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INTRODUCTORY SUMMARY

In 1961, Latin America's total production continued to increase at the same modest pace--about four percent--as in the three preceding years. Given however the region's high annual population growth of almost 2.5 percent, average per capita income and output for the area as a whole advanced at an unsatisfactory rate. In many countries, product per inhabitant not only failed to expand, but even contracted, during the year. Sizable increases in total product were recorded in a limited number of countries, including, among others, Argentina, Brazil, Mexico, Panama, and Peru. The accelerating pace of economic growth in Brazil, in particular, made even more apparent the disparity between that country and most of the rest of Latin America in this respect in recent years. Almost everywhere else, the tempo of development lagged behind the more adequate expansion rates that had been achieved in the early part of the last decade.

Manufacturing continued to be the most dynamic sector of production but the primary industries continued to lose ground. Owing largely to the accelerated tempo of industrialization in some countries, notably Brazil and Mexico, manufacturing activities continued to gain in relative importance. In 1961, for example, manufacturing output increased twice as fast as total product, in contrast with primary production, which lagged behind the rise in total output of goods and services, thus continuing a trend that had begun earlier. The growth of the service sector was also moderate, but a sharp increase occurred in construction activity, after a protracted period of depression in many countries.

Agriculture showed the slowest rate of expansion in 1961. While there were moderate increases in the production of export crops, notably cotton and sugar, output of foodstuffs for domestic consumption remained virtually stagnant despite various official attempts to overcome the institutional and technological obstacles to progress in this sector. The failure of agricultural output in recent years to keep pace with population increases is a serious handicap to Latin American efforts to achieve a balanced pattern of development. The unsatisfactory performance of this sector has tended to accelerate the movement of rural populations into urban areas, thereby greatly intensifying economic and social pressures in the cities where employment opportunities are limited, and housing, educational, and other social welfare facilities fall far short of requirements.

Mining, which had until 1957 been one of the fastest-growing sectors of production, showed only negligible production increases. This reflects in part the unfavorable market conditions for Venezuela's iron and petroleum exports. Production of copper (in Chile, Mexico, and Peru), and lead (in Mexico and Peru) was similarly stagnant.

Production of both petroleum and iron for domestic use, on the other hand, was considerably stepped up to meet the growing fuel and raw material needs of the expanding industrial sector in Argentina, Brazil, Mexico, and a few other countries. Partly stimulated by the rising price of silver, a by-product in many zinc deposits, the region's output of the latter metal also rose substantially.

Within the manufacturing sector, the rapid growth of production has continued to be accompanied by a notable change in its composition. In 1961, while the output of the traditional industries --chiefly nondurable consumer goods--rose by less than the gross product, the rate of expansion of some of the newer industries, engaged in the production of durable consumer goods, capital goods, and intermediate products such as steel, chemicals, petroleum and paper, was about three times higher. This striking contrast is closely associated with the tendency of demand for durable goods and industrial materials to increase much more rapidly, as income and output rise, than that for many types of nondurable consumer goods. Moreover, the extent to which domestic production can still be substituted for imports is much greater in the intermediate and capital goods industries than in the traditional branches of manufacturing, where the import substitution process has already been carried quite far. The opportunities for industrialization and import substitution, however, rise with the size of the market --which is small in many of the less-developed countries of Latin America--and with the existing industrial base. This explains in part why in recent years the main impetus for the industrial transformation and growth of Latin America has come chiefly from the few countries endowed with a large domestic market and a relatively well developed industrial complex, particularly Argentina, Brazil and Mexico. It also provides the essential rationale for economic integration, both in Central America and among the countries of the Latin American Free Trade Association. In this connection, efforts made for several years by national governments and international institutions to promote the establishment of a Latin American common market were climaxed in 1961 by the ratification of both the Montevideo Treaty, creating the Latin American Free Trade Association (LAFTA), to which eight South American countries and Mexico now belong, and of the General Treaty of Economic Integration and its Protocol on Import Duty Equalization, which aims to bring about the economic integration of Central America. Since September 1961, moreover, the Central American Economic Integration Bank, designed to help develop regional industries has functioned officially. There is no doubt that further substantial efforts in this direction of economic integration will continue to be necessary if Latin American industrialization is to be speeded up substantially.

Apart from the limitations still imposed by the size of markets and the shortage of financial, technological, and specialized

human resources, the growth of production in 1961 continued to be held back in many parts of Latin America by the stagnation of aggregate demand. As in preceding years, many countries were handicapped by the lack of vigor of export demand, a factor which continues to discourage primary production and makes the need for an accelerated tempo of industrialization ever more acute. Where industrialization is proceeding with sufficient rapidity and on a large enough scale, as for example in Brazil and Mexico, sizable increases in domestic demand compensated for the weakness of foreign demand. In most countries, however, this was not the case. On the whole, both consumption and investment have grown very slowly in Latin America in the past few years and especially in 1961.

Apart from the inauspicious developments in the export sector, the weakness of demand and of investment activity has also been caused, in several cases, by excessively restrictive monetary policies pursued in recent years to curb inflationary pressures or to prevent the intensification of foreign payments disequilibria. The policies adopted by many countries in recent years to overcome these difficulties had aimed essentially at bringing the total demand for goods and services into closer balance with the available supply. In some cases, however, this was done at the cost of drastic and indiscriminate curtailment of credit to the private sector and of a substantial curtailment of public and private investment expenditures.

By 1961, the severe monetary controls imposed in earlier years had been relaxed in some cases and where there had been a measure of success in overcoming price and balance-of-payments difficulties government investment spending increased. On the whole, however, in 1961 severe shortages of credit still hampered economic activity in a number of countries, and exceptionally high unemployment levels still depressed consumer demand. Under such conditions, manufacturing output, remained in some instances far below existing capacity, and incentives to invest were weak. Thus, despite some recent improvement in private and public investment in Argentina, Chile, and a few other countries, share of total output going into fixed capital formation for Latin America in 1961 was little changed from the two preceding years and was still substantially below the levels attained in the early fifties.

In the export sector, the relative stagnation of the past few years has originated primarily in the unsatisfactory level of export prices, which have remained depressed, ever since the 1957-58 recession. In 1961, the weakness of export prices extended to nearly all major products, except tin. A slight improvement in total export receipts was nevertheless recorded during the year, but, as in 1960, this was achieved primarily as a result of a rise in the volume shipped. In individual cases, notably Bolivia, Brazil, Peru, Mexico and some of the Central American countries, the increases

were more or less marked, but elsewhere receipts failed to expand, or contracted.

The geographical distribution of Latin America's total export trade changed during the year. The slower rate of growth of economic activity in the industrial nations, particularly the United States and Britain, was reflected in a fall in Latin American exports to these countries. Shipments to Japan, on the other hand, whose economy continued buoyant, increased. The reorientation of Cuba's export trade toward the centrally planned economies also raised the share of that region in the total. Intra-Latin American trade, however, dropped sharply, owing in particular to the virtual disappearance of Cuban petroleum imports from Venezuela, to the greater degree of self-sufficiency achieved by Argentina's domestic petroleum industry, and to the reduced exports of Argentine wheat to the rest of the area. Within Central America, on the other hand, regional trade showed a substantial increase in 1961. This may be attributable in large part to the progress of the area's economic integration program, which culminated in 1960 with the establishment of the common market.

As to the commodity composition of Latin American exports, among the major mineral products only tin enjoyed substantially increased demand. Low prices and import quotas continued to limit the market for lead and zinc in the United States, although exports of both metals to Western Europe increased in 1961. Copper shipments were down somewhat, while exports of crude petroleum showed a slight increase, despite a fall in intra-Latin American sales and the increasing competition of the USSR in world markets. Exports of refined petroleum and derivative products increased faster than those of the crude products, a tendency that has been noted for several years.

Coffee continued in oversupply in 1961 and market possibilities remain restricted, notably in certain European countries. As both price and volume of exports fell, those countries unable to expand secondary exports were faced with sharply falling export receipts. In Brazil and some of the Central American countries, an expansion of cotton exports helped to offset the unsatisfactory conditions prevailing in the coffee market. Other countries also benefited from the relatively stable price situation and rising demand for cotton. Wool prices, on the other hand, declined in the face of stagnant world consumption at a time of rising production. Uruguay nevertheless increased its sales substantially, partly at the expense of stocks. Uruguay's meat exports, on the other hand, were affected by a prolonged strike in the main packing plant and declined substantially, while Argentina's meat export receipts, in the face of an eight percent price decline, remained at their depressed 1960 level. In the sugar market, excess supply continued to prevail, as political events caused major dislocations of the established trade pattern.

The weakness of primary product markets continued to discourage new foreign investment in the primary industries, which had been one of the major poles of attraction for foreign capital in Latin America until a few years ago. In the manufacturing sector, on the other hand, foreign capital continued to be attracted by the prospects of expanding internal markets, increasing protection and tax incentives. On balance, in 1961, private direct foreign investment to Latin America appears to have risen somewhat, with the bulk of the funds going, as in most recent years, to three countries, namely, Argentina, Brazil and Mexico. Relatively large inflows of direct foreign investments have also characterized Peru and Panama in recent years.

The outward movement of short-term and speculative capital, on the other hand, represented a disturbing element during 1961. In several countries, the success of monetary stabilization measures undertaken in recent years had encouraged a substantial inflow of foreign funds and some repatriation of domestic capital. By the end of 1961, however, the re-emergence of inflationary pressures, dim export prospects, and balance of payments strains contributed in part to an outflow of short-term funds in a number of countries. In Venezuela, on the other hand, the large scale outflow of funds which had occurred since 1958 was virtually arrested following the modification of the exchange system in November 1960 and the revaluation of the exchange rate applicable to financial transactions in the course of 1961.

Medium-term credit from foreign banks and exporters continued to play a significant part in the financing of Latin American imports. But such intensive use had been made of this type of credit in previous years that the very existence of the outstanding debts has recently contributed to reduce the amount of new loans. Official lenders, which had also granted substantial medium-term credits to Latin America in earlier years to alleviate severe balance-of-payments difficulties and bolster monetary stabilization efforts, continued their support in 1961 and took the lead in important debt consolidation operations in favor of the countries most heavily burdened by the rising amortization payments. Large credits were thus made available to Argentina and Brazil, for instance by combined groups of creditors from the United States, Western Europe and Japan, which included not only government entities but also private banks and commercial creditors.

The net flow of official capital from the United States and the international financial organizations rose in 1961. The total flow of funds from official sources, which varies widely from year to year, is expected to benefit in the future from a variety of recent developments in the area of international financial cooperation which are increasing the size, range, and flexibility of

resources available for lending to Latin America. Bilateral development assistance continues to be of greater significance than credits channeled through multilateral agencies; thus in 1961 outright donations from the United States Government remained a major component of foreign assistance in a few countries while a significant expansion took place in the loans granted under the agricultural surplus disposal program. The United States Export-Import Bank also continued to play an important part both in the granting of new credits and the refinancing of old ones. The official contribution of Western Europe, and specially the Federal Republic of Germany, to the flow of official capital to Latin America increased somewhat in the past two years, though in absolute terms it was still small, except in the area of export credit guarantees and the consolidation of medium-term commercial debts incurred in earlier years.

Among international institutions, the International Bank for Reconstruction and Development increased the pace of its disbursements to Latin America in 1961. Latin America, moreover, accounted for 45 percent of the first U.S. $60 million of new loan commitments made during the year by the new International Development Association, created to supply development financing on relatively easier terms to countries already burdened with heavy foreign debt repayments. Of particular importance, finally, was the beginning of operations in 1961 of the Inter-American Development Bank. This Bank has made a number of loans from both its own funds and those of the Social Progress Trust Fund, on terms specifically geared to the solution of some of the most urgent economic and social problems of Latin America including, in particular, those of housing and public health. The Bank's own resources have been used dhiefly for the financing of industrial and infrastructure proyects, while most of the Social Progress Trust Fund was committed for housing and public health program.

In 1961, for the third consecutive year, the region's net balance of payments deficit stood near U.S. $350 million. While in the two preceding years these deficits had been financed primarily out of national holdings of gold and foreign exchange and certain short and medium term credits - in 1961 drawings on the International Monetary Fund became the largest balancing item. In spite of these deficits, in 1959 and 1960 the expansion of the IMF's resources had raised Latin America's drawing rights enough to increase the region's gross exchange reserves. In 1961, however, these reserves declined by U.S.$300 - 350 million.

For Latin America as a whole, the slight improvement in export receipts and net capital inflow experienced in 1961 led to a small expansion -two or three percent- in the capacity to import from the rest of the world. Except in a few countries, the capacity to import has now more or less recovered from the

set-back experience in 1958 and 1959 under the impact of declining export prices and reduced capital inflows. No net progress was made, however, in the 1957-61 period taken as a whole, even excluding Venezuela, where the failure of exchange receipts to recover their exceptionally high level of the 1956-57 petroleum boom period must be considered as a special case. Total imports, which had contracted along with exchange availabilities in 1958 and 1959, had also resumed a slow expansion in most countries in 1960. In 1961, sizable further increases took place in Panama and Peru, where the capacity to import had risen substantially during the year. In Argentina and Chile, on the other hand, substantial import rises placed a considerable strain on the balance of payments. On the whole, the obstacles to the satisfactory adjustment of import demand to the existing level of the capacity to import continued to be considerable in most parts of Latin America. Despite a significant slowing down of price inflation in many of the South American countries, where it had prevailed for years, excess demand pressures continued to pose serious problems in a few countries. Everywhere, moreover, specific shortages and bottlenecks in domestic productive structures contributed to the determination of an irreducible minimum in total import requirements, which can be expected to increase rapidly in the next few years if the pace of Latin America's economic development quickens to the extent presently contemplated in the Charter of Punta del Este.

The general social and economic outlook in Latin America thus continues to be dominated by the difficulties which for some years have beset the export sector, by the tensions inherent in the region's underdevelopments, and by the efforts made to overcome both.

Chapter I

EXPORT TRADE

INTRODUCTION

The value of total exports from Latin America in 1961 amounted to approximately US$ 8.7 billion, thus recovering to the 1956-57 levels, following a period of contraction that lasted three years. This recovery took place, however, principally in 1960, when total exports had already reached a value of approximately US$ 8.6 billion. This means that although the recovery was completed in 1961, it took place in an atmosphere of relative stagnation in which the general prospects for exports in the near future were not very bright. The expansion of foreign demand, which in 1960 contributed substantially to the process of recovery--in spite of the recession in the United States during the second half of the year--did not maintain the same dynamic rate in 1961, owing to the decline in industrial activity in nearly all the Western European countries. International markets for primary products, with very few exceptions, were dominated by a situation in which supply exceeded the current rates of consumption, bringing about, as a result, a downward price trend.

Moreover, there was no definite movement toward easing the protectionist measures adopted by some industrialized countries. Lead, zinc, and crude oil and its derivatives continued to be subject to import quotas in the United States, and as a result of these restrictions the volume of these products that Latin American countries were able to export to the United States market continued to decrease or, as in the case of lead, became stagnant.

In the countries belonging to the European Economic Community the process of liberalization of trade within the Community and its associated countries continued to advance, but as progress was made in this respect, the discriminatory tendency of the common external tariff on products from the rest of the world, including those from Latin America, became increasingly evident. Furthermore, the possible entry of the United Kingdom into the European Common Market could have strong repercussions, since, if the same preferential treatment is accorded to some members of the British Commonwealth as is granted to

/other

other associated territories of the European Economic Community, the prospect for Latin American exports of coffee, cacao, sugar, hides, wool, etc., would be reduced even more.

This chapter begins with a brief analysis of the conditions under which economic activities have developed in the industrialized countries, to give a broad view of the situations that, in turn, affected over-all foreign demand. Two important points can be mentioned: a) even though consumers' total expenditures continued to expand, this expansion was concentrated mainly in services, whereas total expenditures in durable goods registered a sharp decline; b) investments in inventories underwent large-scale fluctuations and as a general rule they accentuated the downward trend of prices of raw materials, which had already been affected by a decrease in activity of basic sectors such as the metallurgical and textile industries.

The second section of the chapter deals with the evolution of the international market for a selected group of Latin American export products. The analysis includes changes that have taken place in production, exports, consumption and stocks, both in the Latin American countries and in countries outside the region, in order to study the relationship between these changes and the general course of prices in foreign markets. Even though these notes do not cover all the Latin American basic export products, they include those that constitute a substantial portion of the exports of each country, which together account for over 69 percent of the total exports of Latin America. This study shows that in regard to only two products, tin and wheat, were the limitations of available supply an important element, while in regard to the other products foreign demand was the most important factor in determining the total value of Latin American exports.

The third section makes a study of Latin American exports as a whole. On the one hand a comparison is made of the course of quantity and unit value indices of exports from Latin America with those of exports from other trade areas; on the other hand, the relative changes that have taken place in each Latin American country are analyzed. Even though in 1961 total Latin American exports regained the level established some years before, in several countries it was a year of decline.

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In the fourth section, the study is supplemented with an analysis of the changes that took place in the distribution of exports, by destination, and special attention is called to exports to the United States, which in 1961 showed a marked decline as compared with previous years, largely due to the reorientation of exports from Cuba toward the countries with centrally planned economies, and also to the decrease in exports of such products as petroleum and its derivatives, iron ore, lead and zinc from other countries. Exports to Western European countries continued to increase, but only those destined for members of the European Economic Community exceeded the 1957 figures. The most important relative increases took place in exports to Japan and, as regards those to other than industrialized areas, in exports destined for the countries with centrally planned economies. Inter-Latin American exports as a whole decreased again, even though this decline was limited to a few countries and basically reflected the limited exportable balances of Argentine wheat and a decrease in the sales of Venezuelan oil to those Latin American countries whose domestic production has increased. It is significant that trade between the Central American countries has continued to show substantial increases, and this is of particular interest when the liberalization measures adopted by the countries that signed the Central American Treaty on Economic Integration are taken into account.

The last section of the chapter summarizes the course followed in the formation of two preferential trade areas within Latin America: The Central American Treaty on Economic Integration and the Latin American Free Trade Association. The progress achieved by means of multilateral Latin American cooperation can in this way be shown without attempting to evaluate as yet, the results of a process that is just beginning to take a definite direction.

I. ECONOMIC ACTIVITY IN THE INDUSTRIALIZED COUNTRIES

Economic activity in the majority of the world's industrialized countries reached new and higher levels in 1961. Some notable differences in this movement, however, can be observed among certain countries. In some European countries, particularly in the European Economic Community, the growth of economic activity achieved relatively high

/rates in

rates in 1961, although they were below those of 1960. On the other hand, in the United States, Canada and the United Kingdom the process of expansion, which had been less rapid over the past several years, was interrupted in the second half of 1960 and early in 1961. In the United States, the recessive pressures were present for a longer period, resulting in a lower rate of growth of the gross national product than that recorded in 1960. Partial data on Canada, Japan, the United Kingdom and the European Economic Community lead to a similar conclusion. It can be said, therefore, that in 1961 economic activity in this group of industrialized countries showed less favorable conditions for the expansion of a demand for goods and services than in 1960 and, consequently, for an increase in trade between these countries and the non-industrialized areas.

The foregoing is confirmed by the pattern of behavior of total expenditures. In the majority of the industrialized countries, total private consumption (at constant prices), has shown increases even during periods in which there was a decline in the gross national product, and in other cases it has declined proportionately less than the total product (see Tables I-1, I-2 and I-3 as general reference). But from the point of view of the countries supplying foodstuffs and industrial raw materials, the significance of the several components of total consumer expenditures in the industrialized countries varies greatly.

The growth of private consumption in the United States in 1961 originated principally in the services sector, in which imports play an insignificant role. Expenditures for nondurable consumer goods increased less, both in absolute and relative terms, while the durable goods sector showed a decrease of 4.1 percent from the 1960 levels (see Table I-1). During the second half of 1960, a contraction could already be observed in the consumption of durable goods which continued through the first nine months in 1961, while expenditures for nondurable consumer goods increased slightly and expenditures for services increased much more. At the same time, a sharp contraction in gross private investment took place, although in this case it involved almost exclusively a decrease in the volume of inventories, as new construction and

/Table I-1

Table I-1

UNITED STATES: GROSS NATIONAL PRODUCT

(At constant 1954 prices)

Years and Quarters a/		Gross National Product Total	Personal Consumption expenditures				Government purchases of goods and services	Gross private domestic investment
			Total	Durable Goods	Nondurable Goods	Services		
			(Billions of dollars)					
1957		408.3	270.8	38.5	132.6	99.8	75.1	58.5
			(Indices: 1957 = 100.0)					
1958		97.7	100.9	92.7	100.8	104.0	104.4	80.9
1959		104.9	106.8	106.5	104.7	109.7	106.7	104.4
1960		108.0	110.2	108.6	106.9	114.9	106.8	103.6
1961		109.9	112.1	104.2	108.3	120.1	113.8	98.6
1960	I	108.0	109.1	109.4	106.3	112.6	104.4	113.8
	II	108.6	110.6	110.4	107.8	114.4	107.3	106.5
	III	107.8	110.2	106.0	107.1	116.0	108.3	100.2
	IV	107.4	110.6	108.1	106.6	116.8	106.9	93.8
1961	I	106.1	109.7	97.7	106.8	118.0	110.9	84.8
	II	109.1	111.4	103.4	107.5	119.4	112.8	97.9
	III	110.7	112.6	103.6	109.0	120.8	114.1	103.2
	IV	113.8	114.8	110.0	110.0	122.1	117.6	108.5

Sources: Department of Commerce of the United States, Statistical Abstract 1960 and Survey of Current Business, March 1962.

a. Seasonally adjusted quarterly totals at annual rates. Shown in roman numerals.

Table I-2

PERCENTAGES OF VARIATION [a/] IN THE GROSS NATIONAL PRODUCT AT CONSTANT PRICES, IN SELECTED COUNTRIES

Years and Quarters [b/]	Canada				United Kingdom				Japan			
	Gross National Product	Private Consumer Expenditures	Government Expenditures for Goods and Services	Gross Capital Formation	Gross National Product	Private Consumer Expenditures	Current Expenditures in the Public Sector	Domestic Capital Formation	Gross National Product	Private Consumer Expenditures	Government Purchases of Goods and Services	Gross Private Investment
1957	0.9	3.0	1.1	- 6.5	1.8	2.4	- 3.2	3.3	8.9	5.5	- 5.8	39.5
1958	0.9	3.1	4.2	-14.1	0.9	2.5	- 1.0	- 3.5	0.7	7.3	23.1	-38.1
1959	3.4	4.4	0.8	4.9	2.7	4.2	2.0	9.2	17.8	5.7	13.2	73.2
1960	1.7	3.0	1.0	- 5.3	4.4	3.7	2.3	20.4	12.6	8.9	11.2	26.4
1961												
1960												
I	1.6	0.0	0.5	7.1	1.3	1.6	2.0	- 0.8	2.3	1.1	2.3	8.2
II	- 1.6	1.9	1.0	-11.8	1.2	0.8	- 1.3	10.4	- 1.1	3.7	2.7	-16.1
III	0.8	0.0	3.1	- 7.5	- 1.7	- 1.0	- 1.3	- 1.9	2.3	3.0	- 0.9	7.7
IV	0.8	1.5	- 0.5	8.5	0.9	- 0.1	6.0	2.0	10.6	3.5	16.6	19.6
1961												
I	- 2.4	- 0.4	0.3	-11.0	1.0	2.2	5.0	- 6.8	4.0	- 3.5	- 5.8	26.3
II	2.5	1.6	2.3	- 3.3	1.8	0.8	- 5.1	3.9				
III	2.4	1.3	2.5	2.0	- 0.8	- 1.3	2.2	- 3.2				

Source: United Nations, Current Economic Indicators

a. From the figure for the preceding year or quarter.
b. Seasonally adjusted quarterly totals at annual rates.

/Table I-3

Table I-3

EUROPEAN ECONOMIC COMMUNITY: GROSS NATIONAL PRODUCT AT 1954 PRICES AND EXCHANGE RATES

	Billions of dollars	Indices: 1957 = 100.0		
	1957	1958	1959	1960
Gross national product	144.0	102.4	107.4	114.7
Total private consumption	93.1	102.0	106.0	112.7
Food	32.1	103.1	106.9	112.2
Clothing	13.3	97.0	100.0	106.8
Durable goods	8.2	102.4	107.3	117.1
Others a/	34.2	102.9	107.0	114.0
Total public consumption	18.1	102.8	108.3	113.3
Defense	6.1	96.7	106.6	111.5
Civil	12.0	105.0	109.2	114.2
Gross domestic capital formation	29.3	102.0	108.9	120.1

Source: O.E.C.D., General Statistics Bulletins, July 1961.

a. Excluding rents.

/the production

the production of capital goods changed little from 1960 to 1961. On the other hand, one of the most important components of national expenditures--government purchases of goods and services--maintained a general rising trend, except for a brief interruption during the last quarter of 1960.

Therefore, the moderate recession that took place in the United States in 1960-61, appears to have followed a course similar to the one in 1957-58. At that time, private consumption expenditures did not decline, but rather, were reflected in a considerable increase in the services sector and, to a lesser extent, in nondurable consumer goods. On the other hand, consumer expenditures for durable goods suffered a decline of 7.3 percent between the two years. The contraction of gross private investment in 1957-58 was also greater than in 1960-61, but in the former period, in addition to a marked decline of investment in inventories, there was a contraction in the production of equipment and capital goods. If one examines the indices for industrial activity and some sectors of the manufacturing industry, it can be seen that the contraction in 1957-58 was greater than in 1960-61, particularly in sectors closely related to imports from Latin America, such as the basic metals and metal products industries.

In Canada and the United Kingdom the trend toward expansion was even weaker in 1961, and in both countries the gross product virtually stagnated, capital formation declined, and private consumption grew only meagerly (see Table I-2). Nevertheless, industrial activity increased slightly in Canada, particularly in the textile industry, which in recent years has been subject to considerable fluctuation. In the United Kingdom a new decline took place in this branch, which was counteracted by a slight increase in the metals industries.

In the three countries mentioned, the growth of the national product had already been slow in previous years: from 1957 to 1960 the annual average was 2.5 percent in the United States, 2.0 percent in Canada, and 2.6 percent in the United Kingdom--comparing unfavorably with the 4.6 percent annual growth rate achieved by the countries in the European Economic Community (see Table I-3) whose growth, according to preliminary estimates, continued at only a slightly lower rate in 1961.

/In the

In the European Economic Community growth took place in nearly all sectors, although during the period up to 1960 it was greater in fixed capital formation and the consumption of durable goods, which was reflected in a sharp increase in the metal products industry, with a corresponding favorable effect on the demand for the raw materials involved. On the other hand, in 1961 a certain displacement was observed in private consumer demand which took the form of an increase in the share going to services and a decline in the share going to durable consumer goods.1/ However, total industrial production increased over 6 percent, and, as in previous years, Italy showed the highest rate of increase (see Table I-4).

The net effect of these trends was that European imports of basic products, which in 1960 had increased almost 13 percent in volume, showed an additional increase of less than 3 percent, which was counteracted by an equivalent decline in prices. Imports of copper, crude petroleum, coffee and cacao showed the highest increases, while purchases of oils, cotton, sugar and meat declined.

The volume of United States imports of basic products suffered an absolute drop in 1961, particularly with regard to copper, iron ore and sugar. These changes were, in general, reinforced by a drop in prices, but they were counteracted by some increases in imports of cacao, meat and petroleum.

1. See United Nations, Economic Bulletin for Europe, Volume 13, No.2, November 1961.

/Table I-4

Table I-4

INDUSTRIAL PRODUCTION: Annual Variations in the Indices of Industrial Production in Selected Countries a/

ıtry	1955	1956	1957	1958	1959	1960	1961
;ium	9.4	6.0	0.8	-6.5	5.2	5.7	4.7
ıce	7.3	9.4	8.6	4.3	3.4	12.0	5.4
ıral Republic of Germany	15.2	7.8	5.8	3.4	6.6	11.1	6.1
.y	9.2	7.6	7.8	5.1	9.0	15.2	9.9
ıerlands	7.2	4.2	2.4	0.0	9.4	12.9	1.3
ıpean Economic Community	10.9	8.2	6.1	2.6	6.3	11.8	6.4
;ria	16.7	3.8	5.8	2.7	4.0	8.3	3.9
ıark	2.8	1.8	6.1	3.3	8.0	5.2	...
ıay	7.3	5.1	4.9	0.0	6.2	7.3	7.5
ıen	6.7	3.6	3.5	2.5	4.1	6.3	5.2
;ugal	7.2	9.2	5.4	7.3	5.4	11.0	...
;ed Kingdom	5.6	0.0	1.8	-1.7	7.0	6.6	0.0
ıpean Free Trade Association b/	6.5	0.9	2.6	-0.9	6.8	6.3	1.5
;ed States	2.8	2.8	0.9	-7.3	13.7	2.6	0.8
ıda	10.0	9.1	0.0	0.0	7.5	0.8	3.1
ın	8.3	23.1	16.0	0.6	23.8	30.0	20.4

Sources: O.E.C.D. Statistical Bulletin, March 1962, United Nations, Monthly Bulletin of Statistics.

a. Adjusted seasonally.
b. Excluding Switzerland

Japan, whose trade with Latin America represents approximately 4 percent of that area's exports as compared with 2.6 percent in 1957, was the only country in which the rapid expansion of economic activity and imports of basic products continued almost without any interruption. During the first nine months of 1961, imports of basic products exceeded those for the corresponding period in 1960 by more than 25 percent in volume, and almost 20 percent in value, and special mention should be made of wool, cotton, corn, sugar, fuels, tin, and iron ore concentrates.[1/]

1. See United Nations, Commodity Survey 1961, April 26, 1962.

II. THE FOREIGN MARKET AND BASIC EXPORT PRODUCTS

Latin American export trade in 1961 was characterized by a marked persistence of the crisis which had begun in 1958. In fact, the period 1957-61 was a particularly critical one for Latin America's primary products. In spite of the increase in export volume, receipts rose only slightly, owing to the general decline of international prices. This decline of prices was not, of course, the same for all products, nor was it due to similar causes in all cases. Nevertheless, it may be said that the decline in industrial activity in the United States in 1957-58 and the simultaneous decline in the rate of expansion of the European Economic Community were common factors in the drop in prices for a number of products, such as nonferrous metals and textile fibers, whereas in the case of others, especially tropical agricultural products such as coffee, cacao, and sugar, the most important influence on prices was the high rate of growth of production.

The evolution of prices of the chief export products of Latin America during the last five years is presented in graphs I-I to I-III. In these it may be observed that the decline during 1960-61 covered almost all the exportable products, and that in 1961 only tin --for reasons that will be examined later-- achieved a substantial recovery.[3/]

Various international organizations have studied and reported on the causes of the long-term stagnation of exports of primary products, but it would be inappropriate to analyze their conclusion in this survey. It is important, however, to point out that this problem of the instability of the primary products market has become the object of closer scrutiny, and that a new approach is being taken in studying measures to mitigate its unfavorable consequences. Until recently, the chief recommendations by groups of experts on the means to moderate the instability of the export market have been limited to the creation of institutional mechanisms -such as, the international agreements on products-- that would set a limit to the amplitude of the price fluctuations inherent in that instability. Although the establishment of such mechanisms may be necessary for meeting serious imbalances in the external economy, it does not directly help to solve the basic problem, the lack of diversification in production.

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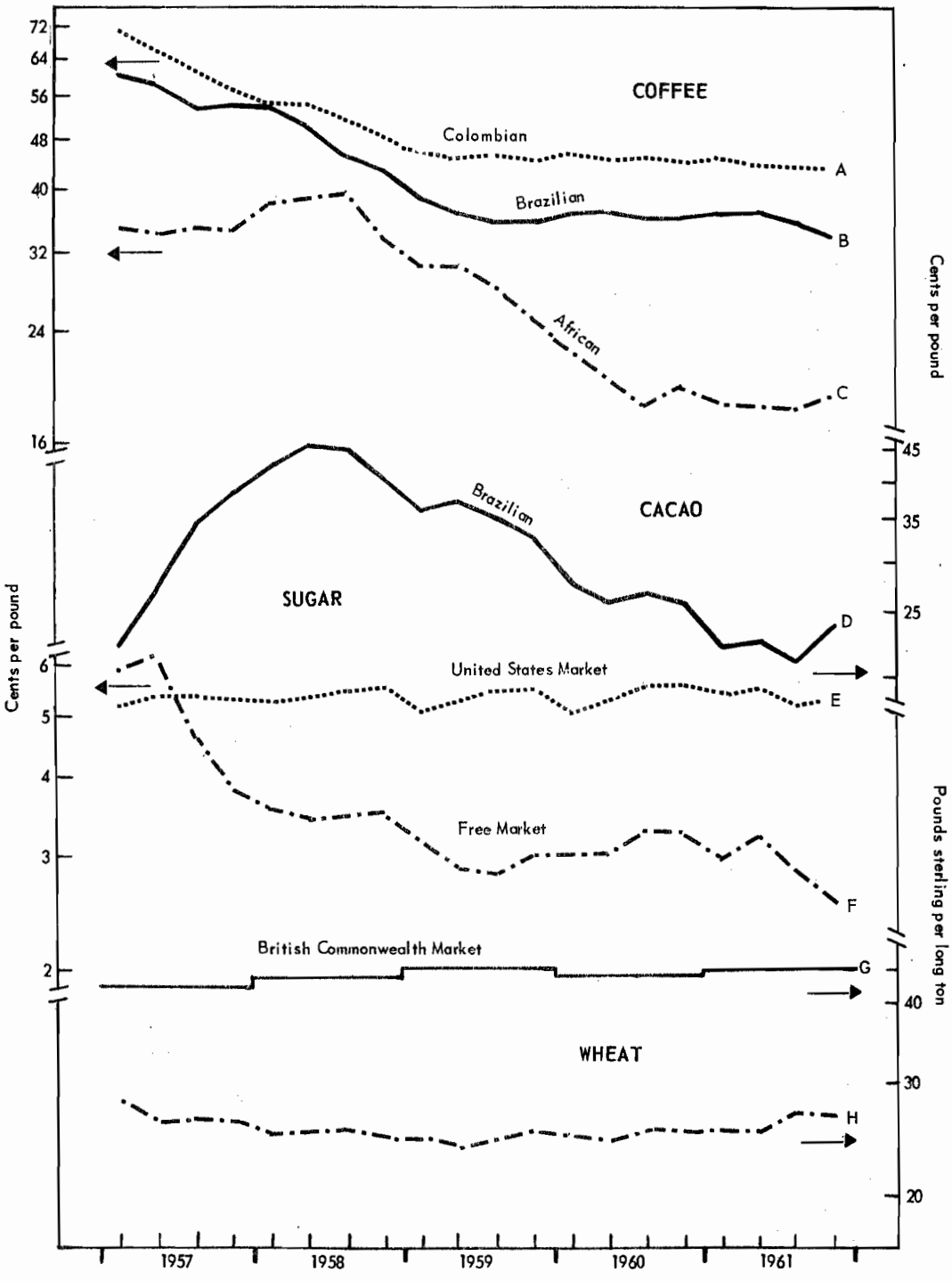
3. See point 8 of this same section.

/Graph I-1

Graph I

INTERNATIONAL PRICES OF SELECTED FOOD PRODUCTS



Source: United Nations, Monthly Statistical Bulletin.

A. Cash prices for Manizales coffee, ex dock New York.

B. Cash prices of Santos 4 coffee, ex dock New York.

C. Cash prices of Native Uganda coffee, ex dock New York.

D. Cash prices of Bahia cacao, ex warehouse New York.

E. Prices of sugar on the New York Exchange for deliveries under Contract No. 6 to 1960 and Contract No. 7 in 1961, with adjustments by the U. S. Department of Agriculture to make the series comparable (See U. S. Department of Agriculture, Sugar Reports).

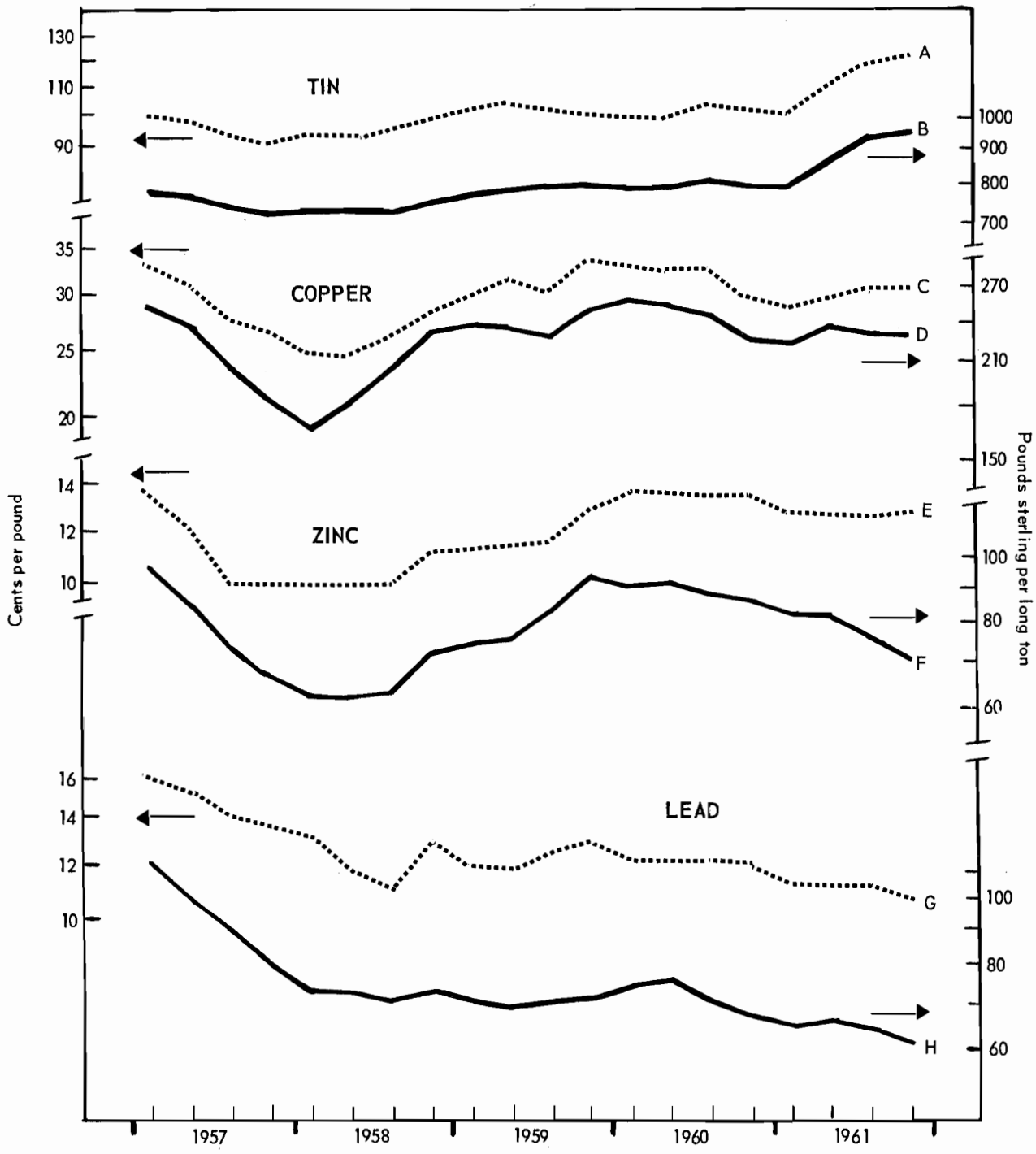
F. Cash prices, in New York, for exports to the world market (except the United States), raw sugar, f.o.b. Cuban port, according to Contract No. 4 of the New York Exchange, to 1960. Beginning with 1961, prices in New York according to Contract No. 8, raw sugar, for export to the world market (except United States), f.o.b. Caribbean ports.

G. Contract price according to the Sugar Agreement of the British Commonwealth.

H. Prices c.i.f. of Argentine wheat in the United Kingdom.

Graph II

INTERNATIONAL PRICES OF NONFERROUS METALS



Source: United Nations, Monthly Statistical Bulletin

A. Import price, c.i.f. New York

B. Import price, cash, London

C. Domestic price, f.o.b. refinery in New York, by electrolytic process, in bars and ingots.

D. Import price, cash, ex warehouse London, eletrolytically refined bars.

E. Domestic price, in New York, Prime Western zinc.

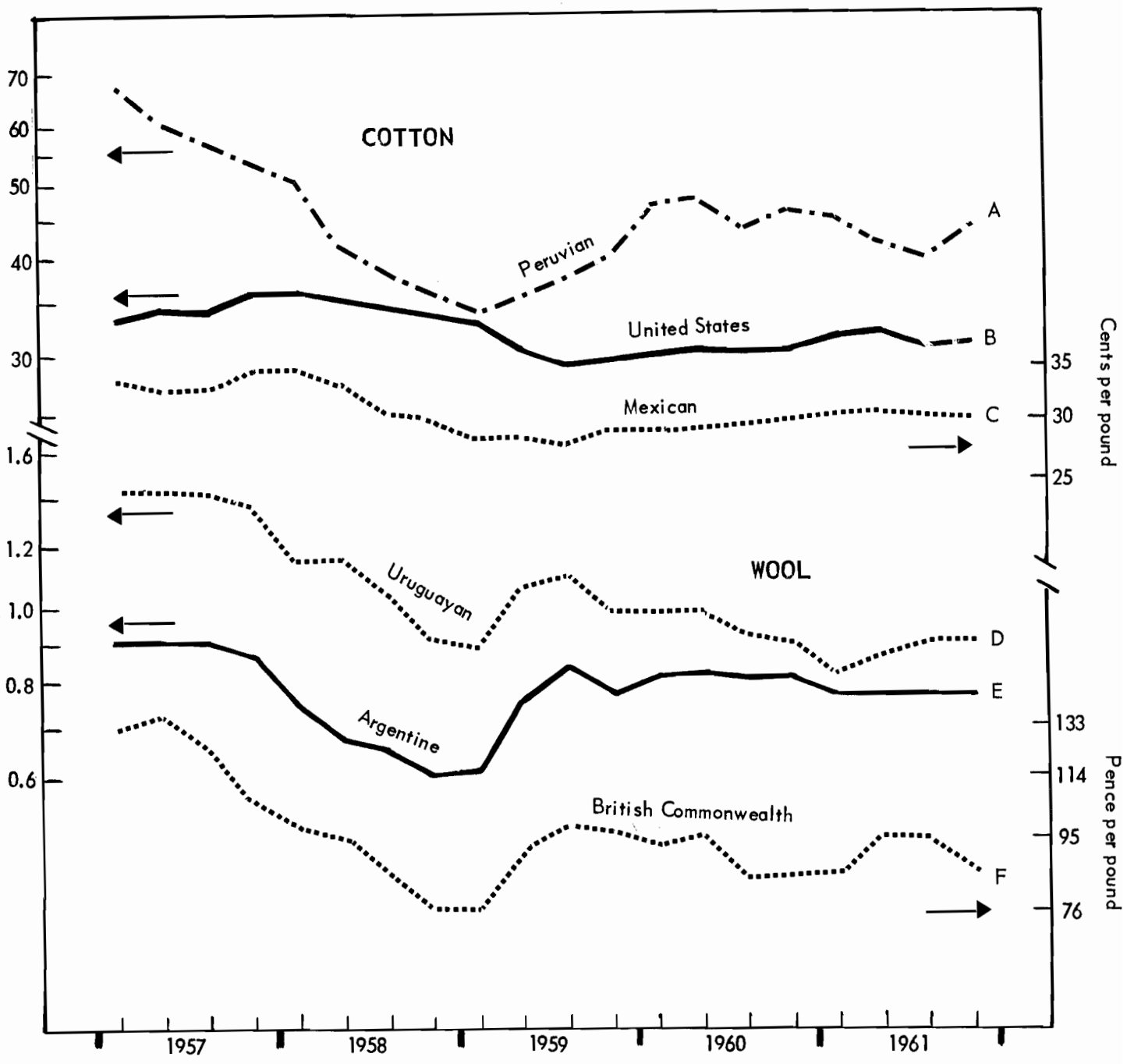
F. Import price, cash, ex warehouse London, zinc of 98.75 per cent purity.

G. Domestic price, New York.

H. Import price, cash, ex warehouse London, lead of 99.97 per cent purity.

Graph III

INTERNATIONAL PRICES OF NATURAL FIBERS



Source: United Nations, Monthly Statistical Bulletin; International Cotton Advisory Board, Quarterly Bulletin

A. Pima cotton, No. 1, from Peru, prices c.i.f., average weekly quotations for shipment during the following 3 months.

B. "US Memphis Territory" cotton, SM-1-1/16", prices cash, c.i.f. Liverpool.

C. Mexican Matamoros cotton, SM 1-1/32", prices cash, c.i.f. Liverpool.

D. Import price, Boston, Uruguayan wool 58's -60's, scoured.

E. Import price, Boston, Argentine wool 40's - 36's, scoured

F. Import price, c.i.f., based upon quotations of the wool auctions in the United Kingdom and the Dominions, Merino 64's, scoured

In view of the somewhat limited results achieved by international agreements on products, attention has been diverted to studying measures which might effectively moderate the effects of instability. The proposals made by a group of United Nations' experts are of this nature.[4/] They suggest the creation of a fund to make compensatory payments or loans to countries whenever their export receipts are lower than those of a base period. This system of compensatory financing is not, of course, intended to take the place of, but rather, to complement, a price stabilization policy based on international agreements on products. Its justification lies in the fact that one of the most unfavorable consequences of the instability of the market for primary products is the uncertainty it creates as to the level of foreign exchange receipts, which, in turn, hinders the programming of long-term investments.[5/]

This idea of compensatory financing was also set forth in one of the documents adopted by the Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level, held in Punta del Este, Uruguay, in 1961,[6/] in which the member governments unanimously agreed to entrust to a group of government experts the preparation of a draft on this matter.[7/]

This background serves, on the one hand, to illustrate the importance the problem of instability in the international market for basic products has taken on, and on the other, to point out the degree of agreement that has been reached regarding the kinds of measures required to reduce its causes and to mitigate its effects. The evolution of the market for basic products in 1960-61 has made it more urgent not only to find new formulas for international cooperation, such as the compensatory system proposed, but also to review and strengthen the international agreements that are now in force in this respect.

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4. See International Compensation for Fluctuations in Commodity Trade, United Nations, sales number 61.II.D.3.

5. Op. cit., p. 13

6. See Latin American Export Commodities, OAS, Official Documents, Ser. H/X.1, July 1961

7. See Charter of Punta del Este, Title IV, Chapter II, "International Cooperation Measures." The meeting of this group of government experts took place in Washington during the first quarter of 1962, under the sponsorship of the OAS.

1. Coffee

After a two-year period of relative stability, international coffee prices showed a tendency in the second half of 1961, to drop to their lowest level since 1950. This tendency basically reflected on the one hand, the increase of exportable world production during the crop year July-June, 1961-62, and on the other, the delay in the negotiations being undertaken by the member countries of the present International Coffee Agreement to sign a new long-term agreement, which would include measures to solve the problem of the excessive accumulation of surpluses.[8/] As is known, the present agreement, renewed for another term ending in September 1962, is limited strictly to establishing a system of export quotas. This system has served to lessen the tendency toward price declines.

The problem of surplus production and accumulation of stocks has become increasingly serious. As a result of it, the ratio of stocks to exports rose from 49 percent in 1957-58 to 146 percent in 1960-61, in spite of the high level of exports during the last two years (see table I-5).

In general, since coffee is the largest Latin American export item, and in Brazil, Colombia, and El Salvador it accounts for more than 50 percent of total exports, fluctuations in its price have more serious and broader repercussions on the Latin American economies than do those of any other product. Given the amounts exported in 1961, each drop of 10 cents (U.S.) per pound in the price of coffee would cost the three aforementioned countries about US$320 million, of which some US$225 million would be lost by Brazil and about US$75 million by Colombia. Price fluctuations of this magnitude are not uncommon in the coffee market. Indeed, between 1957 and 1961, prices of Brazilian and Colombian coffee each fell more than 20 cents per pound.

8. At the end of December 1961, the Coffee Study Group released a draft a long-term International Coffee Agreement which proposes: a. a system of basic export quotas; b. regulations so that importing countries would limit their imports from countries that are not members of the Agreement; c. production goals, in order that producing countries may adjust their production to the amounts needed for domestic consumption, exports, and stocks; d. determination of minimum prices, taking into consideration the normal differentials between types, grades, and qualities of coffee; e. creation of an international fund to cooperate in the financing of agricultural diversification in the coffee-producing areas, in the reduction of stocks held by producer countries, and in other programs that the Council administering the Agreement may approve. This draft Agreement has been submitted to the interested governments for study.

/Table I-5

Table I-5

GREEN COFFEE: PRODUCTION, STOCKS, AND WORLD EXPORTS

(In millions of bags of 60 kilos each)

	1957-58	1958-59	1959-60	1960-61	1961-62 a/
Initial stocks:	18.2	27.4	40.4	63.1	64.2 b/
Percentage of variation:	4.0	50.5	47.4	56.2	1.7
Production:	55.0	61.7	78.8	66.1	74.7
Percentage of variation:	21.1	12.1	27.7	-16.1	13.0
Total supply:	73.2	89.1	119.3	129.2	138.9
Percentage of variation:	16.4	21.7	33.8	8.3	7.5
Exports:	37.3	39.0	43.8	43.2	...
Percentage of variation:	3.0	4.6	12.3	-1.4	...
Percentage of stocks over exports:	48.7	70.3	92.2	146.1	...

Source: George Gordon Paton, Complete Coffee Coverage, New York, January 16, 1962.

Note: Commercial years July-June. The percentages reflect the variation over the previous commercial year.

a. Preliminary estimates.
b. Deducting 8 million sacks destroyed in Brazil.

With reference to demand on the part of importing countries, the evolution of the international market has also shown a tendency toward stagnation. Although the total volume of world imports increased 13 percent in 1959, import levels during 1960 and 1961 remained almost stationary, and in the United States --the world's major consumer-- imports in 1961 declined below those of 1959 (see Table I-6). It must be pointed out, however, that a large part of the 1959 increase in

/world imports

world imports went to replenish stocks, which had declined considerably in the second half of 1958.[9] It should be emphasized that per capita consumption in the United States did not increase throughout the period 1950/1960, in spite of the fact that per capita personal income rose between the beginning and the end of that period from $1,491 to $2,242, while coffee prices at the consumer level dropped from 79.4 to 67.2 cents (U.S.) per pound.[10] It therefore seems doubtful that the demand for coffee will increase to any great extent in response to a further lowering of prices; so a decline in prices will only lead to a corresponding decline in the foreign exchange receipts of the exporting countries.

During the post-war period, European imports have been increasing almost without interruption. Until recently, however, that increase represented only the re-establishment of the pre-war levels. Considering the area as a whole, the most important increases took place in 1959 and 1960, years in which total imports exceeded those of the immediately preceding year by 14 and 10 percent respectively.

Two points relating to European demand are worth noting: the first concerns the taxes levied by some European countries on the importation and/or consumption of coffee, the existence of which is undoubtedly an important factor in the slowness of the increase in demand. It is reasonable to suppose that the gradual reduction of these taxes could help bring about a substantial increase in coffee consumption, particularly if it is remembered that per capita consumption in the European countries is lower than in the United States. A study made of this matter with reference to price levels and taxes in 1958 showed that France, the Federal Republic of Germany and Italy would increase their importation of coffee by 3.5,

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9. Coffee stocks in bean form, in the United States at the end of each period were as follows (in thousands of bags):

	1957	1958	1959	1960	1961
March	3 447	2 307	2 410	2 857	2 965
June	2 881	2 349	2 278	2 931	3 145
September	2 324	1 826	3 271	3 440	3 211
December	2 959	2 114	3 370	3 204	2 815

10. See G. Gordon Paton, Coffee Annual 1960, and Complete Coffee Coverage, New York, April 28, 1961

/Table 1-6

Table I-6

COFFEE--WORLD IMPORTS: TOTAL AND SELECTED COUNTRIES

	(Millions of sacks of 60 kilos)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
Total	36.9	100.5	113.3	114.9	119.0
United States	20.9	96.6	111.0	105.7	107.2
Canada	0.8	112.5	125.0	125.0	137.5
Latin American countries b/	0.7	114.3	71.4	85.7	100.0
Federal Republic of Germany	2.6	103.8	115.4	126.9	134.6
France	3.2	100.0	106.3	109.4	106.3
Italy	1.3	107.7	107.7	130.8	130.8
Belgium-Luxemburg	0.8	112.5	125.0	137.5	125.0
Netherlands	0.6	116.7	133.3	150.0	183.3
Sweden	0.9	111.1	122.2	133.3	144.4
Norway	0.4	100.0	100.0	125.0	100.0
Finland	0.5	80.0	120.0	120.0	120.0
United Kingdom	0.7	100.0	128.6	128.6	142.8
Other countries-Western Europe	1.5	126.7	133.3	146.7	166.7
Total, Western Europe:	12.5	106.4	116.8	127.2	132.0
Countries of centrally planned economy	0.5	100.0	140.0	180.0	200.0
Others	1.5	93.3	120.0	126.7	146.7

Sources: Pan American Coffee Bureau, Coffee Statistics (various issues); G. Gordon Paton, Complete Coffee Coverage, op. cit.

a. Preliminary estimates.
b. Argentina, Chile, and Uruguay.

/4 4, and

4.4, and 9.1 percent respectively, if taxes on coffee in effect in each country were lowered by 50 percent.[11] The decline of prices in 1959 and 1960 and the increase of imports in the majority of the European countries during those years are an example of the expansion of the market accompanying a reduction in consumer prices.[12] Since, however, the decline of international prices of coffee has been excessive for exporters, the outlook for greater reductions to consumers depends to a great extent on the elimination of duties and taxes on imports.

The other point is not related to the total growth of European imports, but to that portion of them that comes from Latin American countries. The countries forming the European Common Market, the chief importers of coffee in that area, have agreed to give preferential treatment to imports from associated overseas countries and territories, and the Treaty of Rome provides for an external tariff of 16 percent on imports from other sources.

In 1959, through negotiations in the GATT, that rate was reduced to 13 percent. In July 1961, the Commission of the Community proposed to lower it to 8 percent, but to date this recommendation has not been carried out.[13] Since the beginning of 1962, the discriminatory aspects of the Treaty of Rome have begun to be put into effect in almost all the countries of the EEC. Belgium, Luxemburg, and the Netherlands, which had no customs duties on coffee, established a tariff of 4.8 percent. Italy, for its part, raised the specific tax on imports from "third countries" from 65 to 75.8 lira and reduced it from 65 to 45.5

11. See article on Taxes on Coffee and on Consumption in the Importing Countries, FAO Monthly Bulletin of Agricultural Economics and Statistics, September 1960.
This study also showed that the Federal Republic of Germany in 1958 charged a 38-cent import tax, plus an 82-cent domestic tax on each $1.30 per kilo unit value of importation. Italy charged an import tax of 10 cents and a domestic tax of $1.10 on an import unit value at $1.02. In July 1961, the Commission of the Community recommended the gradual elimination of the domestic taxes. If the recommendation is accepted, elimination of domestic taxes will be achieved by 1965.

12. The sharp decline in international prices from those of 1956-57 is also the reason for the extremely low estimates made in a study on the growth of coffee imports by the member countries of the European Common Market from 1956 on: 10.2 million bags was the estimate for 1965, but by 1960 imports had already reached 10.5 million. See Coffee and the European Common Market, special report prepared by the Economist Intelligence Unit of London and published by the Pan American Coffee Bureau, New York, 1958.

13. It should be pointed out now that the Community has reached a preliminary agreement to lower the common external tariff to 12 percent, with another provisional reduction of 2.4 percent. Therefore, when the tariff enters into force in January 1963, it will be 9.6 percent. (See The New York Times, June 23, 1962)

/lira on imports

lira on imports from associated territories.[14] In France, where tariff discrimination is less important than import quotas, the rates are now 18 and 14 per cent respectively. The German specific tax was reduced to about 16 percent without discrimination. If this new discriminatory treatment is not modified, it is possible that a substantial part of the future increase in imports by that group of countries may come from African producers.

Table I-7

GREEN COFFEE: WORLD EXPORTS, BY SELECTED COUNTRIES AND AREAS

	Millions of bags of 60 kilos	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Brazil	14.319	90.0	121.8	117.5	118.5
Colombia	4.824	112.8	132.9	123.1	117.4
El Salvador	1.399	95.9	96.4	84.2	102.3
Guatemala	1.060	113.7	130.7	125.4	118.4
Mexico	1.480	88.6	83.8	93.5	100.2
Other Latin American countries	4.253	86.6	76.8	89.3	81.9
Total, Latin America	25.936	99.8	119.9	117.4	116.8
Total Africa	8.641	101.5	110.9	127.1	132.0
Others	1.609	115.5	82.4	88.1	
World total	36.186	100.9	116.1	118.4	120.7
Percentage of world total:					
Latin America	71.7	70.9	74.0	71.1	69.4
Brazil	39.6	35.3	41.5	39.3	38.9
Colombia	13.3	14.9	15.3	13.9	13.0

Sources: U.S. Department of Agriculture, Foreign Agricultural Circular, FCOF 2-61, July 1961; G. Gordon Paton, Complete Coffee Coverage, New York, April 2, 1962.

14. These taxes, however, affect only imports in excess of those of 1959.

/World coffee

World coffee demand increased considerably in 1959 and has continued to advance over the last two years, though at a lower rate. As the largest producing area, Latin America in 1959-61 exported substantially more than it had in previous years (see Table I-7). Nevertheless, the relative position of Latin America's exports among world exports has persistently deteriorated. In fact, in 1950, 83 percent of all world exports came from Latin America, while in 1960 and 1961, they represented only 71 and 69 percent, respectively.

The increased consumption of soluble coffee, for which inferior grades are used, is one of the factors that favors African exports. These are mostly of the Robusta variety, which is lower in price than the Arabica cultivated in the Latin American countries. The decline in prices of African coffee in 1960 and 1961 was proportionally greater than the decline in prices of the Latin American types, and this seemed to favor an increase in exports of the former.[15/] Furthermore, although the principal African producers have already adhered to the International Agreement, the application of the quota system according to that instrument does not cover all exports, because of the special treatment accorded to territories or countries that are considered associated with Belgium, France, Portugal, and the United Kingdom.

After the increase of total Latin American coffee exports in 1959, the amount exported in 1960 and 1961 showed a slight decline, particularly on the part of the two most important producers: Brazil and Colombia (see again Table I-7). The Central American countries, some of which do not have sufficient funds or the institutions necessary to take effective action in their respective domestic markets, are at present negotiating for the creation of a special fund that would help them to finance a withholding system capable of mitigating the seasonal fluctuation of their exports and thus contribute to the stability of external prices.[16/]

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15. If the prices of two basic grades of coffee--Santos No. 4 of Brazil and Native No. 10 of Uganda--are compared, it will be seen that the percentage that the African coffee price is to the price of Brazilian coffee substantially declined in recent years, and consequently the competitive position of African coffee improved.

Prices, U.S. cents per pound:	1958	1959	1960	1961
Santos No. 4	48.4	37.0	36.6	36.0
Native Uganda	37.6	28.7	20.2	18.5
Price of Uganda as a percentage of Santos price	77.7	77.6	55.2	51.3

16. The creation of the aforementioned fund was approved at the Special Meeting of the IA-ECOSOC at the Ministerial Level, held in Punta del Este, Uruguay, in 1961.

2. Beef

After having fallen approximately 5 percent at the beginning of 1961, the price of beef on the international market remained close to the new level. During the last four years, the beef market has been subject to a persistent imbalance between supply and demand. Although recently prices have fluctuated less, the outlook for the market is not very encouraging, in view of present restrictions and the possibility that these may be intensified in the future. The disequilibrium of the market started in 1958 with the decline in production and export of United States and Canadian meat. In 1959, this trend spread to the chief exporting countries of Western Europe, Latin America, and Oceania (Australia and New Zealand), causing a considerable fluctuation and a rise of 24 percent in the international quotation over that of 1957. This level was maintained in 1960, in which year the supply of meat increased somewhat, due to the fact that the exporting countries of Western Europe and the principal importing countries regained their former production levels. Meat available for export in Latin America and Oceania increased to a lesser degree. It was only in 1961, however, that increases in meat production in the importing countries and in the supplies available for export from Latin America and Oceania made possible a continuous supply, although at lower prices. (See Graph I-IV, page 35.)

The changes described were accompanied by a considerable shift in the sources of me supply, and, consequently, in the pattern of international trade of the product. Aided by an intensification of the cattle trade between the European countries, meat supplies in Western Europe increased, so that in 1960 and 1961, there was a sharp drop in purchases from Latin America. This change did not affect Oceania, which found a ready market in the United States, but it did affect Latin America, especially Argentina and Uruguay, which may find it difficult to market their exportable surpluses in 1962.

Up to 1957, international trade in beef consisted chiefly of the chilled or frozen product, whereas that in cattle on the hoof for slaughter was of small importance. In the period before 1957, the United Kingdom and continental Europe supplemented their deficient production with imports of meat from South America, and to a lesser extent, from Oceania, whereas the United States did this by importing cattle on the hoff from Canada and Mexico. In 1961, imports from the areas mentioned on the part of the United Kingdom and continental Europe declined sharply, the former by 52 percent and the latter by approximately 43 percent. In the U.S. market, in

/contrast

contrast, imports of meat increased from 57 000 tons in 1957[A] to 268 000 tons in 1961, an increase that chiefly benefitted Oceania and the new exporting countries in Central America.

The factors that have brought about these changes in the international market are related to regional variations in meat production and to the trade policy followed within continental Europe by the importing countries of the European Economic Community.

