>Full-duty countries</u>			
Peru	138 827	135 000	273 827
Dominican Republic	130 957	321 857	452 814
Mexico	115 809	284 628	400 437
Nicaragua	19 766	22 000	41 766
Haiti	9 105	26 567	35 672
Panama	4 218	6 258	10 476
Costa Rica	4 202	6 267	10 469
Brazil	-	100 347	100 347
El Salvador	-	6 000	6 000
Guatemala	-	6 000	6 000
Total, Latin America ^{a/}	(422 884)	(914 924)	(1 337 808)
Other countries	10 061	108 650	118 711
Total	<u>8 964 100</u>	<u>1 200 000</u>	<u>10 164 100</u>
Non-quota purchases authorized			<u>235 900</u>
Consumption requirements			10 400 000

Source: United States Department of Agriculture, Sugar Reports (November 1960).^{a/} Excluding Cuba.

/rate as

rate as the world price, since it was made a condition that the importers should pay to the United States Government a duty of 2 cents per pound before being authorized to bring the sugar into the country. Because of this proviso, only 593,067 short tons of the total additional amount allocated to the Latin American countries received the benefit of the premium paid on the United States market.

At the end of July, the Cuban Sugar Stabilization Institute (ICEA) announced that it had sold a further 700,000 tons to the USSR at 3.25 cents per pound, and that it had signed an agreement with the People's Republic of China under which that country undertook to purchase 500,000 tons a year of sugar for a five-year period, although the agreed price was not revealed. During the first year, the purchaser was to pay for one-fifth of these imports in pounds sterling, and for the rest by barter; during the following four years, payment would be made wholly in Chinese goods. Some Eastern European countries also undertook to buy smaller amounts of Cuban sugar; it was calculated that sales to this group of countries in 1960 might amount to some 2.35 million tons. Thus estimated Cuban sales to the countries with a centrally planned economy subsequent to the amendment by the United States of the Sugar Act amounted to 1.35 million tons, which fully made up for the volume of sugar left unsold to the United States. However, these additional sales did not suffice to make up the difference between the price paid in the United States and the world market price.

It should not be overlooked that, of the total of 2.35 million tons that Cuba sold to the countries with a centrally planned economy in 1960, only 20 per cent was paid for in cash, and that full payment for a considerable part of the remaining 80 per cent will have to await completion of the barter transactions involved.

The main item imported by Cuba from the USSR during the second half of 1960 was crude oil. The Cuban Government had announced that contracts had been placed in the USSR and neighbouring countries for a number of industrial plants. But, as it will take long to set up these plants, it will be some time before they can begin operating. In view of these considerations, it is obvious that, as long as Cuba does not receive goods in return for the whole of its exports to these countries, it will in effect be subsidizing

/these purchases

these purchases by the amount of the outstanding debt.

(d) Prices

Sugar prices on the world market, which had reached an annual average of 3.5 cents per pound in 1958, began to fall from the beginning of 1959 and reached their lowest level of 2.84 cents in the third quarter; there was a slight recovery to 3 cents in the last quarter (see table III-4). In the first half of 1960, prices remained stable at that level, which was below the minimum of 3.25 cents set by the International Sugar Agreement for the reduction of the export quotas of the participating countries by the Sugar Council.

Although the exclusion of Cuba from the United States market in the middle of 1960 and the subsequent announcement of further purchases by the USSR and China (mainland) foreshadowed far-reaching changes in the international sugar market, there was no apparent change, at least at first, in the volume of sugar offered on the free market. Nevertheless, the likelihood that the countries with a centrally planned economy would absorb substantial amounts of sugar in addition to those they normally take had an immediate effect in strengthening prices. Thus the world price, which on 27 June had fallen to 2.85 cents per pound - the lowest since August 1959 - rallied by 52 points during the next three weeks and on 19 July 1960 reached 3.37 cents, the highest price since 5 January 1959.

On 7 July 1960, ICEA announced a minimum sales price of 3.25 cents per pound. In spite of this, prices began to fall in August and this trend was accentuated at the end of the year by the prospect of large increases in world production in 1961.

This weakening could not be reflected in the prices of Contract No.4 on the New York Coffee and Sugar Exchange (unrefined sugar, f.o.b. Cuban ports), which constitute the basic contract prices of the International Sugar Agreement, since, after the minimum price of 3.25 cents had been established by ICEA, there were no more transactions in future under this contract. As a result, Contract No.4 was suspended and replaced in December by a new contract (No.8) authorizing futures in sugar from Mexico, the Dominican Republic, Peru and other countries.

Table III-4

INTERNATIONAL SUGAR PRICES, 1958-60

(Cents per pound)

		1958		1959		1960	
		World <u>a/</u>	United States <u>b/</u>	World	United States	World	United States
Quarterly average	I	3.57	5.27	3.14	5.13	3.01	5.05
	II	3.45	5.39	2.88	5.27	3.02	5.21
	III	3.48	5.46	2.84	5.53	3.27	5.57 <u>c/</u>
	IV	3.49	5.54	3.02	5.48		
Annual average		3.50	5.42	2.97	5.35	3.10	5.28

Source: International Sugar Council, Statistical Bulletin (August-September 1960), and United Nations, Monthly Bulletin of Statistics (November 1960).

Note: The difference between the two prices represents the premium paid under the United States quota system to Cuba, which is now received by the countries among which the former Cuban quota has been distributed.

a/ F.o.b..Cuba price of unrefined sugar for export to the world market.

b/ F.o.b. Cuba price of unrefined sugar for export to the United States.

c/ The quotations for July, August and September are taken from the United States Department of Agriculture, Sugar Reports (October 1960)

In the absence of free-market sugar quotations on the New York Coffee and Sugar Exchange, the best indicator of the world price is the London Committee's price. This fell steadily from 30 shillings and sevenpence halfpenny per hundredweight at the beginning of August to 25 shillings and ninepence in mid-December. After deduction of freight and other charges, these prices correspond to 3.36 and 2.66 cents per pound, respectively. Moreover, the fact that in the last months of the year transactions were taking place at prices below the minimum set by Cuba shows clearly that that price was somewhat out of line with market realities.

(e) Outlook for 1961

In mid-December 1960, the United States set a figure of 2.5 million short tons for domestic sugar consumption in the first quarter of 1961, which represents an annual consumption of 10 million tons, and Cuba continued to be excluded from the United States market in accordance with the new sugar policy (see table III-5).