After the decline in 1959, world production in 1960 and 1961 exceeded that of 1957 by 3 and 6 percent, respectively. (See Table I-7-a.) This recovery, however, has not been general. In 1961, whereas the production of the United Kingdom and of the European Economic Community exceeded that of 1957 by 10 and 20 percent, respectively, production in Latin America and Oceania is still below that of 1957. The increases in Europe were not based exclusively on domestic cattle, but in part on the significant volume of trade in cattle on the hoof. The United Kingdom, for example, increased its purchases of fattened cattle (chiefly from Ireland) from 50 000 head in 1957 to 254 000 head in 1961,[B] while those of the European Economic Community increased more than 15 percent in the same period. The internal trade of the Community also grew rapidly, the number of head of cattle imported from countries within the Community increasing eightfold. (See Table I-7-b.)

These events have had a particularly unfavorable effect upon Argentine exports. It should be explained here that exports from Argentina (and this is also true of those from Uruguay) consist of chilled and frozen meat that competes directly with fresh meat. In contrast, Australia and New Zealand export large quantities of meat of kinds inferior to the U.S. Choice grade.[C] While faced with reduced European purchases, these countries have been able to direct their exports to the U.S. market,

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A. According to direct information from the U.S. Department of Commerce, because of the sampling system used in that year in U.S. import statistics, this figure might be somewhat larger.

B. These figures refer to "Fat Cattle"; see The Commonwealth Economic Committee: Intelligence Bulletin, Feb. 1962, London. They differ from those presented in Table I-7-e, which refer to total cattle.

C. U.S. Department of Agriculture: Australia's Livestock Industry, May 1962, and Recent Trends in New Zealand's Livestock Industry, June 1962, Washington, D.C.

/Table I-7-a

Table I-7-a

PRODUCTION OF BEEF IN SELECTED AREAS AND COUNTRIES

	Thousands of tons	Indices: 1957 = 100			
	1957	1958	1959	1960	1961a/
North America	7 794.0	92	92	100	104
Canada	652.9	91	88	96	101
United States	7 141.1	92	93	101	104
Western Europe	4 970.1	101	101	108	116
Denmark	194.2	98	76	79	78
United Kingdom	835.3	99	87	100	110
Yugoslavia	142.9	96	110	109	...
European Common Market	3 064.0	101	105	111	120
Belgium and Luxembourg	171.5	118	120	123	120
France	1 307.2	97	96	104	115
Fed. Rep. of Germany	927.9	105	107	108	111
Italy	444.6	102	121	129	154
Netherlands	212.8	101	103	114	113
Other countries	733.7	104	109	112	116
Eastern Europe	646.0	123	128	143	...
Czechoslovakia	178.0b/	98	99	121	124b/
East Germany	144.0b/	97	117	131	136b/
Poland	244.1	124	127	137	139b/
Other countries	79.9	221	219	236	...
Soviet Union	1 996.4	107	120	120	116
Africa	326.2	148	150	157	163
Oceania	1 086.2	104	100	85	90
Australia	815.3	106	105	84	90
New Zealand	270.9	99	88	88	93
Latin America	5 195.7	104	86	91b/	92b/
Argentina	2 500.9	102	71	76	80
Brazil	1 319.0	104	96	103	102
Chile	120.3b/	117	122	126	125
Colombia	310.8	111	96	99	103
Cuba	184.7	99	108	...	...
Guatemala	30.0	103	103	110	...
Mexico	402.0	112	100	102	106
Paraguay	108.4	104	95	83	83
Uruguay	219.6	106	118	146	123
TOTAL	22 014.6	101	98	103	106b/

Source: U.S. Department of Agriculture: Foreign Agriculture Circular, September 1, 1959, and and Foreign Crops and Markets, World Summaries, various issues.

Note: The over-all total and the total for each region represent the sums of the production of the countries listed.

a. Preliminary.
b. Partly estimated figures.

/Table 1-7-b

IMPORTS OF BOVINE CATTLE BY SELECTED COUNTRIES, BY AREA OF ORIGIN, 1957-1961
1957 IN THOUSANDS OF TONS OF MEAT EQUIVALENT; INDICES 1957 = 100

	Latin America	Mexico	Western Europe Total	EEC	Others[d]	Eastern Europe	United States	Canada	Others	Total
United States[a]										
1957	67.2	67.2	-	-	-	-	...	69.6	-	136.8
1958	142.3	142.3	-	-	-	-	...	190.5	-	166.8
1959	104.8	104.8	-	-	-	-	...	98.6	-	101.6
1960	119.0	119.0	-	-	-	-	...	78.4	-	98.4
1961	160.7	160.7	-	-	-	-	...	145.4	-	152.9
United Kingdom[b]										
1957	-	-	161.2	-	161.2	-	...	-	-	161.2
1958	-	-	78.9	-	78.9	-	...	-	-	78.9
1959	-	-	57.9	-	-	-	...	-	-	57.9
1960	-	-	62.4	-	-	-	...	-	-	62.4
1961	-	-	-	-	-	-	...	-	-	-
European Economic Community[c]										
1957	-	-	105.0	5.4	99.6	13.2	...	-	0.4	118.6
1958	-	-	97.5	107.4	96.8	113.6	...	-	500.0	95.8
1959	-	-	112.4	370.4	98.4	128.8	...	-	700.0	116.2
1960	-	-	130.5	614.8	104.2	212.1	...	-	1 050.0	142.7
1961	-	-	145.5	803.7	109.8	118.2	...	-	1 700.0	147.7

Sources: Commonwealth Economic Committee: Intelligence Bulletin, London, April 1962; Institut National de Statistique: Bulletin mensuel du commerce exterieur de l'Union économique belgo-luxembourgeoise, Brussels; Direction Générale des Douanes et droits indirects: Tableau general du commerce exterieur, 1957, 1958, Paris; Istituto Centrale de Statistica: Statistica annuale del commercio con l'estero, Rome, 1957; Central Bureau voor de Statistiek: Maandstatistiek van der in---, uit--- en doorvoer per goederensoort, Amsterdam; Commissioners of H.M. Customs and Excise: The Trade of the United Kingdom, vol. II, 1957, 1958, 1959, 1960, 1961, London; United States Bureau of the Census: Report FT110, United States Imports of Merchandise for Consumption, Commodity by Country of Origin, 1957.

a. It was not possible to distinguish by origin the animals imported for breeding or slaughter and dairy cows.
b. Excludes dairy and breeding cows.
c. Includes dairy and breeding cows.
d. Includes Yugoslavia.

/where in

where in the years studied the demand for meat for processing purposes has exceeded production. (See Table I-7-c.) Thanks to the opening of this new market, it has been possible for them to maintain a comparatively stable volume of exports, in spite of a decline between 1957 and 1961 of 77 percent in sales to the United Kingdom and of 80 percent in those to the European Economic Community.

For the reasons explained above, and because of sanitary restrictions placed by the United States on the importation of meat, meat from Latin America has been especially affected by the trends in the production of fresh meat and in the trade of Western Europe. In that area, the chief market for meat from Latin America is the United Kingdom. In that country, the increased imports of fattened cattle resulted in stable meat production between 1957 and 1960, except for a decline in 1959. Per capita consumption of beef, however, declined from 54.4 pounds in 1957 to 47.9 pounds in 1960, that is, 12 percent. This was in part due to increased consumption of meats of other kinds.

Consequently, imports of beef declined from 453 000 tons in 1957 to 347 000 tons in 1960, or a total of 24 percent. The reduction in imports from Latin America was less: 11 percent with reference to total meat imports. Imports of chilled meat, however, dropped 17 percent, a reduction caused not only by greater production, but also by increased purchases of fresh meat from Ireland.

In 1961, imports of the United Kingdom dropped 20 percent more, although consumption, estimated at 49.6 pounds per capita, showed an increase of between 4 and 5 percent. This time, imports from Latin America declined by 27 percent, chiefly because of a drop of 61 000 tons in purchases of refrigerated meat. Although it is true that much of this drop was because of the increased production in 1961 (10 percent above that of 1960), another contributing factor was the increase in purchases from Ireland and Yugoslavia, which amounted to 30 000 tons of fresh and refrigerated meat.

In the countries that make up the European Economic Community a similar situation has prevailed, i.e., the substitution of imports of cattle for those of meat and increased purchases from areas other than Oceania and Latin America. In this case, however, the meat trade is more complex, owing to the differences between the internal trade of the six countries of the Community and the trade of the Community with the rest of the world.[D/]

D. For a detailed analysis of the special problems of this trade, see Exports of Meat from Argentina and Uruguay to the Countries of the European Common Market, OAS Special Committee on Basic Products, Doc. 11, July 1962, Washington, D.C.

/Table I-7-c

Table I-7-c

IMPORTS OF BEEF (FRESH, CHILLED, AND FROZEN)[a] BY SELECTED COUNTRIES, BY AREA OR ORIGIN, 1957-61

(1957 in thousands of tons; indices 1957 = 100)

	Latin America	Argentina	Brazil	Mexico	Uruguay	Central America	Others	Western Europe Total	Western Europe EEC	Western Europe Others[b]	Eastern Europe	Australia	Canada	New Zealand	United States	Others[c]	Total
United States																	
1957	6 990	398	-	5 840	-	337	415	3 674	-	3 674	-	2 471	21 506	22 682	-	-	57 323
1958	536.2	168.3	-	572.6	-	431.7	459.9	293.1	-	293.1	-	306.2	112.1	363.9	-	-	283.4
1959	478.8	-	-	376.9	-	2 360.1	825.1	539.2	-	539.2	-	4 106.2	47.1	321.8	-	-	414.8
1960	477.2	-	-	303.2	-	3 869.9	628.0	578.9	-	578.9	-	2 462.6	39.5	261.3	-	-	327.4
1961	573.7	27.6	-	412.4	-	4 142.5	468.3	773.9	-	773.9	-	4 253.8	67.7	308.6	-	-	450.4
United Kingdom																	
1957	262 924	255 473	299	-	7 152	-	-	4 063	1 326	2 737	-	130 026	-	55 358	-	416	452 787
1958	96.4	98.6	125.4	-	19.1	-	-	121.7	149.5	108.2	-	94.0	-	24.8	-	166.1	87.5
1959	81.9	81.6	197.9	-	90.3	-	-	248.9	249.1	248.7	-	82.7	-	0.1	-	2 397.9	77.3
1960	88.9	78.6	255.1	-	448.9	-	-	451.9	236.2	556.5	-	48.9	-	36.6	-	3 027.1	76.7
1961	65.1	58.8	401.3	-	277.4	-	-	1 265.7	231.3	1 776.7	-	24.4	-	21.4	-	4 094.6	62.6
European Economic Community																	
1957	90 142	64 835	9 405	-	15 902	-	-	88 300	31 700	56 600	1 833	2 193	-	12 511	-	6 721	201 700
1958	80.1	95.5	209.3	-	25.2	-	-	102.4	104.9	101	110.5	28.6	-	35.3	-	34.5	92.1
1959	84.3	100.1	172.3	-	56.2	-	-	118.7	184.4	81.9	141.6	18.6	-	6.2	-	81.9	101.4
1960	66.1	86.3	36.9	-	92.3	-	-	185.0	297.8	121.8	458.4	38.4	-	30.1	-	65.3	124.7
1961[d]	73.0	101.8	25.3	-	62.9	-	-	108.7	258.6	17.3	109.1	...	-	...	-	...	91.2

Sources: The same as Table I-7-b

a. This heading corresponds to the standard International Trade Classification (SITC) whose section for food, Chapter 01, Group 1, covers "meat: fresh, chilled, or frozen."
b. Includes Yugoslavia.
c. Principally African countries.
d. Provisional.

/The internal

The internal trade of the Community has developed intensively; between 1957 and 1961, imports of cattle increased eightfold, and those of meat two-and-a-half times. These increases seem to be due both to the preferential treatment accorded the two meat exporting countries within the Community--France and Holland--and to the trade in certain qualities of meats that had previously been in surplus in some countries. Thus, for example, France imports kinds of meat that she herself does not produce in sufficient quantity, and simultaneously exports others, of which she has a surplus, according to the preference of her consumers. With some differences, a similar situation is true with reference to the cattle trade, which increased sharply when Germany lifted the sanitary restrictions that she had imposed on the importation of French cattle.

This specialization of the market for meat has made it possible for the Community to expand the production of meat in accordance with consumer habits in the various countries. Production increased by 20 percent between 1957 and 1961, during which period the population increased by 4 percent.

The cited rise in production also partly reflects a tendency that began about the middle of the past decade and that has been accentuated by the greater tariff protection given to milk.[E/] This gave an incentive for the continued growth of European herds, in which dairy cattle predominate. In addition to the increase in cattle raising, other factors influencing the growth of production and the resulting decline in meat imports from Oceania and Latin America included increased economic efficiency in the cattle trade within the Community and increased imports of cattle from the European countries. (See Table I-7-b.)

The net imports of meat from areas outside the Community give evidence of the displacement of Oceania and Latin America as suppliers. In the years 1958-60, these imports remained at a level 12 percent lower than that of 1957, whereas inter-regional imports increased. In 1961, however, the general increase in cattle herds, plus the fact that Italy made a substitution in its imports from Denmark, importing meat instead of cattle on the hoof, caused a sharp decline that reduced the level by

E. See United Nations, Economic Survey of Europe in 1960, Chap. III, p. 25, United Nations 1962.

/40 percent

40 percent from that of 1957. (See Table I-7-d.) Latin America has borne only part of this decline, as will be seen later in studying its two principal markets in the Community, whereas the trade of other non-European areas declined more than the average.

The situation and outlook for Latin American meat in the Community basically depend upon prevailing conditions in the German and Italian markets. In 1957, the Federal Republic of Germany and Italy respectively purchased 78 and 32 percent of their total meat imports,[F] from Latin America. By 1961, with respect to West Germany, this percentage had gone down to 34 percent, whereas Italy's percentage remained stable, with only slight variations, until 1960--that is, until one year before the radical change was made in its cattle and meat trade with Denmark.

In the case of West Germany, the decline noted above represents a 45 percent reduction in imports from Latin America. Net imports from all sources have fluctuated considerably, having gone down from 46 700 tons in 1957 to a low of 7 300 tons in 1958. In 1959 and 1960, imports practically regained the 1957 level, and in 1961, they reached 72 900 tons. In those years, Germany's meat trading position with respect to the rest of the countries of the Community changed considerably. From having been a net exporter in 1957 and 1958 (see Table I-7-e), it became a strong and growing importer in 1960 and 1961. Between 1957 and 1960, this change of position represented a volume of meat imports that equalled the reduction of 23 000 tons in purchases from Latin America. This did not happen with imports from European countries outside the Community, which regained the 1957 level after the European cattle crisis of 1959.[G]

In general, the geographical changes in the German meat trade partly resulted from the quantitative controls applied to meat exports and imports by the German Government's Office of Food Reserves. This office, which is responsible, among other things, for protecting German cattle raisers from excessive price fluctuations, established fixed and supplementary quotas (the latter according to variations in supply and demand) upon imports of both cattle and meat. Since Germany has signed

F. That is, without excluding exports.

G. In some European countries of significance in this case, the crisis began in 1958.

/Table I-7-d

Table I-7-d

EUROPEAN ECONOMIC COMMUNITY

PRODUCTION AND IMPORTS OF BEEF

(Thousands of tons)

	Production		Imports of meat[b]	
	Total[a]	From imported cattle[b] [c]	Total	From Latin America
1957	3 064	113	170	90
1958	3 110	114	152	86
1959	3 203	118	146	90
1960	3 391	136	157	70
1961	3 670	132	100	78

Sources: The same as Tables I-7-a, I-7-b, and I-7-c.

a. The increase is slightly exaggerated because of double counting of French exports of animals on the hoof.

b. Excludes trade between the countries of the Community.

c. In their meat equivalent.

Table I-7-e

Federal Republic of Germany

PRODUCTION OF AND FOREIGN TRADE IN MEAT, FRESH, CHILLED, AND FROZEN

(Thousands of tons)

	Production		Net imports or exports (-) of meat			
	Total	From imported cattle[a]	Total[b]	Latin America	EEC	Rest of Europe
1957	927.9	76.7	46.7	42.1	- 5.1	5.5
1958	974.6	99.3	7.3	20.5	-10.8	- 2.4
1959	990.0	115.5	38.7	36.5	0.6	0.9
1960	998.0	123.5	44.8	18.5	18.2	4.5
1961	1034.0	118.5	72.9	23.1	43.6	6.0

Sources: The Commonwealth Economic Committee; Intelligence Bulletin.

a. Meat equivalent of the imported animals over one year of age. The equivalence was obtained from: European Economic Community: Growth of production of beef in the countries of the European Economic Community [not official title], Brussels, 1961. The meat equivalent per animal for 1959, the last shown in that publication, was used for the years 1960 and 1961.

b. Includes trade in meat with other areas, in addition to those indicated.

/bilateral

bilateral treaties with its European meat suppliers, among which Denmark and Ireland are most important, the bidding system for additional quotas has affected the Latin American exporters in a quasi-discriminatory manner, and, in part, it accounts for the recovery in the volume of purchases from other European suppliers.

Italy, the other principal importer of Latin American meats in the European Economic Community, increased its beef production more than any of the other five member countries. This increase must be largely attributed to the massive importation of cattle on the hoof, which began in 1959. By 1960, beef production had increased 29 percent over 1957, but since this still did not satisfy the growing demand, imports also increased by 36 percent. In 1961, however, the drop that started in domestic cattle prices led in the last quarter of the year to the temporary prohibition of importation of cattle and adoption of a policy restricting the importation of beef. The latter dropped in 1961 by 61 percent; not so imports of cattle, which exceeded those of the year before, and thereby contributed to a 19 percent increase in meat production.

Until 1961, Italian meat imports from Latin America remained higher than they had been in 1957. Since 1958, however, they have declined persistently, and have had no share in the increases in total meat imports in 1960, in which year Italy significantly expanded its purchases from France and Denmark.

The conditions that prevailed in the Italian market for meat during 1961 lead us to believe that a period may have begun during which the demand for beef production which now shows some abatement is being increasingly satisfied with domestic cattle.[H/] On the basis of the incomplete information available, the increase in the total or per capita apparent consumption of beef and lamb in 1961 was considerably less than it had been in any of the last four years. If this situation does prevail and were to persist, it would have unfavorable repercussions upon purchases from Latin America, which in 1961 supplied two thirds of all Italian meat imports.

Since 1957, the situation of the market for meat in the United States has been characterized on the one hand, by the decline in slaughter of domestic cattle in 1958 and 1959 and its rapid rise in 1960 and 1961, and on the other, by the larger increase in the demand for frozen meat for processing than in that for fresh meat.

H. Based principally on family budgets, the coefficient of the elasticity of demand in relation to income for all Italian meats was double the average coefficient of the European Economic Community and greater than that of any other country in Europe. See: FAO, Agricultural Commodities Projections for 1970, Rome, 1962.

/The decline

The decline in domestic production in 1958 resulted in a simultaneous increase in the importation of cattle on the hoof and meat. In 1959, however, the cattle industry in the two U.S. sources of live-animal supply, Canada and Mexico, was adversely affected by climatic conditions, and the number of animals they could offer was greatly reduced. This made it necessary for the United States to raise its imports of beef to 237 000 tons, which amount represents a considerable increase over the 57 000 tons imported in 1957. Beef exports from the United States, which up until 1957 were about 32 000 tons annually, have been less than 4 000 tons since 1958.

In 1960 and 1961, the beef cattle industry found more favorable natural conditions, and the number of animals began steadily to increase. Domestic beef production, however, did not regain the per capita level of 1957, and there was, therefore, a renewed increase in imports of cattle on the hoof and meat in 1961.

Whereas the main suppliers of cattle on the hoof to the United States are Canada and Mexico, the large imports of meat have been principally from Western Europe, Oceania, and Central America, areas that not only have met most of the increase in import demand, but have also compensated for the reduction in purchases from Canada. Latin America, represented almost exclusively by Central America and Mexico has, with certain fluctuations, been able to keep up its contribution to U.S. meat imports. In this connection, the large increase in Central American meat has compensated for the relative decline in meat from Mexico. Despite the fact that the supply from the latter country increased from 5 800 tons in 1957 to 24 800 tons in 1961, in relation to the United States' total meat imports, it has declined from 10.1 percent to 9.6 percent. Chiefly, this is because most United States meat imports have been limited to the frozen product, generally for processing purposes.

This preference for forzen meat not only has an adverse effect upon Mexican exports, but also adds another limitation, in addition to the controversy over the sanitary restrictions imposed by the United States on meat from Latin America, to the efforts of the Latin American exporting countries to find markets to make up for those partially lost in Western Europe.

The outlook for 1962-63 is not encouraging. On the one hand, a significant increase is expected in Latin American supplies available for export, but on the other, it also appears that production in European importing countries will continue to expand without interruption. Furthermore, prior to November 1962, the Council of

/Ministers

Ministers of the EEC is to issue a regulation on a common agricultural policy with reference to meat. If the proposals of the Commission of the Community are accepted, there is serious danger that meat from "third countries," including those of Latin America, will be virtually excluded from the market of the Community. To a great extent, this will depend upon the internal prices, "guide prices," that the Community establishes, since these, in turn, will determine, in the short run, the duties on imports, and, in a longer run, the amounts produced and consumed in the Community. Until the details of the policy to be followed by the Community in these aspects are defined, Latin American beef producers have reason to fear the worst. Finally, there are grave doubts as to future sales to the United Kingdom in the event that country joins the European Common Market.

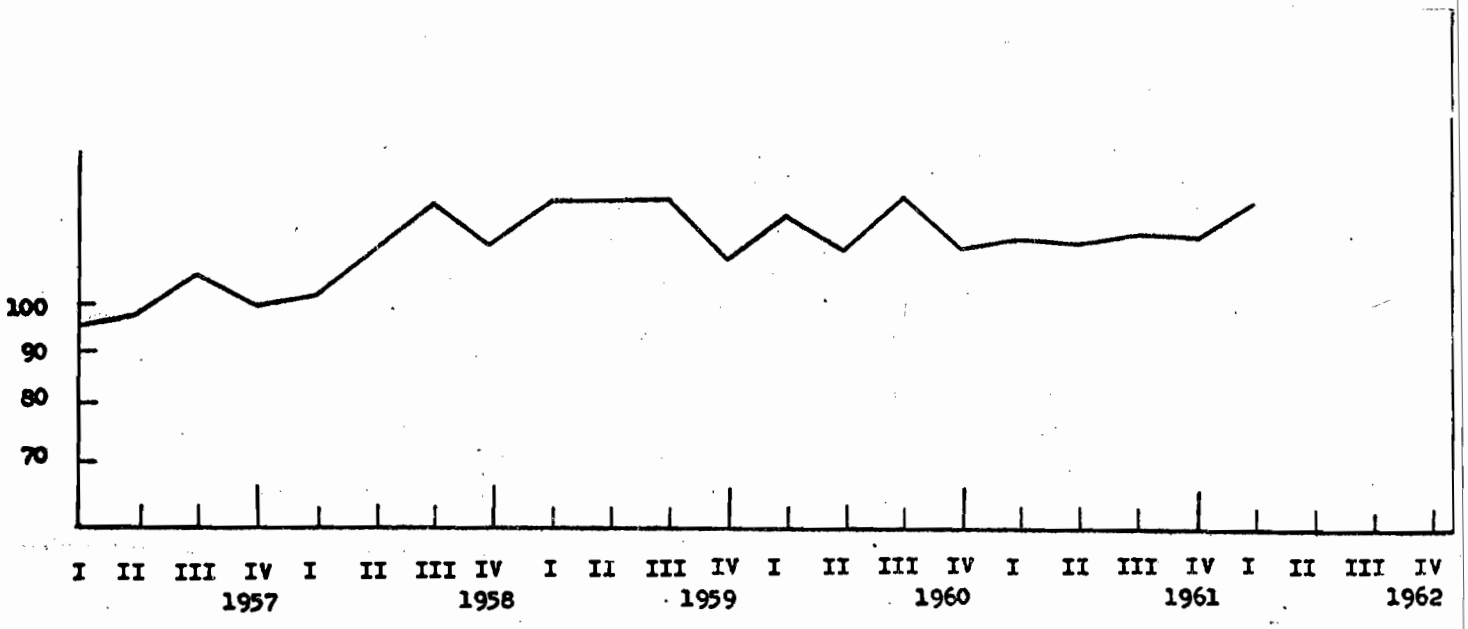
/Graph

Graph IV

INTERNATIONAL MEAT PRICES

Quarterly averages

1957 = 100



Source: United Nations, Montly Bulletin of Statistics, New York, several issues.

Note: The series covers the quotations, domestic and imported, for refrigerated hindquarters from Argentina.

3. Cacao

World production of cacao beans in the crop year 1960/61 reached a record 1.15 million long tons. This culminated a period of three consecutive years of increase, and represented a rise of 50 per cent over the 1957/58 total (see Table I-8). The evolution of prices in the international market in the period 1957-61 reflected successive phases of contraction and expansion in the total supply. Thus, for example, since production in 1957/58 had declined in relation to that of the previous year, the increase shown in 1958/59 represented only the reattainment of a previous level. In the two years following, world production continued to increase, whereas recuperation in world imports and consumption was slower.

The decline in world production in 1957/58 reflected solely the decline in African production. This contraction began to affect prices in the middle of 1957 and the price rise continued until August 1958. Within a little more than a year, the price of Bahía cacao in New York rose 50 per cent, or 42 per cent, if the annual averages for 1957 and 1958 are compared. Neither world imports nor world consumption of cacao beans were negatively affected in 1957; on the contrary, they reached the highest figures recorded since 1950. In 1958, however, the effects of rising prices made themselves felt: compared to the previous year, imports went down by 17.5 per cent and consumption by 7.2 per cent. This meant that stocks were being fully utilized; those of cacao beans in the consuming countries decreased by 25.4 per cent in 1958 (see again Table I-8).

The decline of prices of cacao beans from the levels reached in August 1958, continued practically without interruption until September 1961. On the one hand, this reflected the increases in world production, and on the other, the slowness with which world imports and consumption were recuperating. Although there was, in fact, a 15 per cent increase in world imports in 1959, part of these were allocated to replenishing inventories, and only to a small extent did this reflect an increase in consumption. Nevertheless, imports and consumption were still below those of 1957. In 1960, the volume of world imports reached a record level, but as in the previous year, part of the increase was allocated to stocks. The same tendency was still evident in 1961, even though it was apparent that consumption substantially exceeded 1957 levels.

Table I-8

CACAO BEANS: PRODUCTION, STOCKS, IMPORTS, AND CONSUMPTION, 1957-1961

	(1,000 long tons)	Indices: 1957/58 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62
World production	769	117.3	134.7	149.4	152.4
Africa	442	126.7	147.7	192.5	188.2
Latin America	300	104.3	117.0	89.3	101.3
Year-end stocks	**(1,000 long tons)**	**Indices: 1957 = 100.0**			
	1957	1958	1959	1960	1961
In consumer countries	261	74.6	86.0	115.3	160.7
Net imports:					
World total	786	82.6	95.4	107.5	...
Federal Republic of Germany	107	83.2	95.6	104.4	115.4
France	59	93.2	93.7	94.6	98.6
Italy	28	78.6	93.6	98.6	126.4
Netherlands	75	81.3	99.1	109.6	143.2
Spain	25	68.0	85.6	93.6	81.6
Switzerland	11	72.7	109.1	139.1	162.7
United Kingdom	95	90.5	81.3	97.2	89.6
United States	218	85.8	95.1	109.4	154.2
Total: 8 countries	618	84.9	92.8	104.6	126.9
World consumption of cacao beans	904	92.8	95.0	101.2	111.1
Federal Republic of Germany	104	85.6	90.4	102.9	115.4
France	62	87.0	79.0	83.9	96.8
Netherlands	77	83.1	94.8	107.8	124.7
United Kingdom	109	87.2	67.0	67.9	73.4
United States	232	88.8	87.1	92.7	103.9

Sources: Cocoa Statistics, Londres, Gill, and Duffus, September 1961. Cocoa Market Report, Londres, Gill, and Duffus, April 3, 1962.

/In the

In the final months of 1961, circumstances were once again propitious for a moderate rise in prices. On the one hand, world production estimates indicated a relatively small increase in 1961/62, owing to the reduction foreseen in African production. On the other hand, the chief producer and consumer countries, since the beginning of 1961, have been discussing the advisability of establishing an international agreement on cacao, which might make it possible to attain a certain amount of stability in international cacao quotations. During the middle of the year, a Special Committee of the International Study Group on Cacao presented a draft agreement.[17/]

It is difficult to anticipate the degree to which prices will recuperate during the coming months. In the last four months of 1961, the quotation on Bahía cacao in New York rose from 20.3 cents (U.S.) per pound --the lowest level of the year-- to 25.5 cents, an increase of 25 per cent. But the stocks that the consuming countries had on hand showed considerable increases in 1960 and 1961, and at the end of this past year, they were 60 per cent higher than they had been at the end of 1957. It is probable, therefore, that diminished production will have only a moderate effect on prices.

A little more than 50 per cent of the cacao in Latin America is produced by Brazil. Total production in Latin America showed small increases in 1957/58 and 1958/59, and a larger increase in 1959/60. In 1960/61, however, Brazilian production fell off considerably, and, as a result, total Latin American production was 23.7 per cent lower than it had been the previous year. Estimates for 1961/62 indicated that production may be restored to 1957/58 levels. But if production in Latin America did not go down between 1956/57 and 1959/60, exports, on the other hand, declined in 1957 and 1958--in the very years in which there was a decided improvement in prices in the international market (see Table I-9).

17. The draft agreement, which is now being considered by the countries that are members of the Study Group, suggests: the establishment of a price scale within which an effort would be made to stabilize the quotations in the international market; a system of export quotas that would be applicable when prices are lower than the established minimum; and the creation of an international fund for the purpose of encouraging cacao consumption and helping countries to finance the cost of keeping the surplus when restrictions are put upon exports. In general, the draft agreement incorporates the principles adopted in the International Sugar Agreement. (See Commonwealth Economic Committee, Tropical Products Quarterly, London, September 1961).

/Table I-9

Table I-9

CACAO BEANS: WORLD EXPORTS, BY SELECTED COUNTRIES AND AREAS

	(1,000 long tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
Cameroon	53	101.9	99.1	109.4	124.9
Ghana	260	75.8	96.2	116.5	155.9
Ivory Coast	65	70.8	95.8	95.2	134.0
Nigeria	135	65.2	105.8	116.1	139.6
Other African countries	49	89.8	98.0	132.6	...
Total: Africa	562	76.3	98.9	114.8	...
Brazil	108	94.4	72.5	114.4	88.2
Costa Rica	7	114.3	148.6	164.3	145.7
Dominican Republic	24	100.0	89.2	107.1	50.0
Ecuador	27	81.5	104.1	129.6	118.5
Mexico	7	71.4	75.7	42.9	71.4
Venezuela	15	86.7	53.3	53.3	...
Total: Latin America	188	92.6	79.8	111.2	...
World total	775	81.2	95.0	113.9	...
Latin American percentage of the world total	24.3	27.7	20.4	23.7	...

Source: Cocoa Market Report, Londres, Gill, and Duffus, April 3, 1962.

a. Preliminary Figures.

/The decline

The decline in Latin American exports continued in 1959, while exports from Africa were restored to a level comparable to that of 1957. This decline basically reflected a 23 per cent reduction in Brazilian exports, and seemingly resulted from the policy of minimum export prices that that country adopted to mitigate the depressive tendency of international prices. When this policy was abandoned, Brazilian exports recuperated and exceeded those of previous years. Once again, total Latin American exports reached a level comparable to that of 1956, one of the highest of the whole decade.

The decrease in cacao production in Latin America in 1960/61, was reflected in a decline in exports, a decline that chiefly affected the two countries where production had fallen off the most: Brazil and the Dominican Republic.[18/] If, as estimated, harvests in both countries improve in 1961/62, total exports from the area will also increase. If a longer period than that between 1957 and 1961 is taken into account, it should be pointed out that total Latin American production and exports have gradually become a smaller and smaller part of the world totals. This is partly due to the fact that African production has increased importantly in recent years, thanks to the advances made in pest control and in cultivation methods, whereas production of some Latin American countries has remained relatively stationary and local consumption has been absorbing a greater percentage of production.

One of the important factors that will affect the future of the cacao market is the establishment of the European Economic Community. The Treaty of Rome provided for a 9 per cent tariff on imports from "third countries." The tariffs in effect in 1957, the basis for the Treaty, were 5 per cent for Italy, 10 per cent for Belgium, Luxembourg, the Netherlands and the Federal Republic of Germany, and 25 per cent for France.[19/] The first revision of national tariffs was made on January 1, 1961, a year before the date provided for in the Treaty, but at the

18. In 1960/61, Brazilian production fell off 39 per cent and that of the Dominican Republic 31 per cent in relation to the previous year.

19. Since, however, the application of the tariff had been suspended in all the countries except the Federal Republic of Germany, the common tariff is greater than the average national tariffs in effect.

/same time

same time, the Community temporarily reduced the common external tariff by 20 per cent. The Commission of the Community has proposed to speed up even more the reductions in tariffs for associated territories. It has also proposed, however, that the external tariff be reduced by 50 per cent, that is, from 9 to 4.5 per cent, and that countries that have taxes on cacao consumption[20] reduce these 50 per cent by January 1, 1963, and eliminate them completely by January 1, 1965.[21]

The tariff preference in itself is not so great as to keep Latin American cacao from maintaining its normal share of the region's total imports, especially if the Commission's recommendations are accepted. Although, however, the associated territories now produce only part of the imports of the Community, it is possible that the preferences granted will give them sufficient incentive to increase their production.[22]

The inclusion of the United Kingdom in the EEC could have very serious effects upon latin American exports of cacao, if the African states of the British Commonwealth, especially Ghana and Nigeria, should become associated countries. Since at present, half the imports of the EEC already come from Ghana and Nigeria, with one third coming from associated territories and one sixth from Latin America, it is evident that the granting of preference to such important competitors as the two African states mentioned will further diminish Latin America's chances for maintaining its present participation in the European common market.

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20. The importance of these taxes is even more evident if it is considered that retail prices of chocolate in Italy and the Federal Republic of Germany are increased by about 30 and 12 per cent respectively as a result of domestic taxes. (Cf. FAO Monthly Bulletin on Agricultural Economics and Statistics, October 1961.)

21. After this Chapter had been written, the Community agreed upon a preliminary lowering of the common external tariff to 6.75 per cent, with another provisional reduction of 1.35 per cent. Thus, the tariff that will enter into force in January 1963 will be 5.4 per cent. (See The New York Times, June 23, 1962.)

22. See FAO Monthly Bulletin of Agricultural Economics and Statistics, October 1961.

4. Sugar

The parcelling of the international sugar market, which had already reached a considerable degree with the existence of various preferential areas and a free market area,23/ went even further from the middle of 1960 on, as a result of various events that culminated in the exclusion of Cuba from the U.S. preferential market and the emergence of the USSR as the chief buyer of Cuban sugar.24/

These changes in the geographic distribution of the sugar trade have had important consequences. On the one hand, the importance of the free market area for the exports of some Latin American countries has been substantially modified, and, in certain cases, the export market of these countries has even expanded. On the other hand, the International Sugar Agreement, whose basic objective was to promote the stability of quotations on the free market, has virtually ceased to operate since 1960, inasmuch as it has been unable to enforce the regulations on export quotas. At the end of 1961, negotiations were undertaken to renew the Agreement, but the effort ended in failure, since it was impossible to arrive at an understanding regarding the quota for Cuba.

World production of centrifugal sugar in 1958/59 showed an increase of 11 per cent over the previous year. After maintaining approximately the same level in 1959/60, it again increased in 1960/61, this time by 12 per cent over the preceding year25/ (see Table I-10). The expansion of world trade during

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23. The preferential areas were those of the United States, the United Kingdom, and the French community. The free market comprises that area where trade is carried on outside of the preferential areas.

24. Theoretically, the sugar exports and imports of the USSR are in the free market area. Actually, the USSR is a member of the International Sugar Agreement and has a basic export quota assigned to it of 200,000 tons a year, even though its position in international trade has been as a net importer of quantities that in the 1955-59 period varied between 766,000 and 120,000 tons a year. Since 1960, however, imports of the USSR from Cuba have not met the conditions of a free market, since they are carried out through bilateral agreements and at negotiated prices. Therefore, it is necessary to differentiate between them and typical free-market transactions and to consider the Cuban-Soviet sugar trade as a special category.

25. The expansion of world production of centrifugal sugar in the post-war period has been one of the largest for any agricultural commodity, but world consumption up to 1959 grew at a rate comparable to that of production. (See "Trends and Forces of World Sugar Consumption," FAO Commodity Bulletin Series No. 32, Rome, 1961.)

/Table I-10

Table I-10

SUGAR: WORLD PRODUCTION, BY SELECTED AREAS AND COUNTRIES

	1957-58	1958-59	1959-60	1960-61	1961-62[a/]
United States[b/]	4.431	109.5	110.9	119.5	129.4
Latin America	14.234	111.2	112.0	122.4	113.7
Argentina	767	154.4	135.6	119.1	102.0
Brazil	3.106	121.4	114.3	122.2	132.1
Colombia	269	108.3	124.5	145.0	162.8
Costa Rica	47	123.4	117.0	157.4	202.1
Cuba	6.447	102.0	100.2	115.7	93.4
Dominican Republic	867	114.6	129.1	158.0	121.1
El Salvador	50	108.0	112.0	116.0	124.0
Guatemala	73	96.0	105.4	128.7	154.7
Haiti	48	114.6	137.5	166.6	166.6
Mexico	1.311	111.4	132.0	121.3	140.0
Nicaragua	64	117.1	109.3	115.6	159.3
Peru	769	103.2	117.2	122.5	125.4
Other Latin American countries	416	108.6	113.9	139.1	130.6
Africa	2.710	103.6	108.8	96.8	114.2
Australia	1.399	110.3	100.1	107.4	106.5
Western Europe	7.519	117.5	102.9	140.4	108.5
Eastern Europe[c/]	3.955	106.0	101.4	131.8	119.5
Philippines	1.378	109.7	110.9	113.4	116.2
Taiwan	1.024	104.9	86.1	101.9	92.0
USSR	5.700	119.3	110.5	115.8	122.8
World total	49.073	111.1	110.0	123.9	117.1

Sources: U.S. Department of Agriculture, The Sugar Situation, March 1961, and Foreign Agriculture Circular, FS-5-61, December 1961.

a. Preliminary estimates.
b. Includes production of associated territories.
c. Including Yugoslavia.

this period was not as great. This is explained in part by the fact that the increased production has been evident, not only in traditionally exporting areas such as Latin America but also, and sometimes to a greater degree, in areas that were traditional importers, Western Europe, in particular. The effect of this growth of world supply (Table I-10) tends to have increasingly strong repercussions on the free market, not only because of its very nature, but also because the chief importing area of that market, continental Europe, has in recent years been

/achieving

achieving more and more self-sufficiency through its domestic supply.26/ The sensitivity of prices in the free market area is illustrated by what happened at the end of 1956 and the beginning of 1957. The fear of war brought on by the Suez conflict gave rise to a wave of speculative buying, and prices rose from an average of 3.24 cents (U.S.) per pound in October 1956 to 6.46 cents in April 1957.

The price trend in the free market area since the middle of 1957 was in the direction of re-establishing the levels existing prior to the Suez conflict. In 1959, a persistent weakness began to appear, in part because of the growth of production in Western Europe, which in 1958-59 was 18 percent over that of previous year, and in part because of the increase in Latin American production. Total world imports in 1959, however, were only 4 percent lower than they had been in 1957. On the other hand, Western European imports declined by 18 percent and those of the USSR by 50 percent (see Table I-11). The critical situation of prices in the free market during 1959 is even more apparent if it is remembered that they were below the minimum level provided for in the International Agreement, even though the maximum permissible restrictions (20 percent of basic quotas) were applied to the exports of the member countries.

We have already mentioned the events that, in 1960, altered the traditional pattern of the sugar trade. During most of that year, the price level in the free market showed a slight improvement over 1959. This was largely due to the increased import requirements of Western Europe, exclusive of the United Kingdom, because of its decreased production in 1959-60, and to the fact that the USSR raised the volume of its own imports to five times that of 1959. Prior to the partial cancellation by the United States of its Cuban sugar quota, the USSR had signed a trade agreement with Cuba that called for the purchase of a million tons of sugar a year throughout the 1960-64 period. When Cuba was completely excluded from the United States market, the USSR decided to purchase the remainder of the unsold quota, which came to some 700 000 tons. This diminished the impact of Cuba's exclusion on prices in the free market, and the situation was also helped by the establishment in Cuba of a minimum export price. Nevertheless, in the last quarter of 1960, quotations on the

26. See Economic Survey of Europe in 1960, United Nations publication, sales no. 61.II.B.1, Chapter III, p. 35.

/Table I-11

Table I-11

SUGAR: WORLD IMPORTS, BY PRINCIPAL COUNTRIES

	(1 000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961a/
Finland	169.3	100.6	92.4	73.4	85.4
France	211.4	64.4	108.0	185.6	185.4
Federal Republic of Germany	605.2	9.6	35.0	25.1	16.9
Netherlands	288.3	84.5	58.9	72.0	48.6
Norway	139.6	106.2	110.2	109.5	111.9
Portugal	26.1	61.7	10.0	108.8	30.7
United Kingdom	3 014.0	92.8	88.4	79.8	80.1
Switzerland	210.4	118.3	94.6	103.4	128.1
Total: Western Europe	5 073.1	89.2	84.8	82.8	...
Canada	627.8	106.3	110.1	98.3	105.3
Continental China	68.5	323.2	80.0	695.6	1 506.5
Japan	1 141.4	104.8	104.9	112.0	115.1
United States	3 913.9	111.8	107.0	118.5	113.5
USSR	671.0	58.8	49.9	255.9	510.6
World total	15 342.9	101.0	95.5	113.4	...

Source: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

free market in New York were purely nominal, since they reflected only the minimum export price established in Cuba.27/

The exclusion of Cuba from the U.S. market in the second half of 1960 stimulated exports from other producer countries, including several Latin American ones. Chiefly affected were exports from the Dominican Republic, Brazil and Mexico, and, to a lesser degree, those of smaller producers which also showed a considerable increase in 1960 (see Table I-12).

It should also be pointed out that the benefits derived by those countries from this market development consisted both in the increase in the volume of total exports

27. Beginning in January 1961, the New York Sugar Exchange replaced Contract No. 4, which covered transactions in sugar for export to the free market at prices f.o.b. Cuban port, by Contract No. 8, which covers transactions in sugar from 12 countries (most of them Latin American, excluding Cuba) at prices f.o.b. Caribbean ports.

/Table I-12

Table I-12

SUGAR: WORLD EXPORTS, BY SELECTED COUNTRIES

	(1,000 tons)			Indices: 1957 = 100.0	
	1957	1958	1959	1960	1961[a/]
Argentina	96	-	-	105.1	184.6
Brazil	409	189.6	148.1	209.0	182.1
Cuba	5.307	106.1	93.3	106.2	120.9
Dominican Republic	795	86.9	87.2	138.3	99.8
Haiti	24	26.7	25.5	123.9	187.5
Mexico	94	194.4	143.1	491.9	650.6
Nicaragua	9	244.4	277.7	404.4	344.4
Peru	496	82.9	100.6	103.6	96.8
Latin America	7.373	105.5	94.5	119.3	...
Australia	781	84.7	82.8	100.9	103.2
Czechoslovakia	219	189.0	179.3	156.4	118.2
France	544	92.7	82.2	114.7	104.1
India	160	34.0	11.7	11.8	80.8
Indonesia	143	60.8	27.3	24.5	...
Italy	361	1.9	4.7	-	-
Philippines	875	112.1	120.4	124.4	148.5
Poland	70	398.4	437.0	481.2	614.2
Taiwan	857	91.9	77.6	106.5	76.4
USSR	214	101.8	100.3	122.4	388.7
World Total	15.382	100.4	94.8	113.1	...

Sources: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

and in the larger part of them going to the preferential market of the United States instead of to the free market, with the accompanying advantage of the higher price level in the former. For example, total imports of the United States from the Latin American countries (exclusive of Cuba) increased from 273 000 tons in 1959 to 1 337 000 tons in 1960, or 390 percent (see Table I-13). Imports of sugar from the Dominican Republic that resulted from redistribution of the Cuban quota, however, were subjected during the last quarter of 1960 and the first quarter of 1961 to a tax equivalent to the difference between prices on

/Table I-13

Table I-13

SUGAR: STOCKS AT THE START OF THE RESPECTIVE PRODUCTION YEAR

(1,000 short tons, raw value)

		1958/59	1959/60	1960/61	1961/62	1962/63[a]
Exporting countries						
Argentina	June 1	9	157	414	386	250
Brazil	June 1	424	622	670	426	605
Colombia	May 1	17	27	41	80	121
Cuba	Jan. 1	603	1.347	1.192	1.196	630
Dominican Republic	Dec. 1	83	212	125	188	152
Mexico	Nov. 1	336	503	553	196	131
Peru	Jan. 1	128	106	120	73	46
Subtotal		1.600	2,974	3.115	2.545	1.935
Australia	Jul. 1	157	179	210	222	245
India	Nov. 1	397	169	650	1.400	1.372
Indonesia	May. 1	22	22	88	100	80
Philippines	Oct. 1	98	274	345	228	147
South Africa	June 1	74	116	193	191	213
Taiwan	Nov. 1	83	155	109	103	85
Subtotal		831	915	1.595	2.244	2.142
Importing countries						
Austria	Oct. 1	61	95	116	89	26
Belgium	Oct. 1	24	42	20	41	27
Canada	Sep. 1	62	89	66	85	74
Federal Republic of Germany	Oct. 1	187	591	333	678	172
Finland	Aug. 1	46	52	50	49	55
France	Oct. 1	88	144	199	929	482
Italy	Aug. 1	61	252	755	491	394
Japan	Oct. 1	159	150	170	202	196
Netherlands	Oct. 1	78	161	62	174	102
Sweden	Oct. 1	99	165	160	209	192
United Kingdom	Sep. 1	506	488	619	541	384
United States	Oct. 1	845	1,353	1,275	1,165	1,295
Yugoslavia	Sep. 1	114	114	27	107	77
Subtotal		2.330	3.696	3.852	4.760	3.476
Total[b]		5.015	7.998	8.986	10.007	7.970

Source: U.S. Department of Agriculture, Foreign Crops and Markets, February 23, 1962.

a. Forecast.

b. Includes other countries not listed.

Note: The dates are for the first year indicated in each columm, with the exception of January, which corresponds to the second year indicated.

/the free market

the free market and those on the preferential market. This was done in harmony with the sanctions imposed upon the Dominican Republic by the Organization of American States in the middle of 1960. The maintenance of those sanctions throughout 1961 accounts for the fact that total imports of the United States from the Dominican Republic were less that year than they were in 1960.28/ When the sanctions were lifted at the beginning of 1962, purchases authorized from that country were substantially increased. In fact, as shown in Table I-13, purchases from the Dominican Republic authorized for the first quarter of 1962 exceeded purchases in all of 1960.

Important changes occurred in the sugar market in 1961. The strong growth of production in Western Europe, combined with considerable increases in such net exporting countries in Latin America as Cuba, the Dominican Republic, Mexico and Brazil, plus those in other areas (Eastern Europe, Taiwan, and Australia), was reflected in a downward price trend in the free market. This trend was accentuated during the second quarter of 1961, bringing prices down to the lowest levels in 20 years. An added factor was that importer stocks were higher at the end of 1960 than they had been in recent years (see Table I-13). As a result, the imbalance between supplies available for export and demand by the importing countries rose to a high level in 1961.

There are indications that this situation will change in the immediate future. Estimates are that sugar production in Western Europe in 1961-62 will be considerably lower than it was in the preceding year, and reductions are also foreseen in Cuba, the Dominican Republic, Eastern Europe, Taiwan and Australia. Altogether, it is estimated that world production in 1961-62 will be 5.5 percent less than it was in 1960-61. The outlook for a significant recovery of prices in the free market, however, is dimmed by the large stocks on hand in the majority of the importing and exporting countries and by the uncertainty with regard to the final destination of sugar imported by the USSR. The importance of this last factor

28. On March 31, 1961, the Congress of the United States passed a law extending the sugar legislation until June 30, 1962, and giving the President authority, in distributing U.S. purchases of extra-quota sugar, to exclude those countries with which the United States did not maintain diplomatic relations. Since this provision was applied to the Dominican Republic, the share of extra-quotas sales to which it would otherwise have been entitled (618 174 tons) was redistributed among other countries. Consequently, total sugar imports from the Dominican Republic in 1961 were limited to the regular quota of 111 157 short tons, plus extra-quota purchases of 221 796 short tons in the first quarter of that year (see U.S. Department of Agriculture Sugar Reports, July 1961 and January 1962).

/became

became evident at the beginning of 1962 when prices on the free market in New York declined from 2.44 cents (U.S.) per pound at the end of December 1961, to 1.94 cents at the end of January 1962, apparently under the pressure of the re-exportation of Cuban sugar by the Soviet Union (see Table I-12). The magnitude of the decline led the Cuban Government at the beginning of February 1962, to announce the suspension of sugar sales to the free market for the rest of the year. This, together with the report that Cuban production in 1962 will be lower than was originally estimated, has caused the market to react and prices to rise to what they were at the end of 1961.

Prices in the United States preferential market fluctuate freely, but the margin for these fluctuations is limited by the price level guaranteed to domestic producers and by the manipulation of import quotas. The price average in 1961 was not appreciably higher than it had been in the two previous years.

Prices and imports in the preferential markets of the United Kingdom and the United States are more stable than those in the free market, since in the former, by their very nature, changes in supply and demand are not reflected so quickly or so extensively. Under the sugar agreement of the British Commonwealth, not only the quantities to be imported but also their prices are set in advance. About two thirds of the total imports of the United Kingdom come from British Commonwealth countries and the rest from the countries of the free market area (see Table I-14). Nevertheless, total imports of the United Kingdom from both the countries of the Commonwealth and from those of the free market area have been declining since 1958, although this has affected imports from the latter area more strongly. Imports from Latin American countries in 1960 were 44 percent lower than they had been in 1957, and the decline continued in 1961.

The situation is entirely different with regard to import volume. Up to 1959, imports from Cuba represented a little more than one third of total sugar supplies in the United States market (see Table I-15). In 1960, the partial cancellation of its quota reduced imports from Cuba, but since imports from other Latin American countries simultaneously increased, the region as a whole supplied approximately the same percentage as in previous years. The total exclusion of Cuba in 1961, however, reduced total Latin American participation in the U.S. sugar market to a little more than one fifth. In spite of this, the quotas established for the first half of 1962 indicate that the Latin American countries will be able to provide a larger percentage than they did in 1961.

The reason why quotas have been established only for the first half of 1962 is that the sugar legislation in force will expire on June 30, 1962. There is some uncertainty as to the future of this legislation. In his budget message to Congress

/Table I-14

Table I-14

UNITED KINGDOM: TOTAL SUGAR IMPORTS, BY COUNTRY OF ORIGIN

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a/]
Total	3,014	92.8	88.4	79.8	80.1
Countries of the British Commonwealth	1,835	94.8	92.3	90.2	86.6
Others	1,179	89.7	82.4	63.5	70.0
From:					
Argentina	8	-	-	112.5	112.5
Brazil	137	31.4	88.6	11.2	15.4
Cuba	455	110.3	74.3	41.8	22.4
Dominican Republic	374	95.0	70.3	84.3	61.7
Peru	57	80.9	97.4	89.1	8.9
Total: Latin America	1,047	90.4	77.0	55.8	35.2
Percentage of the total from Latin America	34.7	33.9	30.3	24.3	15.2

Sources: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

on January 18, President Kennedy stated that legislation would be proposed extending the Sugar Act with substantial revisions. "Under this legislation," he said, "the difference between the domestic and world prices of sugar, which is currently received by foreign suppliers of sugar, will be retained by the United States...." As the U.S. Department of Agriculture explained the proposal, a fee equal to the difference between domestic and world free-market prices would be applied to all imports of sugar, and this would serve to separate the business of importing sugar from the foreign aid program of the United States, the idea of foreign aid being implicit in the present preferential price.29/ This and other proposals, including one to substitute a global quota system for the system of quotas by countries, are now being considered by the Congress of the United States.

29. See U.S. Department of Agriculture, Agricultural Stabilization and Conservative Service, Sugar Reports, No. 118, February 1962.

/Table I-15

Table I-15

UNITED STATES: TOTAL SUGAR SUPPLIES, BY AREA OF ORIGIN
(Thousands of short tons, rough value)

	1957	1958	1959	1960	1961[a/]	1962[b/]
Quotas of domestic producers:						
In the hemisphere	2,708	3,013	2,966	3,289	3,324	1,388
Virgin Islands	15	6	12	9	17	8
Hawaii	1,060	700	978	940	1,030	620
Puerto Rico	920	815	970	894	980	603
Subtotal	4,703	4,534	4,926	5,132	5,351	2,593
Foreign suppliers subject to quotas:						
Cuba	3,127	3,438	3,215	2,420	-	-
Philippines	930	980	980	980	980	490
Others	215	279	279	433	371	163
Authorized extra-quota purchases	-	-	-	1,200	3,117	1,604
General total	8,975	9,231	9,400	10,164	9,820	4,850
Purchases from Latin American countries, chargeable to quotas and extra-quotas:						
Brazil	-	-	-	100	306	80
Colombia	-	-	-	-	46	30
Costa Rica	1	1	4	10	30	10
Dominican Republic	57	80	82	453	333	479
Ecuador	-	-	-	-	36	-
El Salvador	-	-	-	6	11	5
Guatemala	-	-	-	6	10	5
Haiti	6	6	7	36	45	5
Mexico	40	62	65	400	676	399
Nicaragua	9	14	14	42	31	50
Panama	3	4	4	10	7	5
Peru	75	76	97	274	625	330
Total	191	243	273	1,337	2,157	1,398
Porcentages of the total from Latin American						
Cuba	34.8	37.2	34.2	23.8	-	-
Other Latin American Countries	2.1	2.6	2.9	13.2	22.0	28.8

Sources: U.S. Department of agriculture, Sugar Report, (various issues).

a. Preliminary figures.
b. Assigned quotas and extra-quota purchases authorized for the first half of 1962.

5. Grain

a. Wheat

During the second half of 1961, a strengthening of the international prices of wheat was to be noted. They had declined moderately during 1957 and in the following three years remained relatively stable, but at the lowest level recorded since 1950. The 1961 average was thus slightly higher than that of the two preceding years, but did not regain the 1957 level. This trend in recent months toward higher prices seems to reflect certain basic changes in the general outlook of the market. In the first place, world production in the last two years was lower than that of 1958/59, and another decline in the 1961/62 harvest is expected (see Table I-16). In the second place, import demand, which showed annual increases of 6.7 and 4.1 per cent in 1958/59 and 1959/60, respectively, went up again by 20.5 per cent in 1960/61. It is expected that an even higher level will be reached in 1961/62, in view of the prospect of another decline in Western European production and an increased amount of contract purchases from Canada by mainland China. Furthermore, the agreement signed in May 1960, between India and the United States, provides for the former to import 16 million tons of wheat within a four-year period, under the terms of Public Law 480. Altogether, then, it appears that import demand in 1961/62 will be higher than that of 1960/61, while world production is expected to decline for the third consecutive year. It is therefore to be hoped that international prices will show greater improvement than they did in the second half of 1961. In this connection, it should be observed that current negotiations for renewal of the International Wheat Agreement which expires in July 1962, a preliminary agreement has been reached to raise the maximum and minimum prices set forth therein.

The trend in the international wheat market thus helps to mitigate the adverse effects of large surplus stocks accumulated in the United States and Canada, even though as of July 1961, there had been no reduction in the total stocks in the two largest wheat-exporting countries in the world. Nevertheless, there is good reason to suppose that stocks will be considerably lower at the end of the commercial year 1961/62.

/Table I-16

Table I-16

WHEAT: WORLD PRODUCTION, BY SELECTED COUNTRIES AND AREAS

	(Millions of tons)	Indices: 1957-58 = 100			
	1957-58	1958-59	1959-60	1960-61[a]	1961-62[a]
World total:	209.0	123	119	117	112
Argentina	5.8	115	100	69	90
Australia and New Zealand	2.8	214	200	275	221
Continental China	23.4	124	134	...	...
Latin America	10.1	105	93	77	91
United States	36.4	137	115	138	112
USSR	49.0	156	141	130	134

Source: United Nations Food and Agriculture Organization, Monthly Economic and Agriculture Statistical Bulletin, March 1962.

a. Preliminary estimates.

Production and exports in Latin America and in the rest of the world have followed very different courses. World production in 1958-59 showed an increase of 23 percent over the previous year. The increase in Latin America was considerably less, and in the two following years, total production of the area declined below that of 1957-58, the countries chiefly affected being the two exporters: Argentina and Uruguay (see Table I-16). In both countries, this decline in production was due to adverse weather conditions.[30] As a result, Latin America has been unable since 1959 to take advantage of the rising trend in world wheat exports (see Table I-17). In spite of the reduction in stocks in Canada and Argentina, total stocks on hand in the four principal world exporting countries during the middle of 1961 were 13 percent higher than in 1957. It is nonetheless probable that total stocks will be reduced slightly in the immediate future, owing to the prospects of lower production in almost all the principal areas and of another increase in world exports to Western Europe and mainland China.

30. In 1959 there were severe floods in Uruguay, and Argentina suffered a serious drought in the 1960-61 season.

/Table I-17

Table I-17

WHEAT: STOCKS AND TOTAL SUPPLIES IN THE PRINCIPAL EXPORTING COUNTRIES. WORLD EXPORTS

	(Thousands of tons)	Indices: 1957 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62[a]
Stocks at the beginning of the commercial year: [b]					
Argentina	4 355	109.4	100.0	87.5	62.5
Australia	3 130	60.9	117.4	126.1	126.1
Canada	20 820	88.2	75.8	73.9	72.5
United States	24 739	96.9	142.5	144.6	154.8
Total: 4 countries	53 044	92.4	111.3	111.0	113.2
Total supplies:					
Argentina	7 702	111.3	98.9	74.2	76.0
Australia	3 837	165.3	188.7	239.7	195.8
Canada	30 210	91.1	86.8	92.5	71.1
United States	51 030	125.1	128.9	142.5	141.1
Total: 4 countries	92 779	114.5	115.1	124.5	115.2
World exports:					
Argentina	2 114	132.3	99.8	90.3	...
Canada	8 633	94.7	88.0	108.1	...
France	2 269	46.5	77.9	68.7	...
Sweden	102	117.6	81.4	180.4	...
United States	10 952	110.2	126.7	164.6	...
Uruguay	225	83.6	...	...	...
USSR	3 932	152.5	124.6	93.5	...
Subtotal	29 878	108.6	112.1	132.8	...
Others	2 518	139.2	105.4	65.6	...
World total	32 396	111.0	111.6	127.5	...

Source: U.S. Department of Agriculture, The Wheat Situation, October 1961, February 1962.

a. Preliminary estimates.

b. Commercial years July-June.

/Table I-18

Table I-18

WHEAT AND WHEAT FLOUR: WORLD IMPORTS, BY SELECTED COUNTRIES AND AREAS

	(1,000 tons)	Indices: 1957/58 = 100.0		
	1957-58	1958-59	1959-60	1960-61
Belgium	429	114.7	95.1	112.4
Finland	312	107.7	87.5	37.5
Federal Republic of Germany	2 619	92.8	80.0	84.2
France	255	214.9	128.6	157.3
Italy	379	20.8	30.0	620.8
Norway	295	115.3	110.2	104.7
Netherlands	1 023	118.6	108.9	91.9
Switzerland	367	89.4	92.4	85.0
United Kingdom	5 112	103.7	87.5	92.2
Other Western European Countries	1 719	134.3	86.4	130.9
Western Europe	12 510	106.9	87.5	112.5
India	3 021	115.5	118.6	126.6
Japan	2 437	100.8	105.3	116.3
Pakistan	884	61.1	100.7	126.1
Other Asian countries	3 123	60.6	70.8	73.5
Asia[a]	9 465	88.5	97.7	106.4
Continental China[b]	70	78.6	0.0	4,041.4
Brazil	1 253	163.4	142.4	152.0
Other Latin American countries	989	149.3	185.9	180.8
Others	4 438	119.8	182.4	175.3
World total	28 725	106.7	111.1	133.9

Source: FAO, World Grain Trade Statistics, 1959-60, 1960-61.

Note: Commercial years July-June.

a. Excludes Continental China.

b. There is no official information published on imports of Continental China. The figures presented are based on the export statistics of countries other than those having centrally planned economies.

/b. Corn

b. Corn

The trend in the world corn market is in some ways similar to that of wheat. International prices showed a sharp decline in 1958, and since then have remained lower than at any time since 1950, with only slight fluctuations. To a certain extent, this price decline in the world market was influenced by the changes in United States price-support policy, which consisted chiefly in reducing the minimum guaranteed price and in eliminating restrictions on the area under cultivation.31/ As a result, U.S. production showed successive increases in the 1958-59/1960-61 period, and total stocks accumulated as of the middle of 1961 were 43 percent higher than they had been in 1957 (see Table I-19).

As in the case of wheat, Latin American production of corn has not shown increases comparable to those in other areas. On the other hand, exports (exclusively from Argentina) increased considerably between 1958 and 1960, and in spite of their sharp decline in 1961, they continued higher than in 1957. Those increases, however, could barely restore exports to a level comparable to that of the 1946-48 period, since during this period Argentine production declined steadily and amounts available for exports were generally very low. Thus, because of the stagnation of its production, Argentina's position in the international market with respect to both wheat and corn has suffered a setback, especially in comparison to what it was during the prewar years.32/

31. This policy was again changed in 1961. Restrictions on the cultivated area were re-established and the minimum price guaranteed was raised.

32. See El Desarrollo Económico de Argentina, United Nations publication N° 59, II.G.3. Vol. II, pp. 10-14.

/Table I-19

Table I-19

CORN: PRODUCTION, STOCKS, AND WORLD EXPORTS

	(Millions of tons)	Indices: 1957/58 = 100		
	1957/58	1958/59	1959/60	1960/61a/
World Production	176.0	113	122	126
Latin America	21.1	101	102	106
Argentina	4.8	102	85	100
United States	87.7	117	132	136
USSR	7.0	238	171	264

	(Millions of tons)	Indices: 1957 = 100			
	1957	1958	1959	1960	1961a/
Stocks as of July 1					
Argentina	2.4	200.0	210.5	147.4	168.4
United States	50.0	106.5	112.2	128.1	142.7
Exports:					
Argentina	0.8	213	340	326	317
United States	4.5	100	124	124	142
World total	7.5	129	140	146	149

Source: FAO Monthly Bulletin of Agricultural Economics and Statistics, February 1962; U.S. Department of Agriculture, Foreign Crops and Markets, September 28, 1961.

a. Preliminary figures.

6. Cotton

6. Cotton

Although world stocks of cotton continue to be too high to permit any considerable price rise, there has been a gradual improvement in the ratio between stocks and consumption in the last five years, since the proportion of the former to the latter has dropped from 55 per cent in 1957/58 to 43 per cent in 1961/62 (see table I-20). Although the annual increases in production slightly exceeded the increases in consumption, the absolute level of consumption since 1956-57 has been higher than that of total production. In the 1960/61 season, however, production and consumption were approximately in balance, and preliminary estimates for the trade year 1961/62 indicate that this situation will continue with no great change. Within this relatively favorable general picture, there are two distinct trends.

As regards short-staple and medium-staple cotton (which are the types most extensively produced by all the Latin American producer countries except Peru), once the 1957/58 depression in the textile industry was over, world consumption remained high for three years; it appears to be continuing at close to the same level in the present 1961/62 season. It is probable, however, that there will be some changes in consumption by various geographic areas. For example, a decline in consumption in the group of countries that have centrally planned economies is foreseen, particularly in the People's Republic of China, where, because of the agricultural crisis, a higher priority may perhaps be given to the importation of food. In Western Europe also, a certain decline in consumption is to be expected. In the Federal Republic of Germany there has been an accumulation of stocks of cotton yarn and textiles during the last few months. In the United Kingdom, in September 1961 new orders declined 18 per cent in relation to 1960, and much of the productive capacity of the textile industry was left idle. On the other hand, the recovery in industrial activity and in income levels in the United States makes it seem likely that there will be an important increase in the demand for cotton, an increase that is expected to compensate to a large extent for the declines in other countries.

Table I-20

Table I-20

COTTON: WORLD CONSUMPTION AND SUPPLY, 1957/58 - 1960/61

	(Million of bales of 478 pounds) 1957/58	Indices: 1957/58 = 100.0 1958/59	1959/60	1960/61	1961/62a/
Initial stocks	23.4	94.0	89.3	86.3	85.9
United States	11.4	76.3	78.1	66.7	63.2
Latin America	1.6	137.5	112.5	118.7	112.5
Others: net exporters	1.6	112.5	106.2	81.2	106.2
Others: net importers	6.2	98.4	85.5	96.8	109.7
Centrally planned countries	2.6	123.1	123.1	130.8	100.0
Production	41.6	107.7	113.7	114.2	112.0
United States	11.0	104.5	131.8	130.9	130.0
Latin America	5.2	105.8	100.0	115.4	121.1
Centrally planned countries	13.6	115.4	117.6	102.9	102.2
Others	11.7	103.4	99.1	112.0	106.8
Total supply	65.1	102.6	104.3	104.0	102.6
Total consumption	42.9	106.3	112.3	110.7	110.2
United States	8.0	108.8	112.5	103.8	110.0
Others: net exporters	4.5	106.7	115.6	120.0	120.0
Others: net importers	15.9	96.9	105.7	110.0	108.8
Centrally planned countries	14.5	114.5	117.9	113.1	109.8

Sources: International Cotton Advisory Committee, Cotton, World Statistics, March 1962; U.S. Department of Agriculture, Foreign Agriculture Circular, FC-16-61, December 1961.

a. Preliminary estimates.

/The market

The market for extra-long-staple cotton has shown a different trend. The production of such fiber in 1958-59 increased 60 percent over that of the previous year, and although it declined somewhat in the two years following, it continued to be almost 50 percent higher than in the years prior to 1958/59. This is chiefly because of the increases achieved in Egypt and Sudan (see Table I-21). Both consumption and exports in producer countries increased less than production, for which reason there was a considerable increase in stocks. As a result of this, between 1957 and 1959, prices of extra-long-staple cotton declined proportionately more than those of other types. Another increase in exports in 1959/60 brought about a moderate reduction in stocks and a slight recovery in prices, although not to the 1956/57 level. It is probable that this situation will continue to improve in 1961/62, especially in Peru and Sudan, since in Egypt, the chief producer country, the leaf-worm plague destroyed more than a third of the crop.

The subsidy given to United States exporters in the commercial year 1961-62 increased from 6 to 8.5 cents (U.S.) per pound. Despite this, it is likely that the volume of exports from that country to the world market will decline, since that increase will not entirely compensate for a rise of some 3 cents in the domestic support price. This will represent a slight disadvantage for exported cotton relative to that marketed internally. Furthermore, a reduction may be foreseen in the export programs financed by the Government of the United States.

The decline in the pressure exerted by U.S. surpluses on the cotton market and the high level of consumption in recent years--stimulated, in part at least, by the reduction in prices--leads us to believe that the improvement in the market in 1961 may mean the end of the downward price trend observed in previous years. Moreover, favorable results have been achieved from a broad technological research program on the use of cotton mixed with artificial fibers to make a great variety of products. This presents the possibility that cotton may partially regain its former share of the total textile fiber market, a share that declined in recent years precisely because of the competition of artificial fibers.

Regarding the general outlook for the market in the immediate future, it is pertinent to mention two recent agreements whose influence on international cotton trade cannot yet be definitely determined. One agreement,

/Table I-21

Table I-21

EXTRA-LONG-STAPLE COTTON: PRODUCTION, EXPORTS, AND STOCKS

	(1,000 bales of 478 pounds)	Indices: 1957/58 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62[a]
Initial stocks					
Egypt, U.A.R.	160	190.6	312.5	156.0	196.9
United States[b]	82	132.9	150.0	162.0	129.3
Peru	8	250.0	87.5	87.5	112.5
Sudan	500	60.0	50.0	52.0	70.0
Others	10	130.0	170.0	250.0	250.0
Total	760	98.3	118.0	88.8	105.9
Production					
Egypt	847	139.9	127.3	123.4	75.0
United States	80	102.5	86.2	83.8	81.3
Peru	107	120.6	112.1	134.6	126.2
Sudan	167	326.9	338.3	290.4	419.2
Others	50	112.0	160.0	144.0	140.0
Total	1,251	159.7	152.8	144.9	128.3
Consumption in producer countries	97	153.6	159.8	164.9	164.9
Total supplies available	1,914	135.6	138.7	121.6	117.6
Exports					
Egypt	639	139.3	193.4	143.7	...
United States	10	230.0	40.0	80.0	...
Sudan	356	165.2	153.4	110.9	...
Peru	92	150.0	123.9	148.9	...
Others	42	100.0	107.1	111.9	...
Total	1,139	147.6	170.8	132.1	...

Source: International Cotton Advisory Committee, Cotton, Monthly Bulletin, March 1962.

a. Preliminary estimates
b. Includes 50,000 bales of strategic reserves.

/already accepted

already accepted in principle by the United States, Canada, India, Japan and the countries of the European Economic Community, will serve to regulate exports of cotton textiles, increasing the possibility that the less-developed countries may augment their exports of cotton textiles, and avoiding changes in certain markets or in branches of production.

The other agreement, which is a short-term one--October 1961 through September 1962--and which has been signed by the previously mentioned countries, provides for the adoption of measures to: a) appreciably increase access to markets in which imports are now subject to restrictions; b) maintain orderly access to markets in which there are no restrictions; and c) if necessary, prevail upon exporting countries to modify their export policy to a certain degree, in order that the import markets may not be affected. Beginning in January 1962, the participating countries maintaining quantitative restrictions on imports of cotton textiles are obliged to give the countries whose exports are now restricted much greater access to their markets.33/

Also, a provisional committee on cotton textiles was created, and this has been given the task of proposing long-term solutions to the problems affecting international trade in these textiles. The preliminary study made by this committee at the end of October 1961, on the possibilities of a long-term agreement, reaffirmed the two basic principles of the short-term agreement already mentioned: to give greater access to exports from countries in the process of development and to prevent changes in the markets of the importing countries. The proposals for the long-term agreement were to have been presented to the member countries of the GATT before April 30, 1962.

Another matter of importance, which will also influence the cotton market, is the fact that the U.S. Tariff Commission received orders to investigate whether there is need to impose an additional tax of 8.5 cents (U.S.) per pound of cotton content on imports of textile products. The purpose of this tax would be to compensate for the effect of the 8.5 cents per pound

33. United Nations, Commission on International Commodity Trade, Commodity Trade Developments, Memorandum No. 40, October 31, 1961.

/subsidy

subsidy that the United States presently grants on its cotton exports to maintain their competitive position in the international market. Undoubtedly, therefore, it will be necessary to reconcile the objectives set forth in the previously mentioned agreement on trade in cotton textiles with the protectionist aim of the measure that may possibly be taken by the United States.

With few or only temporary exceptions, cotton production in Latin America has been rising during the last few years, especially in certain countries that had not heretofore been producers, or whose production had been on a very small scale. Although a part of that increased production has been absorbed by domestic consumption and production in some countries has fluctuated widely from year to year, the total volume of Latin American exports showed a rising trend between 1957/58 and 1960/61 (see Table I-22). This is partly because new exporters have appeared on the scene: El Salvador, Guatemala, Nicaragua, and more recently, Colombia, countries that did not export cotton at the beginning of the past decade. Among the traditional producers, only Mexico, and to a lesser extent Peru, have shown an increase in exports in the last ten years. In fact, Brazil's exports declined radically in 1956/57 and in 1958/59, as a result of prolonged droughts that shrank production and made it necessary to set low export quotas to give priority to domestic consumption. Although in the last two years there has been a substantial recovery in the volume of exports, it is still in no way comparable to that of the 1953/54 through 1955/56 period. Estimates for 1961/62, however, indicate progress in the restoration of Brazilian production.

At the beginning of the trade year 1961/62, cotton stocks in Latin America were slightly lower than they had been the year before. Although an increase in total production is foreseen, it is believed that consumption in Argentina, Brazil and Colombia will increase, so that the amount of cotton available for export will not be appreciably larger than it has been during the present season, particularly if, as expected, production in Mexico declines.

/Table I-22

Table I-22

COTTON: WORLD EXPORTS, BY PRINCIPAL AREAS AND COUNTRIES

	(1,000 bales of 478 lbs.)	Indices: 1957/58 = 100.0		
	1957/58	1958/59	1959/60	1960/61
United States	5 717	48.8	125.6	116.0
Latin America[a/]	2 404	138.8	105.3	180.4
Brazil	216	112.5	207.4	332.4
Costa Rica	1	600.0	300.0	300.0
El Salvador	133	185.7	85.0	104.5
Guatemala	35	182.8	148.6	242.8
Haiti	3	66.7	-	-
Honduras	4	500.0	125.0	100.0
Mexico	1 411	128.3	92.0	113.5
Nicaragua	146	226.7	78.8	95.9
Paraguay	35	85.7	14.3	57.1
Peru	420	128.1	102.6	118.8
Africa	2 796	121.7	131.8	117.0
Centrally planned countries	1 454	141.3	143.2	117.3
Others	1 651	115.8	110.4	103.4
World total	14 022	96.2	123.5	119.0

Source: International Cotton Advisory Committee, Cotton, World Statistics, March 1962.

a. Total includes exports from Argentina and Colombia during the last two years.

7. Wool

International wool prices during the 1957/61 period have generally tended to decline, although the magnitude and direction of the fluctuations have not always been the same in the various main producing and exporting countries. The sharpest decline was experienced by Uruguayan wools, the prices of which went down almost constantly from the beginning to the end of that period. In contrast, the drop in prices of Argentine wools in 1958 was followed by a period of recovery in 1959 and 1960, and although they again declined in 1961, the difference between the level of prices in that year and in 1957 was perceptibly less than that affecting Uruguayan wools.

In London, which is the representative market for wool from countries of the British Commonwealth, auction prices of fine wools followed a course more like that of the Uruguayan wools, although after the sharp decline in 1958, prices in the London market showed less pronounced fluctuations than those for Uruguayan wools.34/ That difference in price behavior persisted through 1961. Whereas prices for Argentine wools remained unchanged during the course of that year, those for wool from Uruguay and the British Commonwealth showed a moderate recovery.

The most important factor in this price deterioration has been the behavior of consumption. During the 1957-58 depression, the textile industry was one of the sectors most severely affected by a reduction in demand. This reduction was reflected in a decline in the consumption and volume of imports, as well as in an increase of stocks in producer countries (see Table I-23). To this was added the fact that world production showed successive increases in 1958/59 and in 1959/60 (see Table I-24). While the main Latin American producer countries, Argentina and Uruguay, did not share in this expansion of world production, the British Commonwealth countries, on the other hand, made a decisive contribution. They represent 50 per cent of total production, not counting

34. Latin American sales are not transacted under the same auction system as the one used by the British Commonwealth producer countries. For this reason, the wool prices shown in charts I, II, and III are for the Boston, United States market.

/Table I-23

Table I-23

WOOL: CONSUMPTION OF WOOL (CLEAN BASIS) FOR SELECTED COUNTRIES

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961
Australia	31.3	91.4	105.8	107.3	94.2
Belgium	36.2	87.8	97.8	107.7	105.2
United States	154.0	99.9	124.4	122.3	122.3
France	140.8	85.7	86.0	90.2	89.6
Holland	11.8	80.5	95.8	83.4	84.7
Italy	73.0	97.0	103.2	123.0	114.9
Japan	85.4	85.5	120.0	142.9	165.2
United Kingdom	218.3	92.3	105.8	100.0	98.1
Federal Republic of Germany	82.1	84.0	86.7	83.4	84.0
Sweden	3.5	142.9	142.9	154.3	128.6
Total 10 countries	836.4	91.3	105.8	107.8	108.2
Other countries	223.6	103.1	104.9	103.7	...
Centrally planned countries	278.0	109.9	117.0	121.1	...
World total	1,338.0	97.1	108.0	109.9	...

Source: Commonwealth Economic Committee, Wool Intelligence.

Table I-24

WOOL: WORLD PRODUCTION (GREASY BASIS), SELECTED COUNTRIES

Country	(1,000 tons) 1957-58	Indices: 1957-58 = 100.0 1958-59	1959-60	1960-61	1961-62[a]
Argentina	186	102.9	103.4	100.0	100.2
Australia	651	111.0	117.2	113.8	117.1
United States	134	99.6	107.7	109.5	109.8
New Zealand	225	108.9	116.4	118.6	120.8
United Kingdom	52	104.4	108.7	105.2	109.7
Union of South Africa	136	105.0	106.6	102.0	107.7
Uruguay	91	87.5	79.5	90.5	97.6
Other countries	399	101.3	103.4	103.3	104.1
Subtotal	1 872	105.3	109.3	108.2	110.7
Centrally planned countries	419	109.4	119.4	119.8	118.1
World total	2 291	106.0	111.1	110.4	112.1

Source: Commonwealth Economic Committee, Wool Intelligence.

a. Estimates.

/that of

that of the countries that have centrally planned economies. This latter group of countries also showed substantial increases in production in 1958/59 and 1959/60, and their demand for imported wools therefore decreased.

Estimates for 1961/62 indicate another increase in world production, principally on the part of the British Commonwealth countries. It is estimated that production in Argentina and Uruguay will be approximately the same as in 1957/58; in the case of the latter country, this would mean an increase over the preceding year. Actually, since Uruguayan production during recent years has been below that of 1957/58, the increase foreseen for 1961-62 will represent only a recovery to the 1957-58 level.

It does not seem likely, however, that the small increase in world production foreseen for 1961/62 will depress prices. At the beginning of the 1961/62 season, stocks on hand in the chief producer countries were the lowest recorded since 1957/58 (see Table I-25). On the other hand, while it is true that there was a slight decline in consumption in 1961, this decline was largely in the United States, and was a reflection of that country's mild industrial recession in 1960/61. Now that industrial growth in the United States has been reactivated, there is reason to hope that consumption will also go up.

Exports of virgin wool from the five chief world exporters increased by 22 per cent in 1958/59. This increase undoubtedly resulted from the low level of exports in 1957/58, which was reflected in a 54 per cent increase in total stocks of the main producer countries at the beginning of the 1958/59 season (see Table I-25). It is important to point out that the fluctuations in the volume of exports from Argentina and Uruguay during the 1957/61 period have been greater than those affecting other exporting countries. This is due in part to the different methods of wool marketing used in the countries of the British Commonwealth and in the two South American countries; in part, it is also due to certain features of the foreign exchange policy in these two countries. Whereas sales of wool by producers in the British Commonwealth are transacted through brokers at public auction, those of South American exporters are directly negotiated through private contracts. Because of this, South American exporters have often been able to retain their stocks when prices

/Table I-25

Table I-25

WOOL: STOCKS OF WOOL (CLEAN BASIS) IN SELECTED COUNTRIES[a]

Country	(1 000 tons) 1957-58	Indices: 1957-58 = 100.0 1958-59	1959-60	1960-61	1961-62
United Kingdom[b]	35.8	79.9	78.5	60.9	40.5
United States[c]	4.5	-	-	-	-
British Wool Marketing Board Initial Stocks in Australia, New Zealand, and South Africa	12.3	132.5	110.6	155.3	199.2
Initial stocks in Argentina	17.2	303.5	81.4	137.2	29.0
Initial stocks in Uruguay	6.8	200.0	66.2	186.8	13.2
New Zealand Wool Commission	-	500.0	500.0	-	-
South African Wool Commission	-	320.0	180.0	-	-
Total	79.3	154.5	88.5	100.3	60.7

Source: Commonwealth Economic Committee, Wool Intelligence.

a. At the beginning of the respective trade year, which extends from October to September in Argentina and Uruguay and from July to June in the other countries.
b. Governmental strategic reserve.
c. Stocks in possession of the Commodity Credit Corporation.

Table I-26

WOOL: IMPORTS BY SELECTED COUNTRIES

Country	(Millions of lbs., actual weight) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Belgium	189.3	84.8	104.4	100.3	121.0
United States	273.6	94.6	144.6	113.1	118.0
France	443.3	76.2	82.6	84.5	90.0
Italy	250.1	86.0	103.0	110.4	101.0
Japan	275.3	99.4	134.0	151.5	170.0
The Netherlands	31.9	79.6	114.4	95.9	100.0
Portugal	9.0	152.2	142.2	122.2	130.0
United Kingdom	675.0	97.6	111.4	95.9	95.0
Federal Republic of Germany	237.2	77.1	100.4	88.3	94.0
Sweden	9.7	122.6	114.4	115.4	103.0
Switzerland	16.0	87.5	85.6	82.5	92.0
Total 11 countries	2 410.4	89.3	110.0	103.3	110.0

Source: Commonwealth Economic Committee, Wool Intelligence, December 1961.

a. Preliminary figures.

/go down

go down, in the expectation that they will be given exchange-rate concessions or tax exemptions to compensate for this decline.[35] These expectations, based on the system of multiple official exchange rates used in Argentina and Uruguay until 1959, generally were fulfilled. Even under the system of free exchange rates established in those countries in 1959, tax exemptions had an important stimulative effect on recovery in volume of exports in 1960-61. The fact that the South American countries have shown relatively larger increases than those recorded in the countries of the British Commonwealth, however, only draws attention to the fact that exports from Argentina and Uruguay had declined considerably in the year taken as a base (see Tables I-26 and I-27).

Imports of Argentine and Uruguayan wools by the countries that have centrally planned economies, particularly by the USSR, were relatively high in 1957/58 and 1958/59. Lately, these imports have declined considerably because of the difficulties encountered in balancing the bilateral agreements covering these transactions[36] (see Table I-28). Japan's purchases, which have increased substantially in the last three years, did not reach significant amounts in the exports of South American countries until 1960/61.

35. See "Wool: South American Export Developments", FAO Monthly Bulletin of Agricultural Economics and Statistics, February, 1961.

36. In the 1959/60 season, the USSR made its purchases of Uruguayan wool conditional upon the purchase of Soviet oil by Uruguay. Consequently, Uruguayan exports to the USSR declined sharply. See U.S. Department of Agriculture, Foreign Crops and Markets, April 18, 1960.

/Table I-27

Table I-27

WOOL: EXPORTS OF VIRGIN WOOL, BY PRINCIPAL PRODUCER COUNTRIES

Country	(Millions of pounds, actual weight) 1957/58	Indices: 1957/58 = 100.0 1958/59	1959/60	1960/61
Argentina[a/]	150	245.3	186.7	226.7
Australia[b/]	1 171	109.1	119.1	116.0
New Zealand[b/]	436	117.9	121.1	117.2
South Africa[b/]	218	111.5	131.2	111.5
Uruguay[a/]	93	129.0	69.9	160.2
Total 5 countries	2 068	122.0	123.5	125.8

Source: Commonwealth Economic Committee, Wool Intelligence, December 1961.

a. Trade years October-September.
b. Trade years July-June.

Table I-28

WOOL: EXPORTS OF VIRGIN WOOL FROM ARGENTINA AND URUGUAY, BY PRINCIPAL AREAS OF DESTINATION

	(Millions of pounds, actual weight)	Indexes: 1957/58 = 100.0		
ARGENTINA	1957/58	1958/59	1959/60	1960/61
United States	61	169	113	93
United Kingdom	20	295	245	280
Continental Europe	35	394	310	437
Japan	18	106	133	211
Centrally planned countries	9	511	300	222
Others	7	43	29	228
Total:	150	245	187	227
URUGUAY				
United States	3	600	400	700
United Kingdom	19	84	89	258
Continental Europe	45	76	62	133
Japan	--	--	--	600
Centrally planned countries	26	192	27	35
Others	--	200	100	400
Total:	93	129	70	160

Source: Commonwealth Economic Committee, Wool Intelligence, December 1960; November 1961.

8. Copper

In 1961, prices of copper on the international market, which in 1959 and 1960 had made a partial recovery from the sharp decline of 1957 and 1958, declined once again, even though at the beginning of 1962 they appeared to have reached a relatively stable level. The sharp decline of 1957 occurred after the 1955-56 period, when the supply had been scarce and prices high. But what at the beginning had been merely a readjustment of the market finally became a depression when there was a general reduction in demand for the metal among the countries affected by the industrial recession of 1957-58. In 1958, average prices in London reached their lowest level since 1951. Actually, in comparison with 1957 averages, prices in the London and New York markets were lower by 10 and 13 percent, respectively.

Owing largely to the increase in consumption of copper by certain industrial countries, 1959 and 1960 were years of price recovery (see Table I-29). This period of recovery, however, was relatively brief; in 1961 the market again showed signs of weakening, and this was reflected in a reduction in prices during the latter half of the year. Thus, during the 1957-61 period, average yearly prices in London consistently remained below those of 1952-56.[37]

Fluctuations in the price of copper strongly affect the economies of some Latin American countries, especially those of Chile and Peru and, to a lesser degree, Mexico. On the whole, it is estimated that, with the volume of exports from these countries in 1960, a reduction of 2 cents (U.S.) per pound would have meant a loss of US$34 million in their sales abroad. Of this loss, 26 million would have been sustained by Chile and more than 6 million by Peru. Total exports of the two countries in 1960 amounted to US$488 and US$430 million, respectively, the export of copper constituting 80 percent of Chile's exports and 21 percent of Peru's. As a matter of fact, between 1960 and 1961 the decline in prices was of just this magnitude, but this is not extraordinary when it is considered that after the reduction of 13 cents in 1957, annual variations were -3, +5, +1 and -2 cents, respectively.

37. The situation in the U.S. market is slightly different, although the trend is the same. Price variations in New York are less frequent than in London, since in the former market prices are to a certain extent controlled by important copper producers, who are both importers and consumers. Furthermore, the reestablishment in July 1958 of an import tax on copper in the United States introduced a new element of differentiation between price levels in London and in New York.

/Table I-29

Table I-29

COPPER: CONSUMPTION OF REFINED COPPER IN SOME COUNTRIES

	(1,000 long tons)	Indices: 1957=100.0			
	1957	1958	1959	1960	1961[a]
Canada	105.6	104	110	100	120
Chile	7.9	382	511	162	153
United States	1,207.3	93	108	100	106
Austria	24.0	109	87	103	133
Belgium	65.0	96	93	117	116
France	202.3	105	91	117	114
Italy	132.6	94	104	137	151
United Kingdom	641.5	104	99	113	106
Federal Republic of Germany	387.8	109	115	131	146
Sweden	66.5	117	116	135	135
Australia	49.3	120	119	131	119
India	46.7	121	114	131	140
Japan	172.5	84	125	170	192
Total	3,109.0	100	108	115	120

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Preliminary estimates.

/The rate of production

The rate of production and consumption of copper in this period has, of course, been the most important factor in the trend of prices. After the recession of 1957-58, consumption increased by 8 percent over those two years, an increase that was chiefly satisfied by resorting to stocks, since production of primary copper had declined in 1958 (see Table I-30). This decline in production, which was aggravated in the United States in 1959 by prolonged labor disputes, was one of the most important factors in the price recovery that year, since it made possible a substantial reduction in accumulated stocks in the United States. In 1960, however, the situation changed basically once again. One reason for this was the resumption of full production in the United States and another was the decline in consumption in the same country. In over-all figures, copper consumption continued to increase in 1960, but the rate increase was much less than that for production. At the end of 1960, therefore, stocks again reached the high level of 1957, even though their distribution was slightly different (see Table I-31). This high inventory, the maintenance of production figures comparable to those of 1960 (in spite of lower African production), and, finally, the speculative movements resulting from rumors of probable sales of copper from the strategic reserves of the United States, contributed decisively to the reduction of prices in the second half of 1961.

In 1960, copper production in Latin America was the highest in recent years, even though trends in the chief producer countries showed important differences. Production in Chile reached its highest point in 1959, when the exploitation of new copper deposits was undertaken; while in 1960 and 1961, chiefly owing to prolonged labor disputes, production progressively declined. Other factors seem to have entered into this, however, all of which have prompted the Chilean Government to propose certain tax reforms to give greater incentive to the larger foreign concerns that provide the major percentage of production.

Copper production in Peru was relatively small until 1959; in 1960, however, when the deposits of Toquepala were being fully exploited, the country's total production almost quadrupled. In Mexico, on the contrary, production in recent years has remained at the same level, and has even declined in comparison to what it was in 1957-58, owing to the fact that scarcely any new investments have been made in this sector of the mining industry.

The trend of exports in the Latin American countries has been approximately the same as that of production: a sharp increase in Peruvian exports in 1960-61; a moderate decline in Chilean exports; and a progressive reduction in those of Mexico, which, in part, reflects the stagnation of production and the expansion of internal consumption (see Table I-32).

/Table I-30

Table I-30

COPPER: WORLD PRODUCTION OF PRIMARY COPPER, BY SELECTED COUNTRIES AND AREAS

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
United States	1,052	90.7	71.5	104.7	102.5
Canada	289	98.8	114.7	125.9	123.4
Latin America	538	98.2	112.3	133.7	140.3
Chile	442	97.4	115.0	112.3	116.5
Mexico	54	108.7	107.6	107.6	107.6
Peru	41	92.5	88.6	396.6	436.7
Africa	709	95.1	122.6	130.4	130.6
Countries of centrally planned economy	472	105.6	112.8	123.7	123.7
Others	376	103.5	119.4	128.2	129.3
World total	3,436	96.9	102.9	121.5	121.6

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Preliminary estimates.

Table I-31

COPPER: STOCKS IN SELECTED COUNTRIES AT THE END OF EACH PERIOD

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Australia[a]	10.8	148.1	111.1	134.3	117.6
Canada[a]	31.2	62.8	112.5	126.9	145.2
United States[b]	406.3	74.2	69.8	88.0	69.4
Japan[a]	25.3	71.1	34.4	9.9	...
United Kingdom[c]	88.5	66.8	62.1	129.4	147.9
Federal Republic of Germany[d]	101.5	119.2	102.1	122.0	129.6
Northern Rhodesia[a]	97.9	94.5	103.8	104.8	129.8
Union of South Africa[a]	7.6	123.7	164.5	156.6	392.1
Total	769.1	83.0	79.7	100.1	99.7

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Concentrates, blister and refined.
b. Blister and refined in the hands of producers.
c. Blister and refined.
d. Refined and scrap.

/Table I-32

Table I-32

COPPER: EXPORTS OF UNWROUGHT COPPER

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Belgium	118	115.2	135.6	145.8	172.0
Canada	234	99.6	104.3	136.3	112.8
Chile	469	90.6	105.7	107.4	113.9
United States	367	101.9	41.9	122.9	114.7
Mexico	51	95.8	86.1	71.0	61.0
Peru	55	94.5	78.2	285.4	314.5
United Kingdom	76	121.0	172.3	111.8	152.6
Federal Republic of Germany	46	141.2	191.2	173.8	165.2
Northern Rhodesia	408	94.3	126.4	135.7	131.8
Sweden	18	88.9	100.0	94.4	100.0
Union of South Africa	67	104.4	108.9	107.4	111.9
Total	1 909	99.2	102.5	127.4	127.5

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

a. Preliminary estimates.

Table I-33

COPPER: IMPORTS OF UNWROUGHT COPPER (METAL CONTENT)

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Austria	15	133.3	100.0	146.6	160.0
Belgium	187	103.7	115.5	159.3	157.8
United States	534	83.9	99.4	88.0	77.0
France	197	115.2	84.3	108.1	119.3
India	53	100.0	100.0	118.8	135.8
Italy	132	85.6	90.1	156.0	174.2
Japan	369	68.8	110.3	171.0	206.8
The Netherlands	23	143.4	139.1	165.2	200.0
United Kingdom	470	97.8	93.4	118.3	112.8
Federal Republic of Germany	527	101.9	105.5	126.1	144.2
Sweden	82	106.0	120.7	141.4	130.5
Switzerland	40	92.5	77.5	97.5	135.0
Total	2 629	93.7	101.3	126.2	134.1

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

a. Preliminary estimates.

/9. Tin

9. Tin

The market for perhaps no other basic Latin American export product has experienced a change as radical as that for tin. If the events of the past few years are examined, it will be seen that the persistent decline of prices that occurred between the end of 1956 and the end of 1957[38] was stemmed during the first months of 1958 through purchases of the metal by the Buffer Stock, which was created by the International Tin Agreement. These purchases were momentarily interrupted in September 1958, which provoked an abrupt decline in prices. When they were resumed shortly thereafter, however, and combined their effect with the export quotas in effect, since December 1957, they contributed to a price recovery that has been observed since the end of 1958 in the international price level of tin.[39] As this price recovery progressed, the restrictions on exports were made less stringent,[40] and, with the partial sale of its stocks, the operations carried on by the Buffer Stock were reduced. Important factors in that process were, on the one hand, the reduction of production of ore concentrates in 1958 and 1959, and on the other, the gradual but steady recovery of consumption, especially in the European countries (see Tables I-34 and I-35).

During the course of 1961 prices continued to rise in the international tin market, due to the maintenance of high consumption levels the year before and also to the slow reestablishment of production. Estimated production for 1961

38. Approximately 10 per cent, according to the monthly average of the London quotations.

39. This renewal of tin purchases by the Buffer Stock required the contribution of additional funds on the part of the member countries of the Agreement. Also, at the beginning of 1958, the International Tin Council reached an informal agreement with the USSR, whereby that country agreed to limit its tin exports to markets outside of the group of countries with centrally planned economies to an amount no greater than 13,000 tons a year, instead of the 18,000 tons that it had exported the year before. This agreement was another important factor in the recovery of the market, inasmuch as those exports had contributed to the depression in the course of 1957. Finally, it should be mentioned that by February 1958 the International Tin Council announced that it had sold the additional reserve of 5,000 tons of metal acquired with the additional funds supplied by the member countries in September 1957.

40. They were totally eliminated at the end of June 1960.

/Table I-34

Table I-34

TIN: PRODUCTION OF TIN IN CONCENTRATES IN SOME COUNTRIES, AND WORLD TOTAL

	(1,000 long tons)	1957 = 100.0			
	1957	1958	1959	1960	1961
Bolivia	27.8	63.8	85.7	69.8	74.5
Indonesia	27.7	83.7	78.0	81.5	67.1
Malaya	59.3	64.9	63.3	87.6	94.5
Nigeria	9.6	64.8	57.5	79.9	81.3
Rep. of the Congo	12.5	77.6	73.7	71.3	52.7
Ruanda-Urundi	1.8	82.6	62.3	66.6	83.3
Thailand	13.5	57.1	71.6	89.3	98.5
Subtotal	152.2	68.7	71.3	81.3	81.8
Others	27.8	106.2	117.1	130.3	133.8
World total	180.0	74.4	78.3	88.9	89.8

Source: International Tin Council, Statistical Bulletin.

/Table I-35

Table I-35

TIN: CONSUMPTION AND STOCKS, BY SELECTED AREAS AND COUNTRIES

	(1,000 long tons)	: 1957 = 100.0			
Consumption	1957	1958	1959	1960	1961[a]
United States	54.4	88.2	84.2	95.5	91.4
Western Europe	60.8	94.7	116.3	132.2	128.8
Japan	8.3	116.9	128.9	156.4	176.0
World total[b]	154.6	96.4	104.2	115.1	117.1
Stocks[c]					
United States	20.5	90.2	113.0	103.7	117.2
France	1.7	135.2	154.7	159.2	165.7
United Kingdom[d]	12.2	133.5	71.1	78.4	32.8
United Kingdom	1.6	81.5	84.3	92.1	91.6
Federal Republic of Germany	1.1	77.1	169.8	172.4	113.4
International Buffer Stock	15.3	152.0	65.0	65.0	-

Source: See Table I-34.

a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.
c. Stocks in the hands of consumers.
d. Stocks in bonded storage warehouses.

/is approximately

is approximately equal to that of 1960, for although it has increased in such countries as the Federation of Malaya, Nigeria and Thailand, it has declined sharply in Indonesia and the Congo Republic (see Table I-34). Bolivian production remains stationary.

It was possible to meet the increase in demand in 1959 and 1960 through the gradual elimination of restrictions on exports during those years and through the sale of supplies accumulated by the Buffer Stock. The Buffer Stock holdings increased substantially in 1958, but at the end of 1959, they had already been reduced to a little more than one third of the peak amount (see Table I-35). During the course of 1960, the situation of the Buffer Stock's supplies did not alter, owing to the fact that during that year prices remained within the limits of the middle sector of the price range (between 780 and 830 pounds sterling per long ton) established by the International Tin Council. In conformity with the regulations of the International Agreement, the manager of the Buffer Stock must not interfere in the market, so long as prices remain within that middle sector. That situation, that is, the maintenance of prices within the middle sector, prevailed until the end of the first quarter of 1961, but during the following months, prices went above the ceiling (880 pounds sterling per long ton), and the Buffer Stock had to intervene in the market again, this time selling metal until it had completely liquidated its supplies. Stocks in the hands of consumers in the United States also showed a considerable reduction, as was true of those in the storage warehouses in the United Kingdom (see Table I-35). In other consumer countries the volume of stocks is of slight significance. Because of the critical situation of supplies during the middle of 1961, the International Council thought it might be wise for the United States to help alleviate the shortage by selling metal from its strategic reserves, but the total amount made available was only 4,000 tons, since the Congress would not authorize the sale of larger amounts.

A new International Tin Agreement went into effect provisionally beginning in July 1961.[41] Since during the second half of 1961 there was an evident

41. Both agreements are designed to stabilize the market through two principal instruments: a) buying and selling operations in the free market by the manager of a fund financed by the member governments of the agreement, and b) establishment of export quotas when the market shows depressive tendencies. At the IA-ECOSOC meeting in Punta del Este, the United States Government expressed an interest in adhering to the agreement, which undeniably would be greatly strengthened thereby, since the United States is the world's chief importer.

/scarcity

scarcity of metal supplies, which was reflected in an increase in price levels that exceeded the maximum limit established by the International Agreement, the member producer countries proposed changing the price scale by raising its minimum and maximum limits. The producer countries made this proposal based on their need for remunerative price levels that would stimulate new investment in the mining of tin, which is the only one of the nonferrous metals, whose world production has not increased between the prewar and recent years.[42/]

The production of tin in Bolivia, the only significant exporter of this product in Latin America, has shown sharp declines in the last ten years. From a yearly average of 33,300 tons in the 1950-53 period, production declined to a yearly average of 28,300 tons in 1954-57 and to 20,600 tons a year in 1958-61. This decline in production is generally attributed to depletion of ores, to lack of sufficient investment for renovating equipment and installations, to lower labor productivity in the nationalized mines, and to the rise in domestic costs. The complexity of the factors that entered into the decline was made evident during 1960, when Bolivia was unable to produce sufficient tin to fulfill its export quotas for the first nine months of that year.[43/] In 1960 and 1961, conditions for mining production deteriorated even more. In fact, in 1959, with a foreign price level less than that of the next two years, production responded to the additional demand created by a barter transaction, which involved trading 5,000 tons of tin ore for surplus agricultural products from the United States. This transaction made it possible in 1959 to exceed the exports of the previous year, which otherwise would have been almost the same, owing to the export quota system in effect in 1958 and 1959. But, in 1960 and 1961, with prices on the rise, production and exports were unable to regain the level reached in 1959 (see Table I-36). The situation may improve in the near future, however, to the extent that progress is made in the mining production rehabilitation program, which was begun during the middle of 1961 and is being financed with credits from the Inter-American Development Bank and from the governments of the United States, the Federal Republic of Germany, and Argentina.[44/]

42. The International Council meeting during the middle of January 1962 fixed the floor price at 790 pounds sterling per long ton and the ceiling price at 965 pounds.

43. This also meant that in distributing export quotas while these were in effect, the percentage assigned to Bolivia gradually declined.

44. Inter-American Development Bank, News Release, July 18, 1961.

/Table I-36

Table I-36

TIN: EXPORTS OF TIN IN CONCENTRATES, BY PRINCIPAL PRODUCER COUNTRIES

	Long tons	Indices 1957 = 100.0			
	1957	1958	1959	1960	1961
Bolivia	27,467	62.0	83.3	66.8	67.0
Federation of Malaya	59,733	55.3	61.7	96.2	95.3
Indonesia	27,536	66.0	66.9	90.3	61.1
Nigeria	10,006	56.2	55.8	78.6	77.3
Rep. of the Congo and Ruanda-Urundi	11,816	60.7	59.7	57.8	...
Thailand	13,345	49.0	75.7	94.6	98.4
Subtotal [b]	149,903	58.4	67.3	85.4	...
Others	3,453	77.3	72.7	80.2	...
Total [c]	153,356	58.8	67.4	85.5	...

Source: Same as Table I-34.

a. Preliminary estimates.
b. Subtotal for member countries of the International Tin Agreement in their capacity as producers.
c. Refers to total of countries that report to the International Tin Agreement, but does not include the countries that have centrally planned economies.

10. Lead and Zinc

The international lead and zinc market has gone through an exceptionally critical period during the last five years. The prices of both metals started to decline at the beginning of 1957 but showed a small recovery between the end of 1959 and the middle of 1960. Since then, the depressive tendency has again been evident, and during the last months of 1961, the prices of both metals reached the lowest levels recorded in the London market since 1950.

This situation is connected to a certain extent with events in the United States market. The termination in 1957 of transactions for bartering these metals for agricultural surpluses (transactions that in previous years had absorbed significant quantities of both metals) determined the influx to the market of production in excess at current consumption at a time when economic activity was going through a period of recession in the majority of the industrial countries. The decline of prices in 1957-58, caused chiefly by the two circumstances mentioned, prompted the establishment of quantitative restrictions upon the importation of lead and zinc into the United States since the end of 1958. The effect of these restrictions on the price levels of both metals in the U.S. market has been relatively minor, particularly in the case of lead, the consumption of which has generally remained lower than it was in 1957, and which in that year was already low compared to that of the early years of the fifties. These restrictions, however, in establishing a protected market for U.S. producers, served to aggravate the difficulties of the other producers. In their discussions, the representatives of the countries composing the International Lead and Zinc Study Group failed to reach the unanimous agreement necessary to adopt international measures to give greater stability to prices. The Group did not go beyond recommending to the member countries a series of voluntary restrictions on production. In other words, although the work accomplished by the Study Group made it possible to conduct periodic studies of the situation of the market of the two metals, it did not yield such positive results as were obtained under similar circumstances with respect to the international tin market.

In the 1958-61 period, world production of lead, excluding that of the countries that have centrally planned economies, was less than that attained in 1957. With reference to zinc, production of this metal in 1961 for the first time slightly exceeded that of 1957 (see Tables I-37 and I-38). Furthermore, consumption

/Table I-37

Table I-37

LEAD: WORLD PRODUCTION OF REFINED LEAD, BY SELECTED COUNTRIES AND AREAS

	(1,000 metric tons)	Indices 1957 = 100.0			
	1957	1958	1959	1960	1961 a/
World total b/ c/	2,361	95.1	92.6	99.1	98.9
United States	819	84.5	73.3	78.6	85.1
Canada	130	93.1	94.6	110.8	120.0
Western Europe	765	104.3	106.4	112.3	108.6
Latin America:					
Argentina	26	123.1	130.8	100.0	134.6
Mexico	198	100.0	94.9	87.4	89.4
Peru	69	92.7	82.6	89.8	114.5
Australia	203	100.0	99.5	102.9	89.2
World production of primary lead b/ d/	1,907	96.1	94.1	95.3	94.4
Latin America:					
Argentina	32	96.9	100.0	84.4	81.2
Bolivia	24	91.7	91.7	54.1	54.1
Mexico	211	94.8	92.4	90.0	89.6
Peru	124	96.8	92.7	121.8	120.1

Source: International Lead and Zinc Study Group, Monthly Bulletin of Statistics.

a. Preliminary estimates.

b. Excluding the countries that have centrally planned economies.

c. Total production of metal (smelting and refining), including the metallic lead content of antimonial lead, whatever the source, including scrap.

d. Metallic content determined by analysis of ore and concentrates.

/Table I-38

Table I-38

ZINC: WORLD PRODUCTION OF ZINC (METALLIC) BY SELECTED COUNTRIES AND AREAS

	(1,000 metric tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
World total:[b] [c]	2,455	91.8	94.7	99.1	104.4
United States	960	78.2	80.9	82.4	84.7
Canada	224	102.2	103.6	105.8	108.5
Western Europe	844	98.6	101.7	109.3	114.8
Japan	138	102.2	115.2	131.2	153.6
Australia	112	104.4	105.3	108.9	125.9
Latin America:					
Mexico	56.6	101.4	98.2	93.5	89.4
Peru	26.7	107.9	101.1	100.0	122.5
Argentina	14.0	107.1	100.0	122.1	115.7
World production of primary zinc: [b] [d]	2,663	93.7	92.6	96.6	99.2
Mexico	254	95.7	94.1	96.1	102.8
Peru	158	83.5	89.2	112.7	135.4
Argentina	35	125.7	134.3	97.1	85.7
Bolivia	20	70.0	15.0	20.0	20.0

Source: That of Table I-37.

a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.
c. Total production of metal (smelting and refining), whatever the source, including scrap.
d. Metallic content determined by analysis of ore and concentrates.

/Showed a

showed a quicker recovery in the case of zinc than in that of lead, even though this does not seem to have greatly affected prices, since prices of both metals were lower during 1961 than they had been the year before. One cause of this seems to have been the fact that the European markets (in which consumption recovered more quickly) have been receiving significant quantities of lead and zinc from the countries that have centrally planned economies, especially from the USSR. Consumption in the United States has not re-established itself and that country is the principal market for the Latin American producers. With the exception of a brief improvement in 1959 in the case of zinc, consumption of the two metals during the 1958-61 period was consistently below that of 1957 (see Table I-39).

This has had an effect on stocks. In the United States during the 1958-61 period, lead stocks principally in the hands of producers, appreciably exceeded those in 1957; zinc stocks in 1961 were for the first time, lower by 3 per cent than those of 1957. In the United Kingdom and the Federal Republic of Germany, stocks of lead have increased substantially during the last two years, which fact seems to be related to the increased influx of metal from the Soviet Union. Something similar occured in the case of zinc stocks, although these are not as plentiful as those of lead (see Table I-40).

In the course of 1961, the United States adopted two measures related to the markets for lead and zinc. One of these consisted in the acquisition of some 100,000 tons of lead from stocks accumulated by producers in other areas and intended for the United States' strategic reserve. At the Fourth Meeting of the Lead and Zinc Study Group, held in October 1961, it was reported that purchase agreements had already been made covering 95,000 tons, which amount was taken from commercial supplies.[45/] The other measure was to complement quantitative restrictions on imports of lead and zinc with a system of subsidies to the small domestic producers. This measure was designed to maintain marginal exploitations in operation, and in this respect, its effect upon the total volume of production of the country has been relatively minor.

45. See Commodity Trade Developments, Memorandum No. 40. Although this source does not indicate it, most of these purchases were made in Canada and Australia.

/Table I-39

Table I-39

LEAD AND ZINC: CONSUMPTION OF REFINED LEAD AND ZINC (METALLIC) IN SELECTED COUNTRIES AND AREAS, AND WORLD TOTAL

	(1,000 metric tons)			Indices: 1957 = 100.0	
	1957	1958	1959	1960	1961[a]
Lead					
Western Europe	917	98.6	105.1	115.8	119.9
United States	909	86.9	95.9	89.0	90.3
Japan	82	60.9	86.5	115.8	154.8
World total[b]	2,147	92.8	100.3	102.9	107.1
Zinc					
Western Europe	936	102.5	108.5	119.3	123.3
United States	843	92.5	102.3	93.7	97.5
Canada	48	106.2	129.1	106.2	118.7
Japan	127	102.4	121.2	148.8	185.8
World total[b]	2,189	99.6	107.2	111.1	114.2

Source: International Lead and Zinc, Study Group Monthly Bulletin of Statistics.
a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.

/Table I-40

Table I-40

LEAD AND ZINC: TOTAL STOCKS IN SELECTED COUNTRIES AT THE END OF EACH YEAR

	(1,000 long tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Lead					
United States	243.9	130.8	108.9	127.2	113.5
United Kingdom	51.3	88.5	93.8	138.2	124.6
Federal Republic of Germany	37.4	94.1	126.2	165.5	147.0
Japan	38.9	38.6	29.0	...	...
Total 4 countries	371.5	111.6	100.2	119.2	...
Zinc					
United States	217.9	113.8	106.0	104.4	98.0
United Kingdom	124.2	72.9	66.9	88.0	99.8
Federal Republic of Germany	32.4	92.0	104.0	134.3	153.3
Japan	6.8	83.8	51.4	52.9	...
Total 4 countries	381.3	98.1	92.2	100.6	...

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

/The total

The total volume of lead and zinc imports by the United States declined substantially between 1957 and 1960. During the first year of this period, the decline, on the one hand, reflected basically the reduction in purchases on the part of the General Services Administration to build up strategic reserves, and on the other, it reflected a reduction in consumption. Added to these causes was the establishment of quotas upon "commercial imports for consumption." These quotas were fixed at 80 per cent of the average of commercial imports in the 1953-57 period (see Table I-41). The significance of each one of these factors in total imports has been different for the two metals. In the importation of lead, purchases for strategic reserves were 55 per cent less in 1958 than they had been in 1957, whereas purchases of zinc were 79.5 per cent less. In the years following, purchases of zinc for reserves declined more severely, whereas those of lead showed a partial recovery in 1961, thanks to the barter transactions mentioned above.

With regard to consumption, as has already been shown in Table I-39, the decline was sharper in lead than in zinc, even though, generally speaking, the consumption of both metals was lower than it had been in 1957. The establishment of quotas beginning in the third quarter of 1958 seemed to contribute to that decline, although in some cases, total imports for consumption continued to be higher than the quotas. This is especially evident in imports of zinc in 1959 and 1960 and in those of lead in 1959 and 1961, since the definition of "imports for consumption" is not exactly the same as that of "commercial imports for consumption."[46/]

46. In the statistics issued by the U.S. Department of Commerce, "imports for consumption" include imports on ore for smelting, refining, and subsequent export, whereas "commercial imports" totally excluded such imports. Furthermore, there is a difference in the methods of statistical computation used by the Department of Commerce and by the Treasury Department, which is responsible for controlling quotas. See: U.S. Tariff Commission, Lead and Zinc, Report to the President, Washington, October 1961, especially the notes to tables 15 and 16. According to this source, commercial imports of lead and zinc and the percentages of the quotas they represent have been as follows (in short tons):

	Lead		Zinc	
	Commercial Imports	Percentage of quota	Commercial Imports	Percentage of quota
1959	347,118	97.9	514,114	98.7
1960	354,216	99.9	501,602	96.3
1961	354,682	100.0	479.780	92.1

/Table I-41

Table I-41

UNITED STATES: TOTAL IMPORTS OF LEAD AND ZINC AND AMOUNT IMPORTED FROM LATIN AMERICA

(In thousands of short tons)[a/]

	Totals				Latin America			Mexico			Peru	
	Import quotas	General imports[b/]	Imports for Consumption[c/]	Imports of the General Services Administration[d/]	General Imports	Imports for Consumption	Quotas	General Imports	Imports for Consumption	Quotas	General Imports	Imports for Consumption
Lead												
1957	-	522.8	574.8	112.7	228.3	236.9	-	106.3	114.5	-	90.8	86.1
1958	-	570.1	607.9	50.5	262.5	294.5	-	124.6	128.0	-	113.3	135.1
1959	354.7	402.6	413.3	56.8	169.4	171.9	73.8	87.3	88.9	58.1	66.3	68.2
1960	354.7	352.0	360.8	0.6	150.6	153.2	73.8	71.2	77.7	58.1	61.5	59.0
1961	354.7	404.4	394.8	22.0	165.9	158.6	73.8	82.5	78.6	58.1	55.2	58.8
Zinc												
1957	-	795.0	951.3	197.8	377.5	478.0	-	216.1	285.5	-	142.0	170.0
1958	-	656.8	728.1	40.6	309.8	365.9	-	181.9	231.4	-	112.7	120.1
1959	521.0	657.1	602.9	27.8	294.7	266.4	153.6	191.7	170.1	77.8	99.0	93.4
1960	521.0	577.0	570.2	2.3	298.5	287.8	153.6	199.0	199.4	77.8	87.5	82.8
1961	521.0	542.0	521.7	0.9	297.2	269.1	153.6	194.8	175.7	77.8	81.9	80.2

Sources: U.S. Tariff Commission: Lead and Zinc, Report to the Congress on Investigation No. 332-26, Washington, May 1962; U.S. Department of the Interior: Monthly Zinc Reports; Monthly Lead Reports.

a. Includes imports of lead and zinc in ore concentrates and nonfabricated metal, expressed in fine metal content.

b. General imports comprise total entries of merchandise (except shipments in transit); that is, merchandise freed by customs immediately after arrival, merchandise stored in bonded storage warehouses and in bonded smelting and refining warehouses.

c. Imports for consumption comprise merchandise freed by customs immediately after arrival, merchandise released from bonded storage warehouses, and ore and crude metals that have been processed in bonded smelting and refining warehouses.

d. Included also in total imports. Includes purchases for building up strategic reserves and for defense production. Also includes imports acquired in exchange for agricultural surpluses.

/The tendency

The tendency to decline observed in total imports was also evident in imports from Latin American countries, although it is interesting to note that in 1960-61, the Latin American share of lead imports was larger than it had been in 1957-58. Just the opposite was true in the case of zinc.

The production and export of lead and zinc in Latin America are concentrated largely in Mexico and Peru; smaller amounts are produced in Bolivia and Argentina. Exports of lead from Mexico declined considerably in the 1958-1960 period, and although they showed a partial recovery in 1961, they were still lower than they had been in 1957. Exports from Peru, however, declined relatively little, and only during 1959 and 1960. In 1961 they regained a level comparable to that achieved in 1958, which was the highest in the last five years. To a certain extent, this recovery reflected additional purchases made by the United States for its strategic reserves. Bolivian production and exports have tended to decline in recent years, as has been generally true of all mining activity in that country.

Exports of zinc from Mexico and Peru showed a more favorable trend than those of lead, since, generally, foreign demand for the former metal has been greater than for the latter. In both countries, exports increased in 1960 and 1961, and the increase in Peru in the latter year was particularly noteworthy (see Table I-42).

/Table I-42

Table I-42

LEAD AND ZINC: EXPORTS OF LATIN AMERICAN COUNTRIES

	(1 000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Lead					
Mexico	171.3	88.0	87.0	77.6	96.0
Peru	119.6	114.0	96.2	98.5	119.1
Bolivia	26.3	86.7	83.7	81.4	77.4
Zinc					
Mexico	217.1	83.7	96.4	98.3	105.0
Peru	146.6	93.2	106.8	107.6	140.9
Bolivia	19.7	72.1	17.3	20.8	26.8

Sources: For Mexico: Boletín del Banco Nacional de Comercio Exterior; for Peru: Boletín del Banco Central; for Bolivia: Boletín del Banco Central.

/11. Petroleum

4. Petroleum

Crude petroleum prices on the international market declined in 1959 and 1960. This trend was attributed in part to a readjustment of market conditions prior to the Suez crisis. Actually, in 1957, because of the temporary halt in transportation through the Suez Canal and of the damage suffered by certain pipelines during the Anglo-Egyptian conflict, crude petroleum prices rose to levels that were maintained until mid-1959 for f.o.b. quotations.47/ In 1959, the chief producers in the Middle East and Venezuela cut posted prices for the various types of crude by from 8 to 10 percent. By mid-1960, the Middle Eastern producers agreed upon a further cut that was not adopted this time by the Venezuelan producers because of opposition by their government. Consequently, prices of Venezuelan crude petroleum for export have remained nominally stable since mid-1959. Nevertheless, actual sale prices had to be adjusted to meet competition from the Middle East and, as a result, a discount sale policy became widespread during 1960, while the list prices announced by the producers had only nominal value. This policy of discounts on posted prices, together with the drop in petroleum freight charges, led to a slump in c.i.f. prices of crude petroleum which persisted throughout 1961, although the rate slackened after 1960. Prices for Venezuelan crude petroleum have shrunk from the level reached in 1960-61 to the 1956 level, which was already 3 percent off the 1954-55 figure.

Although the drop in crude petroleum prices reflects in part a return to normal market conditions following the Suez crisis, it is also a consequence of the sharp rise in world production in both the Middle Eastern countries and the new areas of production, the growing volume of exports from the USSR and the resulting keener competition for the consumer markets.

47. Although the price rises for c.i.f. quotations on crude petroleum were higher, they were short-lived, since they reflected the initial increase and subsequent decrease in petroleum freight charges as transit through the Suez Canal returned to normal.

/The increase

The increase in production by the Middle Eastern countries reached a relatively high rate in recent years (see Table I-43). This led to a substantial increase in export availabilities at the very time when the European markets were confronted with a considerable rise in the supply of Soviet petroleum. USSR production increased 65 percent between 1957 and 1961, while its exports--only to countries other than those with centrally planned economies--rose from 11.7 million tons in 1958 to 30.4 million tons in 1961.[48/]

Furthermore, certain European countries--particularly France, Italy and the Federal Republic of Germany--succeeded in substantially increasing their domestic production or that of their overseas territories. The most significant growth in this respect was shown by Algeria's output, which rose from 440 000 tons in 1958 to 13.8 million in 1961.

The expansion of consumption of petroleum and its by-products registered relatively high rates in most of the European countries (see Table I-46). Part of this expansion has been covered by production from national sources and part by imports from both the traditional suppliers--Venezuela and the Middle East--and the USSR, whose exports rose substantially.

48. Exports to Western Europe alone rose to 6.0 million tons in 1958, to 19.8 million tons in 1961. (See Petroleum Press Service, London, May 1962.)

/Table I-43

Table I-43

CRUDE PETROLEUM: WORLD PRODUCTION BY SELECTED COUNTRIES

	(Millions of tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
Canada	24.58	91.0	101.5	105.7	116.1
United States	353.64	93.6	98.3	98.4	99.8
Argentina	4.86	104.9	131.3	188.3	250.8
Bolivia	0.46	97.8	89.1	91.3	80.4
Brazil	1.32	187.1	233.3	293.2	345.5
Colombia	6.32	102.7	117.1	122.1	116.0
Mexico	12.70	106.8	109.9	113.0	120.0
Peru	2.57	97.3	91.8	98.4	98.1
Subtotal[b]	28.23	108.3	119.0	134.8	149.4
Venezuela	148.38	93.7	99.7	102.7	104.4
Total Latin America[c]	176.61	96.1	102.8	107.8	111.6
Iraq	21.98	162.2	189.8	215.8	224.0
Iran	35.99	113.4	127.9	145.0	164.1
Kuwait	57.29	122.5	121.3	142.8	144.5
Saudi Arabia	49.01	102.3	110.5	126.6	138.6
USSR	98.35	115.1	131.8	150.1	165.4
World total[d]	886.00	102.4	110.3	118.7	124.1

Sources: United Nations, Monthly Statistical Bulletin, January 1962; Petroleum Press Service, London, January 1962.

a. Preliminary estimates.
b. Sub-total of Latin American countries listed.
c. Total of Latin American countries listed.
d. Includes other countries not listed.

/Total crude

Total crude petroleum production in the United States underwent no marked changes between 1959 and 1961 and in the latter year the volume was approximately equal to the 1957 figure. However, the United States position in the world trade of petroleum and its by-products has undergone important changes (see Tables I-44 and I-45). The system of import quotas has curtailed expansion of crude petroleum purchases, but its effect on the imports of by-products has been less pronounced since conditions governing quotas in the consumer markets of the United States west coast are more liberal. It is evident, however, that the growth of net imports has been considerably greater than the increase in total imports because of the decline in exports.

The position of Latin America --chiefly that of Venezuela--in total imports of crude petroleum into the United States registered important changes in 1961. Although total imports were on the rise, those from Venezuela dropped by close to 10 percent; on the other hand, imports from Canada showed an increase of approximately 60 percent.[49]

Latin American crude petroleum production during this period registered a diverse pattern of growth rates for the various countries. In Venezuela, the most important producer, total production declined in 1958; although a recovery was apparent in the following years, the annual increases for 1960 and 1961 are the lowest in recent years. In Bolivia, Ecuador and Perú, which also rank among the traditional producers, output has leveled off due to the fact that no new productive investments have been made in the industry. In contrast, Argentina and Brazil increased production sharply enabling the former to eliminate almost all crude petroleum imports in 1961. Brazil has not yet achieved the same degree of self-sufficiency, but domestic output already satisfies more than two thirds of national demand and provides a small surplus for export that cannot be processed in local refineries for technical reasons.

The bulk of exports of petroleum and its by-products in Latin America comes from Venezuela. During the last decade, that country's volume of exports showed a steady rise that reached its highest point in 1957. In later years, the volume

49. This is apparently due to the fact that overland petroleum imports are not subject to restrictions. This would also explain the increase in imports from Mexico from 766,000 barrels in 1960 to 6.8 million in 1961.

/Table I-44

Table I-44

UNITED STATES: TOTAL TRADE IN CRUDE PETROLEUM AND BY-PRODUCTS AND DISTRIBUTION OF CRUDE IMPORTS BY PRINCIPAL COUNTRIES AND AREAS OF ORIGIN

	(Millions of barrels)	Indices: 1957= 100.0			
Total Imports	1957	1958	1959	1960	1961[a]
Crude	373.3	93.2	94.4	99.5	102.2
By-products	201.3	135.4	147.6	145.3	152.9
Total Exports					
Crude	50.2	8.6	5.0	6.2	6.4
By-products	156.9	61.4	54.2	45.1	38.5
Net Imports					
Crude	323.0	106.4	108.3	114.1	117.1
By-products	44.4	397.1	466.0	502.9	545.7
Distribution of Crude Petroleum Imports by Area of Origin					
Total imports, in millions of barrels:	373.3	348.0	352.3	371.6	378.3
Percentage originating in:					
Venezuela	51.9	45.5	47.1	46.5	41.2
Other Latin American countries [b]	2.9	3.0	3.7	4.2	4.1
Middle East[c]	22.9	34.9	32.8	30.0	30.5
Canada	14.8	8.7	9.6	11.1	17.6
Others	7.5	7.9	6.8	8.2	6.6

Source: American Petroleum Institute, Annual Statistical Bulletin, April, 1962.
a. Preliminary estimates.
b. Includes Colombia, Mexico and Brazil.
c. Includes Iraq, Iran, Kuwait, Saudi Arabia and the Neutral Zone.

/Table I-45

Table I-45

PETROLEUM: EXPORTS OF CRUDE PETROLEUM AND BY-PRODUCTS BY SELECTED COUNTRIES

	Thousands of barrels		Indices: 1957 = 100.0		
United States	1957	1958	1959	1960	1961[a]
Crude	50.243	8.6	5.0	6.2	6.4
By-products	156.944	61.4	54.2	45.1	38.5
Canada: Crude	55.673	56.9	59.9	75.9	122.3
By-products	3.510	27.5	41.5	65.1	85.7
Venezuela: Crude	760.000	90.8	94.7	96.2	97.6
By-products	181.837	111.2	110.3	138.5	145.9
Colombia: Crude	26.964	88.3	105.8	117.4	102.5
By-products	1.828	231.1	228.4	224.1	246.2
Mexico: Crude	2.908	27.6	3.9	37.9	..
By-products	12.811	85.6	104.2	50.3	..
Peru: Crude	3.295	65.7	64.0	78.6	76.4
By-products	4.313	61.4	64.8	70.8	52.2
Iran: Crude	141.830	125.9	150.1	173.6	169.7
By-products	86.838	101.1	89.0	107.6	131.6
Iraq: Crude	150.521	166.9	194.2	224.1	229.8
Saudi-Arabia: Crude	287.683	106.7	116.4	129.6	..
Kuwait: Crude	405.224	114.8	111.6	130.1	..
By-products	9.922	205.3	279.2	325.6	..
USSR: Crude	43.536	153.5	210.8	298.9	..
By-products	58.011	116.4	164.6	201.8	..
Total of Countries Listed: Crude	1 927.877	104.9	112.6	125.8	..
By-products	516.014	95.5	98.4	112.6	..