When the former Cuban quota was first redistributed in July 1960, non-quota purchases were authorized from the Latin American countries mentioned in the Sugar Act as being entitled to import quotas in the United States, namely Costa Rica, the Dominican Republic, Haiti, Mexico, Nicaragua, Panama and Peru, and also from Brazil, El Salvador and Guatemala.^{5/} During the December reallocations, Colombia and Ecuador were added to the list of Latin American countries which would have access to the United States market in that quarter.

The whole of the quota of 824,299 short tons that would have been Cuba's was distributed among other producers; the Latin American countries listed above were allocated 675,811 tons which, added to their normal quota of 90,440 tons, amounted to 766,251 tons. The Dominican Republic obtained a quota of 250,512 short tons, Peru 245,377 and Mexico 215,000, but the sugar from the Dominican Republic was again made subject to a duty of 2.25 cents per pound.

^{5/} It goes without saying that Brazil, which at the end of June 1960 had 319,000 of sugar stocks, was not satisfied with the allocation of 100,000 tons it received then. Table III-5 shows that the quota allocated to Brazil for the first quarter of 1961 is even smaller.

Table III-5

SUGAR QUOTAS AND BREAKDOWN OF NON-QUOTA PURCHASES OF SUGAR
AUTHORIZED IN THE UNITED STATES, FIRST QUARTER OF 1961

(Short tons)

	Quotas	Non-quota Purchases authorized	Total
<u>Domestic production</u>			
Beet sugar	544 443		544 433
Cane sugar	167 531		167 531
Hawaii	303 853		303 853
Puerto Rico	317 716		317 716
Virgin Islands	4 332		4 332
Domestic total	1 337 875		1 337 875
<u>Foreign production</u>			
Peru	30 377	215 000	245 377
Dominican Republic	27 789	222 723	250 512
Mexico	23 852	191 168	215 020
Nicaragua	4 368	16 000	20 368
Haiti	2 067	433	2 500
Panama	995	1 505	2 500
Costa Rica	992	1 508	2 500
El Salvador	-	2 000	2 000
Guatemala	-	2 000	2 000
Brazil	-	11 474	11 474
Ecuador	-	6 000	6 000
Colombia	-	6 000	6 000
Total Latin America	(90 440)	(675 811)	(766 251)
Philippines	245 000	122 683	367 683
Other countries	2 386	25 805	28 191
Total	1 675 701	824 299	2 500 000

Source: United States Department of Agriculture, USDA 3752-60, (22 December 1960).

The United States Sugar Act should have expired on 31 December 1960. Congress's normal practice is to extend the Act for a period of four years, making any necessary amendments. When the Act was amended in July, however, it was extended until 31 March 1961. Consequently, Congress will have to convene early in 1961 to extend the Act for a longer period or else to amend it considerably,^{6/}

Assuming that the present Act is extended and that the quota distribution of the first quarter is maintained for the rest of the year, the allocation for foreign countries for the whole of 1961 will be as follows:

	Hypothetical quotas for 1961 <u>a/</u>	Approximate exportable surplus <u>b/</u>	Quota deficit
	(Thousands of tons)		
Dominican Republic	909	860	- 49
Peru	890	550	-440
Mexico	780	490	-290
Brazil	42	1,000	(+958)
Philippines	1,334	1,070	-264
Nicaragua	74	35	- 39
Others	<u>187</u>	<u>187</u>	<u>0</u>
Total	4,217	4,231	(+958) + (-1,082)

a/ Obtained by multiplying the quotas for the first quarter of 1961 by four.

b/ Estimate obtained by subtracting from the production data in table III-1 the estimated domestic consumption for each country in 1961.

The above figures are based on the assumption that, in view of the abnormally high sales of sugar to the United States in the second half of 1960, the countries concerned should have ended the year with minimum stocks.

6/ Early in February, the Chairman of the Agricultural Committee of the House of Representatives submitted to Congress a bill to extend the Sugar Act for 21 months, until 31 December 1962. This bill would authorize the President to continue to exclude Cuba from the United States market. It is understood that the President would ask Congress not to grant the Dominican Republic that portion of the former Cuban quota that would otherwise be allocated to it.

/It is

It is further assumed that the group of countries with comparatively small quotas^{7/} will have no difficulty in meeting them. It is clear, however, that none of the other countries, except for Brazil, will be in a position to meet such quotas.

It may logically be expected that, in order to benefit from the higher price prevailing in the United States market, all the countries that have access to it would try to divert their sugar to that market and, in doing so, fail to fill the export quotas authorized by the International Sugar Agreement; this happened before, though on a smaller scale, in the last half of 1960 (see table III-6).

In fact, as a result of changes in the trend of trade in 1960, the International Sugar Council on 22 June increased the export quotas to 100 per cent of the basic export tonnage, and raised it again to 105 per cent on 3 August. In addition China (Taiwan) had renounced 87,022 tons of its quota, the Dominican Republic 140,000 and Peru 230,000. This total of 457,022 tons was redistributed on 5 October, in accordance with article 11 (2) of the Agreement, among Brazil (80,954 tons), Cuba (355,461), Hungary (5,888), Mexico (11,039) and the Philippines (3,680 tons).

At the end of November, the Eighth Meeting of the International Sugar Council was held in Mexico City.^{8/} In view of the greater output expected in 1961, the net import requirements of the free market were set at 6.38 million metric tons, 850,000 tons less than in 1960. The Council estimated that supplies would amount to 7.39 million tons,^{9/} which would exceed requirements by 1 million tons. With this in mind, it established initial

^{7/} Belgium, British Guiana, Canada, Colombia, Costa Rica, China (Taiwan), Ecuador, El Salvador, the Federation of the West Indies, Guatemala, Haiti, Hong Kong, Netherlands, Panama and the United Kingdom.

^{8/} The Council approved Ecuador's request to accede to the Agreement, on the terms specified in article 14 (3), and after considering Colombia's request, approved the conditions to be proposed to that country.

^{9/} Namely, basic export tonnage 6,345,000 tons, other exports allowed under the Agreement 435,000 tons, and maximum exports from non-participating countries 600,000 tons.