Sources: United States Department of the Interior, Bureau of Mines, Minerals Yearbook 1960; and International Petroleum Trade, monthly reports.

a. Preliminary estimates.

/Table I-46

Table I-46

PETROLEUM AND BY-PRODUCTS: CONSUMPTION IN SELECTED COUNTRIES

	(1000 tons)	Indices: 1957 = 100.0		
	1957	1958	1959	1960
Belgium	4.894	114.7	122.4	137.4
Denmark	3.490	116.9	126.2	139.1
France	17.676	110.8	116.4	141.8
Federal Republic of Germany	13.981	129.8	159.5	200.6
Italy	11.650	111.7	129.7	158.4
Netherlands	5.547	115.2	131.9	147.2
Sweden	8.837	110.5	123.4	136.8
United Kingdom	23.000	124.0	145.3	171.1
Total	89.075	118.0	134.7	160.2

Source: Petroleum Press Service, London.

/of crude

of crude petroleum exports has failed to regain the 1957 level, although the change in the composition of such exports should be taken into consideration. Actually, exports of refined products have grown steadily: their relative share in total petroleum exports rose from 13.0 percent to 25.6 percent between 1950 and 1960 (see Table I-45). This has led to a rise in the unit value of Venezuelan exports.

Colombian exports registered slight increases in 1959 and 1960 as compared to the two preceding years, but the long-range trend has actually shown a leveling off, since the expansión of domestic consumption has absorbed a large percentage of increased production. In Peru, output has declined in recent years, especially in the export line. Nevertheless, there is a possibility that this situation will improve in the near future as a result of the agreements reached in 1960 by the Peruvian Government and the producers, which will serve to encourage new investments in this industry.

The prospects for petroleum on the international market at the end of 1961 were apparently not unfavorable, despite stronger advocation of a more restrictive import policy in the United States. On the one hand, the principal producing countries--currently grouped under the Organization of Petroleum Exporting Countries--have agreed to follow a common policy designed to help maintain price stability. On the other hand, the European Economic Community has agreed to permit duty-free importation of 50 000 barrels a day, approximately 18.2 million barrels a year, of crude petroleum and by-products from Venezuela, thus improving the competitive position of Venezuelan products on the European market.[50/]

50. This agreement refers to imports from Aruba and Curaçao, which refine Venezuelan crude petroleum. Imports from these islands currently amount to 29 000 barrels a day (approximately 10.6 million barrels a year). See International Financial News Survey, January 26, 1962

III. TOTAL EXPORTS

Latin America made no significant contribution to the growth in world exports observed between 1953 and 1960. The increase for this period was 30 percent for North America, 82 percent for Western Europe, and only 13 percent for Latin America. Even comparing the figures for Latin America with those of other underdeveloped regions, it will be noted that exports from the African nations and the Middle East registered increases of 32 and 82 percent respectively.

Latin American exports reached a maximum value in 1956 and 1957 of US$ 8.7 billion. Even in those years, the relative growth of Latin American exports as compared to 1953 was already lagging behind other regions. The 1958 drop-off and the sluggish rate of recovery in 1960 and 1961 contributed to the relative decline of Latin America's participation in world exports; its share of the total dropped from 10.3 percent in 1953 to 8.7 percent and 7.3 percent in 1957 and in 1961 respectively.

As compared to development in other areas, Latin American exports for the 1953-60 period differed in two important aspects, registering one of the lowest percentages of increase in volume exported and the highest percentage of decrease in unit value indices (see Table I-47). Between 1957 and 1960, the drop in export unit value, 11.5 percent, almost completely cancelled out the increase shown in export volume, which amounted to 13.5 percent. This situation is unparalleled in other underdeveloped areas of the world.

Available preliminary information for the year 1961 indicates that the stagnation of Latin American exports showed little or no change as compared with the previous year. As noted in the previous section, external prices on certain basic commodities fluctuated freely, with some rises, including tin, wheat, and short-fiber cotton, and some slumps. Furthermore, there were changes in the volumes exported and in each country's share of the total. However, since these changes taken as a whole generally counteracted each other, the total value of exports in 1961 held to approximately the same levels as in 1960, that is, at least the same as those reached in 1956 and 1957.

There is, consequently, sound justification for viewing the prospects for Latin American exports in the immediate future with growing concern, especially

/Table I-47

Table I-47

WORLD EXPORTS: VALUES IN BILLIONS OF DOLLARS, INDICES OF VOLUME AND UNIT VALUE

(1958 = 100)

A. Values	1957	1958	1959	1960	1961
Developed Countries	74.4	70.5	75.1	85.4	90.1
North America	25.8	22.8	22.8	25.9	26.5
Western Europe	41.3	41.1	44.7	51.2	54.9
European Economic Community	22.5	22.8	25.2	29.7	32.3
Free Trade Area	16.2	15.8	16.7	18.2	19.1
Japan	2.9	2.9	3.5	4.1	4.2
Australia, New Zeland and South Africa	4.1	3.3	3.9	3.9	4.3
Underdeveloped Countries	25.4	24.7	25.8	27.3	27.6
Middle East	4.2	4.7	4.7	5.1	5.2
Africa	3.8	3.9	4.0	4.3	4.5
Asia, sterling area a/	4.9	4.4	5.0	5.3	5.2
Asia, others b/	2.2	2.0	2.3	2.3	2.3
Latin America	8.7	8.2	8.3	8.6	8.7
World Total c/	99.8	95.2	100.9	112.7	117.7
B. Volume Indices					
Developed Countries	102	100	108	121	127
North America	112	100	99	111	113
Western Europe	98	100	112	126	133
European Economic Community	95	100	116	133	142
Free Trade Area	102	100	106	115	120
Japan	95	100	120	138	148
Australia, New Zealand and South Africa	102	100	111	113	126
Underdeveloped Countries	99	100	107	113	117
Middle East	90	100	108	120	124
Africa	100	100	111	120	129
Asia, sterling area a/	105	100	106	106	109
Asia, others b/	108	100	108	111	121
Latin America	99	100	107	111	112
World Total c/	102	100	108	119	124

(continued)

Table I-47 (continued)

WORLD EXPORTS: VALUES IN BILLIONS OF DOLLARS, INDICES OF VOLUME AND UNIT VALUE

(1958 = 100)

C. Unit Value Indices	1957	1958	1959	1960	1961
Developed Countries	103	100	99	100	101
North America	100	100	101	102	102
Western Europe	102	100	97	99	100
European Economic Community	103	100	96	98	100
Free Trade Area	101	100	100	101	101
Japan	105	100	100	102	99
Australia, New Zealand and South Africa	120	100	105	103	102
Underdeveloped Countries	104	100	97	98	95
Middle East	102	100	93	91	90
Africa	105	100	94	94	90
Asia, sterling area a/	102	100	106	114	108
Asia, others b/	107	100	106	105	96
Latin America	107	100	95	95	94
World Total c/	103	100	99	100	99

Source: United Nations, Monthly Statistical Bulletin.

a. Includes Burma, Ceylon, India, Pakistan, Malayan Federation, Singapore, Sarawak and Hong Kong.

b. Includes Taiwan, Cambodia, Republic of Viet-Nam, Indonesia, Philippines and Thailand.

c. Excludes those countries with centrally planned economies.

/considering

considering certain facts and problems that have recently come to light: uncertainty regarding the United States system for importing sugar; the high level of surplus coffee stocks; and the growing competition of exports of wheat, petroleum, lead, zinc and other metals from the USSR. Finally, because of its more telling possible consequences, mention should be made of the stepped-up pace of European economic integration, with its sequelae of tariff preferences for countries competing with Latin America in the world market in a substantial number of basic commodities. Although the accelerated expansion of demand has maintained European common market imports from Latin America at a fairly steady rate, the discrimination provided for in the Treaty of Rome in behalf of the associated territories, which will soon enter into force, are unquestionably a cause for deep concern.

Data are already available on the degree of discrimination in effect in January 1962 for certain important Latin American products and on the final preference established by the Treaty of Rome for member and associated countries (see Table I-48). It is obvious, therefore, that in 1962 certain discriminations --most of them relatively minor--entered into force, and that within a few years they will be of a considerable magnitude for certain temperate-zone and tropical products. 51/

However, the figures in Table I-48 fail to indicate the total degree of discrimination implicit in present plans, since the common external tariff is generally higher on more fully processed products. For example, the rate for soluble, roasted and decaffeinated coffee will be 30 percent; for cocoa butter, 20 percent; for canned meat, 26 percent, and for cotton textiles, from 9 to 16 percent. 52/ The same is true for non-ferrous metals, wool textiles and other products. Consequently, the structure of the European common market --in addition to the barriers to exports of Latin American basic commodities that make up the discriminatory rates-- offers an additional barrier to a change in the productive structure of the Latin American countries, since it discourages what would constitute for many an important step in economic development, that is, greater industrialization of their export products.

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51. In the first category, discriminatory duties represent 20 percent on cattle and wheat; in the second, tropical products, they represent 80 percent on sugar, 20 percent on bananas and 13 percent on coffee.

52. For all these products no tariff will, of course, be levied on imports from member or associated countries.

/Table I-48

Table I-48

EUROPEAN ECONOMIC COMMUNITY: CURRENT AND FUTURE TARIFFS IN THE MEMBER COUNTRIES FOR CERTAIN IMPORTANT LATIN AMERICAN EXPORT PRODUCTS

	TARIFFS IN FORCE (Percentage)								Common tariff following formation of the common market	
	German Federal Republic		Benelux		France		Italy			
	EEC[a]	MFN[a]	EEC	MFN	EEC	MFN	EEC	MFN	EEC	MFN
Bulk coffee decaffeinated *	16[b]	16[b]	—	4.8	18	18[c]	45.5	75.8[d]	—	13[e]
Bulk cacao **	9	10	—	10	—	25	—	5	—	9
Bananas	—	6[f]	12	16.5	15	20	28.8	32.4	—	20
Refrigerated meat	14	20	8.4	14.4	—	20	12.5	20	—	20
Frozen meat	7	13	8.4	14.4	—	20	12.5	20	—	20
Fish meal	...	10	—	20	30	35	35	40	—	15
Crude and refined sugar	...	...	...	...	...	...	...	...	—	80
Wheat	20	20	—	—	30	30	30	50	—	20
Raw cotton	—	—	—	—	—	—	6	8	—	—
Unwashed wool	—	—	—	—	—	—	—	—	—	—
Washed wool	—	1	—	—	—	1	—	—	—	—
Copper ingots, standard or blister	—	5	—	—	—	20	3.5	3.5	—	—
Lead ore and concentrates	—	—	—	—	—	—	5	5	—	—
Lead bars	10	15	4	6	20	20	20	20	—	10
Zinc ore and concentrates	—	—	—	—	—	—	5	5	—	—
Zinc bars	10	15	4	4	16	18	15	15	—	10
Tin ore and concentrates	—	—	—	—	—	—	—	—	—	—
Tin ingots	—	—	—	—	—	—	—	2	—	—
Tin bars	6	8	6	4	10	12	10	10	—	8
Crude petroleum [g]	12.90	—	—	—	—	18	—	18	—	—

Source: ECLA, Boletín Económico de América Latina, February 1962, and data published by GATT and the EEC.

a. EEC = Tariffs on imports of member countries of the European Economic Community.
MFN = Tariffs on imports of other countries eligible for treatment as most favored nations
b. Approximate equivalent of the specific tariff of German marks per kg.
c. Subject to quotas.
d. Lire per kg.
e. 16 percent under the Treaty of Rome, reduced to 13 percent in 1959 following negotiations with GATT.
f. Tariff applicable to one third of the imports; and the remainder free.
g. German marks per kg.
* See footnote 13 to the text.
** See footnote 21 to the text.

/In examining

In examining the evolution of exports by countries, important differences are, of course, evident, even where the same product occupies first place in foreign sales. It can also be noted that for a certain number of countries 1957 did not represent the peak export value year, although this was true for Latin America as a whole. These differences, however, fail to contradict the two basic conclusions drawn from an examination of the figures on Latin American export trade in recent years: a) that the stagnation in export value reflects primarily the relative drop in sale prices for its products, and b) that Latin America as a whole is losing its competitive position in foreign markets.

Table I-49 shows export values by countries for the 1957-61 period. As noted above, the dominant position of the same product in the export trade of several countries does not signify that exports have followed a similar trend in each. Despite this fact, it is useful to group the countries as shown in the aforementioned table in order to indicate certain common characteristics. In countries where coffee is the predominant export item, the distinctive characteristic of the 1957-1961 period has been a drop in total export values because of a decline in foreign prices of the bean, despite increases in export volume. The improvement observed in foreign sales for Guatemala and Nicaragua reflect substantial increases in the export values of bananas and cotton, respectively, that counteracted the stepped-up value of coffee exports.

In sugar-exporting countries, the fluctuation in total export values also reflects a drop in foreign prices for this product; nevertheless, the redistribution of the surplus from the Cuban sugar quota cancelled during the second half of 1960 made possible a considerable increase in exports from the Dominican Republic, which was thus able to exceed in 1960 the value recorded in 1957. Nevertheless, in 1961, total values for Dominican exports declined once again because of the fluctuation in prices and volume of coffee and cacao exports.

Among the countries exporting bananas --* the evolution of Ecuadorean exports represents almost a unique experience in Latin America; between 1953 and 1960, total exports showed successive increases with the sole exception of 1955. During the same period, the value of banana exports increased slightly more than twice the initial figure, while a series of substantial increments in coffee and cacao exports made it possible to compensate for the effect of a price drop in these products. In 1961, however, the volume of banana and cacao exports dropped.

* A product that has shown no great price fluctuation in recent years--

Table I-49

LATIN AMERICA: EXPORTS BY COUNTRIES

Countries principal exporters of:		Values in millions of dollars (U.S.)	Indices of volume and prices 1957 = 100			
		1957	1958	1959	1960	1961
Coffee						
Brazil	Value	1.392.0	89	92	91	101
	Volume	100	96	112	117	133
	Price	100	91	74	72	74
Colombia	Value	511.1	90	93	91	85
	Volume	100	108	128	121	114
	Price	100	84	74	74	71
Costa Rica	Value	83.4	110	92	101	101
	Volume	100	128	114	127	133
	Price	100	83	75	70	69
El Salvador	Value	138.5	84	82	84	86
	Volume	100	101	118	124	131
	Price	100	83	68	68	65
Guatemala	Value	115.9	93	93	103	99
	Volume	100	111	132	138	129
	Price	100	80	66	68	63
Haiti	Value	34.3	115	82	97	93
	Volume	100	137	95	111	99
	Price	100	85	75	74	71
Nicaragua	Value	64.3	99	101	87	94
	Volume	100	110	125	93	94
	Price	100	86	77	79	76
Sugar						
Cuba	Value	845.0	90	80	73	...
	Volume	100	105	...	...	...
	Price	100	86	76	75	...
Dominican Republic	Value	161.0	85	81	112	89
	Volume	100	98	96	138	99
	Price	100	88	75	75	69

(continued)

Table I-49 (cont.)

Countries principal exporters of:		Values in millions of dollars (U.S.)	Indices of volume and prices 1957 = 100			
		1957	1958	1959	1960	1961
Bananas						
Ecuador	Value	132.6	101	106	109	96
	Volume	100	99	111	123	114
	Price	100	97	95	89	...
Honduras	Value	65.0	108	106	97	112
	Volume	100	113	114	106	111
	Price	...	...	...	...	...
Panama	Value	35.4	94	99	78	87
	Volume	100	93	102	92	105
	Price	100	97	94	83	81
Wheat and Farm-Livestock Products						
Argentina	Value	974.8	102	103	111	99
	Volume	100	108	110	111	101
	Price	100	96	99	104	103
Uruguay	Value	128.1	108	76	101	136
	Volume	100	131	100	...	158
	Price	100	81	78	90	86
Metals						
Bolivia	Value	95.2	68	80	70	76
	Volume	100	67	77	67	70
	Price	100	93	.98	99	105
Chile	Value	455.0	85	109	107	111
	Volume	...	...	...	...	...
	Price	...	...	...	...	...
Diverse Products						
Mexico	Value	734.0	100	102	104	113
	Volume	...	...	...	...	...
	Price	...	...	...	...	...

(continued)

Table I-49 (cont.)

Countries principal exporters of:		Values in millions of dollars (U.S.)	Indices of volume and prices 1957 = 100			
		1957	1958	1959	1960	1961
Diverse Products						
Paraguay	Value	32.9	104	95	82	93
	Volume	100	113	102	112	125
	Price	...	...	...	...	...
Peru	Value	320.0	88	97	134	154
	Volume	100	104	107	132	150
	Price	100	...	...	...	...
Petroleum						
Venezuela	Value	2.366.0	98	100	103	102
	Volume a/	100	94	98	104	106
	Price a/	100	100	93	92	92
Total-Latin America						
	Value	8.662.0	95	96	99	100
	Volume b/	100	101	108	112	113
	Price b/	100	93	89	89	88

Source: International Monetary Fund, International Financial Statistics.

a. Volume and price indices refer to petroleum.

b. Volume and price indices are those published by the Monthly Statistical Bulletin of the United Nations, converted on the basis of 1957 (see Table I-47).

/This, added

This, added to the slump in foreign cacao prices, reduced the total value of Ecuadorean exports --for the first time in the last five years-- to a level slightly under that of 1957. On the other hand, in Honduras and Panama, the volume of banana exports showed increases in 1961, which made it possible to exceed total export values for the preceding year. But although this enabled Honduras to reestablish export value on levels comparable with those for 1958-1959, in Panama, on the other hand, total exports continue at a low level, partly due to a smaller volume and to a drop in coffee export prices.

The countries exporting wheat and agricultural products——Argentina and Uruguay——showed, in general, during the 1957-1961 period, an export level lower than that reached in the first half of the 50's. This reflects in part the subsequent decline in prices for cereals, wool and meat, as well as the maladjustment resulting from subvaluation of exchange rates used by these countries for their exports up to 1959. No less important, especially during the last two years, has been the effect of a decline in exportable cereal surpluses, particularly wheat, caused by adverse weather conditions. For these countries, 1957 was a year of low export value, especially in Uruguay, where the slump amounted to 40 percent as compared to the preceding year. The 1959-1961 period marked a time of recovery for Argentina and Uruguay. Nevertheless, the sharp curtailment of production and export of cereals in 1961 halted this process in Argentina. Uruguay, for its part, has not succeeded in reestablishing its wheat production, although its wool and meat exports registered substantial increases as compared to 1960.

In the metal-exporting countries, mention should be made of the considerable drop in Bolivian exports between 1958 and 1960 as compared with 1950-1957 figures. This was caused initially by the drop in tin prices and subsequently, when the price level improved, by the decline in production and export of this product. Chile has shown a relative improvement in recent years thanks to a greater volume of copper exports, despite sharp fluctuations in metal prices. Aside from copper exports, exports of iron ore and other manufactured products, especially paper, have increased recently, compensating for the decline observed in nitrate sales.

Countries with a greater range of mineral and farm exports have been in no better position than those where one or two products predominate. Mexican exports declined drastically in 1957 as compared with 1955 and 1956 levels because of the combined effect of a drop in prices for cotton, copper, lead and zinc, and a

/substantial

substantial fluctuation in the volume of cotton exports. Recovery during 1958-60 was relatively slow because of the low level of metal prices, but in 1961 there was an improvement in prices and volume of cotton exports and an increased volume in exports of sugar, lead, zinc and petroleum. Despite this, the value of Mexican sales is still below the figures reached in 1955-56.

The experience of Peru is more favorable; the value of its exports suffered almost no relapse between 1953 and 1961, largely due to the substantial increase in exports by its new fish-meal industry, as well as in the exports of iron and copper ore. 53/ This made it possible to counteract the effect of a drop in prices for cotton, sugar, copper, lead and zinc.

In Paraguay, exports declined consecutively in 1959 and 1960 due to a reduction in exports of cotton and wood. In 1961, there was a firm recovery thanks to stepped-up volumes of exports for cotton, wood, vegetable oils, meat and hides. Nevertheless, the total value of exports has remained below the 1957-58 figures.

Venezuela and Peru share the unique position of being the only Latin American countries whose exports suffered no significant inroads during the 1953-61 period. In the case of Venezuela, this was due to greater long-term stability in crude petroleum prices, increased volume of petroleum exports, and rapid expansion of iron ore sales up to 1960. The decline in petroleum prices in 1959-60 was partially compensated for by increased export volume and greater participation of refined products--with a higher unit value--in total exports. In 1961, there was a slight drop in total exports, reflecting chiefly a sharp drop in iron ore sales to the United States.

To summarize this brief over-all examination of Latin American exports, Table I-50 shows the estimated unit value indices for Latin American exports and imports and the resulting terms of trade. Although it is obvious that these indices are only a very rough approximation of the real ratio of exchange prices, they may be considered as at least an indication of the trend or direction in which this ratio has moved. Table I-50 shows that the declining terms of trade prices during 1957-59 originated in the slump in export unit values and that the decline for the same period is even more marked if petroleum is excluded. The level of foreign prices for coffee, sugar, cotton, wool, wheat, corn, lead and zinc

53. Between 1953 and 1960, exports of fish-meal and fish products increased from 31,600 to 592,200 tons, while iron ore exports rose from 553,000 to 3.12 million tons. Copper exports in 1960 tripled the volume for the preceding year.

/Table I-50

Table I-50

LATIN AMERICA: INDICES OF UNIT VALUES FOR EXPORTS AND IMPORTS AND INDEX OF THE EXCHANGE PRICE RATIO

(1953 = 100)

	1957	1958	1959	1960	1961[a/]
Unit values for total exports	96	89	83	85	85
Excluding petroleum	93	84	78	80	79
Unit values for imports	103	100	99	99	98
Total exchange ratio	94	89	84	85	86
Excluding petroleum	91	84	78	81	81

Source: United Nations, Monthly Statistical Bulletin.

a. First six months.

registered successive dips during these years. The unit values of imports also dropped off somewhat, partly counteracting the decline observed in export values. In 1960, there was a slight recovery in export unit values, largely corresponding to non-ferrous metals, cotton and, to a certain extent, sugar. However, the decline in prices for other important products--petroleum, coffee, cacao--appear to suggest the probability that the improved ratio of prices in 1960 was influenced by a change in the relative importance of some of these items or in the composition of exports in certain countries. The evolution of foreign prices for most of the 1961 export items was again unfavorable, but this was not reflected in a decline in the ratio of exchange prices, since import unit values also dropped off.

An index reflecting the situation in Latin America as a whole cannot be representative of any one country. For this reason, it must be stressed that the ratio of exchange prices should be considered only as an approximate indication of the direction in which unit value indices, which vary greatly among themselves, have shifted.

There can be no question, however, that since 1957 external considerations have been of primary importance in the economic stagnation of Latin America. The mere fact that in 1961 unit values of total exports were 12 per cent below the 1957 level--which in turn was low in comparison with 1953--indicates how seriously the decline in prices of its basic export products affects the economy of Latin America.

IV. GEOGRAPHIC DISTRIBUTION OF EXPORT TRADE

The geographic distribution of Latin American exports changed relatively little in the period 1957-61. However, in this latter year a substantial decrease could be noted in exports to the United States and an increase in those countries with centrally planned economies (see Table I-51). This change--which is perhaps the more important one in Latin America's export trade--reflects basically the decline in Cuban exports to the United States, that began in the second half of 1960, and the turning of that country's trade toward the USSR and other countries with centrally planned economies. Attention should also be drawn to the gradual decrease of Latin America's relative share in world exports, in the period under study, owing to the higher rate of expansion experienced by the exports of the industrial areas (see Table I-52). The relatively lesser growth of Latin American exports as compared with those of other areas was a reflection to some extent of the decline in the prices of primary products, but it was already apparent that the quantum index of Latin American exports likewise increased relatively less than that of other underdeveloped areas.

A partial explanation for this phenomenon lies in the fact that the economic development of Africa has been given greater priority in recent years, and both international financial institutions and national financial agencies of the industrialized countries have been vigorously engaged in aiding the African countries and territories to acquire the necessary economic viability to strengthen the political independence which has recently been granted them or which they are about to receive. Clearly, this has resulted in the exploitation of natural resources that formerly were untouched but that now, in many cases, yield products which, because of their very low costs, may eventually displace traditional suppliers on the international market. By way of example it might be appropriate to mention Sudanese cotton, Libyan and Algierian petroleum, and the coffee of certain British and French territories. There is no doubt that, in some cases, the only way to speed up the economic development of the "new countries" is to develop the production and exportation of their basic products, but it is clear that this would be detrimental to the traditional producers, including those of Latin America.

/Table I-51

Table I-51

LATIN AMERICA: TOTAL VALUE OF EXPORTS, BY PRINCIPAL AREAS OF DESTINATION AND PERCENTAGES FOR EACH AREA

	(millions of dollars)	Index: 1957 = 100.0			
	1957	1958	1959	1960	1961 a/
North America	3,982	95.8	96.1	93.4	83.9
Western Europe	2,740	88.6	91.8	98.4	100.1
European Economic Community	1,459	90.5	98.3	107.5	109.1
Free Trade Association	1,091	87.1	87.4	92.4	94.0
Japan	228	93.0	110.1	104.8	152.2
Australia, New Zealand, and South Africa	21	104.7	104.7	128.6	128.6
Total, developed countries	6,971	92.8	94.9	95.8	92.7
Centrally planned countries	126	126.2	120.6	210.3	417.5
USSR and Eastern Europe	122	120.9	123.0	202.5	389.3
Continental China	4	300.0	50.0	450.0	1,275.0
Latin America	759	99.9	94.3	91.7	73.5
Middle East, Africa, Asia and others, not classified b/	793	102.5	105.4	112.6	134.4
Total, underdeveloped countries	1,552	101.2	100.0	102.4	104.6
General total	8,649	94.8	96.2	98.7	99.5
	Percentages of total				
North America	46.0	46.4	46.1	43.6	38.8
Western Europe	31.7	29.6	30.2	31.6	31.9
European Economic Community	16.9	16.1	17.2	18.4	18.5
Free Trade Association	12.6	11.6	11.5	11.8	11.9
Japan	2.6	2.6	3.0	2.8	4.0
Australia, New Zealand and South Africa	0.2	0.3	0.3	0.3	0.3
Total, industrialized countries	80.6	78.9	79.5	78.3	75.0
Total, centrally planned countries	1.4	1.9	1.8	3.1	6.1
USSR and Eastern Europe	1.4	1.8	1.8	2.9	5.5
Continental China	1.4	0.1	-	0.2	0.6
Latin America	8.8	9.3	8.7	8.2	6.5
Middle East, Africa, Asia and other, not classified	9.3	9.9	10.0	10.4	12.4
Total	100.0	100.0	100.0	100.0	100.0

Source: United Nations, Monthly Bulletin of Statistics, June 1960; June 1961, and December 1961.

a. Estimates based on figures for first six months.

b. The values for the Middle East, Africa, and Asia (excluding Japan and Continental China) are relatively small: 120 million in 1958; 118 in 1959; 139 in 1960; and 152 in 1961. The balance chiefly represents exports of Venezuelan petroleum to the Dutch and British West Indies.

/Table I-52

Table I-52

WORLD EXPORTS BY PRINCIPAL AREAS OF DESTINATION AND RELATIVE POSITION OF LATIN AMERICA IN EACH AREA

	(Billions of dollars)	Index: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
North America:					
World total	18 070	98	113	110	104
Latin America	3 982	96	96	93	84
European Economic Community:					
World total	22 525	93	102	121	132
Latin America	1 459	90	98	108	109
European Free Trade Area:					
World total	17 640	96	104	120	121
Latin America	1 091	87	87	92	94
Japan:					
World total	3 240	77	93	116	147
Latin America	228	93	110	105	152
Centrally planned countries:					
World total	10 890	108	128	138	-
Latin America	126	126	121	210	418
Total world exports:	108 815	96	104	115	-
Latin America	8 649	95	96	99	99
Latin America's percentage in each area:					
North America	22.0	21.5	18.7	18.7	18.5
European Economic Community	6.5	6.3	6.3	5.7	5.5
Free Trade Area	6.2	5.6	5.2	4.8	5.0
Japan	7.1	8.4	8.3	6.4	7.1
Centrally planned countries	1.1	1.4	1.1	1.8	-
World total:	7.9	7.8	7.4	6.8	-

Source: GATT, International Trade 1960, 1961; United Nations, Monthly Bulletin of Statistics, December 1961.

a. Preliminary estimates.

The differences noted in the industrial activity indices of the principal trade areas--North America, European Economic Community, European Free Trade Association, etc.--are another important factor in the changes that have taken place in the geographical distribution of Latin American exports. The rapid recovery, following the decline of 1958, of exports to the European Economic Community and to Japan contrasts markedly with what may be observed in the exports to North America and the European Free Trade Association, in which areas the economic recessions of the United States and the United Kingdom in 1957-58 and 1960-61 substantially reduced the demand for imported raw textile materials and metals.

Finally, in these general considerations it is appropriate to note the gradual decline which export trade within the Latin American area itself has experienced. This tendency brings into sharp relief the urgent need for the Latin American countries to seek solutions to the problems that have thus far obstructed the expansion of intra-regional trade. 54/

An examination is now in order of the evolution of Latin American exports by principal areas of destination, as shown in Tables I-51 and I-52.

1. North America

The drop in Latin American exports to North America was relatively moderate in 1958. It amounted to a mere 4 percent, compared with a 10 percent fall in those destined to the European Economic Community and 13 percent in those to the European Free Trade area. However, the high proportion which exports to North America represent in the total means that a small percentage, such as that shown, represents important amounts in absolute values. The decline in the exports reflected the drop in coffee and non-ferrous metal prices, as well as a lesser volume in the exports of those commodities, along with petroleum and iron ore. The chief effects of the decrease fell upon Brazil, Chile, Colombia, Mexico, Guatemala and Venezuela. The recession in industrial activity in the second half of 1957 and the first half of 1958 led to a decreased demand for imported metals. As has already been seen, purchases for strategic stockpiling also decreased. In the case of petroleum, the decrease was due principally to the revival of the trade that prevailed prior to the Suez crisis, that is, the recovery in imports from

54. See in Section V of this chapter a brief analysis of the Economic Integration Program of the Central American Isthmus and the Latin American Free Trade Association, and the status of the respective plans at the end of 1961.

the Middle East and the resultant decline in those from Latin America, above all, from Venezuela.

In 1959, exports to North America held at almost the same levels as in 1958. Although coffee prices fell again, part of their drop was compensated for by an increase in the volume exported. On the other hand, although there was a moderate recovery in the prices of copper, tin and zinc, the exports of these metals--and also of lead--continued to show lower levels than those of 1957, a situation attributable in part to decreased consumption in the United States and in part to the imposition of import quotas for lead and zinc. The prices for crude petroleum and its derivatives fell around the middle of 1959. Nonetheless, the value of exports to North America underwent no important changes in that year because the Latin American share in total United States imports increased, and because the proportion of derivative products (which have a higher unit value) in total exports was also greater.

The percentage of Latin American exports to North America showed no appreciable changes in 1957-59 (see again Table I-51). However, if one looks at the problem from a different angle, the situation was quite different. World exports to North America rose 15 percent from 1958 to 1959, while Latin America's exports stood at approximately the same levels (see Table I-52). The result was that Latin America's percentage in world exports to North America fell from 21.5 percent in 1958 and to 18.7 percent in 1959.

In 1960-61 Latin American exports trade with North America underwent its most important changes. The decline began around the middle of 1960 with the partial exclusion of exports of Cuban sugar to the United States market, and it grew in intensity in 1961 when Cuban sugar was completely shut off from the United States. Although certain Latin American countries--chiefly the Dominican Republic, Mexico, Peru and Brazil--increased their exports of sugar to that market, partially replacing the exports formerly made by Cuba, total Latin American export trade to the United States declined in 1960 by 3 percent, as compared with 1959, and another decrease of 10 percent was recorded in 1961 as compared with the previous year.

/It should

It should be pointed out, however, that although this fall in the value of Latin American exports to North America in 1960-61 was mainly the result of the exclusion of Cuban sugar from the United States market, other causes were also involved, among them the decline in the volume and value of exports of coffee, sugar and meats in both years, and in 1961, of iron ore, zinc and cacao. Exports from Brazil, Chile, Colombia and Argentina to that area declined between 5 and 10 percent, while those from Mexico increased 8 percent and those from Peru 20 percent. Taken as a whole, however, the percentage of Latin American exports to North America fell to 43.6 percent in 1960 and 38.8 percent in 1961. Despite this, it is interesting to note that the relative share of Latin American exports in the total of world exports to North America underwent no important changes, due to the fact that in 1960-61 the total value of world exports to the area dropped --a situation that was related in part to the brief recession that occurred toward the end of 1960 and the beginning of 1961.

2. European Economic Community

World exports to the European Economic Community dropped 7 percent in 1958 as compared with 1957. The percentage decline was even greater for Latin American exports, since they fell by 10 percent in those years, the principal loss having been in exports from Argentina, Chile, the Dominican Republic, El Salvador, México and Uruguay. On the other hand, the recovery process was more rapid than that observed in other areas, and Latin American exports to the Community achieved increases of some significance in 1959 and 1960, in which year they exceeded the 1957 level by 8 percent. It is true that this increase was less than that recorded in world exports to the Community, but in any event it may be looked upon as the most important--in relative figures and in absolute values--of any achieved by Latin American exports in any area in the world.

Approximately 50 percent of Latin American exports to the Community consists of foodstuffs, beverages and non-manufactured tobacco. The value of exports in this group of products decreased substantially in 1958, but in subsequent years it recovered to the 1957 level, owing in good part to the greater volume of coffee exports, which compensated for the drop in prices.

/Exports of

Exports of cereals, meats and other agricultural products of the temperate zone showed erratic changes during these years, but in general the value of exports of these products to the Community showed successive increases in 1959 and 1960. On the whole, however, the most important increase in the value of exports occurred in industrial raw materials (Groups 2 and 4 of the Standard International Trade Classification), while exports of fuels (Group 3 of the Classification) declined moderately, the result of the fall in the price of crude petroleum.

In 1961 the increase in Latin American exports to the Community was only about one percent. Although detailed information on the changes in the composition of those exports is not yet available, it may be said that there was a considerable decrease in exports of sugar--principally with respect to Cuba--cereals and non-ferrous metals, and that coffee exports stayed at practically the same levels as in 1960. However, there were increases in the exports of petroleum and its derivatives, wool and cotton.

A look at the rates of increase of world exports to the Community and of those from Latin America shows that the percentage of the latter with respect to the former dropped from 6.5 percent in 1957 to 5.5 percent in 1961. On the other hand, the percentage of Latin American exports to the Community increased over the regional total from 16.9 percent in 1957 to 18.5 percent in 1961. This fact should be emphasized since there has been frequent allusion to the possibility that preferential arrangements within the European Economic Community and the associated overseas territories are a considerable obstacle to the future expansion of Latin American exports to that market. However, it must be remembered that the process of integration is still in its initial stage and that the preferential arrangements have not yet had a decisive discriminatory effect on "third countries." Furthermore, it must not be forgotten that up to 1961--with rare exceptions--those arrangements had not been extended to agricultural products. Early in 1962 the Council of Ministers of the Community agreed to go on to the second stage of the integration program, which has as its goal the attainment of a complete customs union, no later than the end of 1969. The first measures adopted on trade in agricultural commodities included:

a) adoption of a common price support system and the establishment of a common fund for the financing of this policy; b) abolition of controls over the importation

/of grains

of grains and other agricultural commodities; and c) adoption of a system of "variable taxes" for the purpose of standardizing prices for farm products within the Community.

3. European Free Trade Association

Latin America's exports to this trade area underwent a decrease of 13 percent in 1958 as compared with 1957. When compared with figures from other trade areas, this drop was the sharpest recorded. It became worse in the following years when Latin American exports to the countries of the Association continued at a low level and those for 1961 were even 6 percent below the 1957 figures. In this respect, the development of Latin American sales in this area is frankly unfavorable, considering that in 1959 total world exports to the Association area exceeded the 1957 levels and continued to increase in the next two years.

The greater part of this drop in Latin American exports to the member countries of the Association has occurred in the foodstuffs, beverages and tobacco groups (Groups 0 and 1 of the Standard International Trade Classification). In certain of the products--coffee, sugar, and cereals--the decline was essentially due to the fall in prices, although with respect to the latter two there has also been a gradual decrease in the volume exported, a decrease that became particularly marked in 1961. The fall in cotton and wool prices was partially offset by an increase in the volume of exports, so that taken as a whole, in 1960-61 the group of industrial raw materials--including hides, timber, minerals, etc.--maintained values approximately equal to those of 1957. A similar tendency was noted in exports of pertroleum and its derivatives, which after having declined heavily in 1958, recovered the 1957 levels in the following years and compensated for the 1959-60 price drop with increased volume.

Both the percentage of Latin American exports to the Association and Latin America's relative position in the world total of exports to that area declined moderately between 1957 and 1961; they were 6 percent less in the latter year than in the former.

/4. Japan

4. Japan

The slackening of industrial activity in Japan in 1958 had particularly severe effects on the demand for imported goods. The value of world exports to that country in that year fell 23 percent below the 1957 figure. This very great shrinkage had no parallel in other industrialized areas and it demonstrated, on the one hand, that Japan's import trade has been more subject to restrictions than has the trade of Western Europe, and, on the other hand, that a policy of cutting inventories has been followed, encouraged by expectations of lower prices for raw materials. Nonetheless, Latin American exports to Japan decreased only 7 percent in 1958 and recovery was so rapid that in 1959 they were already 10 percent above the 1957 level. Although they again declined moderately in 1960, there was another substantial increase in 1961, which placed them approximately 50 percent above the 1957 figure. This increase resulted chiefly from the greater value of exports from Mexico, Peru, Chile, Argentina and Brazil.

Almost two thirds of Latin American exports to Japan consist of industrial raw materials, and it was this group that accounted for the increase shown in total exports, principally cotton, wool, hides, non-ferrous metals, iron ore and non-edible oils. Exports in the food and beverage group showed a slight drop, attributable in part to the smaller volume and to the lower prices for sugar exports. Although Japan is not a great consumer of coffee, Latin American exports of this product have increased in recent years, although the increase in volume has been offset by a fall in prices.

The percentage of Latin American exports as a whole to Japan increased from 2.6 percent in 1957 to 4.0 percent in 1961.

5. Countries having centrally planned economies

Latin American exports to this group of countries remained at relatively low levels until 1959; they consisted mainly of purchases of Cuban sugar on the free market and exports of wool from Uruguay and Argentina, as well as coffee, cacao, hides and oils from Brazil. These purchases were made under bilateral agreements existing between the USSR and certain other countries of Eastern Europe and the above-mentioned Latin American nations, to which Colombia must now be added. The total value of Latin American exports to this area increased considerably in 1960--75

percent above the 1959 value--chiefly because of the sales of Cuban sugar to the USSR and the People's Republic of China. These sales increased again in 1961, and for the same reason--the almost complete diversion of Cuban exports to those countries. Of the bilateral agreements mentioned above, only those with Brazil are in force and as a result there was an increase of some significance --above all since 1959--in Brazilian exports to that group of countries, particularly with respect to coffee. The difficulties balancing the bilateral accounts or of using the agreement-dollars in which those accounts were handled did not favor a greater expansion of Latin American trade with that area, especially as some countries instituted foreign exchange reforms, as happened in Argentina and Uruguay. The exports of both these countries to the area in question fell off in 1961.

6. Latin America

During the period 1957-61 there was a gradual decline in the value of inter-Latin American exports, which became more acute in 1961. This trend resulted from certain changes in the demand for commodities traded within Latin America--changes that became more marked in 1961 because of the decrease in exports of grains from Argentina.

Approximately 70 percent of inter-Latin American exports are concentrated in three countries: Argentina, Brazil and Venezuela. The proportion rises to 68 percent if Chile, Mexico and Peru are added. The composition by products also shows great concentration, with petroleum and its derivates occupying first place (about one-third of the total value), followed by wheat, timber and coffee.

In 1957 and 1958 the total value of Latin American exports showed practically no change, although the share of certain countries did undergo percentage changes of some significance (see Table I-51). The exports of Argentina, Peru and Cuba decreased but at the same time Venezuela's exports rose. In 1959 there was a drop of 5 percent in regional exports. The greater part in this drop pertained to the exports of Brazil, and to a lesser extent those of Venezuela. Practically all of the decline in Brazilian exports in that year was registered in those destined to Argentina, expecially exports of coffee, bananas, and timber,

/ a reflection

a reflection, in part, of the effects of the devaluation of the Argentine peso early in 1959.

A decline of similar proportions, although in absolute values the reductions were greater, occurred in Paraguay's sales to Argentina, a situation that is attributable almost completely to the reduction in exports of timber. The decline in the value of exports in 1959 was relatively moderate in the case of Venezuela and was due principally to the fall in prices of crude petroleum and petroleum products. In other countries--chiefly Chile, Peru and Argentina--exports showed small increases in 1959, although these were insufficient to offset the fall that occurred in Brazil.

Regional trade again declined in 1960, this time by 2.8 percent, because of a sizeable cut in the exports of Cuban sugar, Peruvian cotton, and Chilean manufactured copper. Although Brazilian exports showed a slight recovery with respect to the preceding year's level, they remained substantially below those of 1957-58. Exports of Venezuelan petroleum also declined, especially those to Cuba and Argentina. This latter country's exports underwent a slight increase, most of which resulted from live cattle exported to Chile. In 1960 only two countries, Argentina and Brazil, achieved a value of exports above the levels of the previous year. This increase was such in the case of Argentina that the country exceeded the values recorded in the three previous years. On the other hand, Brazil's exports in 1960 were almost 40 percent below those of 1957-58.

The sharpest decline in inter-Latin American export trade occurred in 1961, brought about in great part by the decreased sales of Argentine wheat to Brazil[55] and the virtual disappearance of exports of Venezuelan petroleum to Cuba, which is now supplied with petroleum by the USSR. The improved degree of self-sufficiency achieved by Argentina with respect to petroleum has helped to decrease its imports of that product, which it obtains in part from Venezuela. Peru's exports, especially of sugar, also showed a substantial decline in 1961, but on the other hand Cuba's exports, which stood at insignificant figures in

55. To a certain extent this decrease is a reflection of the smaller surpluses available for export.

/1960, increased

1960, increased notably, since they covered almost all the import requirements of Chile, which previously had obtained its supplies in Peru and Brazil. The exports of Brazil, Chile and Mexico to other Latin American countries experienced small increases in 1961, but detailed information as to the commodities involved is not yet available.

Between 1957 and 1960, the percentage share of inter-Latin American exports in Latin America's total exports showed relatively slight changes, having remained between 8 and 9 percent. The decline in 1961 reduced that figure to 6.5 percent, this being the lowest amount in the last 10 years.

The Central American nations must be excepted from this gradual decline of inter-Latin American trade. In fact, between 1957 and 1961 trade among to five countries of Central America increased 126 percent.[56/] This increase was due in very large part to the trade carried on by El Salvador, Guatemala, and Honduras, among which countries reciprocal trade showed successive annual increases during the entire period under consideration. The same did not occur in the other two countries, Costa Rica and Nicaragua; the latter's exports to the other four countries registered strong increases in 1959 and 1960, but this situation could not be maintained in 1961.

56. This percentage is figured on imports. See Carta Informativa de la Secretaría Permanente de Integración Económica Centroamericana (News Letter of the Permanent Secretariat of Central American Economic Integration), Guatemala, March 11, 1962.

V. THE MOVEMENT TOWARD LATIN AMERICAN REGIONAL MARKETS

The year 1961 marked a stage of fundamental importance in the movement toward regional economic integration, which had already gotten off to a vigorous start in the preceding five-year period. The progress achieved--the culmination of an idea long dormant in Latin America[57/]--was channeled into two great trends: Central American integration and the establishment of a free trade area which nine countries have already joined. Such progress took place mainly on the political level, with the creation of those legal and institutional mechanisms through which the desired economic results can be attained.

Since these two systems did not begin to function until 1961, it is still very early for intra-regional trade to reflect the expected results. Furthermore, owing to special circumstances, the value of inter-Latin American trade declined in 1961, as it had on a smaller scale in the three preceding years. The chief factors in this decline have been the drop-off in surplus Argentine wheat for export and the slump in Venezuelan petroleum sales to various Latin American countries.

However, the declining value of total inter-Latin American trade was in contrast to a simultaneous surge of Central American trade. It has already been noted in Section IV of this chapter that between 1957 and 1961 total trade between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua more than doubled its volume and the figures were even more impressive for certain countries. For example, Guatemalan exports to El Salvador increased more than three-and-a-half times, while trade in the opposite direction spiraled to a seven-fold increase. The growth of exports from El Salvador and Guatemala to Honduras and Costa Rica, and from Honduras to Guatemala showed similar percentages, although volume in absolute terms was less.

It should also be stressed that in 1960 more than 40 percent of inter-Central American trade was composed of other than basic products (Standard International Trade Classification--SITC--groups 5-9). In that same year, Central American imports from within the region itself amounted to 6.4 percent of total imports.[58/]

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57. See, for example, the Agreement Establishing the Economic Union of Grand Colombia (Colombia, Ecuador, Panama and Venezuela) signed in 1948 but not ratified by the governments.

58. See the Permanent Secretariat of the Central American General Treaty on Economic Integration (SIECA), Centroamérica y su mercado comun, Guatemala, May 1962.

/Although

Although this growth was not, of course, a consequence of the General Treaty of Integration, it should be remembered that prior to its approval a series of bilateral agreements were reached that were translated into very considerable increases in intra-regional trade. For instance, the Free Trade Treaty between El Salvador and Nicaragua took effect in 1951; another between Guatemala and El Salvador entered into force in 1952 (expanded by protocols in 1957 and 1959); between El Salvador and Costa Rica in 1954, and still another two in 1957, between Guatemala and Costa Rica and between Guatemala and Honduras.[59] Given this background of spectacular trade following these more limited agreements, the prospects opened up by the general treaties recently concluded, described on the following pages, are without a doubt particularly bright.

1. Central American integration

On June 10, 1958, the Multilateral Treaty on Central American Free Trade and Economic Integration Treaty was signed.[60] Pursuant to this Treaty, five of the Isthmus countries--Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua--agreed to perfect a system of free trade exchange within a period of 10 years, for the ultimate purpose of forming a customs union. The Treaty was ratified by all the signatory countries with the exception, to date, of Costa Rica. At the same time, pursuant to Article XXI, an agreement was signed establishing a System of Central American Industries of Integration to encourage and promote the establishment of new industries and the specialization and expansion of those already in existence. Since this agreement requires ratification by all the contracting parties, Costa Rica's failure to sign has thus far prevented its entry into force.

In accordance with the terms of the Multilateral Treaty, a Central American Agreement on the Standardization of Import Tariffs was also drawn up and was signed by the five governments on September 1, 1959. Its purpose is to establish a uniform tariff in all the countries within a period of five years. Upon its ratification by El Salvador, Guatemala and Nicaragua it entered into force on September 29, 1960. Subsequently, it was also ratified by Honduras.

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59. See SIECA, op. cit., p. 13.

60. This and the other documents cited in this section may be found in the book Multilateral Economic Cooperation in Latin America (Vol. I, text and documents), United Nations Sales No. 62-II-G.3.

/The desire

The desire to speed up the process of integration led the Governments of El Salvador, Guatemala and Honduras to form, by the signature of a new instrument on February 6, 1960, an Economic Association guaranteeing the free circulation of persons, goods and capital among their respective territories. It establishes immediate free trade for all products except a limited number covering 55 items of merchandise and ratifies the commitment to standardize all import tariffs within the maximum term of five years. In addition, it provides for the establishment of a Development and Assistance Fund to facilitate public and private investment in the production sectors.[61] This agreement governing the Economic Association entered into force on April 27, 1960, following its ratification by the three signatory governments.

The Multilateral Treaty on Central American Free Trade and Economic Integration of June 10, 1958, called for the creation of a free trade area, within a period of 10 years, through product-by-product negotiation based on an initial list that included 30 percent of all inter-Central American trade. This procedure necessarily posed problems in execution which augured for a very slow expansion of free trade in the region. The pressure for as rapid an integration as possible grew to the point where it was considered necessary to seek new formulas designed to shorten the terms in order to achieve free trade treatment for as many products as possible in the shortest possible span. It was also clear that the following steps should be taken: a) consolidation into a single legal instrument of the numerous pacts and agreements contained in bilateral agreements; b) ratification of the governments' obligations with respect to the standardization of tariffs; c) establishment of a Central American financing agency for integration of that region; and d) establishment of the executive agencies required by such a complex process.

On December 13, 1960, the Governments of Guatemala, El Salvador, Honduras and Nicaragua signed a new instrument--the General Treaty of Central American Economic Integration--by which they agree to establish a common market to be fully formed within a period of five years and to include the immediate constitution of a free trade area in the region and the adoption of a uniform foreign customs tariff, in accordance with the terms of the Agreement on Standardization of Import Tariffs of September 1, 1959. The contracting parties also agree to form a customs union in due time.

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61. This provision was later put into practice by the creation of the Central American Bank for Economic Integration.

/The General

The General Treaty establishes immediate free trade for all products originating in the member territories, with the exception of certain merchandise which, for specific reasons, may be subject to special treatment. The great majority of items included in the latter group will also be incorporated automatically and unrestrictedly into the free trade system at the end of the fifth year of the Treaty's existence. The group of products currently restricted consists of those few that might cause serious maladjustment in certain basic activities already established or substantial imbalance in the level of fiscal receipts. After listing the customs regulations required for free trade, the contracting parties agreed to draw up within one year special protocols containing a uniform customs code and the pertinent provisions regarding transportation and the establishment of uniform fiscal incentives to industrial development. They also undertook to incorporate into the Treaty all the provisions contained in the Agreement on a System of Central American Industries of Integration and to adopt the necessary measures for its initial application. To this end, the first additional protocols were signed, stipulating which industrial plants were to be established, and their operating conditions as provided for in that Agreement.

The contracting parties also agreed to establish the Central American Bank for Economic Integration as a legal entity in its own right, to serve as a financial and promotional instrument for economic development within the common market. As a condition for receiving financial aid from this Bank, the governments are required to have ratified the Multilateral Treaty of June 10, 1958, the Industrial System of the same date, and the Agreement on Standardization of Import Tariffs of September 10, 1959, with its protocol of December 13, 1960. The Bank, financed by contributions from the member governments, the Inter-American Development Bank and the United States Government, began operations officially in September 1961.

In order to carry forward the integration and coordinate the economic policy of the member states, the Central American Economic Council was created, composed of the Ministers of Economy of each country. In addition, an Executive Council was organized, with a permanent and an alternate representative appointed by each contracting party, who will deal with the application and administration of the Treaty and the undertaking of such negotiations and activities as Central American economic union may require. A Permanent Secretariat was also created to oversee the correct application among the contracting parties of the Treaty itself and of the other

/bilateral

bilateral or multilateral instruments of free trade and economic integration currently in force or to take effect at a later date. The Secretariat will also supervise fulfillment of the resolutions of the Economic Council and of the Executive Council, which may delegate their functions to the Secretariat.

The General Treaty should be regarded as a summary of the various international instruments that the countries of the Central American Isthmus had gradually formalized in matters of integration. The Treaty itself states that it takes precedence among the signatory countries over the Multilateral Treaty of Free Trade and Economic Integration of June 10, 1958, and over all other bilateral and multilateral free trade instruments agreed upon among the contracting parties even though it does not expressly nullify them and even specifies that its provisions shall be applicable in areas not covered by the General Treaty.

The General Treaty of Economic Integration has been in full force since June 4, 1961, for Guatemala, El Salvador and Nicaragua, and since April 27, 1962, the date on which Honduras deposited its instrument of ratification, for that country.

Finally, on August 2, 1961, the Governments of Panama, Nicaragua and Costa Rica subscribed to another instrument, the Treaty of Preferential Exchange and Free Trade, by which products originating in their respective territories, to be included in subsequent lists, will enjoy the free trade or preferential treatment agreed upon in each case. This instrument, which incorporates the Republic of Panama into the process of Central American integration, has not yet been ratified by the signatory governments.

2. The Latin American Free Trade Association

The free trade area established under the auspices of the Latin American Free Trade Association (LAFTA) by the Treaty of Montevideo, signed on February 18, 1960, by the Governments of Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, and subsequently by those of Colombia and Ecuador, has a long history that was started with a view to establishing a Latin American common market.

This forming of a regional common market was difficult to achieve, since political and economic factors posed obstacles. However, the ideological trend in favor of integration gained ground in governmental circles and in some public sectors.

/Consequently

Consequently, the governments of the countries located in the southern area decided to establish among themselves a free trade area which, as they stated at the time, did not imply abandonment of the common market project and did, on the other hand, make it possible to progress toward general unification.

During the sixth period of sessions of the Economic Commission for Latin America (ECLA), held in Bogotá in September 1955, it was resolved to create a Trade Committee to serve as a permanent organ within the Commission, for the purpose of procuring the intensification of inter-Latin American traffic and of preparing specific formulas to resolve trade problems on every level.

Shortly after the Trade Committee was created, important monetary reforms in certain Latin American countries made it even more imperative to undertake the study of foreign trade problems. The Executive Secretariat of ECLA, without waiting for the formation of the Trade Committee, appointed a group of three experts to visit seven of the countries with the largest volume of intra-regional trade in May and June of 1956. These experts made a great many contacts with government and private sectors and prepared various documents that were forwarded to the Trade Committee, including recommendations on the regional market and payment problems.

The Trade Committee held its first period of sessions in Santiago, Chile, in November 1956, and adopted a resolution on the gradual establishment of a multilateral payments system. It also provided for an inventory of existing Latin American industries and for a group of experts to study the change-over to a system of multilateral trade and the bases of a regional market.

In June 1957, ECLA, at its seventh period of sessions, adopted various measures relating to the requisite studies for preparation of the organization of the Latin American common market.

In August 1957, the Economic Conference of the Organization of American States (OAS) was held in Buenos Aires. Following a reference to the studies and work already carried out by ECLA, by the Trade Committee and by the Working Group of Central Banks on behalf of trade expansión within the area, one resolution of the Conference stated "the advisability of gradual and progressive establishment, in a multilateral and competitive manner, of a Latin American regional market".

/The Working

The Working Group composed of seven advisors appointed by ECLA held its first meeting in Santiago, Chile, in February of 1958, and its second meeting in Mexico in February of 1959. These meetings established certain bases for a possible agreement establishing the Latin American common market which were submitted to ECLA'S eighth period of sessions in Panama in May 1959. It should be noted that these bases stipulated that the agreement should adopt the juridical form of free trade area with a view to its gradual transformation into a customs union, since it was considered advisable to divide the evolution of a common market into stages that would lead gradually and progressively to its establishment.

Simultaneously with the work of the Working Group on the regional common market, the ECLA Executive Secretariat sponsored a consultative meeting of experts on the trade policies of the Governments of Argentina, Brazil, Chile and Uruguay to consider the specific problems of those countries with regard to foreign trade, as well as the effects of the monetary and tariff reforms undertaken by them. At this meeting, the experts recommended the adoption of a policy of exchange liberation and the study of the possibilities of creating a system of regional preferences.

The same group of experts in trade policy met again in Santiago, Chile, in April of 1959 and approved a preliminary draft agreement on a free trade area for the four countries concerned. Shortly thereafter, in June 1959, another informal meeting was held in which the experts and the Executive Secretary of the General Agreement on Tariffs and Trade participated in order to examine the compatibility of the draft and the General Agreement. The experts recommended to their governments the initiation of negotiations on the governmental level.

At the second period of sessions of the Trade Committee, meeting in Panama in May 1959, following a discussion of the bases for creating a Latin American common market prepared by the group of advisors at the Mexico meeting mentioned above, the member governments of the Committee agreed (Resolution 6 (11)) to intensify their efforts to create the market, recommending observance of the following general principles in its establishment:

/a) It should

a) It should be composed of all the Latin American countries participating in its formation;

b) It should remain open to participation by the other Latin American countries;

c) It should operate on a competitive basis and cover as many products as possible;

d) It should take into consideration the existing inequalities among the Latin American countries regarding their varying degrees of economic development;

e) It should be characterized by progressive standardization of tariff systems and other instruments of trade policy of the Latin American countries in its relations with other areas, taking into account international commitments;

f) It should rely, for its achievement, on the broadest possible collaboration from private initiative;

g) It should promote increasing specialization of economic activities with a view to improved utilization of the production factors available in the area; and

h) It should contribute to the expansion and diversification of trade exchange among the Latin American countries and between this bloc and the rest of the world.

During the discussions that preceded adoption of the agreement establishing these principles, it was clearly brought out that not all the Latin American countries were prepared to participate immediately in creation of the common market. This circumstance seemed to influence the countries that had already begun work on the formation of a free trade area--Argentina, Brazil, Chile and Uruguay-- to continue them on the basis of a virtually full acceptance of all the principles suggested by the Trade Committee as advisable for the policy of forming the Latin American common market. Following a meeting in Lima in July of 1959 held among experts of the countries already listed, Peru and ECLA officers, a formal meeting was convoked in Montevideo in September of 1959, which was attended by delegations from these same countries and from Bolivia and Paraguay. The Mexican Government was invited to participate as an observer at that meeting and its delegation expressed interest in participating in the proposed area.

/The draft

The draft was practically approved at this meeting, which established the principle of reciprocity, the principle of more beneficial treatment for the least developed countries, the competitive nature of the organization, and the plan for achieving industrial supplementation of the member countries. Furthermore, it was clearly stated that all the other Latin American countries might join the project.

Once the draft had been drawn up and all of the governments consulted, a meeting of the foreign ministers of the countries concerned was convoked in Montevideo to sign the Treaty. Shortly before this meeting took place, the seven organizing countries extended an invitation to the President of Mexico to have his country form part of the area. The Mexican Government accepted the invitation and sent its delegation to the meeting to take part in the final discussions of the draft.

On February 18, 1960, the Governments of Argentina, Brazil, Chile, Mexico, Peru and Paraguay signed the Treaty of Montevideo establishing a free trade area and instituting the Latin American Free Trade Association. The Government of Bolivia, which had participated in the work but did not sign the Treaty, was given a term of four months within to sign, but has to date failed to take any steps in this direction.

The Treaty was ratified on May 2, 1961, by Argentina, Brazil, Chile, Mexico, Peru and Uruguay, and on June 21, 1961, by Paraguay. The Government of Colombia deposited its instrument of adherence to the Treaty on September 20, 1961, and Ecuador also joined in October of the same year.

The Treaty of Montevideo marks the establishment of a free trade area among the member countries which will be perfected within 12 years through the gradual elimination of tariff barriers and all restrictions on essential reciprocal trade.62/ The gradual elimination of tariffs cannot be less than 8 percent per annum considering the average tariff levels applicable to products from third countries.

62. Paragraph 7 of Section I of Protocol No. 1 annexed to the Treaty stipulates that the contracting parties may exclude from the products referred to in clause a) those whose value is insignificant, providing these do not represent in toto more that 5 percent of the value of imports from the area. The remaining 95 percent is considered to represent essential reciprocal trade.

/In addition,

In addition, the member countries undertake to eliminate gradually, each quarter, the tariffs and restrictions on importation of products according to minimum percentages, at the rate of 25 percent up to a point including essential reciprocal trade.63/

The Treaty of Montevideo contains three fundamental principles: a) the gradualness of the process of exchange liberation; b) the reciprocity of concessions, and c) the unconditional and unrestricted treatment of most favored nations.

The LAFTA held the first meeting of its contracting parties in July of 1961, concluding the initial trade negotiations provided for in the Treaty, the results of which entered into force on January 1, 1962. Agreements were adopted on the problems of industrial supplementation, dumping and other unfair trade practices, farm practices, farm products, border traffic and measures on behalf of the least developed countries. Furthermore, an examination was made of problems relating to nomenclature, origin of merchandise, type of tariffs, rules and procedures for trade negotiations on products, and other matters of general interest to intra-area trade.

The first trade negotiations were held only among the seven original signers of the Montevideo Treaty, since Colombia and Ecuador were unable to participate for lack of time. These negotiations led to a reduction in import tariffs of total of 2,456 tariff positions, of which 456 were exempt, although many appear in the national lists of two or more countries. The concessions referred chiefly to natural products and raw materials, which to date constitute the major share of intra-area trade, such as livestock, cereals, fats, oils, mineral products, hides, furs and fibers. Certain industrial products also appear in the lists: textile manufactures, iron and steel articles, light machinery, electrical appliances and vehicles. Each of the contracting parties also submitted a list of agricultural and animal products to which it can apply, on a non-discriminatory basis, quantitative import restrictions for the purpose of limiting imports to cover the deficit in domestic production and to maintain the balance between the prices of imported products and those locally produced.

63. It should be noted that the Treaty only obligates the signatory countries to eliminate restrictions on products that are already the subject of reciprocal trade, but it does provide the mechanism for reducing or abolishing other restrictions as well.

Chapter II

CAPACITY TO IMPORT AND BALANCE OF PAYMENTS

I. EVOLUTION OF TOTAL CAPACITY TO IMPORT

In 1961 the capacity to import of Latin America showed an increase estimated at slightly more than 2 percent over 1960. This slim rise for the region as a whole resulted from certain rather favorable changes that took place in such Latin American countries as Bolivia, Brazil, Panama, Paraguay, Peru, Uruguay, and Venezuela. In the other countries the capacity to import remained stagnant or dropped off, particularly in Argentina, Colombia, Ecuador, and the Dominican Republic.

Although the foreign-exchange earnings available to Latin America as a whole for payment of imported goods registered an upturn during the past year, their total amount was far below the 1957 level (see Table II-1). Actually, the 1961 rise merely reflected a continuing trend of partial recovery initiated in 1960, following the sharp drop of the two preceding years. Commodity exports and, particularly, the substantial increase in net influx of foreign capital contributed to this recovery. In this connection, it should be noted that, although the capital-account balance was consistently positive during the five-year period under study, 1957 was the only year in which it outweighed the enormous deficit incurred in profit remittances and other service payments. Accordingly, the over-all net result of both categories of foreign operations during the past four years, from the balance of payments standpoint, was a reduction of total capacity to import to a point beneath the level of commodity exports, already in itself unsatisfactory.[1/]

1. See Chapter I of the Study.

/Table II-1

Table II-1

LATIN AMERICA: TOTAL IMPORT CAPACITY[a] 1957-1961

(In millions of dollars)

	1957	1958	1959	1960	1961[b]
Commodity exports	9,138	8,538	8,428	8,657	8,682
Over-all net balance on service and capital accounts [c]	556	-425	-500	-344	-174
Total capacity to import [c]	9,694	8,113	7,928	8,313	8,508
Total capacity to import excluding Venezuela	7,167	6,754	6,685	7,102	7,186

Source: Tables II-2 and II-5.

a. The import capacity referred to in this table is the capacity to import in terms of CIF commodities, that is, the net service balance excludes gross foreign-exchange expenditures for transportation and insurance of imports, which in practice are inseparable therefrom. An analysis of the changes in CIF imports is given in Section IV of this Chapter. The only figures available for 1961 imports are given in CIF values. Moreover, for certain Latin American countries chronological series of f.o.b. import values are not available.

b. Preliminary estimates including several countries for which complete official data are not yet available. In order to secure the figures on exports and total import capacity in 1961, the percentages of variation derived from the figures given by country in Table II-5 have been applied to the 1960 figures. See also the notes to Table II-5.

c. The official balance-of-payments figures include errors and omissions that in general are relatively unimportant as regards total foreign transactions. In all events, they are of an over-all nature and cannot be assigned exclusively to capacity to import, imports, or compensatory accounts. However, in the case of Venezuela, these errors and omissions have been quite important over the last five years. According to the International Monetary Fund (Balance of Payments Yearbook), they have corresponded to unregistered capital movements. It may be assumed that the same is true for the Dominican Republic. Therefore, in calculating the over-all net balance of capital and service accounts, the figures for registered transactions have been readjusted, taking into account these errors and omissions in the balance of payments for Venezuela and the Dominican Republic.

/The role

The role played by a single country (Venezuela) in determining the regional figures has been so outstanding that it deserves mention within the framework of these general observations. While Venezuela's import capacity averaged the highest in Latin America, it has fluctuated sharply during the past five years, as the result of an exceptionally favorable balance of foreign financial operations in 1957 and an exceptionally unfavorable balance for the three subsequent years. Furthermore, Venezuela's remittances of interest and profits continued on a large scale, although showing a tendency to decline. This combination of circumstances, transitory or traditional, explains why the over-all net balance of service and capital accounts for Latin America as a whole has fluctuated so widely over the entire 1957-61 period and why it has been negative for the last four years.

With the exception of Venezuela, Latin America's total capacity to import showed only a relatively slight slump in 1958 and 1959 (see Table II-1). The movement toward recovery observed since that time has been slow but sufficient to regain the 1957 level by 1961. The population of Latin America grew by approximately 18 per cent between those two years. Consequently, even allowing for certain margin of statistical error, it may be asserted that per capita capacity import in Latin America has tended to decline during the last five years at a rate whose rapidity depends upon whether or not Venezuela is included in the regional total.

The movements in total capacity to import by countries are examined below, likewise the contribution to that capacity made by the two main categories of foreign exchange earnings: current and financial income. Prior to an analysis of imports and of balance-of-payments position, a more detailed, separate study is made of the evolution of the two factors contributing to capacity to import that are not related to commodity exports, i.e., receipts and payments for services and movements of capital. The evolution of both these factors not only presents features that were responsible for certain developments in total capacity to import, but also exhibits characteristics of a broader significance from the standpoint of the

/functioning and

functioning and development of the Latin American economy. Among the most important events in recent years have been the changes in the area of international financial cooperation, including the commencement of operations by the Inter-American Development Bank in 1961.

Throughout the 1957-61 period, in general, total capacity to import tended to decline or to remain unaltered in 11 of the 20 Latin American republics (see Table II-2). Considered separately, 1961 was also a bad year for the group of countries appearing at the top of the table, except for Bolivia, Venezuela, and, especially, Brazil. On the other hand, capacity to import gains during the last five years were able to maintain a fairly favorable ratio to population growth only in Argentina, Chile, Panama, Peru, and Uruguay. It should be emphasized that considerable instability was frequently observed in total short-term foreign exchange earnings. The example of Argentina is significant in this respect. That country's capacity to import dropped by 12 percent in 1961, following a rise of 25 percent in 1960.

The relatively unsatisfactory or frankly unfavorable evolution of total import capacity in the vast majority of Latin American countries was due to a weakening of the international market in many basic commodities and to sharp fluctuations in the prices of those products from one year to the next. The recovery made by exports in certain countries during 1960 and 1961--or in both years--resulted primarily from an increase in volume. In other words, it was achieved at the expense of a greater productive effort by the export sector of the economies concerned. Furthermore, in only a few cases--Mexico and Venezuela, for example--did the movements of the net service-account balance have a decisive or very important effect on the evolution of current receipts available for payment of imports (see Table II-3).[2/]

2. Table II-3 defines such receipts as current capacity to import.

/Table II-2

Table II-2

LATIN AMERICA: TOTAL CAPACITY TO IMPORT[a] 1957 - 1961

(In millions of dollars)

	1957	1958	1959	1960	1961[b]
Countries whose total capacity to import tended to decline or remain unaltered					
Bolivia	94	85	93	81	91
Brazil	1427	1269	1194	1051	1446
Colombia	470	413	524	502	440
Costa Rica	99	104	98	103	98
Cuba	928	850	717	621	...
Dominican Republic	139	148	116	98	54
El Salvador	123	121	95	102	99
Guatemala	162	144	145	151	143
Haiti	30	49	37	47	41
Nicaragua	90	80	79	71	72
Venezuela	2527	1359	1243	1211	1322
Countries whose total capacity to import tended to increase					
Argentina	1060	1036	1162	1456	1289
Chile	425	416	474	504	492
Ecuador	114	114	122	129	116
Honduras	66	68	72	74	71
Mexico	1172	1127	1099	1265	1213
Panama	123	133	140	165	186
Paraguay	41	45	40	47	51
Peru	448	390	361	425	524
Uruguay	156	162	117	210	230
Total for Latin America	9694	8113	7928	8313	8508[c]
Latin America excluding Venezuela	7167	6754	6685	7102	7186[c]

Sources: For 1957-60, International Monetary Fund, Balance of Payments Yearbook, except for Cuba and Chile, whose 1960 figures are estimates (see note a to Table II-4). For 1961, preliminary estimates have been based on the figures in Tables II-4 and II-5.

a. See notes a and c to Table II-1.
b. Preliminary estimates.
c. Includes an estimate for Cuba.

/Table II-3

Table II-3

LATIN AMERICA: CURRENT CAPACITY TO IMPORT AND CHIEF CONTRIBUTING FACTORS, 1957-1961

(In millions of dollars)

	Commodity exports					Net balance on service account				Current capacity to import			
	1957	1958	1959	1960	1961[a]	1957	1958	1959	1960	1957	1958	1959	1960
Coffee-exporting countries													
Brazil	1392	1244	1282	1270	1365	-214	-182	-275	-384	1178	1062	1007	886
Colombia	601	539	527	512	483	- 2	- 34	2	- 10	599	505	529	502
Costa Rica	83	93	76	85	84	2	- 1	5	4	85	92	81	89
El Salvador	127	118	112	103	105	- 5	- 5	- 8	- 7	122	113	104	96
Guatemala	116	108	105	117	124	1	2	2	- 3	117	110	107	114
Haiti	33	42	24	38	36	7	5	8	11	40	47	32	49
Nicaragua	71	70	75	64	74	2	1	2	- 2	73	71	77	62
Subtotal	2423	2214	2201	2189	2271	-209	-214	-264	-391	2214	2000	1937	1798
Sugar-exporting countries													
Cuba	845	763	675	618	500	- 25	- 5	- 9	...	820	758	666	...
Dominican Republic	162	135	132	175	152	- 5	5	- 9	- 5	157	140	123	170
Subtotal	1007	898	807	793	652	- 30	-	18	- 2	977	898	789	791
Mineral-exporting countries													
Bolivia	77	53	62	54	62	- 9	- 2	- 10	- 3	68	51	52	51
Chile	404	364	444	450b/	454	- 36	- 30	- 56	- 74b/	368	334	388	376b/
Subtotal	481	417	506	504	516	- 45	- 32	- 66	- 77	436	385	440	427
Countries exporting a variety of products													
Mexico	740	752	747	778	840	213	203	237	246	953	955	984	1024
Paraguay	37	35	37	37	42	- 1	1	0	- 1	36	36	37	36
Peru	333	292	323	445	511	- 21	- 19	- 37	- 41	312	273	286	404
Subtotal	1110	1079	1107	1260	1393	191	185	200	204	1301	1264	1307	1464

/Table II-3 (continued)

Table II-3 (continued)

LATIN AMERICA: CURRENT CAPACITY TO IMPORT AND CHIEF CONTRIBUTING FACTORS, 1957-1961

(In millions of dollars)

	Commodity exports					Net balance on service account				Current capacity to import			
	1957	1958	1959	1960	1961[a]	1957	1958	1959	1960	1957	1958	1959	1960
ıtries exporting berate-zone farm ducts													
rgentina	975	994	1009	1079	995	47	- 5	14	5	1022	989	1023	1084
ruguay	128	139	98	129	174	9	13	22	25	137	152	120	154
Subtotal	1103	1133	1107	1208	1169	56	8	36	30	1159	1141	1143	1238
roleum-exporting ıtries													
enezuela	2740	2515	2390	2389	2372	-1251	-844	-687	-609	1489	1671	1703	1780
Subtotal	2740	2515	2390	2389	2372	-1251	-844	-687	-609	1489	1671	1703	1780
ına-exporting countries													
uador	138	137	144	148	128	- 31	- 30	- 35	- 40	107	107	109	108
nduras	66	71	70	64	68	- 2	- 3	- 1	13	64	68	69	77
ınama	70	74	96	102	113	47	48	47	38	117	122	143	140
Subtotal	274	282	310	314	309	14	15	11	11	288	298	321	325
n America (total)	9138	8538	8428	8657	8682	-1274	-882	-788	-834[c]	7864	7656	7640	7823[c]
n America excluding ezuela	6398	6023	6038	6268	6310	- 23	- 38	-101	-225[c]	6375	5985	5937	6043[c]

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Provisional 1961 estimates for several countries have been based on partial figures for 8, 9, or 10 months and are based on assumption that there has been no change in the relationship between commercial statistical figures and the adjusted figures for ınce of payments.

b. Estimated on the basis of partial, provisional figures furnished by the International Monetary Fund, Balance of Payments book, and by the Central Bank of Chile, Boletín, March 1962.

c. The total includes estimates for Cuba.

/With rare

With rare exceptions, the Latin American countries showed a consistent surplus in the capital and grants account of their balance of payments for the 1957-61 period; accordingly, their total capacity to import has exceeded their current receipts. In reference to these receipts, the supplement to foreign exchange resources derived from financial operations abroad has been highly significant in Bolivia, Brazil, Guatemala, Mexico, and Peru (see Table II-4). In the great majority of cases, movements of private capital have contributed much more than public capital to over-all net capital inflow (see Table II-5). Furthermore, on several occasions, public financial transactions have substantially reduced total capacity to import. In 1959, for example, amortization of official loans absorbed almost 9 percent of current income for Latin America as a whole. In the same year, the public capital account deficit reduced the total capacity to import of Latin America by 2 percent.

Although the net balance of the capital and grants account was generally positive, the direction and extent of its movements during the last five years varied to a considerable degree in the various countries. In most, this balance exhibited instability from one year to the next, but for the period as a whole it showed favorable aspects in some cases and unfavorable characteristics in others. This fact, together with the greater or lesser average of net receipts in capital and grants goes a long way toward explaining the differences observed in the behavior of the total capacity to import in the various Latin American republics (see Tables II-4 and II-6).[3/]

3. Complete figures are available for the years 1957 to 1960, making it possible to calculate the over-all net balance of capital and grants accounts separately. This is not so in the case of 1961. However, on the basis of the information at hand, which will be analyzed in detail in Section II, it is possible to present here an evaluation of capital movements including an approximation of the 1961 trend. In calculating total capacity to import the following method was used: since the value of imports and the balance-of-payments are known--through the variations in the compensatory accounts--the approximate value of total import capacity can be obtained by subtracting; next, by subtracting the value of commodity exports from total import capacity, we obtain the over-all net balance for service and capital accounts. While Table II-4 shows the figures for the 1957-60 period, Table II-6 presents the 1960 figures together with those for 1961. The capacity to import figures corresponding to 1960 that appear in Table II-6 differ from those shown in Table II-4 for the reasons given in note a to Table II-6.

/Table II-4

Table II-4

LATIN AMERICA: TOTAL CAPACITY TO IMPORT AND PRINCIPAL CONTRIBUTING FACTORS, 1957-60

(In millions of dollars)

	Current capacity to import				Net balance of capital movement and grants				Total capacity to import			
	1957	1958	1959	1960	1957	1958	1959	1960	1957	1958	1959	1960
ıntries whose total capacity to import ıded to decline or remain unaltered												
olivia	68	51	52	51	26	34	41	30	94	85	93	81
razil	1178	1062	1007	886	249	207	187	165	1427	1269	1194	1051
osta Rica	85	92	81	89	14	12	17	14	99	104	98	103
uba	820	758	666	...	108[a]	92[a]	51[a]	...[a]	928	850	717	...
ominican Republic	157	140	123	170	- 18[a]	8[a]	- 7[a]	- 72[a]	139	148	116	98
l Salvador	122	113	104	96	1	8	- 9	6	123	121	95	102
uatemala	117	110	107	114	45	34	38	37	162	144	145	151
aiti	40	47	32	49	- 10	2	5	- 2	30	49	37	47
icaragua	73	71	77	62	17	9	2	9	90	80	79	71
araguay	36	36	37	36	5	9	3	11	41	45	40	47
eru	312	273	286	404	136[a]	117[a]	75[a]	21[a]	448	390	361	425
enezuela	1489	1671	1703	1780	1038[a]	-312[a]	-460[a]	-569[a]	2527	1359	1243	1211
ntries whose total capacity import tended to increase												
rgentina	1022	989	1023	1084[b]	38	47	139	372[b]	1060	1036	1162	1456[b]
hile	368	334	388	376[b]	57	82	86	128[b]	425	416	474	504[b]
olombia	599	505	529	502	-129	- 92	- 5	-	470	413	524	502
cuador	107	107	109	108	7	7	13	21	114	114	122	129
onduras	64	68	69	77	2	-	3	- 3	66	68	72	74
exico	953	955	984	1024	219	172	115	241	1172	1127	1099	1265
anama	117	122	143	140	6	11	- 3	25	123	133	140	165
ruguay	137	152	120	154	19	10	- 3	56	156	162	117	210
al for Latin America	7864	7656	7640	7823[c]	1830	457	288	490[c]	9694	8113	7928	8313[c]
in America excluding Venezuela	6375	5985	5937	6043[c]	792	769	748	1059[c]	7167	6754	6685	7102[c]

Source: International Monetary Fund, Balance of Payments Yearbook.

a. The figure for registered capital movements has been readjusted only for the Dominican Republic and Venezuela, adding or subtracting, as indicated, the errors and omissions in the official balance of payments. See note c to Table II-1.

b. Estimate based on partial, provisional figures furnished by the International Monetary Fund, Balance of Payments Yearbook, by the Central Bank of Chile, Boletín, March 1962.

c. The total includes an estimate for Cuba.

Table II-5

LATIN AMERICA: NET PRIVATE CAPITAL RECEIPTS, NET PUBLIC CAPITAL RECEIPTS, AND AMORTIZATION OF PUBLIC DEBTS 1957-1960

(In millions of dollars)

	Net private capital receipts				Net public capital receipts				Amortization of official debts			
	1957	1958	1959	1960	1957	1958	1959	1960	1957	1958	1959	1960
Countries whose total capacity to import tended to decline or remain unaltered												
Bolivia	10	14	24	19	- 12	- 7	- 5	- 1	- 13	- 8	- 9	- 1
Brazil	338	235	233	191	- 76	- 22	- 41	- 21	-191	-177	-181	-155
Costa Rica	3	-	7	8	4	2	3	1	- 2	- 3	- 4	- 4
Cuba	105	- 4	107	...	8	103	- 53	...	- 33	- 35	- 60	...
Dominican Republic	-19	10	1	- 70	4	1	- 5	-	-	-	- 4	-
El Salvador	- 2	6	- 6	7	2	1	- 4	- 2	- 1	- 1	- 2	- 2
Guatemala	18	18	27	21	6	4	- 1	11	-	-	- 1	- 2
Haiti	- 15	- 4	- 8	- 10	1	3	-	-	...	...	...	...
Nicaragua	- 14	3	2	8	—	2	- 3	- 2	- 2	- 2	- 3	- 2
Paraguay	- 3	7	- 1	8	6	1	3	-	- 2	- 1	- 1	- 2
Peru	100	103	55	11	18	1	10	2	- 24	- 19	- 22	- 23
Venezuela	1072	-284	-430	-737	- 6	3	1	198	- 4	...	...	- 2
Countries whose total capacity to import tended to increase												
Argentina	61	- 12	55	324[a]	- 21	62	87	55[a]	- 12	- 12	- 11	- 3
Chile	49	43	74	83[a]	4	22	- 3	8[a]	- 34	- 41	- 42	...
Colombia	- 84	- 44	50	45	- 48	- 53	- 58	- 43	-111	- 71	- 69	- 40
Ecuador	3	3	3	5	1	-	6	11	- 5	- 7	- 6	- 7
Honduras	1	- 6	- 4	- 8	-	5	4	2	...	...	...	...
Mexico	143	86	87	81	77	88	32	171	- 81	-121	-158	-164
Panama	9	11	12	29	7	10	- 1	7	- 1	- 11	- 1	- 1
Uruguay	23	10	- 9	37	- 2	2	3	21	- 6	- 6	- 6	- 4
Total for Latin America	1826	195	279	22[b]	- 27	228	- 25	448[b]	-522	-515	-580	-412[c]
Latin America excluding Venezuela	754	479	709	759[b]	- 21	225	- 26	250[b]	-518	-515	-580	-410[c]

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Estimate based on data furnished by the Central Bank of Chile, Boletín, March 1962.
b. Includes an estimate for Cuba.
c. Total amortization includes only those countries for which data are available.

/With respect

With respect to 1960 and 1961, it should be noted that, despite the remarkable recovery made by net capital receipts during these two years in Latin America as a whole, the regional trend covers a wide variety of national positions.

In Brazil and Cuba, with a substantial and steady decline in current receipts between 1957 and 1960, net capital receipts have been curtailed even more drastically. In the case of Brazil, these receipts represented only 15 percent of total import capacity in 1960 as compared to 20 percent in 1957. In Cuba, the ratio was 8 percent in 1959, as compared to 13 percent in 1957. However, in 1961, consolidation of a share of Brazil's foreign debt cut down sharply the drain on foreign exchange for amortization payments. This circumstance, combined with the notable recovery shown by commodity exports 4/ and with the decline in service payments, led to a strong increase in total import capacity as compared to the preceding year.

The contribution of net capital receipts has not produced such unfavorable changes in the 11 Latin American countries whose current receipts have registered sharp ups and downs during the 1957-60 period. At least, the behavior of the financial transaction account balance for the period as a whole has not been a factor for diminishing total import capacity. Examples of this situation are furnished by Bolivia, Costa Rica, Chile and Guatemala, the only real exception being Peru (see Table II-4).

It should be noted that during the 1957-60 period the movements of the capital account often contributed to amplify the depressive effect of annual drops in commodity exports on total import capacity instead of counteracting it. This occurred in 8 of the 16 cases in which there was an annual decline in commodity exports within the group of countries considered. In 5 of these cases--in Guatemala in 1950 and 1959, in Colombia and Peru in 1958, and in the Dominican Republic in 1959--movements of public capital have been the decisive factor in reducing net foreign exchange receipts for financial transactions abroad (see Tables II-4 and II-5). On the other hand, in 5 of the 8 cases where an increase in net capital receipts served to counteract the decline in export values, this situation resulted from a rise in private capital

4. With the exception of coffee exports.

/receipts.

receipts. It should be mentioned, however, that grants from the United States Government had a strong compensatory impact on Bolivia and Haiti.

In 1961, Colombia suffered a sharp cutback in its total import capacity (see Table II-6). This was the consequence of both a sustained increase in amortization payments on short- and medium-term indebtedness and a new drop in export values, which have been going down since 1957. By the same token, total capacity to import in the Dominican Republic has dropped considerably, since in addition to a large-scale flight of national capital there has been a dip in exports following the abnormally high level reached in 1960. Although exports did not decline in Chile in 1961, the surplus of service and capital accounts was reduced owing to increased tourist expenditures abroad and to the flight of short-term capital. In contrast, Peru presents quite an exceptional example for Latin America, showing a strong upsurge in its total foreign exchange receipts owing to a sharp rise in exports and a greater influx of foreign capital.

Among the few Latin American countries that registered an appreciable increase in current import capacity during 1957-60, Venezuela experienced an abrupt contraction of its total capacity to import during the same period. The large degree of this contraction resulted chiefly from a coincidence of unusual or temporary circumstances. While 1957 witnessed a high percentage of net receipts of foreign financial resources corresponding to direct foreign investments exceptional both for their nature and for their size, [5/] in 1959 and 1960 there was a wholesale flight of short-term national capital. Furthermore, the large public loan granted to Venezuela in 1960, which partially compensated for the exodus of foreign exchange in private financial transactions, constituted an isolated operation, since its main objective was to correct a temporary worsening of the government's budgetary difficulties. If one does not take into account the effect of the various circumstances mentioned, curtailment of the total import capacity of Venezuela has actually been considerably less than is inferred from a study of the annual gross

5. See Section III of this chapter

/Table II-6

Table II-6

LATIN AMERICA: TOTAL CAPACITY TO IMPORT AND OVER-ALL NET SERVICE AND CAPITAL BALANCE[a] 1960-1961

(In millions of dollars)

	1960			1961		
	FOB exports	Over-all net service and capital balance	Total capacity to import[a]	FOB exports	Over-all net service and capital balance	Total capacity to import[a]
Countries whose total capacity to import declined						
Argentina	1079	420	1499	995	332	1327
Chile	450	76	526	454	59	513
Colombia	512	- 31	481	483	- 62	421
Costa Rica	85	17	102	84	13	97
Cuba	618	...	...	500[b]	...	...
Dominican Republic	175	- 77	98	152	- 98	54
Ecuador	148	- 28	120	128	- 21	107
El Salvador	103	2	105	105	- 3	102
Guatemala	117	29	146	124	14	138
Haiti	38	- 1	37	36	- 4	32
Honduras	64	9	73	68	2	70
Mexico	778	346	1124	840	238	1078
Countries whose total capacity to import increased						
Bolivia	54	22	76	62	23[b]	85[b]
Brazil	1270	-228	1042	1365	69	1434
Nicaragua	64	4	68	74	- 5	69
Panama	102	67	169	113	78	191
Paraguay	37	9	46	42	8	50
Peru	445	14	459	511	55	566
Uruguay	129	79	208	174	54	228
Venezuela	2389	-1178	1211	2372	-1050	1322
Total for Latin America	8657	-446[c]	8211[c]	8682	-268[c]	8414[c]
Latin America excluding Venezuela	6268	732[c]	7000[c]	6310	782[c]	7092[c]

Sources: International Monetary Fund, Balance of Payments Yearbook, and International Financial Statistics; Brazil, Currency and Credit Supervisory Board, Boletim, December 1961; monthly report of the United States Eximbank; Bank of Mexico, Informe Anual, 1961; Economic Survey, Buenos Aires, April 1962.

a. Calculated by the method described in footnote 3 to the text. The capacity to import figures for 1960 differ from those given in Table II-4 because the latter table was prepared by a different method. In order to ascertain the 1961 export figures, the percentage of variation for the commercial statistical figures in both years was applied to the balance of payments figures for 1960, assuming no change in its margin of subvaluation or super-valuation. Although this table is not fully accurate, it may be considered that the resulting variations in import capacity are sufficiently close to the true figures.

b. Estimates based on partial figures.

c. Includes an estimate for Cuba.

/figures.

figures. The chief reasons for this basic trend have been the drop in value of petroleum exports and the decline of current investments made by foreign fuel-producing companies. A moderate recovery was apparent in capacity to import for 1961 primarily because of the considerable reduction in the flight of short-term private capital, and despite a rise in foreign exchange expenditures for service.

Mexico's total capacity to import has been much more unstable than its current capacity to import. Net receipts of private capital dropped off badly in 1957 with no subsequent improvement, while the balance on the government and international capital account registered sharp annual fluctuations between 1958 and 1960 (see Table II-5). Public credits disbursed in this latter year cannot be considered exceptional, since they were used to finance long-term development projects; however, they did reach an unusual gross total since they represented almost 65 percent of total authorizations for loans in effect between Mexico and its principal public creditor, the United States Export-Import Bank. This broad utilization of public credit lines explains why total capacity to import for 1960 made a strong recovery following the low registered for two consecutive years in 1958 and 1959. However, in 1961, receipts of public capital returned to a more normal position and, in spite of the increase in exports of goods and services and a slight improvement in the private investment account, total capacity to import declined with respect to the preceding year.

The Argentine experience in 1959 and 1960 contrasts sharply with the record for the rest of Latin America during the period under consideration. While in 1957 and 1958 total capacity to import did not exceed current capacity to import by more than 5 percent, in 1959 total capacity to import was nearly 14 percent greater than the latter. In 1960, because of a massive influx of short-, medium- and long-term private capital, the surplus of the financial operations account was so impressive that it amounted to 35 percent of the total receipts available for payment of imports.

The singular nature of this case is due largely to the fact that Argentina is the only Latin American country in which a set of favorable

/circumstances

circumstances and factors occurred to favor the influx of new foreign financial resources and the repatriation of national capital. First, the stabilization policy initiated in 1959 resulted in a considerable easing of domestic inflation by 1960.[6] Second, institutional and legal conditions have become much more favorable to foreign investments than they were in the postwar decade. Finally, the Argentine market, in spite of its relative sluggishness in recent years, is still one of the two most important in Latin America and offers prospects for considerable expansion, particularly in basic industry.

Nevertheless, Argentina's commodity exports dropped off in 1961, as did its net capital receipts, although a high level was maintained. Moreover, remittances of interest earnings on capital invested in the two preceding years began to total substantial figures, much larger than before.[7] Consequently, total import capacity dropped by more than 10 percent as compared to 1960. In fact, between 1957 and 1960, the country's exports rose very slowly and in no case did they exceed the average annual level for the 1947-56 period. Therefore, it is obvious that the recent vast influx of capital has been the main line of defense against serious difficulties with respect to foreign payments.

6. For further details see Chapter III.
7. See the magazine Economic Survey, Buenos Aires, April 1962.

II. THE SERVICE ACCOUNT

The over-all net balance on the service account has traditionally been negative for Latin America as a whole, and since the end of the Second World War it has never failed to absorb at least 10 percent of export earnings.[8/] However, this regional balance covers very different situations in the various countries. While some of them showed a substantial deficit in services because of remittances of interest and profits on foreign capital, others showed a surplus based primarily on a prosperous tourist trade. During the last few years the changes in service accounts have not been of a fundamental nature, but their direction and extent have varied considerably according to the transactions and countries considered.

1. Profits and interest

A major share of Latin America's negative balance on service account is attributable to the remittances of profits from Venezuela which, alone, accounted for from one half to two thirds of the total remitted (see Table II-7). The country differences in this balance reflect innumerable past events and policies. Having in the past been heavily concentrated in certain primary industries--metals, fuels, bananas and sugar in particular--in many cases private foreign investment on a per capita basis is still greater in economies in which these industries predominate. This explains to a large extent why in Chile, Panama, and Venezuela, for example, remittances of interest and profits are over 5 times higher, on a per capita basis, than in Argentina, Paraguay or Uruguay (see Table II-8).

In addition, the transfer of ownership of some industries from foreign to domestic hands, either through nationalization or through fiscal policies, had significant repercussions on the balance. Thus, the nationalization of the oil industry in Mexico in 1938, and of the railroads and some public

8. The net service balance does not include gross foreign exchange expenditures for transportation and insurance on imports since in practice these cannot be considered separately therefrom. The changes undergone by CIF imports are analyzed in Section IV of this chapter. The only figures available for 1961 imports are given in terms of CIF values. In addition, some Latin American countries lack chronological series of FOB import values.

/Table II-7

Table II-7

LATIN AMERICA: NET REMITTANCES OF PROFITS AND INTEREST[a]
(In millions of dollars)

	1957	1958	1959	1960	1961
Argentina	13	31	40	57	...
Bolivia	3	2	3	2	...
Brazil	126	108	150	194	164[b]
Chile	57	62	78	75	...
Colombia	26	63	37	32	...
Costa Rica	7	9	4	4	...
Cuba	78	54	48	...	...
Dominican Republic	12	3	14	6	...
Ecuador	21	22	23	24	...
El Salvador	2	3	4	4	...
Guatemala	2	4	5	10	...
Haiti	1	2	2	2	...
Honduras	4	6	3	-9	...
Mexico	135	145	153	168	170[b]
Nicaragua	1	4	2	2	...
Panama	19	12	13	15	...
Paraguay	1	1	1	2	...
Peru	33	32	51	58	...
Uruguay	5	4	3	3	...
Venezuela	1010	634	537	471	530[b]
Total for Latin America	1556	1201	1165	1131[c]	...
Latin America excluding Venezuela	546	567	628	660[c]	...

Source: International Monetary Fund, Balance of Payments Yearbook, 1957 to 1960. For 1961 unpublished data of national origin was used.

Note: The minus sign indicates a net receipt, including remittances by foreign firms to cover the losses of their local subsidiaries.

a. In the case of Bolivia, Brazil, Cuba, Mexico, and Panama, the figures include reinvested profits.
b. Estimates based on partial data.
c. Includes an estimate for Cuba.

/Table II-8

Table II-8

LATIN AMERICA: PER CAPITA REMITTANCES OF PROFITS AND INTEREST, 1959

(In dollars)

Countries whose Principal export is:	Per Capita Remittance			
	Less than 2.00	2.01-4.00	4.01-10.00	More than 10.00
Temperate climate farm products	Argentina Paraguay Uruguay			
Coffee	El Salvador Guatemala Haiti Nicaragua	Brazil Colombia Costa Rica		
Fuels and metals	Bolivia		Peru	Chile Venezuela
Sugar, cotton, bananas	Honduras		Cuba Dominican Republic Ecuador Mexico	Panama

Sources: United Nations, Monthly Bulletin of Statistics; International Monetary Fund, Balance of Payments Yearbook.

/Table II-9

utilities in Argentina in 1947-48, considerably reduced the annual outflow of interest and dividends from these countries. Similarly, the introduction in Mexico in January 1961 of higher tax rates for foreign mining enterprises than for domestic ones, encouraged some transfers of ownership to domestic firms and thus will result in lower remittances in the future. The greater profitability of some economic sectors, as well as different reinvestment policies (see Table II-9), also contribute to the varying relative size of the capital service burden in different countries.

There was a substantial reduction in remittances from Latin America as a whole during the period 1957-60 (see Table II-7). Excluding Venezuela, however, this trend is completely reversed, since an over-all increase took place for the rest of the region. This increase is very likely to have continued in 1961, as remittances from Latin America to the United States--which represent the bulk of the total--showed an upward movement (see Table II-10).

The fall in remittances from Venezuela originated in the simultaneous weakening of the world's petroleum market and the increase in direct taxes on oil companies. These factors far outweighed the impact of new investments, most of which went into new concessions. Although no complete data are available yet for 1961, it is most likely that the downward trend of remittances has been interrupted in Venezuela, given the non-recurrent nature of the tax increase and the relative stabilization of oil export receipts. In Bolivia, foreign investment has entered the petroleum industry but, until recently, foreign activity in this sector was largely restricted to exploration. At the same time the foreign-owned railroads continued to register losses, owing to the lag of regulated rates behind rising costs.

A second group of countries--Costa Rica, the Dominican Republic, Ecuador, and Honduras--showed some fluctuations, with no strongly one-sided movement, in their remittances during 1957-1960. In all these countries foreign investments are strongly export oriented, and the stagnation in the remittance of profits reflects, by and large, the unsatisfactory performance of the export sector. The experience of this group in 1961 did not show any substantial difference from that of 1960, except in Honduras where a marked recuperation in export value most probably has been accompanied by an increase in transfers of profits abroad.

/Table II-9

Table II-9

GROSS PROFITS, INVESTMENT INCOME, AND REINVESTED PROFITS OF U.S. DIRECT INVESTMENT IN LATIN AMERICA

(Percentages of countable value)

	1958	1959	1960
1. Mining and metallurgy			
a. Rate of gross profit	6.6	11.2	14.2
b. Rate of income	5.6	10.7	15.6
c. Rate of reinvestment	1.0	0.5	-1.4
2. Petroleum			
a. Rate of gross profit	12.6	10.8	12.0
b. Rate of income	12.5	9.9	10.8
c. Rate of reinvestment	0.1	0.9	1.2
3. Industry and manufacturing			
a. Rate of gross profit	5.6	8.4	9.0
b. Rate of income	2.9	3.5	3.9
c. Rate of reinvestment	2.7	4.9	5.1

Source: U. S. Department of Commerce, Survey of Current Business, August 1959, September 1960, August 1961.

Table II-10

LATIN AMERICA: REMITTANCE OF PROFITS AND INTEREST TO THE UNITED STATES

(In millions of dollars)

	1957	1958	1959	1960	1961
Income from direct investment	880	641	600	641	716
Other private remittances	60	67	70	88	104
Public remittances	40	47	72	79	76
Total remittances	980	755	744	808	896

Source: U. S. Department of Commerce, Survey of Current Business, March and June of each year.

/From 1957

From 1957 to 1960 remittances rose almost continuously in Argentina, Brazil, Chile, Mexico, and Peru. In Brazil and Mexico this was to a considerable extent the consequence of large private foreign investments in manufacturing: in particular, automobile production in Brazil and chemicals in Mexico. In Argentina the largest expansion occurred in petroleum, after the 1958 change in the government's policy regarding foreign investment in this sector. In Peru, private foreign investment was concentrated in the extractive industries, principally copper and iron ore; therefore, the size of profit remittances continued to be determined primarily by the value of the export trade. The same may be said for Chile, although there the changes in exchange policy--devaluation and unification of exchange rates--played a special role, raising profit margins of export-oriented foreign concerns, since given amounts of foreign exchange receipts after the devaluation covered a larger proportion of their local costs.

In 1961, however, a substantial decline in remittances took place in Brazil (see Table II-7). Moreover, during the same year legislation was introduced in the Brazilian Congress which--if approved-- would impose tax penalties on such transfers. In the case of Mexico, according to available data, remittances of profits ceased to increase in 1961. This change can be related to the differential taxation which was introduced in January 1961 to stimulate a partial transfer of foreign-owned mining concerns to Mexican ownership.

While the service of private investment constitutes a major proportion of foreign capital claims in Latin America, in some countries obligations for interest on loans have become increasingly important, both on public and on private account. Among them are Argentina, Brazil, and Uruguay, which have received a variety of loans by governmental, international, and private (banking) institutions, partly for stabilization and partly for development purposes. Thus, in 1960 and the first six months of 1961 the United States Export-Import Bank and the International Monetary Fund made available to Argentina a total of US$ 200 million and these institutions, together with the World Bank, lent Brazil US$ 246 million. Although only data derived

/from the

from the balance of payments of the United States are available, it is clear that, while interest payments rose in 1961, they were still small compared to the remittance of profits (see Table II-10).

2. Tourism and Other Nonfinancial Services

Only seven Latin American countries--Costa Rica, Cuba, Guatemala, Haiti, Mexico, Panama, and Uruguay--are normally net earners of foreign exchange on tourist account. In two of them--Mexico and Uruguay--there was a substantial increase in the net earnings in the period 1957-61. In the case of Mexico this was a continuation of a postwar trend and represents primarily expenditures in areas close to the Mexican-United States border; in the years 1957-61, the balance of the border travel account made up 65 percent of the total travel balance. However, a vigorous road- and hotel-building policy has also increased trips further inland, so that by 1961 tourism accounted for some 35 percent of the total capacity to import. Although tourism is affected by business fluctuations in the United States, it did not experience a net contraction during the recessions of 1958 and 1960 (see Table II-11).

In Uruguay it is not, as in Mexico, United States tourism that creates a favorable balance but rather intra-Latin American--primarily Argentine--tourism. Although of long standing, the intensity and direction of this flow has tended to vary with the relative price levels and exchange rates in the two countries, as well as with exchange regulations. The steep depreciation of the Uruguayan peso at the time of currency reform in both countries and the greater price rises in Argentina have shifted the balance of advantage toward Uruguay between the beginning of 1957 and April 1961, as shown by the following percentages:

		Argentina	Uruguay
Devaluation of exchange rate	(A)	221	290
Rise in cost of living	(B)	484	301
"Change in tourist cost of living"	(A): (B)	219	104

Political developments account for the decline of tourist expenditures in Cuba, and while the spending abroad of Cuban residents also declined, Cuba's balance on tourist account--positive only since 1956--nevertheless deteriorated sharply. A substantial part of this lost tourist trade seems to have shifted to

/Table II-11

Table II-11

LATIN AMERICA: NET BALANCE ON FOREIGN TOURISM ACCOUNT

(In millions of dollars)

	1957	1958	1959	1960	1961
Argentina	1	-6	-6	-14	...
Bolivia	-1	-1	-1	-1	...
Brazil	-40	-26	-31	-49 b/	...
Chile	9	8	8	20 b/	...
Colombia	-18	-6	-6	-6	...
Costa Rica	1	1	1	2	...
Cuba	26	20	19	...	...
Dominican Republic	-1	-1	-1	-2	...
Ecuador	-1	-	-1	-1	...
El Salvador	-7	-3	-5	-4	...
Guatemala	2	3	3	2	...
Haiti	5	4	5	7	...
Honduras	-1	-	-	-	...
Mexico	305	304	341	373	386
Nicaragua	-4	-5	-5	-3	...
Panama	27	18	18	17	...
Paraguay	-1	-1	-1	-1	...
Peru	-3	-	-	4	...
Uruguay	10	14	22	26	...
Venezuela	-138	-99	-89	-66	...
Total for Latin America	153	208	255	272 c/	...
Latin America excluding Mexico	-152	-96	-86	-101 c/	...

Source: International Monetary Fund, Balance of Payments Yearbook.

a. No data available for 1961 save those relative to Mexico published in the annual report of the Bank of Mexico.

b. Estimate based on overall figures relating to private, nonfinancial services. See Bank of Chile, Boletín, March 1962.

c. Includes estimates for Cuba and Chile.

/the Caribbean

the Caribbean countries, Mexico and, to some extent, Central America. In fact, Latin America's net balance on travel account with the United States between 1960 and 1961 continued at the same level, approximately US$ 480 million per year.

In spite of their great tourist potential, most South American countries normally have a negative tourist account balance. In Venezuela's case, the deteriorating economic conditions diminished this outflow substantially during the last four years, but it has tended to grow in Argentina where exchange depreciation did not keep up with the rise in the cost of living and in Brazil where the size of the outflow showed substantial fluctuations. In Chile, an increase in tourist expenditures abroad by national residents during 1961 appears to have been one of the factors responsible for the foreign exchange crisis which occurred at the end of the year and which made it necessary to devalue the Chilean peso.

On the other hand, although the tourist expenditures of United States' residents in South America rose from $29 to $45 million between 1956 and 1960, this still represents less than one percent of commodity exports from the same countries. Of all tourist expenditures by United States' residents only 2.6 percent was spent in South America during the period, while Western Europe's share rose from 36 to 39 percent between 1957 and 1960.

There was no physical bottleneck impeding the expansion of this flow: airlines servicing the main routes between the United States and Latin America have in fact developed substantial excess capacity in recent years. However, it seems unlikely that a major contribution to the region's capacity to import--Mexico excepted--can be expected from tourism. There is little reason to foresee a substantial reduction in the outflow of tourists from Latin America, unless exchange and fiscal policies change drastically. And even if this should happen it is more probable that the character rather than the volume of this flow will change. It seems quite likely, for instance, that as the development process accelerates, a vast increase in travel by Latin American students for training at foreign centers will take place. And although a substantial part of the additional expenditure thus incurred may not diminish the capacity to import because it may be financed directly from abroad, another portion may constitute a burden on exchange availabilities.

/While nonfinancial

While nonfinancial services other than tourism usually yield a surplus for Latin America as a whole, this account consists of a variety of quite heterogeneous items, and its behavior also varies greatly according to the country (see Table II-12). For Mexico a major component is the remittance of earnings of migrant agricultural laborers, who find seasonal employment in the United States. Between 1960 and 1961, there was a slight decline in these remittances because of the reduction in the number of Mexican workers contracted by United States entrepreneurs.[9] In Panama, government and private services supplied in the Canal Zone are the source of a substantial credit item. In Argentina and Colombia substantial earnings from the merchant marine are included.

The large negative balance for Venezuela is accounted for mainly by payments of oil companies for special technical services supplied by foreign firms or technicians. The amount of these services was smaller in the period 1959-61 than in 1957-58, mostly because of the lower rate of investment in the petroleum sector. The considerable Brazilian deficit, on the other hand, is at least partly the consequence of a different statistical classification, since it includes part of the commissions paid for imports, which in other countries are usually charged directly to imports valued on a CIF basis. Another reason is the Brazilian payment for film rentals of some US$10 million annually; this contrasts with Mexico, which obtains a substantial net inflow on this account, and with Argentina, which also has a sizeable film export industry. The rapid industrial development achieved by Brazil in recent years has also substantially increased its obligations for patents and licenses payable to foreign firms, as well as payments for specialized services, such as consulting engineers.

Many Latin American countries have developed--generally with government help--merchant marines, some of which are substantial earners of foreign exchange (see Table II-13). For the most part, they receive special treatment in the awarding of government contracts and are further aided through regulations regarding the minimum proportion of exports that have to be transported by them. Nevertheless, their economic performance has in some cases suffered from their inability to attract the necessary venture capital or the subsidies needed to replace or renovate older vessels.

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9. See Banco de México S.A., Informe Anual 1961.

/Table II-12

Table II-12

LATIN AMERICA: SERVICES, EXCLUDING TOURISM AND REMITTANCES OF PROFITS AND INTEREST[a]

(In millions of dollars)

	1957	1958	1959	1960
Argentina	59	32	60	76
Bolivia	-5	1	-12	-4
Brazil	-48	-48	-94	-141
Chile	30	40	30	21[b]
Colombia	42	35	45	28
Costa Rica	8	7	8	6
Cuba	27	29	20	...
Dominican Republic	8	9	6	3
Ecuador	-9	-8	-11	-15
El Salvador	4	1	1	1
Guatemala	1	3	4	5
Haiti	3	3	5	6
Honduras	3	3	2	4
Mexico	43	44	49	41
Nicaragua	7	10	9	3
Panama	39	42	42	36
Paraguay	1	3	2	2
Peru	13	13	14	13
Uruguay	4	3	3	2
Venezuela	-103	-111	-61	-72
Total for Latin America	129	111	122	25[c]

Source: International Monetary Fund, Balance of Payments Yearbook.

a. The figures given in this table include gross receipts for transport and insurance and the net balances for governmental and other services.

b. Estimate based on over-all figures referring to private nonfinancial services. See Central Bank of Chile, Boletín Mensual, March 1962.

c. Includes estimates for Cuba and Chile.

/In the

In the immediate postwar years, Argentina used a sizable proportion of its accumulated foreign assets to expand and modernize its merchant fleet, but since then the average age of vessels has increased and the competitive position of the industry has declined. Similar experiences were registered in Chile and Brazil. Through favorable regulations, however, the Brazilian government-owned line (Lloyd Brasileiro) has over the last three years considerably increased (from a low of 22 percent in 1958) its share of the trade with Europe. Colombia and Venezuela have built up their merchant marines in more recent years and have as a consequence experienced fairly steady increases in their gross receipts from this item.

Even in the countries where relatively large national merchant fleets exist, the net freight balances continue to be negative. In Colombia, this deficit represented in 1960 no more than 20 percent of the gross freight expenditures, but it reached 63 percent in Argentina and Brazil and almost 78 percent in Chile. In other countries it was still higher. In Mexico, however, the geographic proximity of the United States as a major supplier of imported goods explains relatively lower freight expenditures than for the rest of Latin America.

Table II-13

LATIN AMERICA: GROSS SHIPPING RECEIPTS IN A FEW COUNTRIES

(In millions of dollars)

	1948	1953	1955	1956	1957	1958	1959	1960
Argentina	50[a]	68	73	72[a]	45	33	39	55
Brazil	28[a]	11	14	14	14	9	11	19
Chile	15	20	27	23	19[a]	18[a]	15[a]	19[a]
Colombia	10[a]	13[a]	20	23	24	26	31	34

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Estimates, based on partial data.

III. CAPITAL MOVEMENTS

The net balance of capital movements studied in this section is either added to the value of commodity exports and the net balance of service account or subtracted from them, depending upon whether it is positive or negative, in order to determine total import capacity. It should be pointed out that the present study is not concerned with variations in gold and foreign-exchange reserves and in other compensatory balance-of-payments accounts.[10] Therefore, the difference between total capacity to import, as defined here, and actual imports represents the over-all deficit or surplus in the balance of payments.[11]

1. Private Capital

a. Direct private investments

In 1957, direct private investments in Latin America reached an unusually high level, owing to the extensive petroleum concessions granted in Venezuela (see Table II-14). In subsequent years, these financial transactions failed to register such broad fluctuations on the short term and tended to level off on the medium term. Complete data are not available for the year 1961, but the United States balance of payments indicates a considerable increase in outlay of funds for Latin America under this item (see Table II-15). Furthermore,

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10. Compensatory accounts are defined as financing operations carried out by monetary authorities for the exclusive purpose of equalizing the credits and debits of the balance of payments. Consequently, such accounts exclude current transactions of the public and private sectors and the movements of capital that correspond to a commercial operation or a specific investment. However, they do include movements of the gold and foreign-exchange reserves, drafts of the International Monetary Fund and other balance of payments loans, and accounts receivable for current imports that have not been paid, owing to a lack of foreign exchange. In certain marginal cases, this distinction is not entirely clear, but in general it is fairly valid, in that it separates the obviously "autonomous" foreign transactions from the monetary transactions to which they give rise.

11. The over-all result of the balance of payments and the variations in compensatory accounts are examined in Section IV of this chapter.

/Table II-14

Table II-14

LATIN AMERICA: DIRECT PRIVATE FOREIGN INVESTMENTS

(In millions of dollars)

	1957	1958	1959	1960
Argentina	73a/	120a/	235a/	332a/
Bolivia	6	16	23	21
Brazil	176	129	158	138
Chile	52	50	54	50b/
Colombia	5	1	1	3
Costa Rica	...	...	...	...
Cuba	118	30	76	...
Dominican Republic	-22	21	18	...
Ecuador	6	6	3	6
El Salvador	-	1	-	1
Guatemala	17	14	20	15
Haiti	...	...	...	...
Honduras	...	...	...	...
Mexico	132	100	81	-8
Nicaragua	3	3	1	2
Panama	8	12	13	32
Paraguay	...	...	...	...
Peru	48	49	35	50
Uruguay	...	...	...	...
Venezuela	1005	86	49	-134
(Venezuela, investment in the petroleum industry)	[803]	[69]	[108]	[-90]
Total, countries for which figures are available	1627	638	767	508
Total, with the exception of Venezuela	622	552	718	642

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Includes not only direct investment, but also an undetermined portion of other movements of private capital.

b. Estimate based on figures published by the Central Bank of Chile, Boletín, March 1962.

/partial

partial information on capital received from other countries shows no major change in amounts.[12] It is highly probable that total direct investments made a limited recovery in 1961, following the 1960 decline.

Table II-15

TOTAL NET RECEIPTS, BY REGION, OF U.S. DIRECT PRIVATE INVESTMENT CAPITAL[a]

(In millions of dollars)

	1957	1958	1959	1960	1961
Latin America	1090	325	218	95	203
Western Europe	254	173	484	962	664
World	2058	1094	1372	1694	1601

Source: U.S. Department of Commerce, Survey of Current Business, March and June of each year.

a. Excludes reinvestments.

In most Latin American countries there was during the last five years either a stagnation or a decline in direct investments in primary industries. This trend was probab related in the first place to the general weakness in world commodity markets. Some major mining projects--such as those of El Salvador in Chile and Toquepala in Peru--begun in the early fifties, were completed by the end of the decade, at a time when there was little incentive to undertake new investments of similar magnitude. In some countries where major foreign investment took place in petroleum--Argentina particularly--this was not done primarily with a view toward exports, but rather to replace imports. The considerable decline of direct investment in Venezuela between 1957 and 1958 was primarily a function of the exceptional benchmark years chosen; it also reflected the adverse changes in the world oil market. The decrease in direct investment in Cuba, owing to political events and economic changes, has already been referred to.

12. The differences between the figures shown in Table II-14 and II-15 for Latin America as a whole are due not only to investments from countries other than the United States but also to the fact that Table II-14 includes an unknown amount of reinvested profits.

/While direct

While direct foreign investments in agriculture and mining tended to decline, the same was not true for manufacturing. A number of circumstances combined to make investment in this sector increasingly attractive in recent years. Not the least of these was the stagnation in the export sector and the consequent difficulties on the part of many Latin American countries to supply themselves with imported manufactured goods. Exchange depreciation, raising of tariff barriers and import restrictions to protect the balance of payments thus made domestic manufacturing increasingly profitable. Also, some foreign firms appeared to foresee a considerable growth of the Latin American market for domestically manufactured goods in the next decade, as the Montevideo Treaty enters into force. Finally, many Latin American countries--notably Mexico, Panama, and the Central American republics--have adopted a policy of actively encouraging industry. This is reflected in legislation favorable thereto, which, in some cases, has brought about an inflow of foreign capital.

The outflow of funds from the United States for direct investment in manufacturing in Latin America rose from $67 million in 1958 to 125 million in 1960.[13/] Other growing sources of capital were France, Italy, and the Federal Republic of Germany.[14/] In the main, European investment in Latin American manufacturing went to Argentina and Brazil. The reasons for this, besides those already mentioned, are that these countries together with Mexico, dispose of the broadest economic infrastructure in Latin America; they have the largest internal markets and population groups; and they are traditionally oriented toward Western European countries.

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13. For 1960 the figure for all industries is smaller than that for manufacturing (see Table II-15) because disinvestments of some 60 million dollars took place in the petroleum sector.

14. In 1960 and 1961 this country invested a total of $107 million in Latin America. This figure includes long-term private credit but excludes short-term credit and medium-term supplier credits. See Doc. AG-III MR-A/5, Inter-American Development Bank, Third Meeting of the Board of Governors, Buenos Aires, March 1962, page 21.

/During 1961

During 1961, in Argentina as well as in Brazil, private direct investments continued at a high level. It is estimated that investments made by United States firms in Brazil amounted to $69 million,15/ a figure which represents approximately 35 percent of United States private direct investments in Latin America in the same year. The amount of newly authorized projects continued to increase in Argentina, but declined in Brazil, apparently as a result of situations related to political events.16/

The Mexican Government faced with a rising debt service burden, has been increasingly concerned with creating a more even balance between foreign and domestic ownership of home enterprises. Moreover, the repurchase of foreign-owned electric companies seems to have been a major factor of the net disinvestment which took place in 1960. Nevertheless, during 1961 there was an increase in new direct investments as well as in the reinvestment of profits.17/

In some of the less developed Latin American countries various steps have been taken to stimulate capital inflow. In Bolivia, new legislation was enacted in January 1961, designed to make foreign investment more attractive by establishing tax concessions, guarantees against expropriation and exemption from import duties of some machinery and equipment. In 1961 Uruguay signed a bilateral agreement with the United States--similar to ones which other countries had previously signed--establishing some guarantees against exchange in stability and expropriation, and a law of the same type is under discussion in the Guatemalan Congress. In economies which are still in the first stage of the

15. See the magazine Noticias, No. 39, 1961.

16. According to data supplied by the Bank of London and South America (Fortnightly Review, No. 658, p. 1362, and No. 632, p. 1683) and by the Brazilian Superintendency of Currency and Credit (Boletim, December 1960 and 1961), the figures (in millions of dollars) are as follows:

		1960	1961
Argentina:	Investments authorized for the period January-November	107	123
Brazil:	Investments authorized for the period January-September	242	142

17. See Bank of Mexico, Informe Anual, 1961.

/industrialization

industrialization process, oil refining has recently become an important target for import substitution as well as for foreign investment. In Guatemala, Nicaragua and the Dominican Republic, current projects being carried out in this field amount to $23, $10 and $22 million, respectively. Refineries are also planned or under construction in El Salvador, Panama and Peru.

b. Private portfolio investments and medium- and long-term loans

For Latin America as a whole the net inflow of funds in this category was much smaller in 1959 and 1960 than in the two previous years (see Table II-16). No complete data are available for 1961 but the United States balance of payments indicates that the net flow of long-term capital--other than direct investment--from the United States to Latin America decreased from $254 million in 1960 to $77 million in 1961.18/ This decline exceeded slightly the increase in direct investments from the same country and was much greater than the increase in medium-term credits from Western Germany, which rose from $90 million in 1960 to $121 million in 1961.19/ Thus, the net surplus of Latin America on account of portfolio investments and private loans has shown a downward trend for the whole period 1957-61.

In the fifties, portfolio investment in Latin America gradually regained some of the importance it had had before the depression of the thirties brought about the virtual collapse of this form of investment. At the same time, however, the relative instability of many Latin American currencies made the purchase of foreign securities a device increasingly resorted to by Latin Americans as a profitable hedge against inflation and exchange depreciation. Some of this flight capital was repatriated in the late fifties as, in several countries, antiinflationary stabilization programs appeared to be having some success and as exchange rates seemed to settle down at their new levels. But

18. The figure quoted in Table II-16 for the net inflow of funds from all regions in 1960 is smaller, owing to the fact that the long-term loans to Argentina are not included. See Footnote a to Table II-14.

19. See Document AG III/MR.A/S, Third Meeting of the Board of Governors of the Inter-American Development Bank, page 21.

/Table II-16

Table II-16

LATIN AMERICA: NET BALANCE ON PORTFOLIO INVESTMENT AND PRIVATE LOAN ACCOUNT

(In millions of dollars)

	1957	1958	1959	1960
Argentina	18a/	-58a/	-152a/	22a/
Bolivia	1	-	-	-2
Brazil	132	86	122	-14
Chile	3	7	4	23b/
Colombia	-15	1	7	15
Costa Rica	1	1	8	4
Cuba	4	2	2	...
Dominican Republic	21	12	-33	...
Ecuador	1	-1	-	-1
El Salvador	-2	1	-3	1
Guatemala	2	2	7	-1
Haiti	-4	-2	1	1
Honduras	1	-6	-4	-8
Mexico	-11	5	20	44
Nicaragua	7	1	-2	1
Panama	1	-1	2	-2
Paraguay	1	5	3	7
Peru	36	46	31	-35
Uruguay	...	...	...	...
Venezuela	7	1	-7	3
Total, countries for which figures are available	168	102	6	58

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Does not include long-term loans, which are incorporated in figures for direct investments (see Table II-8).

b. Estimate, based on figures published by the Central Bank of Chile, Boletín, March 1962.

/in 1961,

in 1961, once more, an outflow of funds seems to have taken place, in part attributable to difficulties that were encountered in the further implementation of such programs.

Private medium-term loans also grew in importance during the fifties. On the one hand, exchange availabilities tended to lag behind the demand for imports; and on the other, after the end of the Korean war boom, there was an increase of competition among suppliers in the industrial countries for markets in the rest of the world. Both factors tended to increase the resort to suppliers' medium-term credits for the importation of capital goods.

The lack of growth in the region's capacity to import had, however, produced for some countries acute repayment problems, especially in regard to credits coming due in this and the next few years. To a certain extent this problem has been met by substantial refinancing operations, be it through private foreign banks or through governments. But at the same time, the existence of large external debts has recently contributed to reduce the amount of new loans. At the end of 1961, total indebtedness of Latin America for medium-term credits amounted to approximately 3.5 billion dollars. This figure represents 40 percent of the total capacity to import of the region in the same year.

In Argentina, the large credits obtained in 1955 and the first part of 1956 to consolidate unpaid trade debts began to represent a significant amortization charge in 1958, and have continued to do so. Only in 1960, as the stabilization program began to take effect, did medium-term loans for machinery imports start to rise again, at the same time that increasing confidence produced some repatriation of Argentine capital. Although the influence of such favorable factors weakened in 1961, it seems likely that a positive balance on this account was maintained. Several European banks agreed to extend for two years the repayment date for a $75 million stabilization credit. Also a substantial part of the medium-term credits obtained before 1960 was refinanced. Finally, a 12-year $25-million bond issue was successfully placed on the Zürich market, half of it being for the purpose of retiring internal public debt.

In Brazil, the process was rather the reverse: in the mid-fifties industrial boom conditions and the vast potential of the internal market stimulated the incurring of very substantial debts. But internal inflation and balance-of-payments difficulties later encouraged the expatriation of some Brazilian capital. This, combined with heavy repayments and some slackening of the inflow of new credits, produced in 1960 the first negative balance on this account since 1955. A substantial amount of refinancing was achieved in 1961; and, although most of it came from European governments, the contribution of private capital should not go unnoticed, especially in regard to consolidating pending import obligations.

Colombia, like Argentina and Brazil, suffered from a serious problem presented by the medium-term debt incurred in the fifties. In 1959, a large proportion of it could be refinanced. But in 1961, the pressure of these obligations made itself felt very strongly and at the beginning of 1962 new loans and refinancing operations had to be arranged for a total amount of 151 million dollars.20/

In Mexico, the increase in the credit balance on portfolio and private capital account (other than short term), after 1958, was partly the consequence of the purchase of minority interests in Mexican concerns by foreign capitalists. Also, some Mexican capital which in 1958 and 1959 had been put into United States securities for fear of a possible devaluation returned to Mexico in 1960, as a more restrictive monetary and fiscal policy made an exchange depreciation increasingly unlikely. Furthermore, in Mexico, as in Peru, there was an increase in the use of medium-term credits by importers. In 1961, however, the repayments of previous debts in Mexico were larger than in 1960 and, as a result, the net inflow of foreign exchange under the item of foreign long- and medium-term credits declined.21/

Similarly, the amortization payments in Chile over the past two years prevented the positive balance on this account from increasing in spite of the upward trend recorded by the medium-term loans. The Dominican Republic experienced considerable difficulties in 1959 when it had to repay a substantial portion

20. See Bank of London and South America, Fortnightly Review, March 24, 1962, page 265.

21. See Bank of Mexico, Informe Anual, 1961.

/of the medium-

of the medium-term loans granted earlier by two Canadian banks to finance the acquisition of the Rio Hainas sugar industry. In Venezuela, finally, substantial capital flight took place in 1959 and 1960. Since then, especially in 1961, there has been increasing pressure on importers to obtain medium-term credits, as the Central Bank began to limit the amount of exchange available for immediate delivery.

c. Short-Term Private Capital

Of all the Latin American countries, Venezuela has been the one most strongly affected by short-term private capital movements[22] in recent years. Partly due to a wave of speculation against the bolivar, a large net outflow of such capital took place in 1959 and 1960. It represented in these two years not less than 25 percent and 30 percent, respectively, of the final amount of the total capacity to import. In 1961, stringent monetary measures coupled with a fluctuating free exchange rate for financial transactions reduced greatly the outflow of short-term private capital from Venezuela.

Substantial capital flight also took place from Cuba and Haiti and, during 1961, from the Dominican Republic. In the case of Cuba, this shows up in the balance of payments in 1957 and 1958; but in 1959 a reverse movement was registered owing to a reduction of Cuban bank deposits abroad. Since, however, no data exist on the sizeable amount of foreign bank notes in Cuba and since, furthermore, the errors-and-omissions item was negative, it is quite possible that these items hide a continued short-term capital outflow for 1960.

In Brazil these movements, although growing, have been of a much smaller relative importance for the total capacity to import than in the countries previously

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22. Of all the items on a balance of payments this may be the one least exactly measured and, therefore, least susceptible to accurate analysis. Since it includes both speculative capital movements and short-term trade credits, it often lends itself to misreporting. A case in point is Venezuela, for which the official balance of payment data show for 1959 a small positive balance for this item--and quite small deficit in 1960--in spite of clear evidence for a very substantial flight from the bolivar (see Table II-17). At the same time the "net errors and omissions" item on the balance of payments was -476 and -518 million dollars for these years, accounted for, largely, by unregistered capital movements. Not all of these were private, however. They also include the repayment of treasury acceptances which the Venezuelan Government had placed abroad in 1956 and 1957.

/mentioned

mentioned. In recent years, however, Brazilian short-term trade credits reached a very substantial amount, yielding a net inflow of short-term capital in 1957, 1958, and 1960. Although recourse to such credits can, up to a point, overcome, or compensate for, insufficiencies in the capacity to import, the interest charge on them--often quite high--represents a very real burden on the economy.