Table III-6

SUGAR EXPORT QUOTAS UNDER THE INTERNATIONAL SUGAR AGREEMENT, 1960-61

(Thousands of tons)

Country	Basic export tonnage a/	Original quotas 1960	Quotas in force on 5 October 1960 b/	Original quotas 1961 c/
Belgium	55.0	48.1	-	46.8
Brazil	550.0	481.3	759.0	467.5
China (Taiwan)	750.0	696.3	900.0	637.5
Cuba	2 415.0	2 261.9	3 695.9	2 052.8
Czechoslovakia	275.0	240.6	189.8	233.8
Denmark	75.0	65.6	29.0	63.8
Dominican Republic	655.0	592.4	725.6	556.8
France	20.0	18.0	-	18.0
Haiti	45.0	40.5	6.0	40.5
Hungary	40.0	36.0	52.1	36.0
Indonesia	400.0	350.0	50.0	340.0
Italy	20.0	18.0	-	18.0
Mexico	75.0	65.6	103.0	63.8
Netherlands	40.0	36.0	-	36.0
Peru	490.0	428.8	240.0	416.5
Philippines	45.0	40.5	58.1	40.5
Poland	220.0	192.5	50.0	187.0
Portugal	20.0	18.0	-	18.0
Soviet Union	200.0	175.0	-	170.0
Total	6 390.0	5 805.0	6 858.6	5 443.0

Source: International Sugar Council.

a/ In accordance with article 14 (1) of the Agreement, which also provides that Costa Rica, El Salvador, Guatemala, Nicaragua and Panama may each export up to 5 000 tons, in terms of on unrefined sugar, per year.

b/ Increase in quotas to 105 per cent of the basic export tonnage plus redistribution of 457 022 tons as mentioned in the text.

c/ Based on 85 per cent of the basic export tonnage.

/export quotas

export quotas provisionally - leaving the final decision to be made before 1 April 1961 ^{10/} - at 85 per cent of the basic export tonnage, thus achieving a statistical balance of supply and demand (see table III-6).

Thus, by adding to the original quota of 5,443,000 tons the special quotas of 435,000 tons and the maximum exports of 600,000 tons to be expected from non-participating countries, the Council decided that supplies of sugar on the free market in 1961 would amount to 6,478,000 tons, that is, not quite 100,000 tons more than its estimates of net import requirements for the free market (6,380,000 tons); consequently, the market was regarded as being in balance.

The following list groups on a more logical basis the sugar exports quotas (in thousands of tons) originally established by the International Sugar Council for 1961:

Countries supplying the United States

China (Taiwan)	637.5
Dominican Republic	556.8
Brazil	467.5
Peru	416.5
Mexico	63.8
Philippines	40.5
Haiti	<u>40.5</u>
Total	2,223.1

Countries supplied by Cuba

Czechoslovakia	223.8
Poland	187.0
USSR	170.0
Hungary	<u>36.0</u>
Total	626.8
Cuba	2,052.8
Others	540.3
Special quotas	<u>435.0</u>
	5,878.0
Non-participating countries	<u>600.0</u>
	6,478.0

^{10/} The Council met on 20 February to fix the sugar export quotas for the year and to consider the advisability of deciding on a new basic contract price for the purposes of article 20 (1) of the Agreement. No further information was available at the time of writing.

The countries listed above - which, it is assumed, will be the United States' principal suppliers in 1961 - are likely to give up their export quotas under the International Agreement. In point of fact, as already indicated, they would probably find it difficult to satisfy all the United States import requirements. A large proportion of the sugar in question could be reallocated to Cuba for export to the world market. Similarly, the fact that the United States will need to import additional quantities of sugar over and above the supplies from its new sources will leave a vacuum which may well be filled by Cuba.

Moreover, it is possible that the increase in production, which is anticipated for the 1961 farm year in Belgium, the Federal Republic of Germany, France and the Netherlands - all long-standing customers of Cuba -, will have a marked effect on Cuba's prospects of exporting to these markets in the subsequent farm year. According to F.O. Licht's second estimate, this group of European countries will produce 2 million more tons of sugar in 1961. In 1959, their imports of Cuban sugar were about 428,000 tons. In addition, France has the right to export up to 380,000 tons to the free market and Belgium 25,000 tons to Morocco, and supply estimates indicate that they will probably find it quite easy to do so.

With respect to the group of countries which will be supplied by Cuba in 1961, on an exceptional basis, and produce more than enough to cover their requirements - Czechoslovakia, Hungary, Poland and the USSR -, article 8 (1) of the Agreement stipulates that the participating countries may not exceed their export quotas. This being so, hardly any change would take place, since the USSR would not send more than 170,000 tons to the free market and the three remaining countries are habitual exporters. Hence, the combined exports of the four countries would increase the free market supply to the sole extent of 170,000 tons from the Soviet Union.

Thus, on a conservative estimate, Cuba may receive later in the year export quotas of approximately 3 million tons. This is not an unduly high figure in view of the fact that, when the final allotment was made to Cuba on 5 October 1960, its export quota totalled 3,695,935 tons. Although the prescribing of such quotas does not of course guarantee that the country receiving them will actually export that amount, it should be

/noted that,

noted that, in the first ten months of 1960, Cuba sent 2,839,000 tons to the free market. Hence, it seems unlikely that it will have any difficulty in exporting a quantity that is very close to 3 million tons to the free market in 1961.

On 19 December 1960 a new sugar agreement was signed between Cuba and the countries with a centrally planned economy, under which the USSR will buy 2.7 million tons of sugar, the People's Republic of China 1 million and the other countries 300,000 tons. The price agreed upon - 4 cents per pound - is higher than the prevailing market quotation. No details are available on the mode of payment. When the news was published in Cuba, it was stated that sugar cultivation would be carried on without any restrictions in 1961, in other words that the country's entire stock of cane would be ground.^{11/}

In accordance with these criteria, under the terms of the Decree of 18 January 1961 Cuban sugar production in that year will be distributed as follows:

	<u>Tons</u>
Quota for domestic consumption	360,040
Free quota for export to the world market	2,052,750
Compulsory reserve quota (article 13 (3) of the International Sugar Agreement)	301,875
Voluntary reserve quota for export to the world market	4,000,000
Total	<u>6,714,665</u>

An initial quota of 4 million tons will be distributed among the industrial units, and the cane ground in each mill will be paid at the final price of 3.64 cents per Spanish pound of sugar.^{12/} Furthermore,

^{11/} Speech by the Prime Minister of Cuba, as reported in the newspaper Revolución, Havana, 20 December 1960.