In Argentina, Chile, and Mexico, on the other hand, speculative capital was more important, relative to import credits, than in Brazil, although these credits in the case of Mexico, seem to have fluctuated considerably. In Chile, the measured taken in 1959 in connection with the stabilization program, and the permission granted commercial banks to accept foreign currency deposits, occasioned an inflow of short-term foreign capital and some repatriation of previously exported domestic capital, especially as these deposits earned 7 to 8 percent interest. Nevertheless, a reverse trend took place in 1961 when a large part of such funds were withdrawn from the country at the same time that the trade balance deteriorated. These events led to a foreign-exchange crisis at the end of the year, making it necessary to devalue the exchange rate used for financial transactions.

In Argentina the large deficit which this account registered in 1958 (see Table II-17) seems to have been caused primarily by the attempt of importers to pre-pay their purchases as much as possible, at the same time that payments for exports lagged in anticipation of a probable devaluation of the currency. This materialized in early 1959 and the consequent reversal of trade leads and lags produced a surplus in that year. A new deficit occurred in 1960 but not of a size that indicated a very active speculation against the peso. During 1961, the Central Bank intervened in the foreign currency market in order to prevent any substantial and permanent change in the rate of exchange.

/Table II-17

Table II-17

LATIN AMERICA: MOVEMENTS OF SHORT-TERM CAPITAL[a]

(In millions of dollars)

	1957	1958	1959	1960
Argentina	6	-74	14	-30
Bolivia	3	-2	1	-
Brazil	30	20	-47	67
Chile	-6	-14	16	10[b]
Colombia	-74	-46	42	27
Costa Rica	2	-1	-1	4
Cuba	-17	-36	29	
Dominican Republic	12	-	7	11
Ecuador	-4	-2	...	...
El Salvador	-	5	-3	6
Guatemala	-1	2	-	7
Haiti	-11	-2	-9	-11
Honduras	...	...	...	...
Mexico	22	-19	-14	45
Nicaragua	4	-1	3	5
Panama	-	-	-3	-1
Paraguay	-4	2	-4	1
Peru	16	8	-11	-4
Uruguay	23	10	-9	37
Venezuela[c]	-6	-59	7	-34
Total, countries for which figures are available	-5	-209	18	140

Source: International Monetary Fund, Balance of Payments Yearbook.

a. Includes movements of short-term private capital and those relating to the banking system, but does not include movements of compensatory capital

b. Estimate based on data published by the Central Bank of Chile, Boletín, March 1962.

c. Official figures for Venezuela exclude a large amount of movements of unregistered capital. See note 22 of this chapter.

/2. Public Loans

2. Public Loans and Grants

a. Loans Authorized by Source

During the 1957-1961 period, aid received by the great majority of the Latin American countries on a bilateral basis from foreign governments continued to exceed that received as a form of multilateral cooperation. Among the various programs of governmental assistance, those of the United States have been preeminent. Net disbursements of foreign exchange and commodities in the form of United States Government loans exceeded such assistance from international institutions by almost 200 percent. The largest loans were those of the Export-Import Bank, which amounted to $312 million, and those granted under Public Law 480, which totalled $226 million. Of the loans authorized by international agencies, those of the International Bank for Reconstruction and Development were the largest, totalling $189 million (see Table II-18).

In recent years, new international financial institutions have been established: the Inter-American Development Bank (IDB), the Agency for International Development (AID), and the International Finance Corporation (IFC). They have already granted a substantial number of loans to Latin American countries. This fact is very important, first, because it indicates that the effective flow of public capital will increase in the near future. Indeed, this actually took place in some Latin American countries during 1961. Second, it should be stressed that the funds available to these new agencies were not created by a reallocation of already existing resources, but are an addition thereto. Finally, it should be particularly emphasized that the structure of international cooperation has been modified in order to cope with the great variety of situations presenting themselves. Indeed, the need for financial resources covers a wide range of very diverse economic and social activities, to which the various countries assign widely differing priorities. As will be seen later, these recently established financial institutions seek to complement the work of the older organizations, avoiding duplication of effort as much as possible. This will undoubtedly result in increased efficiency.

/Table II-18

Table II-18

LATIN AMERICA: AUTHORIZED PUBLIC LOANS AND NET EXCHANGE RECEIPTS FROM CAPITAL AND PUBLIC GRANTS 1957-June 30, 1961a/

(In millions of dollars)

	U.S Government loans					International agency loans				Total	Other public capital	General total	U.S. Gov't. grants f/
	Eximbank	Development Loan Fund	P.L. 480b/ (Title I)	Other	Total	IBRD	IFC	IDB	AID				
1. World: total acumulated authorizations	1800.0	1982.4	1923.8	235.0	5941.2	2692.2	44.4	—	110.0	2846.6	—	—	—
2. Latin America: total accumulated authorizationsc/	783.6 e/	227.8	194.9	133.1	1339.4	545.0	28.3	91.8	48.0	611.1	—	—	—
3. Total accumulated net disbursements to Latin Americac/	320.9 e/	45.1	225.9	34.9	626.8	189.0	27.0	—	—	216.0	...	...	474.3
4. Annual net exchange receiptsd/													
1957	5.7	—	45.9	5.7	57.3	63.0	0.6	—	—	63.6	-187.9	-67.0	104.5
1958	224.0	0.3	28.1	10.6	263.0	40.9	4.9	—	—	45.8	-79.8	229.0	108.4
1959	55.8	19.8	46.0	6.3	127.9	33.1	6.6	—	—	39.7	-193.6	-26.0	98.7
1960	5.2	12.2	37.0	11.2	65.6	28.7	12.4	—	—	41.1	...	...	95.4
1960 (first half)	3.0	8.1	9.8	1.8	22.7	15.8	8.2	—	—	24.0	...	...	49.8
1961 (first half)	30.2	12.8	68.9	1.1	113.0	23.3	2.5	—	—	25.8	...	...	67.3

Sources: Eximbank and International Finance Corporation (IFC) - annual reports; International Bank for Reconstruction and Development (IBRD) - International Monetary Fund, International Financial Statistics; Development Loan Fund, Public Law 480, other credits and grants - U.S. Departament of Commerce, Foreign Grants and Credits by the U.S. Government; Inter-American Development Bank, Agency for International Development - press releases; other public capital - International Monetary Fund, Balance of Payments Yearbook.

a. Excludes transfers of a military nature.
b. Loans on farm surpluses, under P.L. 480.
c. January 1957 to June 1961.
d. Commodity receipts taken into account for loans under P.L. 480.
e. The special loans of compensatory character by Eximbank are not included in this Table (see note 23, page 186). The total of such loans to Latin America during the period January 1957 - June 1961 was some 760 million dollars authorized, of total authorizations to all countries of 1540 million dollars. Disbursements to Latin America amounted to 340 million dollars from current authorizations plus 180 millio dollars in the consolidation of credits granted in previous years.
f. The Development Loan Fund and the International Finance Corporation were incorporated in the Agency for International Development

/i) The United

i) The United States

Development loans authorized by the Export-Import Bank to Latin American countries[23] comprised 40 percent of its international operations and over 60 percent of the United States' program of financial assistance to the area in question. With the exception of Venezuela, the countries having the largest population and total income--Argentina, Brazil, Mexico--have obtained the largest loans from the Bank. In the case of Argentina, this fact contrasts with the tendency noted during the first postwar decade. The relatively large loans granted to Chile include special financial assistance for reconstruction of the areas devastated by the 1960 earthquake. The principal beneficiaries of the Export-Import Bank's loan policies were those basic economic sectors--transportation and electric power production--in which the lack of capital is seriously felt (see Table II-19). Furthermore, the Bank decided to help finance Argentina's iron and steel industry.

As its institutional characteristics and its *modus operandi* show,[24] the Development Loan Fund of the United States Government is specifically designed to meet the needs of economically underdeveloped countries. Amortization at long term, sometimes as long as forty years, and low interest rates (maximum: 3.5 percent per annum) are typical of the Fund's loans. Since its establishment in 1958, the worldwide operations of the Development Loan Fund have grown rapidly. By the end of December 1961 the total of the Fund's loans was slightly larger than the total of the loans made by the Export-Import Bank during the January 1957-June 1961 period. In contrast with the Bank's operations, the total credit granted to Latin American countries by the Development Loan Fund is rather small when compared with credit supplied to other areas of the world (see Table II-18). Principal beneficiaries of loans include Argentina, Chile, Ecuador, Paraguay and Peru. On the other hand, Cuba, the Dominican Republic, El Salvador, and Mexico have not yet received any financial assistance whatsoever. During the 1958-1960 period, the Fund's aid programs were concentrated on financing highways, ports, and electric power plants.

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23. In addition to loans granted for financing imports related to specific programs designed to develop given sectors of the economy, the Bank has granted special medium-term loans to certain Latin American countries to cover their balance of payments deficits. These special loans will be considered in relation to the analysis of compensatory accounts in Section IV of this chapter.

24. Loans granted by the Fund may be repaid in local currency.

/Table II-19

Table II-19

LATIN AMERICA: LOAN AUTHORIZATIONS FROM THE UNITED STATES EXPORT-IMPORT BANK AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, BY COUNTRIES AND SECTORS a/

	Export-Import Bank						International Bank for Reconstruction and Development					
	Agri-culture	Trans-portation	Electric Power	Industry	Others	Total	Agri-culture	Trans-portation	Electric Power	Industry	Others	Total
rgentina	0.76	49.96	13.07	87.96	27.29	179.04	--	48.50	--	--	--	48.50
razil	3.07	82.55	13.99	12.34	16.96	128.91	--	--	98.00	--	--	98.00
hile	0.10	20.00	42.00	7.89	42.26	112.25	--	6.00	32.50	21.80	--	60.30
olombia	0.29	8.23	0.37	9.44	4.45	22.78	--	5.40	84.20	--	--	89.60
osta Rica	0.33	3.00	--	--	0.83	4.16	3.50	--	8.80	2.00	--	14.30
uba	--	--	0.32	0.01	16.32	16.65	--	--	--	--	--	--
cuador	0.18	2.16	0.10	0.43	0.28	3.15	--	15.10	5.00	--	13.00	33.10
l Salvador	--	4.10	--	--	0.03	4.13	--	5.50	6.84	--	--	12.34
uatemala	0.09	10.50	--	0.18	4.89	15.66	--	--	--	--	--	--
onduras	1.07	2.12	--	1.00	--	4.19	--	5.50	10.25	--	--	15.75
exico	5.63	82.88	23.02	44.29	0.26	156.08	15.00	25.00	45.00	--	--	85.00
icaragua	8.02	2.00	0.47	0.36	1.31	12.16	--	--	12.50	--	--	12.50
anama	--	13.10	--	0.06	0.01	13.17	--	7.20	--	--	--	7.20
araguay	--	--	--	1.00	--	1.00	--	--.20	--	--	--	--
eru	5.49	20.00	--	15.98	4.49	45.96	10.00	20.50	24.00	--	6.58	61.08
ruguay	--	2.71	--	0.58	0.11	3.40	7.00	--	--	--	--	7.00
enezuela	0.78	0.88	16.27	8.58	9.44	35.95	--	--	--	--	--	--
ndividuals	--	--	25.00	--	--	25.00	--	--	--	--	--	--
Total	25.81	304.19	134.61	190.10	128.93	783.64	35.50	138.70	327.09	23.80	19.58	544.67

Sources: Export-Import Bank, Report to the Congress, Washington, June 1961; International Bank for Reconstruction and Development, nual Report.

a. Cumulative total for the period January 1957 to June 30, 1961.

The United States Government possesses a legal instrument which both expedites sales of agricultural surpluses and permits of assistance to importing countries by saving them foreign exchange and helping them to finance investment costs in national currency. Under Public Law 480, part of the price of exported surpluses may be paid in the currency of the purchasing country. This portion of the price may be quite large. Furthermore, this sum may be lent to the government in question for a term of as many as thirty years. Naturally, agricultural surpluses have been sold principally in those Latin American countries which import large quantities of foodstuffs. Sales to Brazil, Chile, and Colombia alone have constituted 65 percent of total sales to Latin America. During the 1957-1961 period, total sales authorized under this program amounted to about $ million, which was approximately the same amount as that lent by the Development Loan Fund. Furthermore, other, smaller public loans have been granted to Latin American countries for the purchase of merchant ships and nonagricultural surpluses of United States products.

Finally, the United States Government has made large grants of foreign exchange and goods and services to certain Latin American countries, particularly Bolivia, Brazil, Chile, and Guatemala (see Tables II-18 and II-20). Such grants have presupposed a temporary unilateral transfer of resources, with the specific objective of relieving particularly serious economic difficulties.25/

ii) Western Europe

Although complete and homogeneous statistics regarding direct development loans granted by European governments to Latin American countries are not available, it may be stated that the total amount of such loans is very small. In reality, financial assistance from France and the United Kingdom for the long-range growth of underdeveloped regions has been limited almost entirely to countri within their respective monetary areas. 26/

25. For further details, see part b of this section.

26. For more detailed information on financial contributions of Western European countries and Japan to less highly developed areas, see The Flow of Financial Resources to Countries in Course of Economic Development (Organization for Economic Cooperation and Development, Paris, April 1961 and February 1962). See also documents AG-III/MR-A/5, AG-III/MR-A/2, and AG-III/MR-A/3 of the Third Meeting of the Board of Governors of the Inter-American Development Bank, Buenos Aires, March 1962.

/Table II-20

Table II-20

LATIN AMERICA: NET PUBLIC CAPITAL RECEIPTS BY COUNTRIES, CUMULATIVE TOTALS 1957-1961

(In millions of dollars)

	U.S. Government					International agencies			Other public capital	U.S. Gov't. grants
	Eximbank[a]	Devel. Loan Fund[a]	Public Law 480[a]	Other credits[a]	Subtotal[a]	IBRD[a]	IFC[a]	Subtotal		
Argentina	134.1	24.0	8.2	--	166.3	--	--	--	--[b]	1.8
Bolivia	-0.5	2.6	--	--	2.1	--	--	--	-29.0[b]	96.3
Brazil	7.8	0.2	105.3	-0.4	112.9	21.1	10.1	31.2	-238.0[b]	40.7
Chile	13.5	--	27.7	10.5	51.7	26.4	5.8	32.2	-22.0[c]	55.3
Colombia	-63.0	--	24.5	--	-38.5	23.0	1.9	24.9	-110.0[c]	23.5
Costa Rica	5.1	0.3	--	0.7	6.1	4.8	--	4.8	...	27.7
Cuba	11.9	--	--	--	11.9	--	--	--	-131.0[c]	2.3
Dominican Republic	--	--	--	--	--	--	--	--	...	0.9
Ecuador	-6.9	5.5	5.6	3.0	7.2	25.6	--	25.6	...	12.8
El Salvador	0.2	--	--	--	0.2	5.9	0.1	6.0	...	5.1
Guatemala	-1.3	0.4	--	3.2	2.3	8.3	0.2	8.5	...	69.3
Haiti	0.4	2.2	--	--	2.6	2.2	--	2.2	...	36.4
Honduras	2.4	2.2	--	3.5	8.1	6.7	--	6.7	...	13.5
Mexico	113.2	--	14.8	--	128.0	31.6	1.4	33.0	310.0[b]	6.6
Nicaragua	6.2	0.5	--	--	6.7	5.6	--	5.6	...	16.4
Panama	5.3	--	--	6.2	11.5	-1.5	--	-1.5	17.0[c]	23.1
Paraguay	8.9	4.7	2.1	0.7	16.4	-0.9	--	-0.9	-2.0[b]	10.7
Peru	83.2	--	14.3	7.5	105.0	12.3	4.4	16.7	...	29.5
Uruguay	-4.0	2.5	23.4	--	21.9	17.9	--	17.9	...	1.2
Venezuela	4.4	--	--	--	4.4	--	3.0	3.0	196.0[b]	0.6
Total for Latin America	320.9	45.1	225.9	34.9	626.8	189.0	26.9	215.9	...	474.3

Sources: Annual reports of the Eximbank and IBRD; U.S. Department of Commerce, Foreign Grants and Credits by the U.S. Government; International Monetary Fund, International Financial Statistics and Balance of Payments Yearbook.

a. As of June 30, 1961.
b. As of December 31, 1960.
c. As of December 31, 1959.

During the 1956-1959 period, the government of the United Kingdom granted development loans in the amount of $11 million to Argentina and $9 million to Colombia. The French Government made a special long-term loan to Chile for reconstruction of the areas devastated by the 1960 earthquake. Italy, The Netherlands and the Federal Republic of Germany have allocated a large part of their respective development loans to African and Asian countries, some of which are associated with the European Economic Community. During the 1956-1959 period, Argentina received $21 million in loans from The Netherlands. International loans granted by the government of the Federal Republic of Germany increased sharply in 1960 and 1961, totaling $1,453 million. While Latin American countries received approximately 6.5 percent of this amount, African, Asian and European countries received 23, 54, and 16.5 percent, respectively.

Some Latin American countries, however, received additional indirect aid from Western European governments in the form of supports for expansion of medium-term private loans for imports of capital goods,[27] while some European banks granted them stabilization loans. European governments have guaranteed such loans against possible insolvency of the borrowing countries and have provided considerable rediscount facilities in their central banks or in government financial agencies. This cooperation on the part of the governments has been important, as evidenced by the fact that toward the end of 1961 Latin American indebtedness to Western Europe for medium-term private loans amounted to approximately $1,500 million.[28] In view of the growing competitive advantages that these policies gave to European exporters, toward the end of 1961 and during the early part of 1962 the United States Government decided to provide this type of assistance to U.S. exporters.

In 1961 loans were consolidated and refinanced with the help of Western European governments. Argentina negotiated with the "Paris Club" countries an extension of the repayment period for commercial debts amounting to $270 million. Brazil received a $92 million consolidation loan from the Federal Republic of Germany, and an offer of a long-term, low-interest loan of $50 million for

27. So-called suppliers' loans.
28. See Document AG-III/MR-A/2 of the previously mentioned meeting of the Inter-American Development Bank.

/development

development projects. Belgium, France, Italy, Sweden, Switzerland, and the United Kingdom agreed to refinance Brazil's due obligations, which totalled nearly $300 million, or 30 percent of its import capacity.

Finally, the recent establishment of the Organization for Economic Cooperation and Development provides a new institutional and operational framework for closer collaboration among Japan, the United States, and Western Europe in their financial and technical contributions to the economic growth of Latin America.

iii) International Agencies

In order of importance, the financial assistance to Latin America provided by international agencies is second to the bilateral assistance of the United States and larger than the aid given by Western Europe. During the past five years most of it has been supplied by the International Bank for Reconstruction and Development (IBRD). After having used all the capital contributed by its member states, the Bank placed bond issues on the private financial markets of the industrialized countries in order to obtain the resources required for increasing the volume of its operations in underdeveloped areas. For this reason the minimum interest rate on its loans has been 5 percent per annum.

During the past five years new IBRD loans to Latin America have constituted approximately 20 percent of world total. Their allocation among the various countries has been less geared to the comparative magnitude of the respective national economies than those of the United States Export-Import Bank (see Table II-19). In reality, the objective of IBRD assistance has been to correct certain clearly defined capital deficiencies in the basic economic infrastructure rather than to remedy a general insufficiency of financial resources or to aid directly in the development of the respective agricultural and industrial superstructures. Nearly 85 percent of its new loans to Latin America will benefit transportation and electric power production (see Table II-19).

On the other hand, the activities of the International Finance Corporation (IFC) seem directed principally toward complementary financing of investment costs of private enterprises in the manufacturing industries. This agency, which is a subsidiary of IBRD, has considerably smaller resources than the latter and does not require government guarantees for its loans. From

/initiation

initiation of its operation in the early months of 1957 to June 1961, the most important IFC loan made in Latin America was one of $10 million granted to Brazil, where private enterprise has been particularly active in the field of industry during the past five years.

The Agency for International Development (AID) is another financial institution of recent creation. It was organized in September 1960 by the member countries of IBRD with the aim of lending financial assistance to countries which cannot attain a satisfactory rate of economic growth under conventional systems of external financing. By the end of August 1961, fifty-one countries had subscribed the equivalent of $906 million in capital for AID, but paid-up capital in convertible currency totaled only $178 million.

By the end of the year, five Latin American countries had received total loans of $59 million. This sum represented approximately 45 percent of total credits authorized by the agency. Loans were made to Chile, Colombia, Costa Rica, Honduras, and Paraguay solely for highway construction. Repayment terms are extremely liberal, as a term of 50 years was established. These loans bear no interest. Administration costs of AID are covered by a charge of 0.75 percent on the total authorized credit.

The Inter-American Development Bank (IDB) began its operations in October 1960. Their rapid expansion was the outstanding event of 1961 in the field of international economic cooperation in Latin America. Initially, the Bank's lending capacity depended exclusively on paid-up contributions of capital from the member states. In August 1961, however, its resources were considerably increased by the transfer in trust of $394 million from the Social Progress Trust Fund of the Alliance for Progress program. By the end of 1961, only one year after the start of activities, the amount of loans that the IDB had granted totaled $293 million.

Furthermore, the IDB loans have characteristics rarely found in the past which constitute a new tendency in the policies governing public international loans. Thus, for example, while the International Bank for Reconstruction and Development granted 10 rather large loans to 7 Latin American countries in 1961, the IDB made 73 loans to 18 countries, generally to finance projects of more limited scope. Moreover, it should be mentioned that the variety of economic and social fields covered by IDB loans has been relatively wide.

/The principal

The principal objective of the early IDB loans was to contribute to the solution of economic and social problems in areas of relatively least development. By the end of 1961, loans amounting to $130 million had been authorized out of regular funds. These loans, which have benefited 15 Latin American countries, are generally characterized by very long terms and bear 5.75 percent annual interest.

The conditions governing loans from the Special Fund of the IDB are more advantageous to the borrowing country than is the case with those financed with regular IDB funds, from the standpoint of interest rate and the fact that repayment may be in local currency. Up to the present, ten countries have received this type of loan for a total of $48 million. It should be mentioned that Bolivia received financial assistance for implementation of an overall program for development of industry and agriculture. Another operation that is very important because of its nature and objectives is that which has been undertaken with Brazil to assist the relatively underdeveloped areas of the northeastern part of that country.

Operations of the Social Progress Trust Fund were initiated in August 1961. By the end of the year 9 countries had received a total of $115 million. Loans from the Fund bear annual interest of only 2.75 percent. In certain cases, amortization payments may be made in the currency of the borrowing country. Up to the present, loans have been granted principally for financing construction of low-cost housing units and the improvement of public health services and drinking-water facilities.

b) Net Foreign-exchange Income from Public Loans and Grants

In 1961, authorized public loans to Latin America increased, principally owing to the operations of the IDB. However, this did not bring about an immediate and full-scale flow of foreign exchange to the area. It may be some time before the actual disbursement of foreign exchange represented by loans is begun or completed, particularly when the lending institution requires fulfillment of very strict economic conditions regarding the project to be financed. Thus, for

/example, up

example, up to December 31, 1961, the IBRD had not yet transferred any funds to Argentina out of the $49 million loan granted on June 30 of that year.[29]

On the other hand, disbursement of public loans constitute gross foreign-exchange income which is offset to greater or lesser degree by amortization payments on existing official debts. During the 1957-1961 period, the amount of amortizations on government obligations was very large, particularly in the cases of Brazil and Colombia, which had contracted considerable medium-term obligations during the five year period 1952-1956. Most of those obligations involved repayment of public compensatory loans granted to them in order to ease their foreign-payments problems.[30] In addition to the obligations incurred with the Export-Import Bank, Brazil and Colombia have had to amortize several foreign loans guaranteed or rediscounted by government-controled banks of the United States and Western Europe (see Table II-20). The principal transfers of public funds to Brazil and Colombia have been made within the framework of transactions involving United States agricultural surpluses, which do not represent an increase in foreign-exchange obligations.

Bolivia also has a deficit on its public loan account. It was caused principally by the resumption of service on several foreign public debts and by transfers of funds to the Reserve Fund of the International Tin Agreement.

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29. See the IBRD report for the fiscal year 1960-1961 and the International Monetary Fund's International Financial Statistics, February 1962, p. 14. These funds and other loans were transferred during the first quarter of 1962.

30. Although disbursement of compensatory loans provides, a posteriori, a temporary remedy for insufficient import capacity, the amortization of such loans produces, a priori, a reduction of that capacity in subsequent years, as it constitutes a current financial obligation of the borrowing country.

/On the other

On the other hand, Mexico and Peru had practically no obligations stemming from compensatory credits, and during this period their net foreign-exchange receipts from public loans was large. IBRD disbursements in Mexico constituted approximately 40 percent of the amount of new loans granted during the 1957-1961 period, while those made to Brazil and Colombia represented 25 percent of such loans. The Mexican Government, however, has also received development loans from several other sources. 31/ Amortization of these loans assumed important proportions only in 1960, increasing somewhat in 1961.

Net foreign-exchange receipts from official loans to Argentina and Venezuela were much smaller, in relation to total foreign-exchange resources received during the 1957-1961 period, than was the case in Mexico and Peru. Furthermore, most of such foreign-exchange receipts came during the last three years of the period. Argentina's stabilization program permitted that country to obtain a considerable number of new public loans, together with an extension of the amortization period of its medium-term compensatory loan obligations or a refinancing thereof. In 1960 the Venezuelan Government obtained a foreign loan in order to cover its budgetary deficit. The considerable size of the loan was in sharp contrast with the very small public loans normally negotiated for that country.

Over the five year period 1957-1961, the respective balances on public capital account owed not only varied greatly from country to country in Latin America but fluctuated sharply from year to year. The most direct causes of instability were the sharp fluctuations in Export-Import Bank disbursements and variations in public loans for consolidation or refinancing of existing obligations (see Table II-18). Net foreign-exchange receipts from the IBRD, which had continually dropped from 1957 through 1960, recovered remarkably in 1961.

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31. Part of these loans was provided by private sources, generally foreign suppliers of Mexican public enterprises. Aside from the fact that they are guaranteed or rediscounted by foreign official agencies, these loans have been allocated to defrayment of public expenditures in Mexico. Therefore, the International Monetary Fund's Balance of Payments Yearbook lists them as movements of puolic capital.

/These receipts

These receipts, however, were not sufficient to exert a decisive influence on the overall balance on public capital account. The same is true of Public Law 480 funds provided by the United States. For their part, capital receipts from government and international-agency sources of much less sizable importance have tended to increase. For example, actual foreign-exchange disbursements by the government of the Federal Republic of Germany in the form of loans to Latin America increased from $23 million in 1960 to $31 million in 1961.

In 1957, gross transfers of capital to Latin America by the Export-Import Bank amounted to $120 million while in 1958 they totalled $371 million. During the next two years, however, disbursements decreased, although remaining appreciably higher than the 1957 level. In contrast to the variations in the Bank's disbursements, amortizations of Latin American obligations to that institution gradually increased. This was particularly true of amortizations of compensatory loans, which represented 50 percent of all amortizations in 1960. In 1961, however, the Bank consolidated Brazil's compensatory obligations, which were the largest in Latin America, extending the period for repayment. As moreover, the Bank's gross disbursements increased during that year, Latin American foreign-exchange receipts on this account were much higher than the almost insignificant figure for 1960, although they did not reach the 1958 peak.

The variations in the net balances from financial transactions appearing in Table II-18 under the heading "other public capital" are the result of a combination of many factors and of widely varying situations in the different countries. In Brazil and Colombia, repayments of government obligations to Western Europe and to United States banks (other than the Export-Import Bank) were maintained at a high level throughout the 1957-1961 period. This is also true of Argentina, although that country received very large new loans from Western European countries in 1960 and 1961. In 1958, Cuba also received public loans from United States and European sources and showed a surplus in this part of its balance-of-payments account, in contrast to the marked deficits of 1957 and 1959.

/c) United States Government

c) United States Government Grants

United States Government grants have provided the largest single public source of net foreign-exchange receipts (see Table II-18). From the end of 1956 to July 1961 they constituted 30 percent of the total financial assistance provided by governmental and international financial institutions. The relative importance of these grants as a source of foreign exchange was even greater in Bolivia, Costa Rica, Guatemala and Haiti, which together received 50 percent of all grants made to Latin America. Furthermore, in Bolivia and Haiti assistance in the form of grants of funds and essential commodities have aided decisively in maintaining certain minimal conditions for the normal functioning of the respective national economies.

During the 1957-1961 period, the total amount of public grants to Latin America varied from year to year, but, on the whole, it was relatively stable (see Table II-20). However, allocation among countries has tended to change. For example, public grants to Haiti and to Chile (following the 1960 earthquake that devastated the latter) were larger during the last two years of the period than during 1957-1958. On the other hand, grants to Bolivia and Guatemala were smaller.

/IV. BALANCE OF

IV. BALANCE OF PAYMENTS AND COMPENSATORY FINANCING OPERATIONS

1. Imports, capacity to import, and balance-of-payments position

The balance of payments for Latin America in 1961 showed a deficit for the fifth time in five consecutive years (see Table II-21). Available data indicate a slight growth in CIF commodity imports in line with the rise in capacity to import. However, taking into account possible errors and omissions,[32/] the deficit was somewhat lower than in 1960 and amounted to no more than 5 percent of non compensatory foreign-exchange receipts available for financing purchases abroad. With the exception of 1957, this percentage is the lowest recorded over the last five years.

The limited change in balance-of-payments position for the region as a whole reflected a variety of situations in the different countries. While Brazil, Uruguay, and Venezuela improved their foreign position substantially, Argentina, Chile, Colombia, the Dominican Republic,and Ecuador experienced a sharp drop in the balance on foreign transactions (see Table II-22). The other countries showed no significant change in the deficit or surplus of their balance of payments, which were generally small in scale or limited in scope.

As in 1961, import trends in Latin America during the four preceding years followed the shifts in import capacity (see Table II-21). After having declined in 1958 and 1959, they made a partial recovery in 1960 and 1961. Thus a tendency of the movements of these two variable factors to adapt to one another can be traced throughout the last five years in Latin America as a whole, although this adaptation was not close enough to ensure balance-of-payments equilibrium.

This peculiar trend resulted from a combination of counteracting factors. On the one hand, fluctuations in import demand in certain countries diverged widely from variations in import capacity because of internal inflationary pressures, bottlenecks in national output, or the erratic behavior of short-term capital movements. On the other hand, however, capital-goods imports were largely linked to foreign investments or loans, and government authorities made frequent attempts to circumvent a large balance-of-payments deficit because

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32. See note C to Table II-24.

/Table II-21

Table II-21

LATIN AMERICA: CAPACITY TO IMPORT, IMPORTS, AND BALANCE-OF-PAYMENTS POSITION

(In millions of dollars)

	1957	1958	1959	1960[a]	1961[a]
Latin America					
Capacity to import	9694	8113	7928	8313	8508
CIF commodity imports	9748	8919	8284	8660	8864[b]
Balance-of-payments position [c]	-54	-806	-356	-347	-356
Latin America, with the exclusion of Venezuela					
Capacity to import	7167	6754	6685	7102	7186
CIF commodity imports	7718	7175	6570	7345	7576[b]
Balance-of-payments position [c]	-551	-421	115	-243	-390

Source: For capacity to import, Table II-1; for 1957-1960 imports, International Monetary Fund, Balance of Payments Yearbook; for 1961 imports, see note b.

a. Includes an estimate for Cuba and Chile.

b. Import values for 1961 were obtained by applying to import figures from the 1960 balance of payments the percentages of variation published by the International Monetary Fund in International Financial Statistics, March 1962.

c. In brief, the balance-of-payments position is the difference between import capacity and imports. However, it must be remembered that this balance includes errors and omissions. This explains why it is not the same as the net balance on compensatory accounts presented in Table II-24. In the majority of cases the discrepancy is not sufficient to alter the result of the analysis. However, at times, as mentioned in the text, it is advisable to refer to movements of compensatory accounts in order to obtain a more accurate view of the real balance-of-payments position. The balance-of-payments position, variations in the compensatory accounts, and errors and omissions are presented together in Tables II-24 and II-25.

/Table II-22

Table II-22

LATIN AMERICA: TOTAL CAPACITY TO IMPORT, CIF IMPORTS, AND BALANCE-OF-PAYMENTS POSITION 1957-1961

(In millions of dollars)

	Total capacity to import					CIF imports					Balance-of-payments position				
	1957	1958	1959	1960	1961[b/]	1957	1958	1959	1960	1961[b/]	1957	1958	1959	1960	1961[b/]
Countries whose total capacity to import tended to diminish or remain unchanged															
1. Imports tended to fall off or remain unchanged															
Bolivia	94	85	93	81	91	101	87	74	78	...	-7	-2	+19	+3	...
Brazil	1427	1269	1194	1051	1446	1462	1323	1344	1424	1444	-35	-54	-150	-373	2
Colombia	470	413	524	502	440	522	448	472	524	517	-52	-35	52	-22	-77
Cuba	928	850	717	...	...	898	890	742	...	...	30	-40	-25	...	...
Dominican Republic	139	148	116	98	54	134	150	126	95	73	5	-2	-10	3	-19
El Salvador	123	121	95	102	99	120	111	104	126	112	3	10	-9	-24	-13
Guatemala	162	144	145	151	143	157	160	144	144	136	5	-16	1	7	7
Haiti	30	49	37	47	41	43	45	33	35	32	-13	4	4	12	9
Nicaragua	90	80	79	71	72	84	85	71	72	69	6	-5	8	-1	3
Venezuela	2527	1359	1243	1211	1322	2030	1744	1714	1315	1288	497	-385	-471	-104	34
2. Imports tended to rise															
Costa Rica	99	104	98	103	98	105	102	107	113	110	-6	2	-9	-10	-12
Countries whose total capacity to import tended to increase															
1. Imports tended to fall off or remain unchanged															
Honduras	66	68	72	74	71	80	77	72	74	72	-14	-9	---	---	-1
Mexico	1172	1127	1099	1265	1213	1173	1157	1029	1198	1145	-1	-30	70	67	68
Paraguay	41	45	40	47	51	45	48	41	50	47	-4	-3	-1	-3	4
Uruguay	156	162	117	210	230	259	156	163	233	213	-103	6	-46	-23	17

(Continued)

Table II-22 (Continued)

LATIN AMERICA: TOTAL CAPACITY TO IMPORT, CIF IMPORTS, AND BALANCE-OF-PAYMENTS POSITION 1957-1961

(In millions of dollars)

	Total capacity to import					CIF imports					Balance-of-payments position				
	1957	1958	1959	1960	1961[b]	1957	1958	1959	1960	1961[b]	1957	1958	1959	1960	1961[b]
2. Imports tended to rise															
Argentina	1060	1036	1162	1456[c]	1289	1322	1245	1008	1281[c]	1539	-262	-209	154	175[c]	-250
Chile	425	416	474	504[c]	492	489	441	442	573[c]	597	-64	-25	32	-69[c]	-105
Ecuador	114	114	122	129	116	114	119	113	122	120	---	-5	9	7	-4
Panama	123	133	140	165	186	141	138	157	175	199	-18	-5	-17	-10	-13
Peru	448	390	361	425	524	469	393	328	390	526	-21	-3	33	35	-2
Latin America: total	9694	8113	7928	8313[d]	8508[d]	9748	8919	8284	8660[d]	8864[d]	-54	-806	-356	-347[d]	-356[d]
Latin America with the exclusion of Venezuela	7167	6754	6685	7102[d]	7186[d]	7718	7175	6570	7345[d]	7576[d]	-551	-421	115	-243[d]	-390[d]

Sources: For capacity to import, Table II-2; for 1957-1960 imports, International Monetary Fund, Balance of Payments Yearbook, except for Chile and Cuba, the figures for which are estimates; 1961 imports, see note b to Table II-21.

a. See note c to Table II-21.
b. Preliminary estimate.
c. Estimate based on figures of the Central Bank of Chile, Boletín, March 1962.
d. Includes estimates for Bolivia and Cuba.

/they did

they did not have a sufficient amount of international monetary reserves or other compensatory resources available to finance it. In some cases, their policies was actually designed to procure a balance-of-payments surplus, with a view to rebuild such reserves. Although the 1957-61 period revealed a tendency to eliminate direct controls on the import trade, these were replaced by a series of indirect restrictions, for example, the system of prior deposits for imports, exchange devaluation, and, in a number of countries, limitations on the annual growth of total domestic expenditures. Nevertheless, it should be stressed that limitations on the growth of domestic expenditures and, consequently, on the expansion of economic activity, would not have been so urgent from the standpoint of the balance-of-payments position, if conditions in the international market for basic products had permitted a more favorable evolution of capacity to import.

As in the case of capacity to import, the experience of Venezuela, with regard to its balance-of-payments position, presents very special characteristics that should be considered separately for a more accurate evaluation of the significance of figures for Latin America as a whole. Following a substantial surplus in 1957, Venezuela's balance of payments showed a deficit, also substantial, in the three subsequent years, recovering a slightly positive position in 1961. If the figures for Venezuela are not included in the Latin American total, the annual fluctuations in imports and capacity to import continue to run parallel. However, their range and the balance-of-payments positions for the region (see Table II-21) undergo a considerable change, since the foreign deficit in 1961 (with Venezuela excluded from consideration) was greater than in 1960 and in contrast to the small surplus shown in 1959. Furthermore, it amounted to almost 6 percent of total capacity to import.

To a certain extent, the evolution of Venezuela's balance of payments during the 1957-61 period constituted a continuation of, and a counterbalance to, the process in operation during the postwar decade. Whereas in that decade the actual increase in imports had tended to lag behind capacity to import, the decline in imports has failed to adjust promptly to the reduction in capacity. And while the contraction of foreign private investments after 1957 was accompanied by a drop in the importation of related capital goods (see Table II-23), the demand for importation of raw materials, intermediate products, and consumer goods tended to rise until the end of 1959, primarily owing to compensatory

/economy

economy measures adopted by national authorities in the face of the slump in exports. Moreover, total current expenditures were not noticeably affected by the large-scale outflow of national capital, since this was attributable largely to a transfer of existing savings deposits and liquid assets. Beginning in mid-1960, the progressive application of restrictive trade and exchange measures contributed to a reduction in total real imports, which in turn led to a large-scale cutback in the foreign deficit. Commodity purchases abroad continued to decline in 1961, although the pace was far slower than in 1960. At the same time, the capital account improved sufficiently to permit partial recovery of capacity to import. This counted as an additional factor in the slight surplus shown in the Venezuelan balance of payments.

Among the other ten Latin American countries whose capacity to import tended to decrease or to remain unchanged, real imports increased only in Costa Rica (see Table II-22). Consequently, that country's balance of payments for the last three years showed a deficit that represented in 1961 12 percent of its capacity to import. In contrast, Bolivia's imports tended to drop even lower than capacity to import and the resulting improvement in the foreign position can be partially explained by the government's domestic policy. The experience of the Dominican Republic is a singular one. In 1960, and particularly in the first half of 1961, a strongly positive balance of payments was achieved deliberately and systematically, through internal deflation and import control, with a view to increasing the foreign-exchange assets held by the government. But since a very high percentage of these assets was later transferred abroad, the 1961 balance of payments registered a sizable deficit.

Colombia, which had enjoyed relative equilibrium in its balance-of-payments position for the postwar decade as a whole, showed a substantial deficit in 1956 in its foreign accounts, due to the abrupt drop in the value of exports. The subsequent decline in imports made it possible to reduce the deficit in 1957 and 1958 and to show a surplus in 1959. The decline in purchases abroad for the three years considered averaged 35 percent with respect to the 1954-56 period. Although this result could be attained only by increased state intervention in foreign trade operations, the restrictive action of the Colombian authorities was facilitated by the fact that total imports had formerly included a high percentage of products that, like durable consumer goods and capital

/goods were

goods were not essential to maintenance of current economic activities. Furthermore at the end of 1956, Colombia had large stocks of raw materials and intermediate products on hand.[33] In the course of time, the posibilities of reducing real imports were progressively exhausted and the need for supplies of foreign products increased once again in 1960. In addition, in 1961, farm output for domestic consumption dropped off at the very time that total demand was growing as a result of the much less restrictive approach taken in internal economic policy. During the past two years, imports recovered their 1957 level, despite a sustained decrease in import capacity. This led to a growing deficit in the balance of payments.

While Brazil's capacity to import — as in the case of Colombia — was very unfavorably affected by the crisis in the coffee market, its imports declined only in 1958 and then rose again. For the 1957-60 period as a whole, the annual average value of Brazilian foreign purchases exceeded the 1953-56 level by 3 percent and tended to aggravate the balance-of-payments deficit, which has known but few interruptions since the end of the Second World War. In recent years most capital-goods imports have been financed with foreign resources. However, the reducible margin of nonessential imports was already slim, and it was progressively narrowed during the postwar decade in order to avoid an even greater foreign imbalance (see Table II-23). Moreover, in spite of successive devaluations of the cruzeiro, imports of chemical materials and semi-finished products tended to increase or to hold steady, for in this same period industrial activity grew by leaps and bounds. Import demand was also influenced by the persistent shortage of certain basic commodities, such as fuelds and wheat. For example, Brazilian petroleum production, although it showed an appreciable increment, tended to fall short of the growth in demand, and Brazilian fuel imports, after having dropped in 1959, had to be increased again in 1960 and 1961.

The change from red to black in the balance of payments between these two years resulted exclusively from the strong recovery made by capacity to import, which, in turn, was owed partly to a rise in exports other than coffee. However, the slight 1961 surplus, insofar as it results from the postponement of certain

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33. See ECLA, Economic Study of Latin America 1957, Chapter IV, Table 146, Page 158.

/Table II-23

Table II-23

LATIN AMERICA: IMPORTS OF PRINCIPAL PRODUCTS, BY SELECTED COUNTRIES, 1957-60

(In millions of dollars of 1955)

	Fuels	Raw Materials and intermediate products	Nondurable Consumer Goods	Durable Consumer Goods	Construction Materials	Capital goods
Argentina						
1957	262.0	598.2	56.4	95.0	19.8	342.1
1958	269.6	669.4	85.0	109.8	23.8	225.5
1959	243.7	506.4	51.9	63.9	50.8	286.3
1960	189.2	506.9	45.2	90.4	77.7	502.7
Brazil						
1957	257.3	539.5	104.0	30.9	23.3	608.5
1958	294.3	502.8	70.1	44.2	23.4	556.0
1959	271.7	550.7	70.0	23.8	33.3	640.5
1960	301.5	593.0	68.7	25.1	40.2	646.6
Chile						
1957	37.3	149.8	51.9	16.4	20.2	177.4
1958	36.8	141.8	70.4	13.4	20.1	145.5
1959	53.0	141.6	58.6	16.5	20.2	118.8
1960	62.7	195.2	69.3	23.9	22.7	223.3
Mexico						
1957	82.0	432.7	69.8	79.4	64.8	358.9
1958	55.9	432.2	78.2	75.5	59.1	339.6
1959	52.6	489.4	76.2	56.0	30.2	415.5
1960	...	...	...	...	...	...
Venezuela						
1957	16.2	282.3	232.7	82.9	142.2	763.6
1958	17.7	279.4	276.7	94.9	120.6	527.8
1959	10.2	357.4	301.0	125.2	93.4	358.6
1960	8.5	253.3	282.6	93.8	70.6	341.0

Source: Statistics of ECLA, published in the Statistical Supplement of the Economic Bulletin of Latin America, during 1962.

/amortization

amortization installments on the foreign debt, does not yet constitute a fundamental and lasting improvement in Brazil's balance-of-payments position.

Turning now to the nine countries whose capacity to import rose over the last five years as a whole, it is plain that in four of these--Honduras, Mexico, Paraguay, and Uruguay--imports tended to decrease or remain unchanged. In Paraguay and Uruguay this trend was accompanied by sharp annual fluctuations that partially reflected the nature--more or less restrictive, depending on the year--of the government's economic policy. However, the 1961 balance-of-payments position was certainly the most favorable in the last five years. The equilibrium recently achieved in Honduras' foreign accounts did not require any major government intervention and contrasts with the relatively large deficits for 1957 and 1958.

Mexico presents a complex case. In the first place, capacity to import showed a positive balance over imports in 1960 and 1961, while compensatory accounts indicate a decline in the country's net monetary assets. This discrepancy is due to errors and omissions. If we assume that these errors and omissions refer chiefly to autonomous foreign transactions,[34/] Mexico's balance of payments would actually have shown a small deficit for the last two years. This deficit, however, would amount to barely 5 percent of total capacity to import. In view of the fact that Mexico, like Brazil, followed a rather expansionist domestic economic policy, but applied only very limited restrictions to import trade and refrained from lowering the peso exchange rate, the recent evolution of its balance of payments may be considered to be relatively favorable and quite exceptional in Latin America. This cannot be explained solely by the trend to growth in the capacity to import, since, actually, such growth lagged behind population increase. Equally important, or perhaps even more so, was the fact that inflationary pressures in Mexico were moderate and that changes in the structure of internal production reduced the dependence of the national economy upon foreign supplies of important commodities in the case of many items. This was true, for example, in regard to the supply of fuel and certain foodstuffs, despite the fact that weather conditions caused yearly fluctuations in domestic production of the latter.

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34. This assumption is supported by the fact that the compensatory operations induced by autonomous transactions are carried out by, and at the initiative of, the monetary authorities; that is, they are more likely to be accurately recorded by government statistics.

/Finally, in

Finally, in five Latin American countries capacity to import and total imports tended to increase over the last five years as a whole. In three of these countries--Argentina, Chile, and Peru--foreign purchases declined between 1957 and 1959 but showed two successive and substantial increases in 1960 and 1961. The decline contributed to a surplus in the balance of payments for these three in 1959, in contrast with the deficit for the preceding years. However, in Argentina and Chile, the subsequent growth of imports did not permit of a lasting improvement in the foreign position and this, combined with a drop in capacity to import in 1961, again led to a heavy deficit. In contrast, in 1960 Peru showed a balance-of-payments surplus, and it maintained a position of approximate equilibrium throughout 1961 as consequence of the sustained rapid rise in capacity to import.

The fact that imports for Argentina and Chile were low in 1959 was primarily determined by the restrictive nature of the Government's economic policies. These policies were directed not only at reducing internal inflationary pressures, but also at limiting the value of imports through exchange devaluation and other indirect restrictions. However, the rise in certain basic investments and in construction was reflected in 1960 and 1961 in a strong recovery by imports of capital goods in both countries. The respective governmental policies encouraged this increase in investments not only with a view to stimulating domestic demand, but also to avoiding a new weakening of the economic infrastructure. In Chile, and especially in Argentina, the status of certain elements of this infrastructure was not even compatible with the maintenance of economic activiy at its current level.

Consequently, imports of certain capital goods--transportation equipment, for example--became as impossible to repress as those of raw materials and intermediate products. Furthermore, since domestic prices continued to rise in the two countries--although at a declining rate--the restrictive effect of the 1959 devaluations on the demand for imported goods gradually wore off. Together with the reduction in percentages of prior deposits for certain merchandise, this produced, among other effects, an increase in imports of durable consumer goods (see Table II-23). The behavior of farm production in Chile continued to be such that there was no reduction in the relative

/importance of

importance of import requirements for basic foodstuffs. The rapid development of Argentine petroleum production in 1960 and 1961 prepared the way for a gradual dwindling of fuel imports. On the other hand, in spite of the recent progress made by manufacturing as a whole, imports of intermediate products have failed to show a trend toward permanent reduction in the last two years. In fact, within the manufacturing sector, there has been a certain lag in the growth of basic industries as compared to the development of the finished-product sector.

In 1960 and 1961, the average annual value of imports in Ecuador was decidedly higher than the 1957-59 level. This evolution of imports brought about a deficit in the balance of payments[35/] and was chiefly the result of changes in the government's economic policy. In 1960, at the same time that public and private expenditures were increasing on the domestic level, the Ecuadorian authorities eliminated most of the control and restrictions on exchange operations established in preceding periods. Not until mid-1961 was it possible to unify and lower the exchange rate for the sucre. Meanwhile, basic import requirements increased, as did speculative demand for foreign goods. Following the devaluation, the persistence of a heavy budgetary deficit made it necessary to reestablish indirect restrictions on imports in order to avoid added pressure on the balance of payments.

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35. By 1960, the balance between capacity to import and imports in Ecuador was positive (see Table II-22). However, the decline in net assets on compensatory accounts indicates that the balance of payments actually showed a deficit.

2. International reserves and other compensatory balance-of-payments accounts 36/

In 1961, Latin America's balance-of-payments deficit was covered primarily by credits from the International Monetary Fund (see Table II-24). The net annual increase in Latin American indebtedness to this agency amounted to about US$260 million, representing 60 percent of total financing for the balance of autonomous foreign transactions.37/ The remaining compensatory payments were distributed in almost equal shares between the gross reserves of gold and foreign exchange, which declined by only US$75 million, that is, less than 3 percent of their total amount, and the other compensatory accounts.38/ The 1961 foreign deficit was underwritten in a very different manner from the procedure followed in 1958, 1959, and 1960. The financial burden of covering the deficit in these three years had fallen primarily on gross reserves of gold and foreign exchange and on credits from other foreign lenders.

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36. The level of reserves for international payments and the prospects for securing compensatory credits--which are partly determined by the degree of foreign indebtedness already existing on this account--has particular importance for the Latin American countries. In the first place, given the considerable instability of their capacity to import, the greater or lesser volume of compensatory resources determines the extent to which they can avoid a parallel instability in imports. If foreign purchases must suddenly be reduced, this obviously has a very disturbing effect not only on the current functioning of economic activities, but also on long-range development. In the second place, the greater the compensatory resources, the greater the possibility of absorbing temporary internal inflationary imbalances through an excess of imports over total capacity to import.

37. The compensatory financing indicated in Table II-24 differs from the balance-of-payments position given in Table II-21 owing to the errors and omissions of official statistics. For an evaluation of the significance of this difference, see note c to the latter table. For the extent of errors and omissions, see Table II-25.

38. These other compensatory accounts include changes in the callable foreign-exchange liabilities of official institutions and banks--including the balance of unpaid imports--as well as short- and medium-term balance-of-payments loans from sources other than the International Monetary Fund.

/Table II-24

Table II-24

LATIN AMERICA: INTERNATIONAL RESERVES AND COMPENSATORY BALANCE-OF-PAYMENTS ACCOUNTS, 1957-61

(In millions of dollars)

	1956[a]	1957[a]	1958[a]	1959[a]	1960[a]	1961[a]
Official gold shares and foreign exchange	3675	3815	3105	3000	2930	2840
Gold	(1870)	(1890)	(1735)	(1640)	(1360)	(1415)
Foreign Exchange	(1805)	(1920)	(1370)	(1360)	(1570)	(1425)
Gross balance with IMF	511	566	508	869	1189	983
Commercial bank foreign exchange	500	465	480	370	310	325[b]
Total gross monetary reserves	4686	4846	4093	4239	4429	4148
Annual variation of gross reserves of official and bank foreign exchange		105	-695	-215	-130	- 75
Net Annual Increase (-) of indebtedness to IMF		-157	- 58	- 38	- 82	-259
Other compensatory accounts c/		-119	-349	-219	-300	- 87
Total, compensatory accounts d/		-171	-1102	-472	-512	-421
Errors and ommisions d/		117	296	116	165	65
Total, balance of payments d/		- 54	-806	-356	-347	-356

Source: International Monetary Fund, Balance of Payments Yearbook and International Financial Statistics, April 1962. See also the sources given for Table II-25.

a. To December 31.

b. To September 30, 1961.

c. Includes changes in the callable foreign-exchange liabilities of official institutions and banks, balance of payments credits, --except those of the International Monetary Fund--and variations in the debt by imports.

d. For greater clarity, the minus sign (-) has been given to compensatory credits that cover a balance-of-payments deficit. However, in accordance with accounting practices for this balance these changes should have a plus sign. Likewise, errors and omisions carry a sign opposite to that which appears in the balance of payments.

Table II-25

LATIN AMERICA: BALANCE OF PAYMENTS, COMPENSATORY ACCOUNTS AND ERRORS AND OMMISSIONS, 1957-61
(In millions of dollars)

	Balance of payments					Compensatory accounts[a]					Errors and ommisions[b] [a]				
	1957	1958	1959	1960	1961[a]	1957	1958	1959	1960	1961[a]	1957	1958	1959	1960	1961[c]
rgentina	-262	-209	154	175	-250	-159	-207	171	172	-212	-103	- 2	- 17	3	- 38
olivia	- 7	- 2	19	3	...	5	--	--	- 2	...	- 12	- 2	19	5	...
razil	- 35	- 54	-150	-373	2	-183	-242	-147	-382	- 10	148	188	- 3	9	12
hile	- 64	- 25	32	- 69	-105	- 86	- 2	65	- 29	- 84	22	- 23	- 33	- 40	- 21
olombia	- 52	- 35	52	- 22	- 77	- 78	- 43	39	- 43	- 96	26	8	13	21	19
osta Rica	- 6	2	- 9	- 10	- 12	3	7	- 4	- 11	- 13	- 9	- 5	- 5	1	1
uba	30	- 40	- 25	...	...	- 59	- 84	- 77	...	...	89	44	52	...	...
ominican Republic	5	- 2	- 10	3	- 19	5	- 2	- 10	3	- 19	--	--	--	--	--
cuador	--	- 5	9	7	- 4	2	2	7	- 2	- 13	- 2	- 7	2	9	9
l Salvador	3	10	- 9	- 24	- 13	6	1	- 12	- 21	- 10	- 3	9	3	- 3	- 3
uatemala	5	- 16	1	7	7	2	- 25	- 7	2	2	3	9	8	5	5
aiti	- 13	4	4	12	9	- 6	- 1	- 2	2	--	- 7	5	6	10	9
onduras	- 14	- 9	--	--	- 1	- 7	- 4	1	- 1	- 2	- 7	- 5	- 1	1	1
exico	- 1	- 30	70	67	68	- 16	- 98	11	- 74	- 67	15	68	59	141	135
icaragua	6	- 5	8	- 1	- 3	4	- 3	- 1	- 4	--	2	- 2	7	3	3
anama	- 18	- 5	- 17	- 10	- 13	- 4	5	- 13	- 6	- 8	- 14	- 10	- 4	- 4	- 5
araguay	- 4	- 3	- 1	- 3	4	- 5	- 1	- 3	- 4	3	1	- 2	2	1	1
eru	- 21	- 3	33	35	- 2	- 27	- 15	28	34	40	6	12	5	1	- 42
ruguay	-103	6	- 46	- 23	17	- 65	- 5	- 49	- 25	38	- 38	11	3	2	- 21
enezuela	497	-385	-471	-104	34	497	-385	-471	-104	34	--	--	--	--	--
tin America	- 54	-806	-356	-347[d]	-356[d]	-171	-1102	-472	-512[d]	-421[d]	117	296	116	165[d]	65[d]
tin America less Venezuela	-551	-421	115	-243[d]	-390[d]	-668	- 717	- 1	-408[d]	-455[d]	117	296	116	165[d]	65[d]

Sources: Table II-22: International Monetary Fund, Balance of Payments Yearbook; for 1961; International Monetary Fund, International Financial Statistics; Monthly Report, of the Export-Import Bank of the United States, including figures on compensatory credits; Bank of Mexico, Informe Anual 1961; Superintendencia da Moeda e Credito, Brazil, Boletin Mensual December 1961; Economic Survey, Buenos Aires, April 1961.

a. The method described in note a. of Table II-24 has been used, according to which a minus sign in the compensatory accounts presents deficit financing in the operations of the other accounts.

b. Excludes the figures on Venezuela and for the Dominican Republic for this entry, which have been included in the balance payments. See note b. of Table II-1.

c. Partially estimated figures.

d. Includes estimates for Bolivia and Cuba.

Actually, by the end of 1960, gross reserves of gold and foreign exchange in Latin America barely exceeded one third of the annual value of current imports, being more than US$ 1 billion below their 1957 level (see Table II-24). During the same period, the "other compensatory accounts" had furnished resources amounting to a similar total, approximately US$ 870 million. A high percentage of the debt accumulated by Latin America on this account had been contracted with the United States Eximbank and with private banks. With respect to the latter in particular, it reflected very special situations, such as the initiation of stabilization programs.[39] On the other hand, the possibilities of drawing on the International Monetary Fund,[40] had increased considerably in 1959 and 1960 as a result of the increments in quotas agreed upon by the member countries and the relatively slight rise in Latin American purchases of foreign exchange.

39. For a detailed examination of private banking credits and their limitations, see Inter-American Development Bank, Private Banking and the European Private Market as a Source of Financing for Latin America, Document AG. 111/MR-A/3, March 1962.

40. Drawing potential is measured here by changes in the gross balance with the Fund. This figure--measured for each country by twice the amount of its quota less the amount of national currency held by the Fund--represents the maximum of resources which, according to its charter, the Fund may make available to the country. It does not mean, however, that at any given moment the country can necessarily utilize these funds. The degree of liquidity of these amounts varies enormously, depending chiefly on whether or not total national currency in the possession of the Fund approaches 200 percent of the country's quota and on whether the Fund and the country have entered into a stand-by agreement enabling the country to draw upon a predetermined amount within a specific period.

/Thus the

Thus, the recent increase in the resources of the International Monetary Fund helped to finance the 1961 balance-of-payments deficit in Latin America at a time when the solution of this problem by any other means would have been more onerous or difficult. Although Latin America's potential for drawing upon the Fund diminished by more than US$ 200 million in the course of the year,[41] at the end thereof it was almost double the potential at the end of 1956. However, this did not prevent Latin America's total gross reserves from dropping over the past five years. As of December 31, 1961, they amounted to 46 percent of the annual value of current imports, as against 55 percent on the same date in 1956. The relative amount of net international assets was greatly reduced by the steady growth of compensatory indebtedness.[42]

Turning now to the evolution of compensatory accounts by countries, it is to be noted that the way in which a deficit or surplus in the balance of payments was dealt with, and the effect thereof upon the foreign monetary position varied greatly from country to country. This was largely the result of past events, particularly in the postwar years.

As a consequence of the various trends noted in Latin America's balance of payments during the postwar decade, the position of compensatory accounts at the beginning of 1957 differed widely among the several groups of countries. The greatest differences are to be observed, between Venezuela, the Central American countries, and the Dominican Republic, whose gross reserves of gold and foreign exchange vastly exceeded their foreign short-term liabilities, and Argentina, Bolivia, and Brazil, which had pending debts equal to, or exceeding, their international monetary assets, by reason of accumulated trade commitments and previously received compensatory credits.

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41. The difference between variations of the net debt with the International Monetary Fund--US$ 260 million--and variations in the gross balance is explained by the additional increase in the quotas of certain Latin American countries, as for example Uruguay.

42. Since complete official data on the absolute total of these debts at the beginning of the period under consideration is not available, it is not possible to translate their subsequent variations into percentages of the total.

/In the

In the group of countries whose balance of payments had been relatively sound over most of the period, the respective positions of the compensatory accounts showed few signs of uniformity, for specific reasons. In Mexico, gross reserves of gold and foreign exchange amounted to more than 40 percent of the of the annual value of imports. The corresponding share was only 12 percent in Peru, undoubtedly because that country was one of the few in Latin America where international reserves increased only on a minor scale during the Second World War. Colombia, for its part, as a result of the sudden crisis in its 1956 balance of payments, had short-term foreign liabilities at the beginning of 1957 that exceeded its gross holdings of gold and foreign exchange.

Venezuela suffered no major international-payments difficulties during the last five years, although the foreign imbalance of its economy in 1958, 1959, and 1960 was one of the most acute in Latin America. The substantial gross monetary reserves available to the Venezuelan authorities at the end of 1957--almost US$ 1.5 billion--made it possible to finance the subsequent balance-of-payments deficits without recourse to the International Monetary Fund and by utilizing only a relatively small amount of private compensatory credits (see Tables II-26 and II-27). In 1961, gold holdings halted the downward movement begun in the last quarter of 1959, and gross assets in foreign exchange made a notable recovery. However, in October of the same year, the total of both items --approximately US$ 645 million--failed to account for more than 45 percent of the annual current value of Venezuelan imports, as compared to 73 percent in 1957.

Although Brazil's balance of payments deficit was no greater than that of Venezuela in relative terms, its financing became gradually more difficult and costly. Gold reserves, which stood at US$ 285 million in March 1962, cannot for the most part be employed to cover current external expenditures, since they serve to guarantee the repayment of compensatory credits granted some time ago. Furthermore, the existence of substantial short- and medium-term financial commitments has been a factor in shortening amortization terms and in raising interest rates for additional compensatory credits granted by private banks in recent years. Under such circumstances, it was necessary

/Table II-26

Table II-26

LATIN AMERICA: MOVEMENT OF COMPENSATORY ACCOUNTS OF THE BALANCE OF PAYMENTS, 1957-61

(In millions of dollars)

	1957		1958		1959		1960		1961 a/	
	Gross gold reserves and foreign exchange	Net assets of other compensatory accounts b/	Gross gold reserves and foreign exchange	Net assets of other compensatory accounts b/	Gross gold reserves and foreign exchange	Net assets of other compensatory accounts b/	Gross gold reserves and foreign exchange	Net assets of other compensatory accounts b/	Gross gold reserves and foreign exchange	Net assets of other compensatory accounts b/
rgentina	- 96.0	12.0	-157.0	- 50.0	220.0	23.5	309.0	- 88.5	-197.0	16.0
olivia	2.7	3.3	- 1.7	3.7	5.5	- 3.1	- 6.3	2.8	2.0	--
razil	-162.0	16.5	- 28.0	-176.4	- 24.0	-143.2	- 15.0	-319.3	172.0	-142.0
hile	- 39.2	- 28.0	14.1	- 5.5	67.5	- 2.5	- 16.1	- 25.3	- 35.6	10.9
olombia	14.0	- 92.0	15.0	- 53.0	52.0	- 28.0	- 59.0	1.0	- 4.0	- 27.0
osta Rica	0.4	2.6	8.6	- 1.6	- 5.0	1.0	- 2.5	- 8.5	- 5.0	- 0.5
uba	- 45.0	- 1.5	- 74.0	- 10.0	-116.0	39.0	-121.0	...	...	...
ominican Republic	5.0	--	- 2.0	--	- 10.0	--	- 10.0	22.0	- 19.0	--
cuador	7.5	- 0.5	- 3.8	0.8	4.6	2.4	- 2.9	- 0.9	1.0	--
l Salvador	2.1	1.4	2.8	- 1.8	- 1.6	- 4.9	- 10.0	- 5.3	- 7.1	- 6.1
uatemala	2.8	- 0.8	- 25.7	0.7	- 7.6	0.6	7.8	- 5.8	1.8	0.2
aiti	- 4.3	- 0.7	- 4.4	5.9	2.4	- 2.5	1.4	- 0.7	- 1.3	--
onduras	- 1.6	- 1.7	- 8.2	0.4	4.3	0.5	1.4	- 1.2	- 0.8	--
exico	- 36.0	20.0	- 81.0	- 17.0	41.0	- 30.0	- 20.0	- 54.0	18.0	- 40.0
icaragua	5.2	0.7	- 5.6	0.7	- 1.8	- 2.7	--	- 4.0	4.5	--
anama	- 13.0	9.0	18.8	- 13.8	- 7.8	- 5.2	- 5.7	- 0.3	- 8.0	--
araguay	3.7	2.2	0.1	- 0.3	- 3.0	- 1.5	- 3.1	- 0.8	1.5	- 0.1
eru	- 25.9	- 1.1	- 1.4	- 3.6	15.0	3.0	17.9	16.1	40.0	--
ruguay	- 20.0	- 45.0	- 3.0	- 2.0	- 3.0	- 46.0	- 5.0	- 20.0	38.0	--
enezuela	508.0	- 11.0	-385.0	--	-352.0	119.0	-155.0	51.0	59.0	- 25.0
otal, Latin America	101.0	-114.6	-721.4	-322.8	-115.9	-318.6	- 34.1	-335.9 c/	60.0 c/	-221.6 c/
atin America less enezuela	-407.0	-103.6	-336.4	-322.8	236.1	-199.6	60.9	-386.9 c/	1.0 c/	-196.6 c/

Source: International Monetary Fund, Balance of Payments Yearbook and International Financial Statistics. See also the sources for able II-25.

a. Partial estimates.

b. These other compensatory accounts include changes in the callable foreign exchange of official institutions and banks, ncluding balance of unpaid imports, as well as the short-and medium-term balance of payments loans from sources other than the nternational Monetary Fund, (see Table II-27).

c. Includes estimates for Cuba.

Table II-27

LATIN AMERICA: NET ANNUAL VARIATIONS IN THE DEBT WITH THE INTERNATIONAL MONETARY FUND, 1957-61

(In millions of dollars)

	1957	1958	1959	1960	1961
Argentina	75.0	--	72.5	48.5	31.0
Bolivia	1.0	2.0	2.4	- 1.5	- 2.0
Brazil	37.5	37.6	- 20.2	47.7	40.0
Chile	18.8	10.6	--	- 12.4	59.3
Colombia	--	5.0	--	15.0	65.0
Costa Rica	--	--	--	--	7.5
Cuba	12.5	--	--	--	--
Dominican Republic	--	--	--	9.0	--
Ecuador	5.0	5.0	--	--	14.0
El Salvador	- 2.5	--	5.5	5.7	3.2
Guatemala	--	--	--	--	--
Haiti	1.0	2.5	1.9	1.3	- 1.3
Honduras	3.7	3.8	3.8	1.2	1.2
Mexico	--	--	--	--	45.0
Nicaragua	1.9	- 1.9	- 1.9	--	4.5
Panama	--	--	--	--	--
Paraguay	3.5	0.8	- 1.5	0.1	1.6
Peru	--	10.0	- 10.0	--	--
Uruguay	--	--	--	--	--
Venezuela	--	--	--	--	--
Total, Latin America	157.4	57.8	37.5	82.0	259.4

Source: International Monetary Fund, International Financial Statistics, February 1962.

/to have

to have recourse to public compensatory loans on a longer term or to a later consolidation thereof. Aside from aid to the extent of several hundred million dollars granted by the Eximbank, Brazil has obtained a series of credits from the International Monetary Fund, the total amount of which for the 1957-60 period was US$ 110 million (see Table II-27). The Fund loaned the country an additional US$ 40 million in 1961, but, because of its improved balance-of-payments position, Brazil was able to avoid a new increase in its total external monetary liabilities. At the end of November, these liabilities could be estimated at about US$ 540 million.

At the end of 1956, Mexico's gross reserves of gold and foreign exchange were US$ 490 million. The country has been able to utilize this source to underwrite a large part of the relatively minor deficit shown by the Mexican balance of payments (see Tables II-24 and II-25). Furthermore, these reserves have constituted one of the implicit guarantees thanks to which the authorities have been able to secure certain compensatory credits from private sources, especially in 1958. However, in spite of the recovery registered in its reserves in 1959, in August 1961, Mexico sought a credit from the International Monetary Fund (see Table II-27). It may be estimated that at present Mexico's short-term external monetary assets represent about 25 percent of the annual value of its imports.

Colombia's debt with the International Monetary Fund has also increased recently, although its gross reserves of gold and foreign exchange have varied little since 1957. In order to keep these reserves above a certain level, the Colombian authorities have resorted to various compensatory credits, obtained first from private sources and later from official financing agencies, such as the Eximbank and the International Monetary Fund. In contrast, Peru, obliged in 1958 to draw upon a 1954 stand-by credit from the International Monetary Fund, was able to reimburse this loan in 1959. Furthermore, over the last two years, the percentage of its annual imports potentially covered by gross monetary reserves has almost doubled.

/The position

The position of compensatory accounts in Argentina and Chile deteriorated again in the 1957-58 period (see Tables II-26 and II-27). During these two years, gold holdings in Argentina dropped by more than 70 percent, while the overall negative balance of the country's foreign exchange accounts continued to grow rapidly. The balance-of-payments surplus obtained in 1959 served primarily to wipe out this negative balance. Moreover, during the second half of 1960, Argentine gold reserves were largely reconstituted so that the end of that same year showed a figure slightly under that registered five years earlier. However, these reserves dropped once more and the national authorities had to make increasing use of the lines of credit opened by the International Monetary Fund. Thus Argentina's net external monetary position--including the balance of its exchange operations with the Fund--was again strongly negative at the end of 1961, amounting to about US$ 160 million. The improvement in Chile's external monetary position was substantial, but this favorable trend lasted an even shorter time than in the case of Argentina. While in 1959 gross holdings of gold and foreign exchange had more than doubled, they dipped again in the two following years. In 1961, the government secured several credits from the International Monetary Fund. The total thereof--US$ 65 million--was almost equal to the international reserves of the Central Bank at the end of that same year.

During the first half of the last five years, the Central American countries and Ecuador compensated for the fluctuation in their balance-of-payments positions mainly through variations in their international monetary reserves. Credit from the International Monetary Fund was used only on a small scale and almost exclusively for the purpose of dealing with seasonal fluctuations in the value of exports. Beginning in the second half of 1959, this situation took a turn for the worse in several of these countries. El Salvador and Honduras failed to reimburse credits from the International Monetary Fund as quickly as before.[43] In 1961 Costa Rica and Ecuador were obliged to seek assistance from that international agency for an amount of exchange far exceeding previous requests (see Table II-27).

43. It should be noted that by March 1962 El Salvador had completely liquidated its debt with the Fund. Honduras has done so in part.

CHAPTER III

MONETARY AND FISCAL POLICIES

I. GENERAL EVOLUTION

In recent years the formulation of Latin American economic and financial policies has been governed largely by three major factors: a) the urgency of raising economic and social well-being; b) the external setting which largely failed to contribute the desirable dynamism to the regions' economies; and c) the social, institutional and structural rigidities that have impeded economic development and social progress.

Thus, in the 1957-61 period efforts to satisfy rising aspirations for economic improvements continued to be subject to the limitations imposed by the external and internal settings; as a result financial imbalances of varying intensities continued to claim the attention of the policy-makers. In many cases, in fact, imbalances became more marked and urgent during this period than in the early 1950's. While one of the major reasons for this was a significant deterioration of the external sector in many countries, the intensification of purely domestic pressures --social and economic-- simultaneously played an important part in the evolution of the imbalances. The latter were indirectly heightened at times by the delayed impact of some of the policies adopted to deal with them in earlier years.

The external setting had a decisive influence on most Latin American economies throughout the 1950's. The depressed state of world markets for primary products since the mid-fifties substantially limited the expansion of Latin American export earnings. In the 1957-61 period, the stagnation of export receipts became particularly widespread, affecting even the Central American and Caribbean countries which at first and suffered relatively less from declining export prices than the rest of the Continent, or had offset the fall in prices with expanding export volumes. In general, a sharp deterioration in the terms of trade led to substantial declines in capacity to import, except where supplemented by public and private foreign capital inflows which fluctuated widely in form and amount over the period.

/The consequences

The consequences of this evolution were manifold. The most direct was the emergence of a foreign exchange problem even in countries, such as Venezuela, that had not previously been faced with serious balance-of-payments difficulties. In those countries that had already been suffering for some time from an external imbalance, excessive demand and inflated domestic prices and costs intensified the problem. Moreover, the stagnation or outright contraction of experts and of the capacity to import undermined one of the chief components of aggregate demand and supply. The deterioration of the external sector therefore affected directly --and unfavorably-- the level and rate of growth of nacional income and output.

In general, these depressive trends arose from strong underlying pressures, such as the regions' high rates of population growth, the socio-political awakening of isolated rural masses, the needs stemming from vast population movements into existing urban centers, and the increasing aspirations of peoples and governments for economic development and social betterment. Under these conditions, many countries found themselves compelled to compensate at least in part for the slow growth or stagnation of the export sector by subsidizing the adversely affected activities and stimulating a more rapid expansion of the domestic economy. This often aggravated further the external payments imbalances, while complicating the formulation of credit policy and the management of the public finances.

In the fiscal area, room for maneuvering was typically limited by the upward trned of "autonomous" expenditures on public services and on works capable of absorbing some of the unemployed labor. In heavily export-oriented economies, --e.g. in Central America, Venezuela, and other countries-- the exposure and sensitivity of government revenue to fluctuations in export receipts also contributed to fiscal imbalance. To raise revenues by increasing the tax burden would have meant, under the circumstances, reinforcing the deflationary impulses emanating from the external sector. The increased fiscal imbalances represented in most cases an element that was superimposed on other, pre-existing, inflationary influences; in several instances it contributed to a flight of capital, especially where the adverse evolution of the foreign sector had already begun to undermine confidence in the strngth of the currency.

/As a result

As a result of these various interrelated developments in the 1957-61 period, many Latin American governments, while attempting to lay the foundations of an effective solution to the longer-term problem of economic development, were still faced with the constant need to find short-run palliatives for the pressing monetary, fiscal and exchange difficulties of the moment.

Points 1 and 2 of this section contain a general survey of the several ways in which governments have responded to the pressures described. The rest of the chapter will then single out, for a more detailed analysis, two major types of responses: a) monetary stabilization programs designed to restore stability by drastically curtailing aggregate domestic demand; and b) policies such as those followed by Brazil, which look primarily to a rapid expansion in internal supplies as a means of keeping in check the threat of a growing imbalance between the needed and available resources.

1. General Survey of Recent Monetary and Fiscal Policies

a. Monetary and price trends

The regulation of liquidity levels in the domestic economy has long constituted a major problem of economic policy in many Latin American countries. As in most underdeveloped regions, the problem of excessive liquidity creation in Latin America has been all the more intractable because it has often reflected basic structural weaknesses of the economy, which themselves have remained largely unaffected by the application of monetary restrictions.[1/]

One of the notable features of recent monetary and price trends in Latin America has been the marked subsiding of inflationary impulses. The period 1957-61, when compared with 1951-56, reveals a fairly general slackening of expansion in the money supply and the cost of living, a pattern that was broken only in the case of Argentina, Brazil and Uruguay (see Table III-1).

In 1951-56, the growth of the money supply in Bolivia, Chile and Paraguay had already reached particularly acute proportions. It was generally attributable to

/Table III-1

1. The specific operation of these weakenesses in the Latin American context during 1957-61 are discussed in some detail in Section II.

Table III-1

LATIN AMERICA: ANNUAL PERCENTAGE RATES OF CHANGE IN MONEY SUPPLY AND COST OF LIVING, 1951-61

	Money Supply		Cost of Living	
	1951-56	1957-61	1951-56	1957-61
Argentina	18	28	17	31
Bolivia	84	20	83	21
Brazil	19	37	18	24
Chile	44	29	43	18
Colombia	16	16	5	8
Costa Rica	9	4	2	1
Cuba	5[a]	15[b]	1	...
Dominican Republic	12	5	1	- 1
Ecuador	7	5	2	1
El Salvador	10	- 3	5	- .5
Guatemala	10[a]	- 1	2[a]	- .5
Haiti	11[a]	- 3	2[a]	- 1
Honduras	10	- 1	3	-
México	12	9	8	4
Nicaragua	14	-	8	- .5
Panama[c]	...[d]	...	1	...[e]
Paraguay	35[d]	12	44	11[e]
Peru	13	13[e]	7	7
Uruguay	7	26[e]	10	21[e]
Venezuela	10	6	1	1[e]

Source: International Monetary Fund, International Financial Statistics. The annual rates were computed on the basis of year-end for money supply, annual averages for cost of living.

a. 1952-56
b. 1957-60.
c. No money supply figure is available for Panama where the bulk of the circulation is in the form of US dollar notes and coin.
d. 1953-56.
e. 1961 data partially estimated.

/a rapid

a rapid expansion of bank credit both to the public and to the private sector. In these three countries, substantial price inflation accompanied the rise in liquidity. Excessive monetary expansion was also a serious problem in Argentina, Brazil and Uruguay where, without having such extreme effects on prices, it had nevertheless permitted a 10 to 20 percent average annual increase in the cost of living over the same period. In other countries domestic liquidity had also risen substantially, though more moderately, until the mid-1950's, mostly under the combined influence of occasional external surpluses and a steady expansion of bank credit to the economy. The impact on domestic prices in this latter group of countries in the 1951-56 period had ranged all the way from small (1 or 2 percent average annual increases) in Ecuador, Venezuela and several of the Central American and Caribbean republics, to significantly higher rates (7 to 8 percent) in some of the other countries, particularly Mexico, Nicaragua and Peru.

This over-all pattern was only partially modified in the subsequent 1957-61 period. On an average basis, the annual growth rates of money and prices were sharply reduced in Bolivia, Chile and Paraguay, while they rose considerably in Argentina, Brazil and Uruguay. In all six countries, however, the growth rate of the money supply and the cost of living remained high for the period as a whole. The cost of living increase also showed substantial year-to-year fluctuations (see Table III-2). In most cases, in fact, inflation accelerated in the early part of the period and was significantly slowed in subsequent years, although in some cases, particularly Paraguay, prices resumed a more rapid rise in 1961.

In Colombia, Mexico and Peru, the growth of the money supply in 1957-61, while less substantial than in the countries first mentioned, proceeded at about the same average pace as in the previous five years. All three countries underwent a moderate degree of price inflation, although in relation to the 1951-56 period, the rate of price increase was somewhat accelerated in Colombia, especially in 1957-58, substantially slowed in Mexico after 1958, and virtually unchanged in Peru during most of the period.

In most other countries particularly in Central America where money and price increases had already been mild in 1951-56, the next five years witnessed a

/Table III-2

Table III-2

LATIN AMERICA: ANNUAL PERCENTAGE CHANGES IN THE COST OF LIVING,[a] 1957-61

	1957	1958	1959	1960	1961
Countries with moderate to acute inflation:					
Argentina	25	32	114	27	14
Bolivia	115	4	20	12	7
Brazil	20	16	37	35	38
Chile	33	20	38	12	8
Colombia	15	14	7	4	8
Mexico	5	11	3	5	1[b]
Paraguay	16	6	9	11	27
Peru	8	8	13	9	5
Uruguay	15	17	39	39	23
Countries with little or no inflation:					
Costa Rica	3	3	-	1	2
Ecuador	2	-	-	2	4
El Salvador	-5	5	-	-1	-2
Guatemala	-1	1	-	-1	-1
Haiti	2	-	-5	-6	4
Honduras	-3	3	1	-2	2
Nicaragua	-4	4	-2	-2	1
Panama	-	-	-	...	...
Dominican Republic	5	-2	-	-4	1[b]
Venezuela	-3	5	5	4	-3

Source: International Monetary Fund, International Financial Statistics.

a. Computed on the basis of annual averages.
b. Estimated.

/tendency of

tendency of both these variables to decline or to rise only slightly, reflecting the deflationary impact of the weakening external market. The only significant exceptions to the generally falling trend of prices in this group were the slow but steady cost of living increases in Costa Rica, the recent inflationary tendencies in Ecuador, and the 4 to 5 per cent annual increases in the Venezuelan cost of living in 1958-60.

b. Policies

The nature of monetary and fiscal policies adopted in 1957-61 varied widely from country to country. In most countries where substantial inflations had set in, i.e. in Argentina, Bolivia, Chile and Paraguay, or appeared as an imminent threat, as for example in Colombia, Peru and Uruguay, a concerted effort was made to bring the major credit flows at least partially under control; here particularly intensive use was made of monetary instruments during the years under review. Comparatively more passive monetary policies prevailed in most of the remaining countries, which included not only the relatively stable-price countries but also Brazil, where price pressures intensified sharply during most of the period, and Mexico, where the earlier pressures were becoming progressively milder. In these two countries public expenditures continued to play the important role it had in the past in the development process. Elsewhere, although the government budget may have palyed a certain expansionary role during this period, an unfavorable foreign sector was often allowed to have a substantial deflationary impact on the economy.

In those countries where rapid price increases and/or strong balance-of-payments pressures prevailed in the early and mid-1950's, monetary and fiscal policies were characterized by substantial government budget deficits and a high rate of bank credit expansion. In several instances, public expenditures rose substantially to provide essential services to the growing population or to removate and expand needed basic facilities. The inflationary impact of these rising expenditures was compounded by a general lack of alternatives to bank financing in the absence of flexible tax systems and well-developed capital markets.

Other structural factors, such as low rates of saving and inadequate credit control instruments also helped to promote the monetary disequilibrium. In many

/cases, the

cases, the problem of dealing with the resulting price and exchange pressures became one of the most urgent objectives of short-term economic policies, frequently at the expense of long-term growth and of the economy's vitality. Moreover, the methods employed often contributed to further intensification of the inflationary process itself: wage policies attempting to protect the purchasing power of wage earners; price controls; government subsidies designed to mitigate the rise of the cost of living; and overvalued and multiple exchange rates (originally adopted to minimize the difficulties created by the interaction of the domestic and external setting in the prevailing inflationary context), all served to accentuate the imbalance between demand and supply.

In the second half of the 1950's, the lack of success in containing price-wage pressures and the increasing difficulties created by deteriorating balance-of-payments positions, led a number of countries to significantly reorient their policies. The latter part of the decade was thus characterized by many countries resorting to comprehensive "stabilization programs," under which they received emergency short-term credits from abroad to help stabilize their currencies while eliminating fiscal imbalances, and disequilibria in the foreign payments situations. Half a dozen South American countries adopted such programs. After Chile and Bolivia, which had first taken steps to halt their rapid price inflation in 1955-56, four more countries followed: Paraguay and Colombia in 1957, Argentina in December 1958, and more recently Uruguay, which at the end of 1959 entered upon the initial phase of its current stabilization effort. Beside these six, in Peru, where price and exchange controls were largely abolished in 1949, where a more restrictive financial policy was pursued as early as 1954, a resurgence of inflationary pressures in 1956-59 also induced a renewed stabilization effort in the final years of the decade.

The various stabilization programs, which the International Monetary Fund helped in large part to draft, generally called for strict credit curbs and the abandonment of earlier efforts to maintain multiple and overvalued exchange rates, price controls and subsidies. They provided essentially for a drastic cut in excessive aggregate demand, substantial exchange devaluation and important simplifications of the exchange systems.

/Their immediate

Their immediate results varied widely. In terms of slower price increases, improved balance-of-payments positions, and new-found confidence in the national currency, substantial results were often quickly obtained. In general, however, the credit control and exchange features of the programs were applied more vigorously--at least in the initial phases--than the fiscal ones.[2/] In the fiscal area, moreover, increases in government revenues were often secured by increasing the yield of taxes on foreign trade, rather than on the basis of a thorough reform of inadequate domestic tax systems. Simultaneously, the degree of fiscal retrenchment that was achieved in the first years was often much greater in its effect on public capital formation--with adverse effects on development--than on government consumption and subsidy expenditure. In some important respects therefore, the initial implementation of the programs in several countries failed to establish the conditions required for an orderly but dynamic process of economic development.

In most instances the impact of partial wage freezes, stringent controls on bank credit to the private sector and restrained public investment policies, in combination with unfavorable export trends, subjected the economy to protracted periods of stagnation.[3/] It also brought considerable hardship to the wage earning segments of the community, the group whose living standards were most affected by the national austerity effort.

The difficulties involved, however, in maintaining some of the initial restrictions, at full strength, found authorities on more than one occasion unable to prevent the eventual resurgence of serious price and balance-of-payments pressures in the wake of a recovery of economic activity and increases in employment and private investment levels. Pressures became all the more difficult to control when during the past two years, several governments embarked on broad investment programs and systematic efforts to stimulate economic development and social progress. The beginning of a solution to these fundamental conflicts was however, receiving its formulation in some countries in the more recent period; such a solution would seek, along lines proposed by the Alliance for Progress, basic reforms of existing

/tax structures

2. See section II for a more detailed discussion.
3. This is considered more fully in Chapter VI.

tax structures and an intensive use of both domestic savings and foreign capital to finance rising levels of public and private investment.

With varying degrees of success, then, the majority of the countries affected by substantial inflationary pressures in the early and middle 1950's spent most of the 1957-61 period in search of a blueprint for the building of rapid economic development on a foundation of financial stability. As mentioned earlier, however, one major country did not conform to this pattern--Brazil. There, monetary and fiscal policies remained essentially oriented toward long-term expansion, and were unaffected until recently by any attempts for greater restraint.[4/] The expansionary impact of the public sector's growing expenditures was accentuated in the latter 1950's as a result of various developments. These ranged from efforts to compensate for the domestic impact of the coffee export crisis to the building of Brasilia, the new federal capital in the interior of the country. Throughout the period, Brazil's economic development continued at a rapid pace, imports of intermediate and capital goods being facilitated by overvaluation of the exchange rate and by substantial short- and medium-term credits from abroad. Beginning in 1959, however, there was a marked intensification of price and payments pressures which, more recently, induced the authorities to effect substantial exchange reforms and to draft plans for more restrictive monetary and fiscal policies for the future.

A somewhat different case was that of Mexico, where inflationary pressures, while present during most of the decade of the 1950's, were considerably more moderate. In 1957/58, a substantial drop in cotton and mineral exports contributed to an intensification of price and balance-of-payments pressures, and a slowing down in the real growth of total output--which had been relatively rapid in the early 1950's. The growth of public investment, whose strategic use played a major role in the Mexican development process for several decades, was temporarily checked. After 1959, however, a major expansion of the public investment program was again under way with the help of rising revenues and substantial new foreign borrowing. Meanwhile, bank reserve requirements covered reduced in 1957 and 1959, and the monetary authorities generally continued to use

/a variety of

4. These measures and the expansion policy followed by Brazil are described in greater detail in Section III of this Chapter.

a variety of selective credit techniques to channel financial resources into productive uses at a steady pace, both through the banks and through the numerous official and private financial institutions engaged in financing agriculture and industry.

In most of the remaining countries, notably Venezuela and the Central American countries, which had generally not suffered from price and payments pressures during the major part of the 1950's, the most salient factor conditioning short-term monetary and fiscal policies in the final years of the decade was the substantial deterioration of their export markets. This development assumed particular importance in those Central American and Caribbean republics that had been most dependent on exports as a source of fiscal revenue and as a major component of demand, and on foreign investment as a key factor of economic development. There were net declines in per capita product in many of these countries in 1957-61, after several years of steady increases in the previous period.5/ Other countries were also affected, including Venezuela, whose oil-based prosperity was abruptly curtailed after the end of the 1956-57 petroleum boom.

An increase of government deficit financing was to be observed in most countries following the export declines, though sometimes less as a result of increased expenditure for compensatory purposes than of stagnating revenues. Some efforts were made to raise taxes or improve tax collections, and in several countries more loans and assistance of other kinds were sought abroad to maintain public expenditures while minimizing foreign payment imbalances.

The conduct of monetary policy varied. Efforts were made to stimulate production in El Salvador in 1959-60. In Costa Rica the nationalized banking system provided funds for the diversification of domestic production and the financing of coffee surpluses. In Ecuador, where export trends had, quite exceptionally, remained favorable until the end of 1960, domestic pressures to pursue more expansionary policies had nevertheless induced an easing of bank reserve requirements and faster credit expansion beginning in 1960. In general, however, monetary conditions were far from easy. Most of the Central American and Caribbean countries, as well as Ecuador and Venezuela, quickly experienced a growing loss

5. Discussed in greater detail in Chapter VI.

/of the investors'

of the investors' and savers' confidence, engendering widespread capital flight and drastically shrinking domestic liquidity. The outflow of funds, which some countries countered with tighter monetary policies--witness the protected deflations in Honduras or Nicaragua--eventually led a number of other countries, such as Venezuela and Ecuador, to modify important features of their exchange policies while also formulating restrictive domestic financial policies.

2. The Evolution of Exchange Policies

In recent years, the almost universal intensification of external payments imbalance led to some major changes in the orientation of Latin American exchange policies. Since the early 1950's, these policies had generally fallen into one of two clearly distinct patterns: those countries whose domestic economies had remained relatively free from strong inflationary pressures and had been able to maintain stable exchange rates and fairly free and simple regimes of international payments; and those countries that had experienced strong demand and price pressures and had resorted to elaborate controls and multiple exchange rate systems to protect the international valuation of their currency, though they had been unable to prevent its eventual depreciation on a substantial scale.

In 1957-61, this pattern was substantially modified. In the latter group of countries, where the artificial multiple exchange rate structures evolved over the years became increasingly less tenable, the period was marked by a wholesale shift toward simpler exchange systems. At the same time, however, some countries in the first group made a more intensive use of exchange controls to withstand the growing trade and payments pressures. In both groups there was widespread use of either open or disguised devaluation as a means of absorbing excess demand or cushioning the impact of deteriorating export trends.

The Latin American countries that had maintained the external value of their currency more or less unchanged between 1950 and 1957 included the Central American and Caribbean republics. Seven of these--Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Panama--belonged to the limited group of Latin American countries that had established fully convertible currencies between 1945

/and 1953.

and 1953. Two other Central American states, Costa Rica and Nicaragua, together with Ecuador, had effected various parity adjustments in the early postwar period but had otherwise maintained highly stable excange rates throughout the 1950's while resorting only to relatively mild forms of exchange discrimination and control. Finally, in Venezuela, where petroleum had brought in abundant foreign exchange until 1958, exchange controls were also mild, the multiple exchange rate system serving primarily to tax the foreign petroleum companies.

The pattern had been radically different in most of the other Latin American countries, where the difficulty of maintaining established foreign exchange parities in the face of rapidly rising domestic price levels led to a progressively more intensive use of restrictive and discriminatory exchange practices in the early or middle 1950's. During this period moreover, the prevailing overvalued exchange rates were used more frequently to pursue a wide variety of specific objectives of a kind ordinarily falling within the scope of fiscal, monetary or trade policies. These objectives included the raising of funds to support certain types of export production at the expense of others, the subsidization of mass consumption imports, the restriction of nonessential imports, or the promotion of industrial development. By 1955-56, in order to permit the simultaneous attainment of these various objectives, highly complex multiple rate system had generally been in use in these countries, often including not only several different officially fixed import and export rates, but also at times a fluctuating free rate for financial transactions, and sets of rates combining official and free rates in varying proportions dependent on the nature of the transaction.

The only exceptions to this pattern among these countries, were Peru, where a dual but relatively simple and free exchange market had functioned since 1949, and Mexico, which maintained a fully convertible currency throughout the postwar period. Both countries resorted instead to devaluation on several occasions to offset the deterioration in the internal purchasing power of their currencies.

In view of the dimensions of the domestic cost-price inflation, substantial depreciations of the official exchange rates were also required periodically in most of the other countries, despite the widespread controls which had first made it possible to elude the need for such adjustments. In Argentina, for instance,

/where the price

where the price level more than tripled between 1950 and 1956, the principal selling rate increased over the period from 5.00-7.50 to 18 pesos per US dollar. In Chile, where the cost-of-living index rose nine-fold during the same period, the range of exchange rates moved (in pesos per US dollar) from 30-60 to 547-600. Similarly Brazil, Paraguay and Bolivia, whose price levels had risen three- nine- and forty-fold between 1950 and 1956, made considerable adjustments in the level as well as in the structure of their multiple exchange rate systems. Only Colombia and Uruguay, which experienced more moderate rates of inflation in the early 1950's, were able to limit themselves to minor depreciations in this period with the help of complex controls.

After 1955, however, in several of the countries using multiple exchange rates there was a tendency to simplify and liberalize the exchange system. One after another these countries placed greater reliance on the freely-fluctuating rates than on the fixed ones, reclassified transactions to reduce the extent of exchange discrimination, and eventually moved, in most cases, to virtually unified markets with flexible exchange rates at considerable more realistic levels than before. Except in Brazil, where the reforms were only recently completed, the moves toward simpler exchange systems were largely made within the framework of the over-all stabilization programs adopted in the region during the period. As will be discussed in greater detail in the section devoted to these programs,[6/] on abandoning the bulk of their former exchange control techniques, most countries initially made extensive use of general or specific taxes on imports and exports and advance import deposit requirements to retain a substantial degree of control over the volume and pattern of their foreign trade and payments. At later stages, these too were gradually eased in most countries. Taxation on exports in particular was lessened to improve the competitive position of domestic production in world markets, while control of imports was to a greater extent turned over to customs tariffs, whose schedules were in some instances thoroughly revised to make them more effective as instruments of protection and development policy.

/In the most

6. See section II.

In the most recent period, however, a resurgence of price and payments pressures in Argentina and Chile induced a significant reversal of these trends. Both countries, in fact, were led in early 1962 to reestablish a number of surcharges or prior deposit requirements designed to curtail imports, and Chile faced the need of returning to a divided exchange market to deal with a particularly difficult balance-of-payments situation.

Outside of these two countries, the intensification of exchange pressures in the 1957-61 period was met in a variety of ways. In Peru the payments difficulties that had originated in the 1956-57 boom, and in 1958 had been accentuated by the sudden drop of export receipts, were met with substantial exchange devaluation, tariff increases and direct import restrictions. The latter, however, were abandoned in 1959 and the country's dual exchange market was unified in May 1960 as a considerable inflow of funds from abroad changed Peru's external deficits into substantial surpluses. Mexico also resorted to a general tariff increase and stricter import controls to check exchange losses in 1957-58, but made no adjustments in the exchange rate.

In the 1957-61 period, the adjustment of exchange rates became one of the measures used to combat external payments pressures in some of the countries maintaining a high degree of exchange stability in the previous period, while at the same time resorting to multiple exchange rate practices on a minor scale to discriminate against, or in favor of, specific types of transactions. In general, the evolution was also in the direction of simpler exchange systems. This was the case, for instance, in Nicaragua, where discriminatory export rates were gradually eliminated in 1957-58 to offset the impact of deteriorating export prices, and a virtually unified exchange market was established in 1958. A similar evolution occurred in Costa Rica in 1961 when an overvalued rate, which had subsidized about half of total imports and penalized most exports, was adjusted by 15 percent and made applicable to almost all exchange transactions to head off mounting payments pressures. In 1961, a devaluation of comparable magnitude was also effected in Ecuador, where a gradual liberalization of exchange transactions had been under way since 1957 as a result of a favorable external position, but where the uncertainty surrounding the orientation of domestic policies had suddenly touched off a wave of speculation in late 1960. Exchange rate adjustments in these cases

/were accompanied

were accompanied typically by a number of other measures: temporary increases in taxation on major exports, designed to offset excessive windfall gains from the devaluation to the export sector; reductions in the duties levied on essential imports to soften the impact of the adjustment on the cost of living; and some increases in prior import deposits or surcharges on nonessential and luxury imports.

Except in Ecuador and Costa Rica, efforts were made to defend existing exchange parities in various ways. In Venezuela and El Salvador, for instance, both of which experienced severe capital flights under the influence of a general loss of confidence following the deterioration of the export sector, the freedom that had previously been enjoyed by exchange transactions was abandoned. Exchange controls imposed in El Salvador in April 1961 provided for the surrender of exchange proceeds to the monetary authorities and for the licensing of exchange payments. Only capital transactions, however, became the object of restrictions, approval being granted freely for current payments.

In Venezuela, the adoption of exchange controls in November 1960 was followed in 1961 by the establishment of separate exchange markets for various types of transactions, which amounted to a de facto devaluation of the rate for unessential imports and certain exports and invisible and capital transactions. Control on international payments were also tightened by the American Republics in 1961 in order to restore the foreign exchange reserves that had been severely depleted by capital exports. Cuba has resorted to extensive exchange controls since 1959.

The control measures adopted by these countries, however, were an exception to the policy pattern of the region; many of the Central American and Caribbean countries, with only limited reserves of gold and foreign exchange, continued throughout the period to lean heavily on deflationary domestic policies and external stabilization loans to defend the external value of the currency without any major modification to the freedom of the international payments system.

/II. THE STABILIZATION

II. THE STABILIZATION PROGRAMS

The stabilization programs initiated by most of the South American countries in the second half of the 1950's varied widely in the details of their implementation. In their broad outlines, however, as well as in their antecedents and basic objectives, they had a great deal in common. Generally they sought to redress situations involving substantial domestic inflation and severe balance-of-payments difficulties. In some cases the domestic price inflation had already reached a particularly acute stage just prior to the adoption of the program: two instances are Bolivia, where the cost-of-living index was rising at 100-200 percent annual rate in 1953-56, and Chile, where the index approximately tripled between 1953 and 1955. However, the most immediate and compelling factor involved in the actual decision to undertake a fundamental policy change was the deterioration of the external position to the point of crisis; in several instances the point was approached at which it became close to impossible to continue making foreign payments. Because of the rapid exhaustion of official gold and foreign exchange reserves and/or the accumulation of commercial arrears and other short-term liabilities on a scale so large, credits could no longer be made available from the usual foreign sources to cover the continuing balance-of-payments deficits. Such was the case in Argentina, where during 1958 the Central Bank's foreign assets dropped by more than half; and Colombia, where in 1955-1957 official reserves were reduced by half while commercial debts were accumulated to a level several times that of the exchange reserves.

Since most of the countries involved had a combination of excessive aggregate demand and extensive government controls, the measures adopted to restore internal and external equilibrium aimed essentially at cutting effective demand and eliminating some of the earlier restrictions. This was to be achieved partly by reducing the contribution of the public sector to aggregate demand--reducing expenditures or raising taxes--and partly by curtailing the finances available to the private sector for its own transactions, thus making it impossible for this sector to continue to bid for resources to the extent it had been doing previously.

/It is clear

It is clear that in this context the second, or monetary, set of measures would be most useful as a relatively short-term or interim policy; it would be designed to permit the introduction of the adjustments most urgently needed in the public--and to a degree in the private--sector, to bring the total demand for goods and productive services into closer balance with total supply. Monetary measures in themselves could not be expected to bring such adjustments about; they could however diminish the volume of transactions until either demand was reduced through a more deflationary fiscal policy or total supply was increased. Nevertheless, serious problems arise from the fact that in many less-developed economies there are certain limitations on the ability of monetary policy to achieve this without bringing undue restrictions to bear on a broad range of necessary transactions, including investments that could have contributed to the desired adjustments of total supply.7/

Although, the experiences of individual countries varied considerably, a further source of difficulty common to all was that the structural weakness of the Latin American economies made the adjustments of real demand and supply particularly difficult, so that the throttling of the flow of funds was maintained for more than just a transitional period. Not only were most stabilization efforts begun at times of declining export markets, but the compelling nature of many of the programs which required government financing also made it most difficult to achieve drastic reductions in current expenditure. And although some successes were obtained in raising the public sector's revenues, here too structural factors placed severe constraints on governments' freedom to act. Added to this were some major difficulties of a more accidental nature such as the disastrous earthquake which, in May 1960, created severe hardships in Chile and made large-scale public relief and reconstruction efforts imperative.

Although the stabilization programs were fairly effective with respect to prices and the balance of payments, the inflexibility of current government expenditures and revenues, combined with the particular set of policies adopted, produced a number of detrimental results on other areas. In the first place, in several instances it put the burden of reducing public expenditures on public investment and thus represented a substantial cost in terms of future

7. For a more detailed discussion of these limitations, see Point 3 below.

development potential. Second, by maintaining monetary restrictions for more than a transitional period, it hindered productive activities in those industries most dependent on commercial bank credit for their working capital. Finally, it restricted private investment and at times caused severe underutilization of capacity in industries depending on such investment, notably construction and industrial equipment.

The unemployment associated with the last two effects caused severe hardship and dampened counsumer demand. While a decline in demand had been one of the goals of the programs, it was to be achieved through an increase in public and private savings rather than through a contraction of consumer's incomes.

An examnination of the recent investment and employment data available for some of the countries pursuing stabilization programs provides ample illustration of these points. In Argentina, for instance, employment in manufacturing dropped by 12 percent between 1958 and 1960. In Chile, the number of registered unemployed doubled between 1955 and 1957 and nearly quadrupled by 1961.

Private fixed capital formation in real terms, for instance, showed a 25 percent decline in Argentina in 1959, the first year of the stabilization program; it dropped by about 30 percent in Colombia in 1957-58 as restrictive policies were implemented; and it fell by over 35 percent in Peru in 1958-59, as stabilization efforts were renewed. Futhermore, although the private investment decline was short-lived in Argentina, recovery was delayed for several years in most other countries. In Chile, for instance, the downward trend was prolonged through 1960; by then, the rate of private fixed capital formation, in real terms, had been reduced to only about two thirds of what it had been in 1957. In Colombia, by 1961 it was still approximately 20 percent below the peaks it had reached in 1954-56.

Public fixed capital formation, also calculated in real terms, in some cases suffered relatively less. However, it also contracted in 1958 in Chile and in 1957-58 in Colombia, among other examples, while in Peru public sector investments were cut approximately in half between 1957 and 1959 in order to balance the budget.

/The impact

The impact of the stabilization programs on the construction industry is also strikingly apparent. In Peru and Chile, the first two countries to implement formal stabilization programs, the gross domestic product generated in that industry underwent sharp declines (particularly in Chile were it was approsimately halved between 1955 and 1957) and stagnated for protracted periods, although this trend has been drastically reversed in both countries since 1959. Construction also experienced a marked recovery in Colombia in 1961, after four years of depression, but no such evolution has been observed in Argentina, where this industry's output has remained 10 to 20 percent below the 1957-58 level during the past two years.

In Chile output of machinery declined 18 percent from 1958 to 1961. In Argentina, metal production (excluding machinery and vehicles) fell by 13 percent between 1958 and 1960, while in the machinery and vehicle category, output fell by 16 percent in 1959, before recovering substantially in 1960 and 1961 under the impact of the rapidly expanding motor vehicle industry.

In other fields the programs were somewhat less beset by difficulties. In the area of exchange policy, effective action was usually taken at the beginning of the stabilization program. Even though not all multiple exchange rate systems were immediately replaced by single, flexible rates, the programs generally brought about a substantial reduction in the scope of exchange controls, a considerable simplication of the rate structures and, for a period of time, the valuation of currencies at considerably more realistic levels than before. At later stages, however, there were renewed attempts to maintain newly overvalued rates, leading most recently to some significant departures from the original exchange liberalization goals. Internally, the implementation of measures specifically designed to restore the freedom of the market mechanism in the domestic economy was carried out on a somewhat gradual and restricted scale, particularly as regards the abolition of price controls and government subsidies on major consumption items such as food products or public services.

In the area of wage policy, the need to break the inflationary price-wage spiral that had emerged in most countries induced major efforts to limit wage increases in the early phases of the stabilization programs. At later stages it was often impossible to prevent the reappearance of a substantial upward drift in the level of wages, particularly if by then the other stabilization measures had not succeeded in bringing to a complete halt the cost-of-living increases.

/1. Exchange

1. Exchange Liberation

Owing to the nature of the foreign payments emergencies to be faced, the countries embarking on a stabilization program generally made extensive use of short- and medium-term external credits during the initial phase of implementation of the policies designed eventually to replenish international reserves. One result of this use of external credit was a considerable increase in the foreign debt burden of these countries, repayment was to weigh heavily upon their balance of payments in later years. In the short run, however, external assistance played a very important part in the implementation of the stabilization policies, since it permitted the financing of a large volume of imports. To the extent that the total supply of goods and services was thereby increased, the need for credit restrictions to reduce aggregate demand was somewhat lessened.

With the backing of these external credits, substancial exchange reforms were also undertaken generally at the outset of the stabilization period. In most cases the first step was to correct the overvaluation of the currency and to abolish multiple rates and exchange controls (see table III-3). In Chile, while the liquidation of direct controls was largely effected by 1956, the transition to an entirely unified exchange market was not completed until 1959. However, with the emergence of new external payments difficulties in 1962 a dual rate structure was re-introduced. Peru similarly did not abandon its dual exchange market until 1960, but in this case, too, the basic reform, the freeing of exchange transactions, had been made in an earlier period. Colombia has retained a multiple rate system up to the present, but gradually introduced important simplifications after the official rates had been devalued in 1957.

Although in each of the countries under consideration, except in Colombia, the exchange rates were set free to fluctuate at an early stage of the stabilization period, these adjustments did not necessarily play an essential role in the process of adjustment toward over all economic equilibrium. There are, a number of examples of the use of exchange depreciation as a policy instrument in the course of implementation of the various stabilization programs; the Chilean peso, for instance, was allowed to depreciate by about 50 percent during the transition period of a dual fluctuating rate in 1956-58;

/Table III-3

Table III-3

LATIN AMERICA: EXCHANGE RATES IN SELECTED COUNTRIES, 1956-1961

(In units of national currency per US$)

End of year	1956	1957	1958	1959	1960	1961
Argentina	18.00-37.45	18.00-37.00	18.00-70.00	// 83.25	82.70	83.02
Bolivia	// 7,760	8,565	11,935	11,885	11,885	11,885
Chile	547-600	690-773	993-1,120	// 1,052	1.053[a]	1.053[a]
Paraguay	60.00-113.00	//111.30	111.30	122.00	126.00	126.00
Peru	19.00-19.05	19.00-19.17	24.49-24.63	27.70-27.71	// 26.76	26.81
Uruguay	1.50-6.11	1.50-6.11	2.10-13.20	2.10-17.18	// 11.03	10.98
Colombia:						
Main export rate	3.18	4.28	4.84	5.03	5.38	5.72
Main import rate	2.51	5.97	7.22	6.40	6.70	6.70
Free rate	6.86	6.22	8.23	7.01	7.23	8.82

Source: International Monetary Fund, International Financial Statistics.

Note: Before establishment of single fluctuating rate systems, marked by //, the rates given are the range of official and free market rates in the case of Argentina, Paraguay and Uruguay, and other dual free rates in the case of Chile and Peru.

a. A new monetary unit, the escudo, equal to 1,000 former currency units, was introduced in Chile in 1960.

/similarly, the

similarly, the boliviano suffered a 30 percent depreciation in the early years of the Bolivian stabilization program; in Paraguay, a 12 percent drop in the value of the guaraní occurred during the difficult 1959-60 period when the deteriorating export situation raised major obstacles to the implementation of stabilization policies; finally, in Peru the monetary authorities ceased to support the exchange rate in 1958, after four years of direct intervention in the market, and allowed a 30 percent drop in the external value of the currency to soften the impact of the sharp export decline experienced by the country until the second half of 1959. The rest of the time, however, and despite the fact that after the adoption of stabilization policies internal price levels continued to rise substantially, if more slowly than before, the new "fluctuating" rates were maintained almost completely stable by the intervention of the authorities in the exchange markets.

This was the case, in particular, in Chile and Argentina in the 1959-61 period, during which the unified free rates showed remarkable stability while the cost-of-living index rose by about one-third in the former, and two-thirds in the latter country. The lack of exchange rate flexibility has not gone without causing renewed difficulties in both countries, as the growing disparity between internal prices and price levels in the rest of the world contributed to a considerable upsurge in imports and encouraged speculative capital outflows. Although the increasing import volumes served to absorb some of the resurgent inflationary pressures experienced in both countries in the past year or two, the resulting exchange losses quickly became a serious problem. As a result, in early 1962 to both Argentina and Chile were led to take drastic steps which amounted to a reversal of the trend toward exchange liberalization--particularly in the case of Chile, where in order to avoid a full devaluation it was decided to impose a variety of exchange controls and to return temporarily to a dual exchange market including a fixed rate at the former level and a fluctuating rate which settled nearly 50 percent above the official rate.

In Colombia, where the exchange market had not been unified, the rate for secondary exports was linked to the free market rate since early 1959.

/The main

The main import rate, set at periodic auctions, had been allowed to depreciate substantially in the early stages of the stabilization program, and the spread between this rate and the free market rate had thereby been narrowed sharply. Since 1960, on the other hand, the official selling rate has been pegged at a fixed level despite substantial increases in both the internal price level and the exchange rate on the free market, a factor that has no doubt played a part in the sharp rise in import demand and in the large exchange losses also experienced over the past two years.

Another important consideration bearing on the implementation of stabilization program objectives in the area of exchange and trade policy is that at the time of the exchange reforms which, except in Colombia, generally abolished outright restrictions on exchange transactions, most countries instituted or intensified indirect forms of control, in particular the taxation of exports and imports or the imposition of advance deposits on imports. While these techniques had the advantage of making a significant contribution to the pursuit of other important stabilization program objectives--such as providing additional government revenue or reducing liquidity--they cut down considerably on the degree of trade and exchange liberalization effectively achieved.

The use of export retention taxes, in particular, as in Argentina and Uruguay, recreated up to a point the effect of the former multiple exchange rates, while in Paraguay the imposition of a general 15 percent tax on exports served the function of an artificial spread between buying and selling rates in the exchange market. These measures, however, were meant to be temporary, and in all three countries, as well as in Colombia, the initial export taxes were subsequently reduced, and often entirely eliminated, on a number of important products. This substituted, up to a point, for exchange rate flexibility in the face of rising domestic production costs or falling external demand.

On the other hand, the surcharges and prior deposit requirements imposed to contain imports, served in a number of cases as temporary substitutes for eventual modifications in the customs tariff. After the stabilization programs were under way, however, a relaxation was generally effected in the

/initial severity

initial severity of both surcharges and deposit requirements. Between 1959 and 1961, advance deposit requirements on imports were abolished in Argentina, Chile, Peru and Bolivia, and relaxed in the other countries. In this period import surcharges were also reduced or eliminated in several countries on a variety of imports, particularly on agricultural machinery and equipment and raw materials essential to the development of major industries. A notable exception to this trend was found in Paraguay, where general surcharges totalling 24 percent of import value were gradually imposed during the 1959-61 period to contain imports in the face of falling export receipts, and to provide fiscal revenue for development programs. Here, the use of uniform surcharges applicable to all imported goods further widened the spread between buying and selling exchange rates without formal devaluation.

In Chile, prior to the reimposition of exchange controls in January 1962, the advance import deposits had been gradually replaced by import surcharges, to be incorporated into a new customs tariff in the future. The new exchange regime, however, has re-introduced prior deposits in amounts equal to the import surcharges and has imposed outright prohibitions on a wide range of nonessential and luxury items unless imported through special free-port zones where they will pay increased surcharges and be regulated more tightly than in the past. In Argentina, a pressing need to narrow the trade deficit was also felt at about the same time. In that country, an additional 100 percent surcharge was imposed in January 1962, on certain nonessential and luxury imports. At the same time the authorities suspended a number of the surcharge exemptions that had been granted on machinery imports in previous years to facilitate the equiping of industry and agriculture. More recently, a general 20 percent surcharge was imposed on virtually all imports, as the Central Bank stopped supporting the peso in the exchange market and allowed its depreciation from the level it had maintained for three years.

In general, then, serious difficulties have in many cases slowed the trend toward greater fredom of exchange under the recent Latin American stabilization programs. Nevertheless a slow evolution has been taking place in a number of countries since the latter part of the 1950's toward making import tariffs a more important and effective instrument of both commercial and development policy. For example, in Peru and Colombia, efforts to stimulate important industries

found expression in the more systematic use of both tariff protection for their products and exemptions from import duties and surcharges for their raw materials and machinery imports, side by side with other types of fiscal exemptions.

2. Monetary and fiscal policies under stabilization programs

In most of the Latin American countries where excessive liquidity existed in the 1950's, policies were adopted to curb the rate of monetary expansion. Although the extent to which this was achieved varied between countries during 1957-61, in this respect the stabilization programs met with some significant successes (see Table III-4).

In general, the inflationary process had been furthered by the rapid growth of bank credit, extended both to the public and to the private sector. The stabilization programs adopted in the latter part of the decade therefore aimed to bring both credit flows under control. Owing to the nature of the problems confronting fiscal policy in an inflationary setting however, a prompt curtailment of the government sector's deficit financing was often one of the most difficult objectives to achieve, while the restriction of credit to the private sector was usually implemented more drastically and with fewer delays, so that initially this sector bore the brunt of the burden of monetary restraint. In examining the percentage share of claims on the public and the private sector in the banking system's total domestic assets in 1956-61 for five of the countries that implemented stabilization programs during this period (see Table III-5), adoption of the program appears to be characterized by an immediate and sustained contraction of the share of claims on the private sector in total domestic assets of the banking system. The share of credit to the public sector, on the other hand, at first shows little or no tendency to decline in any of the countries shown in the table.

The initially uneven impact of the monetary restraint policies on the extension of bank credit to the public and private sectors continued in some cases through most of the 1957-61 period. In Paraguay, the percentage share of claims on the government and official entities during this period rose substantially above the pre-stabilization level, while claims on the private sector underwent the most severe and protracted contraction in the experience of the five countries listed in Table III-5. In Bolivia, where a high rate of exchange

Table III-4

LATIN AMERICA: ANNUAL PERCENTAGE INCREASE OF THE MONEY SUPPLY IN SELECTED COUNTRIES, 1951-1961[a]

	1951-56	1957	1958	1959	1960	1961
Argentina	18	12	46 //	44	26	15
Bolivia	84 //	48	3	28	9	18
Chile	44	25	37	27	44	11
Colombia	16 //	14	21	11	10	24
Paraguay	35[b] //	3	19	9	2	27
Peru	13	4	7	25	13	18
Uruguay	7	6	31	43 //	31	19[c]

Source: International Monetary Fund, International Financial Statistics

Note: // Indicates timing of initial stabilization effort, except for Peru (1954) and Chile (1955).

a. Computed on the basis of end-of-year data.
b. 1953-56.
c. Twelve months ending November.

/Table III-5

Table III-5

LATIN AMERICA: PERCENTAGE DISTRIBUTION OF TOTAL DOMESTIC ASSETS OF THE BANKING SYSTEM IN SELECTED COUNTRIES, 1956-1961

End of Year	1956	1957	1958	1959	1960	1961
Argentina						
Claims on public sector	33.1	34.4	39.6	40.9	38.5	33.7
Claims on private sector	60.5	60.4	57.2 //	53.9	58.6	61.8
Unclassified	6.4	5.2	3.2	5.2	2.9	4.5
Bolivia						
Claims on public sector	88.6	81.3	81.5	82.5	83.4	79.3
Claims on private sector	6.6 //	12.6	12.0	10.2	9.0	11.6
Unclassifieda/	4.8	6.1	6.5	7.3	7.6	9.1
Colombia						
Claims on public sector	20.2	21.7	21.0	20.0	17.6	17.7
Claims on private sector	59.3 //	52.9	53.5	51.4	55.1	55.8
Unclassifieda/	20.5	25.4	25.5	28.6	27.3	26.5
Paraguay						
Claims on public sector	20.2	27.7	24.6	26.1	29.5	29.7b/
Claims on private sector	65.9 //	60.4	54.4	55.1	53.0	50.2b/
Unclassified	13.9	11.9	21.0	18.8	17.5	20.1b/
Peru						
Claims on public sector	22.1	24.3	26.3	31.7	28.9	25.1b/
Claims on private sector	60.2	55.2	50.8	48.6	53.8	55.5b/
Unclassifieda/	17.7	20.5	22.9	19.7	17.3	19.4

Source: International Monetary Fund, International Financial Statistics.

Note: // Indicates timing the stabilization program except for Peru, where the first program was drafted in 1954.

a. Including claims on some official or semi-official entities.
b. November.

/losses had

losses had enormously swollen the central bank's claims on government in 1956, a simultaneous decrease in the share of claims on the public sector and increase in claims on the private sector were first observed in 1957; but in the next three years the share of the former also gradually rose at the expense of the latter. In these countries, as well as in Chile[8/] and in Peru until 1960 the inability of the public sector to reduce its deficits prolonged the severe restriction of credit to the private sector which no doubt played its part--together with developments in the export sector--in the stagnation of economic activity experienced in varying degrees over much of the period under review.

There are nevertheless several examples of successful reductions in the reliance of the public sector on bank financing at some stage in the stabilization process. The share of claims on the public sector in the banks' total domestic assets contracted significantly toward the end of the 1957-61 period not only in Peru, where it had been rising under earlier stabilization efforts, but also, with much less of a lag, in Argentina and Colombia (see Table III-5). In Argentina, in particular, the restriction of bank credit to government and official entities played an important role in the stabilization policy from 1959, the first year of the program (although this was not reflected in a decline of the percentage share of claims on government until 1960 because of the inclusion in these claims of sizeable foreign exchange losses incurred as a result of the December 1958 devaluation). In all three of these countries, by 1960-61, the share of claims on the private sector in the banks' total domestic assets was in fact gradually reassuming some of its earlier importance, as a relaxation of the monetary restrictions was allowed to facilitate the expansion of production after the sizeable initial decline in economic activity brought on by the stabilization measures.

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8. Not shown in Table III-5 for lack of comparable data.

a. Credit policy

The creation of liquidity for the private sector was significantly curbed at an early stage under most of the South American stabilization programs carried out during the 1957-61 period (see Table III-6). The implementation of monetary restrictions is, however, subject to a number of limitations in Latin America. Monetary policy is most effective when it utilizes a combination of all the tools available to the central banks, especially open-market operations, changes in discount rates, and changes in reserve requirements. This is so because, although all can be made to work in the same general direction, each one is more effective in restraining particular types of transactions than are the others. In developed countries, for instance, changes in the central bank's rediscount rate, by being transmitted to the bank rate, can usually hinder investment in capital-intensive industries without greatly interfering with the availability of working capital to other enterprises. Similarly, open-market operations work their effect, at least in part, through the cost of money. Changes in bank reserve requirements, on the other hand, have a direct and quantitative impact on the banking system's ability to lend to the economy. They are therefore likely to have much greater effects on the transactions carried out by all firms dependent on bank credit, whatever the purpose of the borrowing.

The success of open-market operations, however, is contingent on the existence of a fairly broad market in government securities, a condition absent in most Latin American Countries. At the same time, the relatively small interest rate variations usually produced by changes in the central bank's rediscount rates are of little practical significance in countries that have experienced substantial inflation. For these reasons the restrictive monetary policies implemented under the various Latin American stabilization programs generally have had to rely heavily on changes in reserve requirements. This is perhaps the least selective instrument of monetary control unless--as was eventually done in some cases--requirements are made to vary with the purpose of the credits granted.

/Table III-6

Table III-6

LATIN AMERICA: LIQUIDITY CREATION BY THE BANKING SYSTEM ON ACCOUNT OF THE PRIVATE SECTOR IN SELECTED COUNTRIES,[a] 1957-61

Changes in	1957	1958	1959	1960	1961
Argentina (in billions pesos)	12.24	25.91 //	22.69	36.88[b]	57.50
Commercial bank credit	7.33	21.35	21.02	36.31[b]	56.54
Central bank mortgage credit	4.91	4.56	1.67	.57	.96
Bolivia (in billions bolivianos)	// 30.21	9.99	6.71	1.36	31.12
Commercial bank credit	36.06	10.00	1.84	-.01	30.04
Central bank credit to development banks	-5.85	-.01	4.87	1.37	1.08
Colombia (in millions pesos)	// 158	203	36	488	1,253
Commercial bank credit	65	77	306	585	843
Central bank credit	362	397	-86	-24	264
less: import deposits (increase-)	-269	-271	-184	-73	146
Paraguay (in millions guaranies)	// -53	90	120	327	162[c]
Commercial bank credit	41	82	262	92	264[c]
less: import deposits (increase-)	-94	8	-142	235	-102[c]
Peru (in millions soles)	763	190	357	922	1,467
Commercial bank credit	495	68	270	1,148	1,475
Central bank credit to development banks	268	122	87	-226	-8
Uruguay (in millions pesos)	318	536	702 //	932	659[d]
Private bank credit	198	443	533	490	572[d]
Bank of the Republic credit	120	93	169	442	87[d]

Source: International Monetary Fund, International Financial Statistics.

Note: // Indicates timing of initial stabilization effort, except, in Peru (1954), and Chile (1955).

a. Including loans to some official or semi-official entities in Colombia, Peru and Uruguay. The annual changes are computed on the basis of end-of-year data.

b. After estimated adjustment for January 1960 revaluation of foreign currency loans.

c. Twelve months ending September.

d. Twelve months ending November.

/In addition

In addition to this, the effectiveness of monetary policy increases with the proportion of bank deposits to the total money supply, and on the contrary is lessened by a high ratio of coin and currency. Since in many Latin American countries the ratio of currency to total money supply is high,[9] a major constraint is initially placed on regulating liquidity through the control of bank credit. The result is that relatively greater restraints must be placed on this form of credit to achieve a given result in terms of liquidity. This explains to some extent why, in addition to changes in bank reserve requirements, direct ceilings on commercial bank credit and direct control of the volume of rediscounting effected by the central bank for the commercial banks also constituted at times important adjuncts of the monetary stabilization policies.

In addition to the use of these three major monetary instruments, various other steps were taken in some of the countries. In cases where the central bank's direct credit to the private sector had been an important factor in the monetary expansion, efforts were made to curb this credit flow. In Argentina, for instance, beginning in 1959, the central bank withdrew almost completely from the mortgage lending field where it had been an important source of funds throughout the postwar period. The loans of the Colombian central bank, which had grown considerably during the period of strict controls on commercial bank lending in 1957-58, began to contract in 1959 as a result of a drop in that institution's coffee stock financing. This was made possible by the adjustment of exchange rates which increased exchange profits and supplied alternative resources for the financing of stocks. In Peru, the central bank's credit to a variety of development institutions, which had risen considerably in 1957, was gradually stabilized and eventually reduced sharply in 1960 as commercial bank credit began to rise rapidly. In Uruguay, where the private banks' credit to the private sector was little affected by the monetary stabilization effort, in 1961 the Bank of the Republic was able to halt almost completely the rapid expansion of its own credit to this sector after the 1960 upsurge in this lending.

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9. While in the United States this ratio is approximately 20 percent, in eight Latin American countries--Argentina, Cuba, El Salvador, Guatemala, Haiti, Paraguay, Uruguay and Venezuela--it exceeds 50 percent, and in all others, except Brazil (25 percent), is above 34 percent.

/Beyond these

Beyond these measures of credit control, the advance deposit requirements that had been instituted or raised primarily to contain imports temporarily also served in some countries to absorb large amounts of liquidity. These requirements played a particularly important role in the stabilization programs of Colombia and Paraguay, where they offset a good deal of the bank credit expansion in 1957-59. More recently, however, the drawbacks of this device as an instrument of monetary policy became apparent in both countries. In Paraguay, reductions in the level of prior import deposit requirements incidentally released substantial amounts of funds in the money market in 1960, accounting for the major part of the monetary expansion during that year. In Colombia, by mid-1960 the rapid growth of imports had raised the volume of import deposits to such high levels that they came to constitute a handicap for the conduct of both monetary and exchange policy. Starting with June 1960, successive reductions were effected in the Colombian import deposit requirements, contributing significantly to the creation of liquidity in 1961.

The net impact of the various monetary restrictions on the amount of liquidity created for the private sector generally reached a peak of intensity between 1957 and 1959 (except in Uruguay where the stabilization policies were implemented only at the end of the decade). Toward the end of the period, on the other hand, strong pressures developed in favor of increasing the flow of credit to the productive sectors of the economy. The severity of the initial controls on the volume of credit to the private sector was then allowed to diminish in several countries, while greater efforts were made to improve the distribution of credit among various types of economic activities in accordance with the objectives of agricultural and industrial development policies. By 1960-61, a few of the techniques that had served for quantitative credit control had been altogether abandoned in these countries, while some of the others were gradually being transformed into vehicles for emerging qualitative credit policies.

i) Direct restrictions on commercial bank credit. These restrictions, in various forms, played an important part in the early stages of the monetary stabilization policies of those countries where the expansion of commercial bank credit to the private sector had been particularly high (see Table III-7), but lost a good deal of their importance in recent years. In Paraguay, where credit expansion

/Table III-7

Table III-7

LATIN AMERICA: ANNUAL INCREASES IN COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR IN SELECTED COUNTRIES,[a] 1951-61

(In percent)

	1951-56	1957	1958	1959	1960	1961
Argentina	21	16	40 //	28	41[b]	40
Bolivia	50 //	142	16	3	-	41
Chile	36	41	23	31[b]	19	32
Colombia	21 //	3	6	12	21	25
Paraguay	58[c] //	2	4	11	4	13[d]
Peru	18	10	1	5	20	21
Uruguay	16	16	30	28 //	20	20

Source: International Monetary Fund, International Financial Statistics.

Note: // Indicates timing of initial stabilization effort, except in Peru (1954) and Chile (1955).

a. This includes credit to some official or semi-official entities in Colombia and Uruguay, as well as in Peru in 1961. The increases are computed on the basis of end-of-year data.

b. After approximate adjustment for revaluation of commercial banks' foreign currency loans in January 1960 in Argentina, and December 1959 in Chile.

c. 1953-56.

d. Twelve months ending September.