^{12/} This price is 1.06 cents less than that of 4.70 cents quoted in the speech mentioned in footnote 11.

Cuban mills were authorized to grind, in addition to the cane required for initial quota of 4 million tons, "the surplus cane produced in every one of their respective agricultural units" to be paid for at the provisional price of 2.50 cents per Spanish pound of sugar. If all this is sold at an average price of more than 2.50, the mills will make the necessary additional settlement.

According to the speech referred to, more than 10,000 caballerías (134,000 hectares) of sugar cane were left uncut during 1960, when 5.86 million tons of sugar were produced. For this reason, the target of 6.7 million tons fixed for 1961 is considered to be a reasonable one. On the basis of this figure, world sugar output in 1961 will be about 55.5 million tons, i.e. 5.2 million more than in 1960 (see table III-7).

The largest increments in production would take place in Latin America (1.1 million tons), Western Europe (1.9 million), the USSR (1 million) and Eastern Europe (890,000 tons). The United States - including Hawaii and Puerto Rico - would have 350,000 tons more and China (mainland) 145,000, while production would decline slightly by 65,000 tons in the rest of the world. At a rough estimate, world consumption in 1961 would be about 51 million tons, which would mean that a surplus of 4.5 million would be left over at the end of the year.

Table III-7
WORLD PRODUCTION OF CENTRIFUGAL SUGAR, 1960 AND ESTIMATE FOR 1961
(Thousands of tons)

Country or region	1960	1961	Difference
Cuba	5 862	6 715 ^{a/}	853
Rest of Latin America	<u>8 907</u>	<u>9 104</u>	<u>197</u>
Total Latin America	14 769	15 819	1 050
United States ^{b/}	4 435	4 785	350
Philippines	<u>1 386</u>	<u>1 420</u>	<u>34</u>
	5 821	6 205	384
Western Europe	7 919	9 774	1 855
Soviet Union	6 100	7 100	1 000
Eastern Europe	<u>3 302</u>	<u>4 194</u>	<u>892</u>
	9 402	11 294	1 892
China (mainland)	<u>1 260</u>	<u>1 375</u>	<u>115</u>
Total	39 171	44 467	5 296
Rest of world	<u>11 143</u>	<u>11 078</u>	<u>-65</u>
World total	50 314	55 545	5 231

Source: As for table III-1.

^{a/} Cuban sugar production fixed in accordance with the Decree of 18 January 1961.

^{b/} United States (mainland), Hawaii and Puerto Rico.

2. Cotton

World cotton production - excluding that of Eastern Europe, China (mainland) and the USSR - was about 29.2 million bales in 1958/59 and 30.9 million in 1959/60. As the countries with a centrally planned economy produced 15.7 and 16.4 million bales in the two years respectively, total world output rose to 44.9 million bales in 1958/59 and to 47.3 million in 1959/60.

In 1958/59, Latin America's share of world production - excluding that of the countries with a centrally planned economy - was more than 20 per cent but shrank to 16 per cent in 1959/60. In the latter year, the United States, which contributed 14.6 million bales, accounted for nearly half (47 per cent) of world production (see table III-8). It was followed in order of importance by India (3.3 million bales), Egypt (2.1 million), Brazil (1.7 million), Mexico (1.7 million) and Pakistan (1.3 million).

According to an estimate made in 1958/59 by the International Cotton Advisory Committee, approximately 84 per cent of world production consists of medium-staple cotton. ^{13/} A high proportion of India's output is short staple, as is part of the cotton produced in Burma, Pakistan and China (mainland).

13/ Cotton is generally classified according to the length, grade and strength of its fibre. When the grade is being determined, colour, softness and presence of impurities are all taken into account. The length of the fibre is determined by the average length of a sample of raw cotton, which often gives a good idea of the strength of the thread that will be produced after the cotton has been spun. The main categories as regards length of fibre (in inches) are as follows:

Short staple	Less than 7/8
Medium staple	From 7/8 to 1 1/8
Long staple	From 1 1/7 to 1 5/16
Extra long staple	More than 1 5/16

/Table III-8

Table III-8

LATIN AMERICAN AND WORLD COTTON PRODUCTION, 1957/58-1959/60 a/

(Thousands of bales of 478 lb or 216.8 kg)

Country	1957/58	1958/59	1959/60 b/
Brazil	1 350	1 540	1 700
Mexico	2 106	2 359	1 660
Peru	501	503	550
Argentina	690	520	420
Colombia	106	150	300
El Salvador	164	180	140
Nicaragua	220	215	135
Guatemala	64	75	65
Paraguay	50	40	40
Venezuela	30	37	37
Honduras	16	14	10
Haiti	5	5	5
Others	8	11	19
Total Latin America	5 325	5 667	5 096
United States	10 960	11 500	14 550
Asia and Oceania	7 569	7 398	6 617
Africa	3 512	4 109	4 060
Western Europe	509	524	621
	27 875	29 198	30 944
Countries with a centrally-planned economy c/	13 763	15 697	16 400
World total	41 638	44 895	47 344

Source: International Cotton Advisory Committee, Cotton-World statistics, September 1960.

a/ Year beginning 1 August.

b/ Provisional figures.

c/ China (mainland), Eastern Europe (Albania, Bulgaria and Romania) and the USSR.

/Nearly all

Nearly all the cotton grown in Latin America is of the medium-staple type. Approximately 11 per cent of the total is long staple and 2.4 per cent extra long. These characteristics make it easier for Latin America to sell its cotton abroad and raise the average price received by exporter countries. Among those that produce long-staple cotton are Brazil, Mexico and Peru. Peru is the only country to grow extra-long-staple cotton on a commercial scale. ^{14/}

(a) Production

In 1958/59, Latin American output totalled 5.7 million bales, which represented an increment of 6 per cent over the 1957/58 level. With the exception of Argentina, where floods affected approximately 20 per cent of the area sown to cotton, nearly all the major producer countries showed substantial increases.

In Colombia, for instance, production expanded by 42 per cent from 106,000 bales in 1957/58 to 150,000 in 1958/59. In Guatemala, Brazil, Mexico and El Salvador, increments of 17, 14, 12 and 10 per cent respectively were recorded, while no change took place in Peru and Nicaragua. For the reason mentioned above, Argentine production, which in 1957/58 had reached the record level of 690,000 bales, fell steeply by 25 per cent to 520,000 bales.

In 1959/60, as a result of the substantial decrease in plantings in Mexico and Central America - which led to a drop of 830,000 bales in their joint output - and of a further cut of 100,000 bales in the Argentine crop, Latin America produced 10 per cent less than in the previous year, despite increases in the Brazilian, Colombian and Peruvian crops of 174,000, 150,000 and 47,000 bales respectively.

The decline of cotton production in Mexico and Central America was chiefly due to the smaller area sown as a result of the drop in international market prices and the expectation of a further slump.

^{14/} In 1959/60, Peru produced 390,000, Mexico 115,000 and Brazil 68,000 bales of long-staple cotton (573,000 bales in all). Peru also produced 120,000 bales of extra-long-staple cotton.

The cotton-growing area was in fact cut by 39 per cent in Nicaragua, 36 per cent in Guatemala, 28 per cent in El Salvador and 27 per cent in Mexico. . . . In El Salvador and Guatemala, the repercussions of the reduction were partly offset by an increase in yield, which, however, was not enough to check the decline in output. Moreover, in Mexico, which is usually the principal Latin American producer, yield was 4 per cent lower than in 1958/59 (see table III-9).

On the other hand, favourable weather in Brazil and the incentive of higher minimum guarantee prices led to an expansion of 15 per cent in the area under cotton and consequently a substantial crop increment. In Colombia, the exceptional rise in output from 150,000 bales in 1958/59 to 300,000 in 1959/60, was attributable not only to the noteworthy increase of 82 per cent in the cotton crop, but also to the adoption of improved farming techniques which raised yield by 10 per cent. Colombia thus became a cotton exporter for the first time in its history.

It should be remembered that Central American yields are some of the highest in the world. In fact, Guatemala and El Salvador during 1960 recorded yields (791 and 788 kilogrammes per hectare respectively) that were exceeded only by that of Israel (1,047 kilogrammes) and were followed by those of the USSR (735), Egypt (619) and the United States (518). Nicaragua, with 594 kilogrammes, came midway between the last two countries.

(b) Consumption and trade

World cotton demand, which had been slack in recent years owing to the economic recession in certain countries, renewed its upward trend in 1959/60 as the result of the rapid growth of world population and the increase in per capita consumption in most of the major consumer countries. In this year, industrial activity stood at a high level. Cotton prices dropped slightly in relation to those for artificial fibres, but the textile mills used the record amount of 31 million bales - 6.5 per cent more than in 1958/59 (see table III-10).

Table III-9

LATIN AMERICA: AREA UNDER COTTON AND YIELD, 1957/58-1959/60

Country	1957/58	1958/59	1959/60 <u>a/</u>	1957/58	1958/59	1959/60 <u>a/</u>
	Kilogrammes per hectare			Thousands of hectares		
El Salvador	891	732	788	40	53	38
Guatemala	785	583	791	18	28	18
Nicaragua	778	591	594	61	79	49
Mexico	499	495	477	916	1 033	754
Peru	482	460	464	238	245	243
Colombia	345	365	402	67	89	162
Argentina	266	202	206	641	496	463
Brazil	195	206	198	1 497	1 619	1 862
Paraguay	187	131	130	58	66	67
Average yield	492	418	451			
Total area				3 535	3 708	3 656

Source: As for table III-1.

a/ Provisional.

Table III-10

WORLD CONSUMPTION OF COTTON AND END-OF-SEASON INVENTORIES, 1957/58-1959/60

(Millions of bales of 478 pounds net weight or 216.8 kilogrammes each)

	1957/58	1958/59	1959/60
<u>Consumption</u>			
Net importers	15.5	15.0	16.5
Net exporters	<u>13.0</u>	<u>14.1</u>	<u>14.5</u>
Total	28.5	29.1	31.0
<u>Inventories</u>			
Net importers	5.5	5.0	5.6
Net exporters	12.6	12.4	10.2
United States	(8.7)	(8.9)	(7.5)
In transit	0.6	0.3	0.6
Total	<u>18.7</u>	<u>17.7</u>	<u>16.4</u>

Source: As for table III-1.

/This is

This is why inventories dropped to 16.4 million bales, which is one of the smallest quantities registered in recent years, and falls short of the 1955/56 figure by nearly 6 million bales. A major part of this reduction is attributable to the considerable contraction in United States inventories (1.4 million bales) and, to a lesser degree, in those of the other net exporters. The increment in net importers' cotton stocks was 600,000 bales. During the last cotton year, United States exports increased 2.5 times over, from 2.8 million bales in 1958/59 to 7 million in 1959/60. In contrast, those of the other exporter countries decreased by 300,000 bales. Mainly as a result of the substantial growth of consumption, the total volume of world trade in cotton attained the unprecedented figure of 15 million bales (see table III-11).

Latin America's total exports, which had risen by some 900,000 bales between 1957/58 and 1958/59, reaching 3.3 million bales in the latter year, contracted by over 600,000 in 1959/60. Thus, Latin America's share in the world market dropped from 27 to 17 per cent between the last two cotton years (see table III-12). With the sole exception of Brazil, which more than doubled its exports, ^{15/} the external sales of all the Latin American countries declined in varying proportions. Mexico exported 505,000 fewer bales in 1959/60, which represented a 28 per cent reduction. Although quantitatively smaller, the decrease of 213,000 bales in Nicaragua's exports brought them down to a level 64 per cent below that of 1958/59. The volume exported by El Salvador fell by more than one half between 1958/59 and 1959/60, dwindling from 247,000 to 120,000 bales. Lastly, in Peru and Guatemala export contractions of 95,000 and 12,000 bales, respectively, were registered.

^{15/} They amounted to 500,000 bales in comparison with the 242,000 sold in the preceding year.

Table III-11

WORLD COTTON EXPORTS, 1957/58-1959/60

(Millions of bales of 478 pounds net weight or 216.8 kilograms each)

	1957/58	1958/59	1959/60
<u>United States</u>			
Specially-financed exports	7.7	2.3	1.4
Commercial exports	3.0	0.5	5.6
Total exports	5.7	2.8	7.0
Other countries	6.9	8.6	8.3
World total	12.6	11.4	15.3

Source: As for table III-1.

(c) Prices

During the decade just ended, United States cotton policy exerted a powerful influence on world prices, owing to the preponderant part played by that country both in the production of cotton and in the cotton trade.

Up to 1955, United States support prices helped to maintain world market cotton quotations at a high level. In that year, the United States initiated its special export programmes with the aim of obtaining "a fair share" in the international market, and thenceforward world prices followed a downward trend, within which periods of sharp decline alternated with spells of partial recovery.

This was the case in 1958-60. In 1958, Liverpool market quotations for the most important Latin American export varieties were relatively high. In the course of 1959 prices substantially decreased, recovering in 1960 to some extent in the case of medium-staple and notably in that of long-staple cottons (see table III-13).

/Table III-12

Table III-12

LATIN AMERICA: COTTON EXPORTS, 1957/58-1959/60 ^{a/}
 (Thousands of bales of 500 pounds gross weight each)

Country	1957/58	1958/59	1959/60
Mexico	1 417	1 809	1 304
Peru	402	512	417
Nicaragua	146	331	118
El Salvador	127	247	120
Brazil	215	242	500
Guatemala	35	60	48
Argentina	-	47	32
Paraguay	35	30	25
Others	<u>18</u>	<u>23</u>	<u>5</u>
Total Latin America	2 395	3 301	2 569

Sources: United States Department of Agriculture, Foreign Agriculture
Circulars, Cotton, FC 12-60 (December 1960).

^{a/} Years beginning 1 October.

Table III-13
WORLD COTTON PRICES, 1958-60 a/

(Cents per pound)

Quar- terly aver- age	1958			1959			1960		
	Mexico Matamoros 1-1/32"	Peru Pima No. 1	Nicaragua Strictly Middling 1-1/16"	Mexico Matamo- ros 1-1/32"	Peru Pima No.1	Nicaragua Strictly Middling 1-1/16"	Mexico Matamoros 1-1/32"	Peru Pima No. 1	Nicaragua Strictly Middling 1-1/16"
I	35.67	51.06	32.58	28.30	34.01	25.72	29.05	47.27	28.67
II	33.45	42.25	31.45	28.29	35.34	27.57	29.13	47.59	28.44
III	30.56	38.08	30.16	27.86	37.43	27.53		43.82	
IV	29.85	36.29	28.01	28.96	39.98	28.73			
Annual average	32.13	41.92	30.55	28.37	36.54	27.39	29.08	46.23	28.55

Source: International Cotton Advisory Committee, Cotton World Statistics, September 1960.

a/ C.i.f. quotations, Liverpool.

Thus, the price of the Mexican Matamoros type, which had averaged 34.67 cents per pound during the first quarter of 1958, declined progressively throughout that year and the next until it reached its lowest level - 27.86 - in the third quarter of 1959. The following quarter witnessed the beginning of a phase of recovery which brought the price up to 29.13 cents in the second quarter of 1960, or 5.5 cents below the figure quoted in the first three months of 1958.

Between the first quarters of 1958 and 1959, the price of extra-long Peruvian cotton, of the Pima No. 1 type, dropped sharply from 51.06 to 34.01 cents per pound. The process of recovery began in the second quarter of 1959, and in the corresponding months of 1960 a level of 47.59 cents was reached. In the third quarter of the latter year, however, the price fell again, this time to 43.82 cents.

/(d) Prospects

(d) Prospects for 1961

Production and consumption are expected virtually to balance each other in 1961. According to provisional estimates prepared by the United States Department of Agriculture, ^{16/} that country's output - approximately 14.3 million bales - will probably fall some 200,000 bales below that of 1960. Production in the centrally planned economies is likely to contract by some 800,000 bales, while that of the rest of the world should increase by 1.5 million. This would result in a world harvest amounting to 46.9 million bales in 1960/61, as against 46.4 million in the preceding year.

Consumption will probably be in the neighbourhood of 47.1 million bales (600,000 bales less than in 1959/60), and if demand for cotton remains at its present level, the outlook for prices is reasonably encouraging.

During the forthcoming season, Latin American production will very probably recover, at least in part, from the contraction registered in 1959/60. The area under seed in Mexico and El Salvador has been enlarged by over 20 per cent, and in the former country the harvest is expected to yield about 2 million bales. Information has been received to the effect that at Mocó, in the north of Brazil, the crop will be almost 100,000 bales larger, thanks to favourable weather conditions and to the efforts expended on improving the cultivation of this variety, and that in the south of the country there will be some increase in the area sown to cotton. In Peru and Argentina, production will probably remain at the preceding year's level. Last season's exceptional expansion of production in Colombia compelled the Government to grant the surplus an export subsidy. Current policy is therefore directed towards the restriction of credits for marginal areas and of sowings in potential cotton-growing districts.

^{16/} See United States Department of Agriculture, Foreign Crops and Markets, World Summaries, Crops and Livestock, 24 November 1960. The figures cited correspond to bales of 500 pounds each, gross weight.

3. Cacao

In 1959/60, world production of cacao attained the peak figure of 1,008,000 tons, about 100,000 and 220,000 tons more than in 1957/58 and 1958/59, respectively.

In the cacao year 1959/60, which ends in October, Latin American production of cacao beans accounted for 32 per cent of world output. Africa, the world's leading producer region, contributed 65 per cent.

The three most important producers are Ghana (322,000 tons), Brazil (186,000 tons) and Nigeria (154,000 tons). In 1959/60 the joint output of these three countries constituted 66 per cent of world production. Brazil's production represented 18 per cent of that of the world. Apart from Brazil, the other two major producers in Latin America are Ecuador and the Dominican Republic. The combined output of these three Latin American countries represented 80 per cent of the region's total production in 1959/60.

(a) Production

Production in Latin America in 1958/59 (308,000 tons) exceeded the 1957/58 volume by almost 5 per cent. The countries which achieved production increments comprised Brazil, Colombia, Costa Rica, Ecuador and Panama; in all the rest output remained stable or contracted slightly (see table III-14).

The rate of growth of production in 1959/60 (a little over 4 per cent) was much the same as in the preceding year. Increases were registered in Brazil and the Dominican Republic, while in Costa Rica and Venezuela output contracted. In Brazil the main harvest reached a maximum figure of 96,000 tons, while the early (temporão) crop, which at first looked equally promising, was reduced by heavy rainfall and sharp drops in temperature. Nevertheless, total output for the year amounted to 186,000 tons, the largest volume produced to date, and 38 per cent above the average for the period 1951/52-1955/56.

/Table III-14

Table III-14

LATIN AMERICAN AND WORLD OUTPUT OF CACAO BEANS, AVERAGE FOR 1951/52-1955/56, ANNUAL
OUTPUT FROM 1957/58 TO 1959/60 AND FORECAST FOR 1960/61

(Thousands of tons)

	1951/52- 1955/57	1957/58	1958/59	1959/60 ^a /	Forecast 1960/61
Brazil	135.2	162.0	174.0	186.0	138.0
Dominican Republic	31.9	36.0	33.0	40.0	36.0
Ecuador	29.2	31.9	33.7	32.7	35.9
Mexico	10.5	15.3	15.0	14.0	15.0
Colombia	10.9	11.7	13.0	14.0	15.0
Venezuela	17.6	15.2	14.8	10.1	15.0
Costa Rica	7.4	8.2	11.0	10.0	11.0
Peru	4.2	4.6	4.0	4.5	5.0
Cuba	2.7	2.8	2.8	2.8	2.8
Bolivia	3.0	2.1	2.1	2.1	2.1
Haiti	1.8	1.9	1.9	1.9	1.9
Panama	1.6	1.5	1.8	1.7	1.7
Guatemala	0.9	0.7	0.7	0.7	0.7
Nicaragua	0.4	0.3	0.3	0.3	0.3
Honduras	0.1	0.1	0.1	0.2	0.2
Total Latin America	257.4	294.3	308.2	321.0	280.6
Ghana	232.3	209.8	259.5	321.9	310.0
Nigeria	105.2	89.8	142.6	154.0	150.0
Rest of Africa	153.4	158.8	163.2	177.6	183.6
Total Africa	490.9	458.4	565.3	653.6	643.6
Others ^b /	23.7	27.3	28.1	33.3	34.4
World total	772	780	902	1 008	959

Source: FAO, Cocoa Statistics, Vol. 3 (October 1960).^a/ Provisional.^b/ Federation of the West Indies, French West Indies, Asia and Oceania.

/Much of

Much of this success can be attributed to the favourable weather conditions prevailing in the chief producer areas. Attention must be drawn, however, to the important part played by official action in promoting measures designed to control disease and pests, expand cacao-growing and improve yields in the leading producer countries.

Brazil and Ecuador, indeed, gave a vigorous impetus to replanting activities, and much of this work was carried out on the basis of hardy and higher-yielding varieties.

The recovery of Ghana's production from the low levels recorded in 1957/58 is also largely attributable to the measures sponsored by the Government with a view to improving cultivation techniques through increased utilization of inputs. In Nigeria the entry into production of new cacao growers and the introduction of the Amazon variety contributed to the good 1958/59 harvest. In both these countries anti-pest campaigns were so successful that in 1959/60 the largest production increments were registered precisely in those areas where intensive fumigation of the cacao plantations had been carried out.

The progress made by the African producers seems to have been greater than any achieved in Latin America. Careful study of the production statistics given in table III-14 above suggests that in recent years Latin America has continued to lose ground as a producer vis-à-vis the African continent. ^{17/} According to authorized forecasts it seems that this trend will become more marked in 1960/61.

^{17/} In fact, the share of Latin America is following a downward trend, while that of Africa is slowly increasing, as can be seen from the data shown below:

	<u>1951/52- 1955/56</u>	<u>1957/58 a/</u>	<u>1958/59</u>	<u>1959/60</u>
Latin America	33.3	37.7	34.2	31.8
Africa	63.6	58.8	62.7	64.8
Other countries b/	3.1	3.5	3.1	3.4

a/ A year in which African production was exceptionally low.

b/ The West Indies.

/The earnest

The earnest drive to promote cacao cultivation in other areas is a factor contributing to the dwindling importance of Latin America as a producing area. In the West Indies for example, efforts are being made to introduce cacao or to improve the quality and quantity of crops. Production in Papua and New Guinea, which was intended to supply the Australian market, is booming. The first shipments of cacao plants have recently arrived in the Fiji Islands. Furthermore, efforts are being made to introduce cacao into Sarawak, North Borneo, Zanzibar and the Solomon Islands.

(b) Consumption and trade

It is estimated that world cacao consumption in 1960 was of the order of 892,000 tons, representing an increase of 42,000 tons over 1959 and 17,000 over 1958. This 1960 consumption level was, however, below the 920,000 tons recorded in 1957. This recovery seems to show that the unfavourable effects of high prices on consumption in 1958 have now disappeared.

The consumption of cacao is concentrated in the highly industrialized countries where income levels are high. In 1960, the United States and Western Europe between them accounted for 69 per cent of total world consumption. The amount of cacao ground in the United States reached the figure of 215,000 tons, which made that country the world's larger consumer. The United States was followed at some distance by the Federal Republic of Germany (100,000 tons), the Netherlands (80,000 tons), the United Kingdom (72,000 tons) and France (51,000 tons).

Latin America considered as a whole occupies an important place in world cacao consumption as the amounts ground there in 1960 are estimated at 137,000 tons or approximately two fifths of output for that year. Distribution of consumption as between the different Latin American countries is, however, somewhat uneven. Consumption in Brazil (71,000 tons), accounts for 52 per cent of the regional total and added to consumption in Colombia (22,000 tons), the Dominican Republic (12,000) and Mexico (9,400) accounts for 84 per cent of total Latin American consumption (see table III-15).

/Consumption in

Consumption in Africa is very low and in 1960 it was estimated at only 19,000 tons. That means that in practice nearly all African output is for export.

Although world exports in 1959 (746,000 tons) were 14 per cent higher than in 1958, Latin American shipments abroad declined by 11 per cent. This was due mainly to the fall in Brazilian and Dominican exports (see table III-16).

In 1960, exports from certain Latin American countries, for which only incomplete figures are available, give grounds for believing that there was a substantial increase as compared with 1959. For instance, Brazilian exports which were 41,000 tons in the first seven months of 1959, exceeded 64,000 tons in the first seven months of 1960. The expansion between the same two years for Dominican exports was somewhat more than 4,000 tons.

Exports from Ecuador, Panama and Venezuela were also larger, although less strikingly so. These trends, together with recent trade information, seem to indicate that Latin American cacao exports have recovered from the sharp fall which occurred in 1959 and that they may well exceed the highest figures reached in the last decade.

(c) Prices

Cacao prices reached their highest level in recent years in the second quarter of 1958 when the average price, warehouse in New York, of Accra cacao reached 46.4 cents per pound while Bahia cacao was quoted at 45.4 cents (see table III-17). ^{18/}

The average annual prices for both varieties in 1958 were 44.3 and 43.3 cents per pound respectively and since then, both have been dropping. In 1959, the average annual quotations for the two varieties (36.6 and 35.4 cents) declined by 17 and 18 per cent respectively, while average prices in 1960 fell by 36 and 38 per cent as compared with 1958. These price falls were closely related to the substantial increases in world

^{18/} The peak of 49 cents per pound was reached in June 1958 for cash payments for Accra cacao in New York.

Table III-15
VOLUME OF CACAO BEANS GROUND IN LATIN AMERICA AND THE WORLD 1958-60
AND FORECAST FOR 1961

(Thousands of tons)

	1958	1959	1960 ^{a/}	Forecast 1961
Brazil	55.0	65.0	70.8	51.6
Colombia	18.0	21.6	22.0	23.0
Dominican Republic	10.1	11.6	12.0	12.0
Mexico	9.0	9.0	9.4	10.0
Argentina	8.5	3.6	5.0	5.0
Ecuador	4.9	4.8	5.0	5.2
Peru	4.5	4.5	4.5	4.5
Bolivia	2.1	2.1	2.1	2.1
Venezuela	1.5	1.5	2.0	2.3
Cuba	2.0	2.0	2.0	2.0
Guatemala	0.7	0.7	0.7	0.7
Chile	0.6	0.6	0.7	0.7
Uruguay	0.6	0.6	0.5	0.5
Total Latin America	117.5	127.5	136.7	119.6
North and Central America ^{b/}	225.7	219.9	230.9	241.5
United States	(209.6)	(205.1)	(215.0)	(225.0)
Western Europe	401.1	396.6	407.5	420.8
Federal Republic of Germany	(90.0)	(95.0)	(100.0)	(102.0)
Netherlands	(63.6)	(73.7)	(80.0)	(80.0)
United Kingdom	(96.0)	(74.1)	(72.1)	(76.2)
France	(53.8)	(49.8)	(51.0)	(53.0)
Eastern Europe and USSR	48.3	59.9	66.7	73.9
Africa	16.6	18.4	19.1	26.6
Asia	11.8	14.3	16.4	18.7
Oceania	11.8	13.3	14.5	15.0
World total	833	850	892	916

Source: FAO, *Cocoa Statistics*, Vol. 3 (October 1960).

^{a/} Preliminary.

^{b/} United States, Canada, Jamaica, etc.

/Table III-16

Table III-16

EXPORT OF CACAO BEANS, AVERAGE FOR 1952-56, ANNUAL FIGURES FOR 1958-59
AND CERTAIN MONTHS OF 1959-60

(Tons)

	1952-56	1958	1959	Months	1959	1960
Brazil	107 132	103 435	79 577	I-VII	40 864	64 388
Dominican Republic	21 564	24 096	21 722	I-V	8 956	13 632
Ecuador	25 846	22 150	28 540	I-VIII	23 055	24 443
Mexico	2 512	5 033	5 393	I-IV	3 222	2 269
Venezuela	16 645	13 605	10 713	I-VII	9 321	10 067
Costa Rica	8 113	7 685	11 522	I-VI	4 905	4 772
Peru	42	239	26		...	...
Cuba	396	554	851 ^{a/}		...	...
Bolivia	3	91	-		...	...
Haiti	1 853	1 889	...		...	...
Panama	2 042	1 270	1 680	I-III	559	660
Guatemala	337	552	...		...	...
Nicaragua	121	102	184		...	...
Honduras	6	16	...		...	...
Total Latin America	186 612	180 717	160 208		90 882	120 231
Ghana	224 154	200 494	254 216	I-IX	204 388	222 740
Nigeria	106 343	89 050	145 096	I-VIII	105 788	108 720
Rest of Africa	160 993	150 956	163 078		98 804	98 568
Total Africa	491 490	440 500	562 390		408 980	430 028
Rest of the world ^{b/}	20 779	22 277	23 237		15 928	18 611
World total	698 900	643 500	745 800		515 900	568 900

Source: FAO, Cocoa Statistics, Vol. 3 (October 1960), and Supplement for October 1960.^{a/} Nine months.^{b/} Federation of the West Indies, French West Indies, Surinam, Asia and Oceania.

Table III-17

INTERNATIONAL PRICES OF CACAO BEANS, 1958-1960 a/
(Cents per pound)

		1958		1959		1960	
		Accra	Bahia	Accra	Bahia	Accra	Bahia
Quarterly average	I	43.4	42.2	37.6	36.1	28.6	27.9
	II	46.4	45.4	37.3	37.2	28.3	26.1
	III	45.9	45.1	37.3	35.1	28.6	26.8
	IV	41.5	40.6	34.0	33.0	27.8b/	26.1b/
Annual average		44.3	43.3	36.6	35.4	28.5	26.7

Source: FAO, Cocoa Statistics, Vol. 3 (October 1960).

a/ Cash warehouse prices in New York.

b/ Gill & Duffs Ltd., Cocoa Market Report N° 132 (6 January 1961).

harvests in 1958/59 and 1959/60. It should be added that, in the latter year, world output exceeded world consumption by 116,000 tons, the latter being estimated at 892,000 tons.

(d) Outlook

At its October 1960 meeting, the FAO Cocoa Study Group estimated that world cacao bean output in 1960/61 would be of the order of 959,000 tons or 49,000 tons less than in the preceding year (see table III-14). This forecast rests mainly on the supposition that there may be a reduction of 25 per cent in the main Bahia crop owing to bad weather and at the same time smaller drops in Ghana and Nigeria. More recent information indicates that output in Ghana and Nigeria will probably be 26 and 16 per cent higher than in 1959/60, while Brazilian production will remain at the aforementioned level. In view of this more recent information, there is reason to suppose that the next crop may well exceed 1 million tons.

/Accordingly, cacao

Accordingly, cacao prices on the New York market continued to move steadily downwards during October, November and December 1960, reaching the lowest level since the end of the war. At the end of the year, both Accra and Bahia cacao were quoted on the New York market at 24.11 cents per pound.

Note: In its final version this chapter of the Survey will contain further sections devoted to an analysis of the position of other commodities, including coffee, cotton, maize and meat.