/had proceeded

had proceeded at an average rate of 58 percent a year in 1953-56, bank credit ceilings became the major instrument of monetary restraint beginning in 1956. In Bolivia, a comparable surge of commercial bank credit to the private sector was not stopped until a credit freeze was imposed in August 1958. Chile also turned to commercial bank credit ceilings as the basic ingredient of its credit control policy in the first years of its stabilization program, but abandoned the technique in late 1958 (except for curbs on the financing luxury imports) as part of a general shift toward indirect controls. This included a reshaping of monetary policy in 1959 to rely more heavily on bank reserve requirements, as well as the unification of the foreign exchange markets and other previously mentioned measures. In Bolivia, the use of direct restrictions on commercial bank credit also eventually gave way to the adoption of other monetary instruments and the credit freeze was suspended in November 1959. In Argentina, ceilings on various types of loans for non-productive activities, which had been imposed in January 1959, were only enforced until the end of the year.

In Colombia a somewhat different evolution could be observed with respect to this monetary instrument. In that country, new reliance was placed on a set of maximum permissible expansion rates for commercial bank credit in 1960, after the abolition of the high supplementary reserve requirements that had been imposed in 1957 and 1958. The maximum expansion rates, which affected all productive assets of the commercial banks, at first imposed both an over-all ceiling on the growth of commercial bank credit and a pattern for its distribution between various types of loans. After a year, however, the restrictions on the over-all volume of credit were eliminated, and the system became purely an instrument of selective credit control policy, geared to foster, in particular, the expansion of agricultural and development loans of various kinds.

ii) Reserve requirements. The use of variable cash reserve requirements to regulate the credit activities of commercial banks became increasingly widespread in Latin America in the past decade. In many countries, variations in commercial bank reserve requirements became one of the most important adjuncts of monetary stabilization policy and in some cases also came to serve as a device for channeling bank credit into selected uses. In the countries where comprehensive monetary stabilization efforts were undertaken, the banks generally

/had to comply

had to comply not only with the usual basic requirement that a minimum (and mostly moderate) percentage of bank deposits be held in the form of a cash reserve, but also with the more severe obligation to maintain a supplementary reserve against any increase in bank deposits over the level reached on a specified date. The institution of higher basic or of marginal reserve requirements usually marked the beginning of comprehensive monetary stabilization.

In Paraguay, where the rapid growth of bank credit to the private sector had been the major factor in the monetary expansion of the first part of the 1950's, the first steps on the path to severe monetary restraint were taken in 1956 and consisted of stricter enforcement of existing reserve requirements; this was followed in early 1957 by a rise in the basic reserve requirements and the imposition of a 50 percent marginal reserve.

In Bolivia, at the start of the stabilization program, bank deposits outstanding were subjected to a 40 percent reserve requirement, together with marginal requirements of 50 percent after December 1956, and 75 percent after March 1957. In Colombia, a general relaxation of bank reserve requirements had contributed to the substantial credit expansion of 1956. In 1957-59, however, effective use was made of the reserve requirements to curb the growth of commercial bank credit to the private sector. The basic reserve requirements on bank deposits were raised by 9 percentage points in two years, and deposit increases were subjected to requirements of 80 percent after June 1957 and 100 percent after January 1958.

In Argentina, where both commercial bank credit and deposits had risen sharply in 1958, one of the major features of the stabilization plan drafted at the end of the year was a 10 percentage point increase in the minimum cash reserve required on commercial bank sight liabilities, and the institution of a 20 to 30 percent supplementary requirement on increases in these liabilities over their October 1958 level.

In the late 1950's there was also a more intensive use of the reserve requirement instrument in countries where it had not been a major factor in earlier stabilization efforts. In Chile, bank reserve requirements became the main weapon of credit control in April 1959. Successive marginal requirements of 50, 75, and 87.50 percent were imposed on bank deposit increases in 1959-60 in

/an attempt

an attempt to mitigate the expansionary impact of a substantial inflow of foreign funds on the liquidity of the banking system. In Peru, widespread non-compliance had weakened the effectiveness of the reserve requirement instrument during the 1950's. Increases in the requirements and the application of more severe penalties for deficiencies helped to slow the expansion of bank credit to the private sector in 1957-59.

In 1960-61, on the other hand, in several countries large amounts of bank reserves were released for lending; frequently, this coincided with an inflow of foreign funds which further increased the ability of the banking system to expand credit. Little was done in Peru for instance, to offset the large inflow of funds that had developed on foreign account at the end of 1959, and the growth of bank credit resumed at a rapid rate. A 100 percent reserve requirement was applied to deposit increases after April 1960, but the bulk of it could be met with funds loaned to the Agricultural Development Bank, to facilitate the financing of agricultural projects.

Similarly, in Argentina, after the initial reserve requirement increases of January 1959, no additional action was taken to offset the inflow of liquidity that developed on foreign account at an early stage in the stabilization process. On the contrary, beginning in December 1960, with the immediate objectives of the stabilization policy seemingly attained, the existing reserve requirements were gradually relaxed in Argentina to permit a freer flow of credit to the economy. By August 1961, the supplementary requirements on deposit increases, in particular, were no longer applicable, and the regular requirements were substantially reduced from what they had been at the peak of the credit squeeze.

Most of the reserve requirement reductions granted in Argentina over this period, however, were made conditional on the use of the funds to finance industrial equipment or agricultural development projects, in an effort to channel as much of the credit expansion as possible to the most productive uses. The same concern with selective credit expansion soon came to govern the administration of bank reserve requirements in Chile, where beginning in April 1960 the marginal reserve requirement, in particular, was increasingly used as an instrument of development policy. Within a year, a large volume of Chilean bank reserves were freed as the banks were successively allowed to include in

/required reserves

required reserves a certain proportion of special credits to agriculture, loans for earthquake reconstruction projects, and special issues of Treasury securities whose proceeds were to be used by the Central Bank to supply medium-term credit for productive instruments.

A similar trend can be detected in Colombia, where beginning in 1959, the significance of the 100 percent reserve requirement on bank deposit increases was altogether modified, and shifted from the area of quantitative to that of qualitative credit control, as large amounts of bank reserves were freed for investment in agricultural credits of various types. In the wake of this transformation, the 100 percent requirement was eventually abolished and the burden of credit control transferred in May 1960 to the system of direct restrictions on the expansion of bank credit described above. Additional funds were also released for bank lending in mid-1960 through a reduction by several percentage points of the regular 23 percent requirement on-call and short-term liabilities, although steps were taken in the first half of 1962 to cancel this expansionary move with gradual increases back to the usual requirement level.

iii) Central bank rediscount policy. The administration of central bank rediscounting played a fluctuating role in the regulation of commercial bank credit under the monetary stabilization policies implemented in various South American countries in recent years. In most cases the percentage of commercial bank credit to the private sector that was ultimately financed by the central bank via the rediscount mechanism rose to a peak sometime during the years of most intense monetary restraint, between 1957 and 1959 (see Table III-8). By 1960-61, on the other hand, central bank rediscounts had largely been reduced to a minor role in the total financing of the private sector, except in Paraguay, where the state-owned Bank of Paraguay continued to refinance the major part of its loans at the central bank as it had done regularly since the reorganization of its issue department into a separate central banking institution in 1952.

With the exception of Argentina and Uruguay, an increase in central bank rediscounts mitigated somewhat the impact of the first reserve requirement increases on the commercial banks' ability to lend to the private sector. The Bolivian banks, for instance, made intensive use of rediscount facilities to ease their position during the first years of the credit squeeze. A similar pattern evolved in Chile, where an increase in rediscount rates in 1957 and the institution of graduated penalty rates on rediscounting above the individual bank ceilings did not prevent the maintenance of a heavy volume of rediscounts through 1958.

/Table III-8

Table III-8

LATIN AMERICA: CENTRAL BANK CREDIT TO COMMERCIAL BANKS IN SELECTED LATIN AMERICAN COUNTRIES, PERCENTAGE OF COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR[a] 1956-61

End of year	1956	1957	1958	1959	1960	1961
Argentina	b/	17.0	12.3 //	10.4	7.0	6.3
Bolivia	2.1 //	20.1	17.8	29.0	8.5	6.0
Chile	26.6	30.1	23.5	1.6	0.7	0.7
Colombia	14.1 //	19.7	16.9	13.6	16.5	11.5
Paraguay	77.9 //	82.7	77.4	72.4	68.6	68.9 c/
Peru	4.1	8.8	7.3	2.8	2.1	1.4
Uruguay d/	15.7	14.7	16.8	15.5	// 13.7	8.7 c/

Source: International Monetary Fund, International Financial Statistics.

Note: // Indicates timing of initial stabilization effort, except for Peru (1954), and Chile (1955).

a. Commercial bank credit to the private sector includes loans to some official or semi-official entities in Colombia and Uruguay, and in Peru in the preliminary data available for 1961.

b. The rediscount and credit figures relating to the period preceding the 1957 banking reform are not comparable to subsequent data.

c. November.

d. In Uruguay, where there is no central bank, the data relate to credit extended by the Bank of the Republic to the private banks.

In Colombia an attempt to freeze the level of central bank rediscounts, except for certain kinds of agricultural and industrial credit, was only pursued briefly in 1957, and by the year-end the volume of commercial bank rediscounts with the central bank had in fact risen by nearly 50 percent as the banks adjusted to the high reserve requirements imposed upon them. In Peru, central bank rediscounting for the commercial banks also played a major part in supporting the expansion of commercial bank credit to the private sector that continued in 1957 despite the increase of bank reserve requirements.

In more recent years, a distinct tightening of central bank rediscount policies was effected in most countries. Restraint in this area figured, in particular, among the major components of the two more recent stabilization programs. In Argentina, where commercial bank resort to central bank credit had steadily decreased beginning with the banking reform of 1957, the stabilization policy inaugurated in 1959 included the strict limitation of commercial bank access to the central bank's discount facilities. Similarly in Uruguay, where rediscounts from the Bank of the Republic to the private banks had become an important factor in the monetary expansion in the 1950's, efforts were made from the beginning of the stabilization program to transform rediscounting from a current to an emergency source of credit to the private banks. In April 1960, the volume of outstanding rediscounts was frozen until the end of the year, after which a combination of rediscount ceilings and administrative controls considerably reduced the importance of rediscounting.

In several countries, the implementation of more restrictive central bank rediscount policies, began in the late 1950's, was facilitated by an inflow of funds from abroad, which helped ease the banks' liquidity positions. In Peru, rediscounting began to contract slightly in 1958, as over-all monetary restrictions were intensified. Toward the end of 1959, however, the volume of rediscounts was reduced to an insignificant 3 percent of commercial bank lending to the private sector, as bank reserves improved considerably under the impact of a large-scale inflow of foreign funds. In 1959 a similar increase in liquidity took place in Chile with the virtual abolition of commercial bank rediscounting at the central bank. In Colombia, in early 1958, a 20 percent cut in the banks' rediscount quotas sparked a contraction in the volume of rediscounts which was prolonged to the end of 1959 by an inflow of funds on foreign account. Subsequent modifications in the Colombian banks' rediscount quotas however led to a re-expansion of central bank rediscounts in 1960, while in 1961 the successive implementation of conflicting rediscount policies was overshadowed toward the year-end by the re-establishment of an automatic link between rediscount quotas and the growth of bank capital.

b. Fiscal Policy

As noted previously, the fiscal component of the Latin American stabilization programs has been implemented with widely varying degrees of success. In each country, the results obtained have depended not only on the characteristics and scope of the public sector, the structure of the tax system, and the nature of the changes introduced under the stabilization program, but also on such important variables as the evolution of major export markets, the rate of economic growth, and the momentum of the price inflation. Each one of these factors could be expected to have a substantial impact on both the revenues and the expenditures of the public sector, and to influence the extent to which inflationary deficit financing could be curtailed in the short run.

In a highly inflationary setting, in particular, the elimination of government bank borrowing was, almost by definition, impossible to achieve without a certain time lag. Except where external loans had been obtained, the opportunities for financing the excess of expenditures over receipts outside of the banking system could only be increased after a reasonable stabilization of the value of the currency had been achieved, since there could be no market for public bond issues until that time. Yet, the upward bias imposed by the price inflation on most government expenditures usually placed severe limitations on the extent to which the size of the deficit could be reduced in the immediate future, even when revenues could be expanded fairly quickly. The evolution of government revenues, moreover, was closely linked to that of over-all economic activity, which as noted earlier, was often unfavorably affected in the early stages of the stabilization programs. Deteriorating export markets, finally, bestowed an additional dimension on the fiscal problem in a number of countries, where the stagnation or contraction of the export sector at the beginning or in the course of implementation of the stabilization program had the double effect of depressing revenue prospects while intensifying pressures for compensatory expenditures.

It is difficult to determine precisely the extent to which fiscal policies were actually tightened in each country in the 1957-61 period, because of the lack of adequate statistics and the conceptual problems involved in the definition of expenditures, receipts and fiscal deficits within the framework of the typically

/complex and

complex and heterogeneous public sectors characteristic of many Latin American countries.[10] In general, revenues rose relatively promptly under the impact of various factors, except in cases where the fiscal effort was seriously handicapped by export difficulties. Expenditures, after correction for the effect of price increases, rose only moderately in the early part of the period under review. In the last year or two, on the other hand, their expansion quickened markedly in several countries. Although these were mostly the countries where efforts to raise revenues had met with most success, spending again showed signs of outrunning receipts as a result. In Argentina and Colombia, a significant amount of non-inflationary financing had also helped to reduce briefly the pressure of the government budget on the banking system; but more recently inflationary pressures reappeared in both countries.

Table III-9 shows the annual change in net indebtedness of the public sector to the banking system in 1957-61 as a result of the fiscal effort in each country.[11] The figures suggest that the public sector's bank financing was largely curbed within a year or two in Argentina and Colombia, and that in Uruguay the national government began to accumulate substantial cash balances even before embarking formally on its recent stabilization program. It should be noted, however, that in both Argentina and Colombia, the public sector again obtained substantial bank financing in 1961. In Peru, where stabilization efforts had been stepped up toward the end of the decade, the state of the public finances was drastically improved in 1960 and 1961, after a protracted period of large-scale deficit financing. On the other hand, in Bolivia, Chile,[12] and Paraguay, where the rate of inflation

10. In many instances, the public sector properly includes not only the national or central government, but also provincial and municipal governments (most important in Colombia), a great variety of autonomous or semi-autonomous public agencies and enterprises (in Argentina, Colombia and Uruguay for instance), and a large social security sector (especially in Argentina, Chile and Uruguay). The deficits of the various entities are usually covered by grants and transfers inscribed in the budget of the central government, to which the present analysis will generally be confined. An effort has been made, however, to take all expenditures and revenues of the central government into account, including those appearing outside of the ordinary budget, for instance in the "Special Lows" accounts in Paraguay and Peru, and in the "Import Surcharge and Export Retention Fund" in Uruguay in 1960 and 1961.

11. A major qualification to this, however, is the fact that foreign assistance for budgetary support reduced materially the need for internal bank credit in Bolivia and played varying but lesser roles in other countries.

12. Not shown in Table III-9 for lack of comparable data.

/Table III-9

Table III-9

ANNUAL PERCENTAGE CHANGE IN NET INDEBTEDNESS OF THE PUBLIC SECTOR TO THE BANKING SYSTEM IN SELECTED COUNTRIES, 1951-61[a]

	1951-56	1957	1958	1959	1960	1961
Argentina	7	29	85 //	35[b]	5	20
Bolivia	115 //	20	28	23	20	3
Colombia	30 //	46	3	5	-1	18
Paraguay	11[c] //	48	33	25	20	30
Peru	10	34	33	29	-3	-7
Uruguay[d]	8	8	8	-50[e] //	-121[e]	-126[e]

Source: International Monetary Fund, International Financial Statistics.

Notes: Net indebtedness refers to loan balances less deposits of the government and the official entities with the banking system. The public sector has been defined to exclude government-owned development banks in Bolivia and Peru, and some non-bank financial institutions owned by the government in Colombia, which presumably act mostly as financial intermediaries to supply funds to the private sector.

//. Indicates timing of initial stabilization effort, except in Peru (1954).

a. Computed on the basis of end-of-year data.

b. Including mostly the large exchange losses of the central bank, which arose from the liquidation of exchange contracts at pre-devaluation rates.

c. 1953-56.

d. Excluding an unkown amount of commercial bank loans to autonomous government agencies.

e. Principally increases in government and official entities' deposits at the Bank of the Republic.

f. Twelve months ended November.

/had been

had been considerably more acute than elsewhere, the public sector generally exerted strong inflationary pressures through most of the period of stabilization attempts. The pressures, in fact, showed signs of intensifying in Chile and Paraguay in the last year or two after a brief period of relative improvement. In Bolivia, however, the deficit was reduced in 1961 to a level that could be financed with foreign grants (which have ranged each year between 20 and 30 percent of general government expenditures) and the recent fiscal improvement was expected to gain increasing momentum in the future.

The drive to increase government revenues met with considerable success in most countries between 1957 and 1961 (See Table III-10). In Argentina and Colombia, in particular, the national governments' revenues not only kept pace with price increases, but rose rapidly in real terms from the first year of the stabilization effort. The depression of economic activity and the severity of the export declines experienced in Chile and Peru in the early part of the period initially contributed to a stagnation of fiscal revenue, but revenues began to improve rapidly in Chile in 1959 and in Peru in 1960, as exports and production recovered. In Uruguay too the government suffered considerable revenue losses in a year of severe export decline--1959--but in the next two years was able to expand its income by over 50 percent in real terms as exports rose by about 70 percent. On the other hand, in Bolivia and Paraguay the fiscal effort was hampered for protracted periods by unfavorable production and export trends. In Paraguay, however, the central government had initially been able to increase its ordinary revenues quite substantially in 1957 and 1958.

In most instances, the imposition of new or higher leview on imports and exports in connection with the exchange reforms, described earlier in this chapter, provided a major source of additional revenues. This was the case, for instance, in Argentina and Colombia where the trend of revenues based mostly on internal taxation diverged sharply in some years from that of revenues incorporating a variety of taxes and surcharges on foreign trade transactions (see again Table III-10). In Uruguay the bulk of the 1960-61 revenue increases can be seen to have originated in the import surcharge and export retention fund established in 1960 along with the formal unification of the exchange system.

/Table III-10

Table III-10

REVENUE OF CENTRAL GOVERNMENTS AND SHARE OF TAXES ON FOREIGN TRADE IN SELECTED COUNTRIES, 1957-61

(1958 = 100)[a]

		1957	1958	1959	1960	1961[b]
Argentina[c]	A	-	100	121	142	148
	B	-	100	79	94	99
	C%	-	-	35	34	33
Bolivia	A	106	100	92	87	105
	B	69	100	95	88	97
	C%	57	34	32	33	39
Chile	A	98	100	111	124	130
	B	86	100	105	113	121
	C%	34	25	31	32	31
Colombia	A	86	100	109	117	114[d]
	B	99	100	121	124	123[d]
	C%	27	37	30	33	32[d]
Paraguay	A	86	100	89	97	81
	B	92	100	96	104	86
	C%	47	50	46	47	47
Peru	A	-	100	103	128	141
	B	-	100	107	135	-
	C%	-	22	19	17	-
Uruguay	A	109	100	91	131[e]	141[d]
	B	109	100	91	107[e]	112[d]
	C%	-	-	-	18[e]	24[d]

Sources: Argentina: United Nations Statistical Yearbook 1960 and preliminary 1961 edition, and Economic Survey (Buenos Aires), October 3rd. and November 7th., 1961; Bolivia: United Nations Statistical Yearbook and unpublished data from the Ministry of Finance; Chile: United Nations Statistical Yearbook and unpublished data from the Chilean Budget Office; Colombia: Dirección Nacional del Presupuesto, Boletín Trimestral, June 1961 and Departamento Administrativo Nacional de Estadística, Boletín Mensual, Diciembre 1961; Paraguay: Banco Central del Paraguay, Boletín Estadístico Mensual, January 1962; Peru: Banco Central de Reserva del Perú, unpunblished data; Uruguay: Banco de la República Oriental del Uruguay, Suplemento Estadístico de la Revista Económica, December 1961, and Ministerio de Hacienda, Dirección General de Estadística y Censos, Boletín Informativo, July-September 1961.

A. Total ordinary revenues, escept in the case of Argentina, where total tax revenues have been used.

B. Total revenues excluding taxes on foreing trade. Taxes on foreign trade include:

i) In Argentina, import surcharges and retentions; ii) in Bolivia, taxes on imports and exports; iii) in Chile, import taxes and copper company taxes; iv) in Colombia, import taxes, export retentions, miscellaneous taxes on foreign trade, and transfer of import deposits from the Central Bank, which were particularly high in 1958 and 1959; v) in Paraguay, receipt of the Special Laws account, which include some domestic taxes and some non-tax revenues, but the bulk of which is provided by import and export taxes (the taxes on foreign trade apparently account for most of year-to-year fluctuations in the total of the Special Laws account; vi) in Peru, Taxes on import; viii) in Uruguay, receipts of the Import Surcharge and Export Retention Fund.

C. Share of taxes on foreign trade in total revenue (A)

a. The indices of revenues are given in constant currency units and the data have been deflated by the cost of living index for each country.

b. Preliminary data.

c. Fiscal years ending October 31st.

d. Annual changes revenues and share of foreign trade taxes in total estimated on the basis of data covering 8 to 10 months of the year.

/A similar

A similar, albeit less pronounced, phenomenon can be observed in Chile where, after a sharp drop in imports, exports and foreign sector tax receipts in 1958, higher import surcharges were combined with better yields from copper company taxes to boost total revenue in 1959 substantially more than would have been the case purely on the basis of internal taxation. In Paraguay, virtually all of the real increase in revenues achieved in the first two years of the stabilization efforts--1957 and 1958--was attributable to the institution of a 15 percent export tax at the time of the basic exchange reform. Although, in subsequent years, receipts from this source were sharply reduced by the decline in Paraguayan exports and the halving of the tax to 7.5 percent, this was then partly compensated for by the imposition of several successive import surcharges which provided substantial funds for various public works and development expenditures.

The various special taxes on foreign trade could usually not be relied upon to do more than raise temporarily the rate of growth of government revenues. Originally intended to be of a temporary nature in many cases, this revenue could, if anything, be expected to shrink in relative importance after the first few years. The yield of internal taxes received an initial stimulus of a once-and-for-all nature in a number of countries where the rate of inflation was abruptly slowed by the stabilization measures. Because of the usual time lags involved in collecting both direct and, to a degree, even indirect taxes, revenues automatically rose faster than prices for a while. This was probably a factor in the substantial internal revenue increases registered in Argentina in 1960, and in Bolivia in 1958 (see again Table III-10, note B). At the same time, efforts to improve tax collection procedures and to fight widespread evasion reportedly yielded substantial results in the first years of the Argentine and Colombian programs, as well as in the second phase of the Chilean stabilization effort beginning in 1958. Important administrative reforms also appear to have been at the root of the considerable increase in 1961 in the yield of most Bolivian taxes.

Beyond this, efforts were made to expand revenues by means of tax increases in most countries, especially since 1959. In general, the increases have affected income, profit and real estate taxes along with excise, sales and other indirect levies. Efforts were made, in particular, to improve the structure of income taxation in

/several

several countries. In Argentina several changes were introduced in 1960 and 1961 to correct some of the distortions arising from past inflation, and to increase incentives for production and investment. In Colombia, a reform of direct taxation undertaken in 1959 aimed at a gradual widening of the tax base. Income and profit taxes were also the object of various reform measures in Peru in 1960-61. Chile, faced in 1960 with the need to step up its fiscal effort in order to finance both earthquake reconstruction and long-range development, simultaneously resorted to increases in sales and excise taxes and to special surcharges on income and real estate taxes. An income tax law was voted in November 1960, in Uruguay, which had until then had no regular income tax, though its impact on revenues was not expected to be significant until 1962. On the whole, however, the changes made to date have not substantially modified existing tax structures. The share of direct taxes in total tax revenue has not been markedly increased during the period under review in the countries with stabilization programs (see Table III-11). In general, plans for more far-reaching reforms are still in the drafting stage in most countries, or under discussion in national legislative assemblies.

On the expenditure side, the implementation of the stabilization programs raised particularly difficult problems. The rise in spending of the national governments, after correction for the effect of price increases, was fairly restrained everywhere until 1960 (see Table III-12). In general, however, this appears to have been achieved more often with the help of substantial cuts in public investment levels than with savings on current consumption and transfer expenditures. Efforts to economize by eliminating redundant personnel in the civil service and in public enterprises ran into strong resistance everywhere. The costly subsidies that had been implicit in the use of preferential exchange rates for certain consumption or other imports had of course been abolished in most countries upon unification and devaluation of the exchange rates. The reduction of other subsidies to the private sector, however, was carried out on a much more gradual scale. As for subsidies to public enterprises, they generally continued to rise despite the repeated efforts made in most countries to raise the unrealistically low rates which many of these enterprises charged for their services, and to rationalize their organization and production.

/Table III-11

Table III-11

PERCENTAGE SHARE OF DIRECT TAXES[a] IN TOTAL TAX RECEIPTS OF NATIONAL GOVERNMENT IN SELECTED COUNTRIES 1957-61

	1957	1958	1959	1960	1961[b]
Argentina			23	23	21
Bolivia		16	18	18	15
Chile[c]	23	27	22	22	26
Colombia	58	53	59	58	53
Paraguay[d]	15	15	16	15	15

Sources: Same as for Table III-10 and Presupuesto Nacional de Rentas e Ingresos de Colombia, 1961.

a. Generally taxes on income, wealth and inheritances.
b. 1961 data preliminary.
c. Direct taxes exclude copper company taxes.
d. Direct taxes are expressed as a percentage of total tax revenue plus some nontax receipts of the Special Laws account.

/Table III-12

Table III-12

NATIONAL GOVERNMENT EXPENDITURES IN SELECTED COUNTRIES, 1957-61

(1958 = 100)[a/]

	1957	1958	1959	1960	1961[b/]
Bolivia		100	90	83	89
Chile		100	110	128	131
Colombia	89	100	101	122	128
Paraguay	87	100	86	92	80
Peru	94	100	103	112	145

Sources: Same as for Table III-10, except in the case of Peru, for which 1957 to 1959 figures have been provided by Banco Central de Reserva del Peru, Memoria Anual, 1960, while the 1960 and 1961 indices were estimated on the basis of unpublished expenditure data.

a. Indices of expenditures in constant currency units. Expenditure figures expressed in current values have been deflated by the cost-of-living index for each country.

b. Preliminary data.

/In view of

In view of these multiple difficulties, a contraction of government investment expenditure was often the only practicable alternative to an enlarged budget deficit. Particularly sharp cuts in public investment were effected in Peru, where the level of current expenditures rose rapidly in the middle and late 1950's despite stagnant revenues. A decline in real public fixed capital formation was also observed in Chile in 1958, while in Colombia public investment remained depressed for about three years after a 25 percent decline in 1957 (see Table III-13). By 1960-61, however, a renewed expansion of public investment was under way in most countries, accounting in particular for the acceleration in the rate of growth of total government expenditures in Chile, Colombia and Peru toward the end of the period under review. Moreover, for the next few years the strain put on the fiscal system by public investment promised to grow steadily in most countries as the implementation of the long-term development programs drafted within the framework of the Alliance for Progress gathered momentum.

/Table III-13

Table III-13

REAL PUBLIC FIXED CAPITAL FORMATION
IN SELECTED COUNTRIES, 1956-61a/

(1958 = 100)

		1956	1957	1958	1959	1960	1961b/
Argentina	A	81	102	100	110	118	
Chile	A		109	100	123	131	
	B	78	83	100	137	162	163
Colombia	A	130	99	100	110	134	163
	B	164	122	100	150	175	190
Peru	A	126	128	100	55	42	71

Sources, Row A. Argentina: Banco Central de la República Argentina, Annual Report 1960 (translation from the official Spanish text); Colombia: Consejo Nacional de Política Económica y Planeación, Plan Cuatrienal de Inversiones Públicas; Banco de la República, Cuentas Nacionales (unpublished data); Peru: Banco Nacional de Reserva del Perú, La Renta Nacional del Perú, 1942-1958 (published in 1960); Chile: Banco Central de Chile, Boletín Mensual, November 1960, and unofficial estimates; Row B. Same as for Table III-10.

a. A = Capital formation in the public sector.
   B = Capital formation by the central government.
b. Estimates.

III. EXPANSIONARY POLICIES IN BRAZIL

For several decades, Brazil has successfully followed policies placing considerable emphasis on the promotion of domestic economic development. These policies, based on a combination of heavy public investment in strategic sectors and the provision of ample credit facilities and powerful incentives for private investment, have generated a rapid growth rate of total output and a marked broadening of the Brazilian industrial structure. An indication of the degree of industrialization of the Brazilian economy, which will be pointed out in Chapter V, is that the share of manufacturing industry in total production of the primary and secondary sectors in 1961 was over 50 percent, as compared to approximately 40 percent 10 years earlier.

While Brazil had already reached virtual self-sufficiency in the production of a wide range of consumer goods in the decade before World War II, it has been characterized in the postwar period by a significant shift in the structure of manufacturing in favor of heavy industries and the output of intermediate products and industrial equipment. In recent years, it has been, along with Mexico, the leading Latin American producer of steel, cement and other major intermediate products. The rapid expansion of its automotive industry, initiated only in the mid-1950's, has made it the first producer of automotive vehicles in the region, with nearly 150 thousands units turned out in 1961. The output of its chemical industry increased fivefold between 1950 and 1958. In just three years, from 1955 to 1958, production of transport material rose over 250 percent and the output of electrical machinery and communication equipment increased by over 150 percent.

During the 1950's the gross domestic product rose at an average rate of about 6 percent per annum in real terms, with gross capital formation averaging 16 percent of this rapidly rising total. A steady rise in the price level, which averaged about 20 percent a year during the decade, reflected the intensity of the inflationary pressures that the investment effort brought to bear on the economy. However, the production advances, in themselves helped to mitigate these pressures, which lagging wage adjustments, overvalued exchange rates and complex trade and exchange controls also temporarily helped to contain. As a

/result, until

result, until 1959, the price increases did not accelerate into an inflationary spiral, despite the failure of occasional attempts by the authorities to slow the monetary expansion.

Coffee, which provided high export earnings in the early 1950's, made an important contribution to the financing of Brazil's development in the first half of the decade. After 1955-56, on the other hand, the deterioration of the world market for its major export proved a serious handicap for the economy. Both a substantial contraction of the capacity to import, and a coffee support policy which led the authorities to finance rising surplus stocks of the commodity, contributed to an intensification of the pressures underlying the domestic expansion. Other factors of inflation emerging in the latter part of the decade included enlarged deficits in the Federal Government's budget and substantial cost increases brought about from time to time by lagging exchange rate and wage adjustments, which were eventually made necessary by the continuing price rise. The policy of rapid industrialization was nevertheless pursued throughout the period with the help of large-scale assistance from abroad to alleviate the impact of severe foreign exchange shortages and maintain essential imports. The high degree of substitution that was feasible in Brazil because of the already highly diversified industrial structure, has been perhaps the most crucial factor in the continued rapid growth of the economy at a time when the capacity to import was declining.

During the decade, no major changes were made in the orientation of monetary and fiscal policies. Since 1959, in fact, a growing fiscal disequilibrium and an acceleration of both the monetary expansion and the price-wage spiral have helped to double the rate of inflation to about 40 percent a year. In the area of trade and exchange policy, on the other hand, spurred by the gravity of the external payments situation, important steps were taken. Beginning in 1957-1958, Brazil gradually diminished its reliance on overvalued and discriminatory exchange rates as an instrument of economic policy. The exchange adjustments, however, contributed also to the acceleration of the upward movement in the internal price level that took place in the last three years. Moreover, the latest moves in this area, the exchange reforms of the first half of 1961, were carried out largely in the unfavorable setting of intensified

/monetary

monetary disequilibrium and political difficulties which emerged in the second half of the year and left some key problems of economic policy still unresolved. In early 1962, however, an anti-inflationary program was being drafted in the hope of providing a greater measure of monetary and fiscal strength.

1. The Monetary Expansion

The expansion of money and credit was allowed to proceed at a rapid but relatively constant rate in Brazil during most of the 1950's. From 1951 through 1958, the annual growth rate of the money supply remained between 15 and 22 percent, except in 1957 (see Table III-14). Only in 1959 did the monetary expansion begin to accelerate to its present 40 to 50 percent annual rate. Over the whole period, the growth of the real domestic product simultaneously proceeded at a steady 6 to 7 percent annual rate, with only two significant departures from the trend, in 1953 and 1956. Real gross capital formation fluctuated widely, particularly in the early part of the decade, when private investment declined sharply in 1953 from the very high levels it had reached in 1951 and 1952. Since 1956, on the other hand, total gross capital formation has shown a regularly increasing trend in real terms and has remained a nearly constant percentage of total product. Public investment remained as a steady share of the gross product throughout the 1950's, and has constituted a larger share of total fixed investment in the latter part of the decade as a result of the relative decline in private investment.

Similarly, the relative roles of the public and the private sector in the monetary expansion process were substantially different toward the end of the decade from what they had been at its beginning. In the early 1950's, the rapid growth of bank credit to the private sector constituted a major and dynamic factor in expansion. After a period of severe monetary restrictions in the immediate postwar years, a combination of high coffee export earnings and a very liberal credit policy had permitted a vigorous private investment boom which had accounted for the resurgence of substantial price inflation in 1951-52. Beginning in late 1954, on the other hand, periodic attempts have been made to moderate the expansion of credit extended to the private sector by the commercial banks and the Bank of Brazil. An increase in

/Table III-14

Table III-14

BRAZIL: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY[a], REAL CAPITAL FORMATION AND REAL GROSS DOMESTIC PRODUCT, 1951-1961

Year	Money Supply	Real Gross Fixed Capital Formation	Real Gross Domestic Product
1951	16	57	5
1952	15	6	6
1953	19	-38	3
1954	22	37	8
1955	17	- 9	7
1956	22	- 2	2
1957	34	7	7
1958	21	19	7
1959	42	4	7
1960	38	5[b]	7
1961	50		7[b]

Source: Money Supply: International Monetary Fund, International Financial Statistics; Gross Capital Formation: United Nations, Yearbook of National Account Statistics; Gross Domestic Product: United Nations, Economic Commission for Latin America, estimates based on data from Brazilian sources.

a. The percentage changes in money supply are computed on the basis of end-of-year data.

b. Estimates.

/reserve

reserve requirements helped to slow the rise in commercial bank loans in 1955, while stricter lending policies led to a substantial decline in the rapid rate of growth of Bank of Brazil credit (see Table III-15). Most of the restrictive measures were suspended within a few months, however, and sporadic efforts to reinstitute them were without much effect in 1956 and 1957. Similarly, a program of credit restrictions drafted in 1958 after the particularly rapid monetary expansion experienced in 1957 was not effectively implemented, and plans for policy of monetary stabilization in early 1961 failed to materialize.

Weakened by the very strong pressures prevailing in favor of easy money policies, the various attempts at restriction never had more than a transitory impact on the credit flow. Their appearance coincided however with a definite shift in the bank credit structure in favor of the public sector after 1955 (see Table III-16), as the Federal Government increased its reliance on the banking system to finance substantially larger budget deficits. Since 1956, the financing of the Federal Government deficits by borrowing at the Bank of Brazil--and to a much smaller extent by the sale of Treasury bills to the commercial banks--has been a major factor of the monetary expansion (see Table III-17). In some years, particularly in 1956 and again in 1958, the inflationary impact of this deficit financing was lessened by the accumulation of substantial unspent balances in the special government account to which the exchange profits arising from the operation of the multiple rate system were credited. Since 1957, the rising coffee stock purchases of the Brazilian Coffee Institute, which are financed directly out of these profits (together with a variety of other extra-budgetary government expenditures), have become an increasingly important source of monetary expansion. In 1959, in particular, as the coffee outlays were doubled and other expenses out of exchange profits nearly tripled, the resulting net drain on the exchange profit account, instead of offsetting any part of the large budgetary deficit for that year, was a net addition to the total inflationary impact of the government sector.

At the close of the decade, the rate of the Brazilian monetary expansion was approximately double what it had been during most of the 1950's, as the rise in credit to both the public and the private sectors accelerated. The major factor of expansion continued to be the public sector. Government

/Table III-15

Table III-15

BRAZIL: BANK CREDIT TO THE PRIVATE SECTOR[a/], ANNUAL PERCENTAGE INCREASES IN, 1951-61

Year	Total credit	Bank of Brazil credit	Commercial bank credit
1951	23	61	12
1952	19	37	12
1953	19	18	19
1954	25	40	18
1955	12	13	12
1956	19	15	22
1957	23	22	24
1958	23	26	21
1959	31	16	36
1960	40	37	42
1961	38	53	31

Source: International Monetary Fund, International Financial Statistics.

a. Computed on the basis of end-of-year data.

/Table III-16

Table III-16

BRAZIL: PERCENTAGE DISTRIBUTION OF TOTAL DOMESTIC ASSETS OF THE BANKING SYSTEM, 1951-61a/

	Claims on public sector	Claims on private sector	Unclassified
1951	22	71	7
1952	25	69	6
1953	26	71	3
1954	25	70	5
1955	26	69	5
1956	28	66	6
1957	32	62	6
1958	31	62	7
1959	32	61	7
1960	34	60	6
1961	38	54	8

Source: International Monetary Fund, International Financial Statistics.

a. Computed on the basis of end-of-year data.

/Table III-17

Table III-17

BRAZIL: FACTORS OF MONETARY EXPANSION, 1951-61[a/]
(In billions of cruzeiros)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Net change in foreign assets of the banking system	-5.0	-1.2	-5.3	-4.6	1.7	3.5	-1.8	-4.8	-2.9	-3.1	12.7
Money creation on account of the public sector	1.2	7.7	8.2	0.6	6.8	8.2	38.2	19.0	70.8	84.7	224.0
Credit from monetary authorities	0.4	5.4	9.6	12.3	9.2	25.4	41.5	20.3	48.4	103.8	246.6
Credit from commercial banks	0.8	2.3	1.0	0.2	-0.1	-0.3	1.5	9.4	8.2	4.3	3.1
Less: net accrual to exchange profit account [b/] (increase-)	-	-	-2.4	-11.9	-2.3	-16.9	-4.8	-10.7	14.2	-23.4	-25.7
Money creation on account of the private sector	17.2	12.0	23.5	35.4	19.9	36.1	50.7	60.4	93.1	156.4	138.4
Credit from monetary authorities	9.9	9.7	6.5	17.0	7.7	10.1	16.9	24.8	18.4	50.6	99.2
Credit from commercial banks	7.2	8.0	14.0	15.8	12.1	25.0	34.0	36.4	75.0	118.8	125.7
Less: change in deposits for exchange (increase-)	0.1	-5.7	3.0	2.6	0.1	1.0	-0.2	-0.8	-0.3	-13.0	-86.5
Unclassified (net)	-0.8	-5.0	-6.7	-3.9	-2.0	-8.5	-13.4	-12.5	-13.4	-46.6	-25.2
Money Supply Increase	12.4	13.5	19.9	27.4	26.4	39.4	73.6	62.2	147.5	191.4	349.8
Gross domestic product in constant prices (1950=100)	105	111	114	123	132	134	143	153	164	175	188
Cost-of-living index (1950=100)	105	128	156	184	220	269	322	372	508	684	947

Source: International Monetary Fund, International Financial Statistics; for Gross Domestic Product: United Nations Economic Commission for Latin America estimates based on data from Brazilian sources.

a. Computed on the basis of end-of-year data.

b. For example, net gain or loss for the year after deduction of a variety of government expenditures normally financed out of exchange profits (including in particular coffee stock financing).

borrowing at the Bank of Brazil rose from 20 billion cruzeiros in 1958 to 48 billion in 1959, 104 billion in 1960 and 247 billion in 1961 (see Table III-17). After 1959, increased exchange profits--and in 1960 a decline in coffee financing expenditure arising from a smaller crop--again provided some offset to the sharply increased budget deficits. Money creation on public sector account nevertheless continued to increase, from three and a half times its 1958 level in 1959, to four times that level in 1960. In 1961 the continued deterioration of the fiscal situation led to another sharp rise, by more than 150 percent, in this factor of monetary expansion, which accounted for about two thirds of the total money supply increase for the year.

Deficit financing on such large scale created substantial liquidity for the commercial banks, whose excess reserves rose to record levels in 1959-61. Commercial bank credit to the private sector was thus able to expand at sharply increased rates (see again Table III-15), to finance the increased costs of business and industry following substantial exchange rate adjustments[13] and rapid wage increases.[14] It was first attempted to limit the rise of the Bank of Brazil's own credit to the private sector, by setting ceilings on its commercial banking operations in 1959. A renewed upsurge in its direct credit to the private sector occurred in 1960, with a partial offset being provided by an increase in cruzeiro deposits made by importers pending completion of foreign exchange contracts. In 1961, significant amounts of liquidity were absorbed, especially in the first half of the year, by a sharp rise in these deposits. Partly owing to the resulting monetary tightness, the expansion of commercial bank credit to the private sector was effectively slowed at first, but around mid-year, after temporary measures had been taken to ease a somewhat seasonal credit stringency, both commercial bank and Bank of Brazil lending resumed a faster climb as the price-wage spiral was gaining momentum and the latest exchange reforms were having their effects on the price level.

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13. These adjustments were effected between late 1957 and early 1959, and again in the first half of 1961.

14. The minimum wage was raised by 50, 60, and 40 percent in January 1959, November 1960, and October 1961, respectively.

/A greater

A greater measure of credit restraint was being mapped, for 1962, however, as a government plan to slow the Brazilian inflation revived an earlier proposal to make substantial increases in the commercial banks' reserve requirements.

In conclusion, it can be said that since the mid-1950's the Brazilian monetary expansion has been allowed to assume the proportions required to finance both the growing deficits of the public sector and the credit needs of the private sector at a rising level of costs and prices. Some of the factors behind the increase in the public sector's reliance on bank financing will be described below. As regards the private sector, although there was no sustained effort to impose substantial limitations on its over all use of bank credit, in this period it had clearly ceased to provide the major impetus to the inflationary expansion of the money supply. Brazilian monetary policy toward the private sector, passive as it has been in terms of quantitative credit control, was directed in fact to the longer-run task of correcting some of the structural limitations in the production apparatus by direct action on the qualitative distribution of credit.

In addition to the contribution made in this connection by the various institutions engaged in development lending, a major effort was also made in the 1950's by the Bank of Brazil, whose own commercial banking activities have come to account for over a third of total bank credit to the private sector in the second half of the past decade. As a result of the particular attention it has given to supplying credit for productive, rather than strictly commercial activities, the Bank of Brazil has effected a considerable shift in the structure of its lending since 1953, away from trade loans, in favor of industrial, and above all agricultural credit (see Table III-18). The trend is much less pronounced in the credit structure of the remaining institutions engaged in commercial banking, since these include both private and official banks, and the former could only be induced to apply the official policy by indirect means. This was, however, done in 1957, when the monetary authorities created special rediscount facilities for banks extending agricultural credit.

/Table III-18

Table III-18

BRAZIL: DISTRIBUTION OF BANK CREDIT TO THE PRIVATE SECTOR BY DESTINATION, 1953-60
(In percent of total)

	Bank of Brazil					Commercial banks				
End of year	Trade	Industry	Agriculture	Livestock	Personal loans	Trade	Industry	Agriculture	Livestock	Personal loans
1953	28	41	16	14	2	46	31	6	2	14
1954	26	43	19	12	1	45	32	6	2	13
1955	26	44	19	10	1	45	33	7	2	13
1956	24	47	19	9	1	44	35	7	2	12
1957	22	48	21	9	1	44	34	8	2	12
1958	20	47	23	8	1	43	36	7	2	12
1959	18	48	25	9	-	43	36	8	2	11
1960	21	44	25	10	-	44	37	8	2	10
1961										

Source: Superintendência da Moeda e do Crédito, Boletim.

2. The Fiscal Desequilibrium

Federal Government receipts and expenditures amount only to approximately one half of total government receipts and expenditures in Brazil. Moreover, fiscal power is widely distributed, not only among the various levels of government (federal, state and municipal), but also among the many autonomous and semi-autonomous government agencies, to which important portions of the government's revenues are assigned, both in and outside the budget, for specific purposes. The total impact of the public sector on the economy is therefore substantially larger than indicated by the Federal Government budget alone. The Brazilian fiscal desequilibrium has largely been focused on the latter, however, because of greater statutory limitations on the power of the other entities (whether state and municipal governments, or the various autonomous official entities related to the Federal Government) to finance expenditures in excess of tax revenues or grant receipts. Except for a few years in the early 1950's the Federal Government's deficits have been by far the largest single components of the total government deficits in the past decade.

As already pointed out, these federal deficits have been a major factor in the Brazilian monetary expansion of the second half of the 1950's in combination with the federal coffee-support policy, financed outside the budget. In fact, the Federal Government's cash budget showed a deficit almost every year throughout the decade. Beginning in 1956, however, the size of the deficit ranged regularly between 25 and 45 percent of budgetary receipts and two to four percent of the gross national product (see Table III-19).

This evolution did not result from a simple asymmetry in the impact of the price inflation on government revenue and expenditure levels. Though the inflation naturally imposed a steady upward bias on government spending figures, the built-in flexibility of the Brazilian tax system was such that tax receipts also kept up with the price and income rises of the past decade. The growing gap appeared, rather, because of a substantial increase in the scope of the Federal Government's spending activities without corresponding enlargement of its share in total income. The share of federal spending in the gross national product,

/Table III-19

Table III-19

BRAZIL: FEDERAL GOVERNMENT CASH BUDGET DEFICIT OR SURPLUS (+), 1950-61

	In billion cruzeiros	In percent of budgetary receipts	In percent of Gross National Product
1950	3.2	17	1.3
1951	+ 2.4	+ 9	+ 0.8
1952	+ 2.5	+ 8	+ 0.7
1953	10.7	29	2.5
1954	1.2	3	0.2
1955	7.5	14	1.1
1956	24.4	35	2.8
1957	38.4	45	3.6
1958	28.4	24	2.2
1959	40.5	26	2.2
1960	76.6	35	3.2
1961 a/	135.0	42	3.8

Sources: Superitendência da Moeda e do Crédito, Relatórios, and unpublished data of ECLA.

a. Estimates

/which, at

which, at 8-9 percent was approximately equal to that of federal receipts in the early 1950's, was permanently increased to 11-12 percent in the second half of the decade, while that of revenues remained virtually unchanged (see Table III-20).

This is not to say that the over-all tax pressure exerted by the public sector on the economy did not increase in Brazil in the 1950's. In percentage of the gross national product, there was a significant increase over the period in the total tax burden (see Table III-21), defined as the sum of the budgetary receipts of all three levels of government--federal, state and municipal--plus such important extrabudgetary receipts of the federal government as social security contributions, exchange profits, or the petroleum tax, whose proceeds are directly turned over to specific agencies. The bulk of the increase, however, was largely attributable to the growing importance of the extrabudgetary receipts whose expendidture was predetermined. The practice, moreover, of automatically allotting further amounts of federal revenue, within the budget, to the various other government entities, left the Federal Government with even less freedom to manipulate its expenditure pattern in relation to revenue.

The rise in Federal Government spending far exceeded the rate of price inflation, especially after 1955. Between 1955 and 1960, cash expenditures rose nearly five-fold, while the price level approximately tripled. In relation to the gross product, federal spending rose to 11 percent in 1953, but otherwise remained between 8 and 9 percent, until 1956, when another sharp increase occurred (see Table III-20).

An immediate explanation of these sudden increases in the share of federal spending in the total product can be found in the evolution of government employees' wages and salaries during the decade. In 1953 and 1956 there were large readjustments in these wages and salaries, after protracted periods during which they had been allowed to deteriorate almost steadily and quite substantially. In each case, the government employees' real income loss had in effect made it possible for the government to obtain a gradual increase in

/Table III-20

Table III-20

BRAZIL: FEDERAL GOVERNMENT CASH RECEIPTS AND EXPENDITURES, 1950-60

(In percent of Gross National Product)

	Receipts	Expenditures
1950	7.6	8.9
1951	8.9	8.1
1952	8.7	8.0
1953	8.6	11.1
1954	8.3	8.6
1955	8.0	9.1
1956	7.9	10.7
1957	8.0	11.7
1958	9.1	11.3
1959	8.6	10.9
1960	9.2	12.4

Source: Superintendência da Moeda e do Crédito, Relatórios and unpublished data of ECLA.

/Table III-21

Table III-21

BRAZIL: TOTAL TAX BURDEN, 1950-60
(In percent of Gross National Product)

	Total	Budgetary receipts of Federal Government	Petroleum tax and exchange profits	Budgetary receipts of States and Municipalities	Other
1950	17.9	7.6	0.5	8.3	1.5
1951	19.9	8.9	0.6	8.9	1.5
1952	19.6	8.7	0.6	9.0	1.3
1953	20.0	8.6	1.4	9.1	1.0
1954	21.6	8.3	2.7	8.8	1.8
1955	20.0	8.0	1.1	8.8	2.2
1956	21.6	7.9	2.6	9.2	1.8
1957	22.4	8.0	2.1	10.0	2.3
1958	24.5	9.1	2.7	9.8	2.9
1959	24.6	8.6	2.2	9.8	4.0
1960		9.2	3.2	8.5	

Sources: For budgetary receipts of Federal, State and Municipal governments and petroleum tax and exchange profit receipts, Superintendência da Moeda e do Crédito, Relatório do exercício de 1960. The figures for the total tax burden and the residual receipts appearing in the "other" column are derived from Table 11, "General government revenue and expenditure" published by ECLA in the Statistical Supplement to the Economic Bulletin of Latin America, Vol. VI, Santiago, Chile, November 1961, p.36

/its real

its real share of total spending in the intervening years, without a corresponding increase in the magnitude of its pressure on monetary demand relative to total output.

A repetition of this phenomenon was observed over the next three-year period, as government salaries again remained approximately unchanged between 1956 and 1959, despite a nearly 80 percent increase in the cost of living over the period. Since then, adjustments in government salaries have been made in early 1959 and again in late 1960. A further increase of about 40 percent was under consideration in early 1962. The cost of living, meanwhile, rose by about 170 percent in the past three years.

On the whole, then, it cannot be assumed that the burden of the government's wage bill showed any increase in real terms over the past 10 years, although the sudden and step-like nature of the monetary adjustments that were eventually made to compensate for the continuous rise in the cost of living helped to aggravate the fiscal disequilibrium from time to time, particularly in 1953 and 1956, and again in 1960-61. Somewhat obscured and distorted in monetary terms by the pecularities of the wage adjustment process, the growth of Federal Government expenditure in the 1950's was in fact gradual, and attributable to a steady rise in real spending on a whole range of goods--particularly investment-- and services, as well as of transfer payments. Between 1956 and 1960, for instance, transfer expenditures in the federal budget approximately doubled, and capital expenditures tripled, while consumption expenditures only rose 70 percent (see table III-22). The same general trend can be observed for the whole public sector's general government activities as depicted in the national accounts data. These show the share of consumption expenditures virtually unchanged throughout the 1950's at 11 to 12 percent of the gross national product, while transfer payments rise from 4.5 percent of the gross product in 1950 to over 8 percent in the second half of the decade.

An important factor in the rise of transfer expenditure was the inability of the state-operated or state-supported industries, such as the railways, the merchant marine and various public services, to increase their receipts in line with the cost increases of the period. Increases in payments for social security,

/Table III-22

Table III-22

BRAZIL: INDEX OF FEDERAL BUDGET EXPENDITURE, 1957-1960
1956=100

	Total Expenditures	Consumption Expenditures	Subsidies and Transfer Payments	Capital Expenditures
1957	111	102	106	143
1958	139	113	147	186
1959	172	145	170	247
1960	247	171	206	306

Source: Superintendência da Moeda e do Crédito, Relatório do Exercício de 1960.

Note: The figures in this table are based on budgeted rather than cash-account data. Although they include additional credits appropriated after the vote on the budget, they do not coincide with the cash data shown in the other tables, because of a number of other accounting differences.

debt servicing, and grants to other government's entities also played a part. The increase in investment spending, on the other hand, was directly related to the strategic role played by the public sector in the general economic development of the country during the 1950's. The greater contribution of total public investment to over-all inflationary pressures in the latter part of the decade, however, is attributable not only to a change in the volume but also to a shift in the nature of the investments undertaken, and particularly to their concentration in large projects such as the construction of a new federal capital and its road connections, which could be expected to yield only limited results in terms of immediate increases in the production of final goods.

On the revenue side, the Federal Government's budgetary receipts also more than kept up with the rise in prices in the 1950's, and absorbed a virtually constant percentage of the total gross product during the period. Furthermore, the revenue brought in by each major tax remained itself an approximately constant percentage of gross national product over most of the decade (see Table III-23). The income tax, after a reform which raised its yield in 1951-52, regularly brought in revenue equivalent to about 3 percent of the gross national product. Consumption and stamp taxes, which are ad valorem, also had no difficulty keeping up with price and income increases. Only for the import tax, which was mostly specific, did the power to generate revenue weaken substantially in the mid-1950's, but even this tax, after a reform of the customs tariff which placed it on an ad valorem basis in 1957, and after the steady exchange depreciation of recent years, was able to regain its former level in relation to the gross product.

In the late 1950's, as the inflation accelerated, the flexibility of the tax structure was supplemented by various increases in the tax rates. Thus, in 1957-58, increases were made in the stamp taxes, the consumption taxes, and the income tax. None of these measures, however, succeeded in lifting the share of Federal Government revenue in the gross product to something comparable to its

/Table III-23

Table III-23

BRAZIL: MAJOR TAX RECEIPTS OF FEDERAL GOVERNMENT, 1950-60

(In percent of Gross National Product)

	Income tax	Consumption tax	Stamp tax	Import tax
1950	2.1	2.5	0.9	1.2
1951	2.5	2.7	1.1	1.7
1952	3.1	2.6	1.1	1.3
1953	3.0	2.5	1.1	0.9
1954	3.1	2.6	1.0	0.9
1955	3.2	2.6	0.9	0.6
1956	3.2	2.7	0.9	0.4
1957	3.1	3.0	0.9	0.4
1958	2.9	3.2	0.9	1.3
1959	3.0	3.1	1.0	1.1
1960	3.5	3.1	1.1	0.9

Source: ECLA unpublished data based on information from Superintendência da Moeda e do Crédito.

/expenditures.

expenditures. In 1961, new tax proposals introduced in the legislature aimed to increase the progressivity of the income tax, to revise the profits tax and to achieve various other reforms, but none of them had yet been acted upon by the end of the year. For 1962, one of the major features of the anti-inflationary government plan mapped in the early part of the year was an increase in taxation, particularly on high incomes and luxury consumption. Other measures under consideration to contain the soaring budget deficit included increases in rates for shipping, railroads and other industries whose current deficit was subsidized by the government, and the postponement of some of the less urgent investment plans for the year.

/3. The Exchange

3. The Exchange System

During most of the postwar period one of the major concerns of Brazilian exchange policy was to minimize the external depreciation of the cruzeiro in the face of a steady deterioration in its domestic purchasing power. Until 1953, the coffee price boom in the world market enabled Brazil to maintain the cruzeiro at its pre-war parity with a relatively simple exchange rate structure. When the contraction of coffee export earnings set in, however, the effective exchange rate on most transactions was depreciated substantially and a complex multiple rate system was established, in an effort to stimulate non-coffee exports while rationing exchange among imports according to their degree of priority, and allowing a number of financial transactions to take place at a fluctuating free rate. The exchange system then became a major instrument of policy in Brazil and the number of separate exchange rates multiplied rapidly as efforts were made to stave off further depreciation of the cruzeiro while overcoming the growing handicap to exports of currency overvaluation, and to limit total imports while subsidizing a large proportion of them to hold down the domestic price level and permit continued rapid industrialization.

Substantial adjustment of the exchange rates, however, could not be postponed indefinitely in a period of chronic inflation and balance-of-payments desequilibrium. Beginning in 1957, the depreciation of the official rates fixed for most exchange transactions quickened its pace, while a number of other exchange measures resulted in some simplification of the multiple fixed rate structure and gradually increased reliance on the free market for trade as well as financial transactions. The evolution toward a simpler and more flexible exchange system was slow, as the import subsidization policy, in particular, acquired fresh importance in 1959-60 in view of the acceleration of the domestic inflation. By mid-1961, however, some major reforms had finally established a virtually unified exchange market, just before the upsurge of speculation in the latter part of the year induced a temporary return to a divided market.

The first major modifications of Brazilian exchange policy in the period since 1957 affected the structure and level of the import rates. Since 1953, exchange for imports could be obtained in one of two ways. For a number of

/imports considered

imports considered essential--wheat, petroleum, newsprint, machinery and specified government imports--exchange was purchased at preferential rates fixed by the authorities. For the remaining imports, exchange was allocated through public auctions, at substantial premiums which differed for each of five commodity categories corresponding to varying degrees of essentiality. In August 1957, the auction procedure was considerably simplified by the reduction of the number of different commodity categories from five to two, when the adoption of the new ad valorem customs tariff mentioned earlier permitted a reduction in the scope and refinement of import control exercised directly through the exchange rate system.

At the same time, the auction exchange rates, which had for the most part been pegged at a virtually constant level for three years despite the domestic inflation, were allowed to depreciate substantially through early 1959 (see Table III-24). Beginning in September 1957, there was also a gradual increase in the preferential rates applicable to favored imports, which had not been adjusted for more than two years, and a restriction in the scope of the preferential treatment of machinery imports. By early 1959, the preferential import rate had been increased by more than 100 percent and the principal auction rate had depreciated by more than 200 percent. Over the next two years, on the other hand, as the domestic inflation accelerated, the rate on preferential imports was left unchanged, and the rising trend in the principal auction rate was again brought to a virtual stop, for fear of the repercussions further depreciation would have on the level of costs and prices. It was not, therefore, until the 1961 exchange reforms that a major attack was launched on the large-scale subsidization of imports through the exchange system.

On the export side, substantial exchange rate adjustments were effected beginning in 1958 to maintain the income of exporters in the face of rising internal costs and falling external prices, and more specifically to stimulate the expansion of secondary exports. While the official rates on major exports were gradually increased (see again Table III-24), the conversion of proceeds from minor exports was progressively transferred to the more favorable free market. The portion of export proceeds negotiated through this market rose as a result from zero in 1957 to 13 percent in 1959, and to 52 percent

/Table III-24

Table III-24

BRAZIL: PRINCIPAL EXCHANGE RATES, 1953-61

(In cruzeiros per U.S. dollar)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
Official buying rates									
Coffee export	23.36	31.50	37.06	37.06	37.06	37.06	76.00	90.00	free
Other export	28.36	37.69	37.06	43.06	43.06	43.06	76.00	90.00	market
			43.06	55.00	55.00	70.00 to			rate[b]
			50.06	67.00	67.00	138.52	203.77[a]	205.14[a]	
Official selling rates									
Preferential	18.82	25.82	43.82	43.82	51.32	80.00	100.00	100.00	free
Auction import	38.30 to	66.50 to	68.00 to	63.70 to	94.60	211.30	217.90	228.90	market
	136.30	242.70	324.00	307.70	246.80	319.80	445.40	639.90	rate[c]
Free market rate	55.00	76.00	66.75	65.65	90.50	138.52	203.77	205.14	318.51

Source: International Monetary Fund, International Financial Statistics and Annual Reports on Exchange Restrictions; Superintendência da Moeda e do Crédito, Relatórios.

a. From December 1959 to October 1961, export proceeds negotiated in the free market were converted partly into cash and partly into interest-bearing notes of the Bank of Brazil.

b. Proceeds from coffee and cocoa exports, negotiable in the free market after May and October 1961, respectively, are subject to special retention taxes. The effective coffee exchange rate in particular is thereby reduced considerably in relation to the market rate.

c. Plus auction premium on license certificate required in the case of special category (luxury-type) imports.

/in 1960

in 1960, after a major export reclassfication in December 1959, had transferred to the free market all exports other than coffee, cocoa, castor beans and petroleum (see Table III-25).

The channeling of exports proceeds to the free market contributed to a considerable increase in the supply of exchange on this market in 1957-60. Although virtually all imports were still restricted to the official market (i.e. transacted at either preferential or auction rates), a greater share of service and financial payments came to be financed at the free rate, instead of the special fixed rates or, in the case of services related to merchandise imports, the corresponding auction rates with which some had been favored in the past. As a result of these two simultaneous developments, the proportion of all exchange transactions handled through the free market was drastically increased in the latter 1950's, rising from less than 20 percent in 1957 to about one half of all foreign exchange receipts and one third of all sales in the year 1960 (see again Table III-25). In the free market as well, the continuing concern to forestall exchange depreciation had induced the authorities to intervene frequently in support of the cruzeiro in the 1950's. As well as imports, therefore, invisible and financial payments still benefited from a measure of subsidization when they were made at the fluctuating rate, which was not allowed to depreciate significantly until 1957, and subsequently followed roughly the trend of the principal auction import rate.

The transformation of the Brazilian exchange system from a complex multiple rate structure into a relatively simpler system with a more realistic valuation of the cruzeiro was to be completed by the exchange reforms undertaken in the first half of 1961. After a huge increase in the external deficit in 1960, the acute shortage of foreign exchange and the impossibility of meeting all maturing external obligations led Brazil to seek large-scale foreign assistance to consolidate existing debts and stabilize the cruzeiro. The negotiation of US$ 2 billion of external aid agreements in early 1961 was coupled with the formulation of a comprehensive program of exchange reforms and internal stabilization policies. Although the monetary and fiscal aspects of the program

/Table III-25

TABLE III-25

BRAZIL: Percentage of Exchange Transactions Handled in Free Market, 1957-61

	1957	1958	1959	1960	1961[a]
Exports	-	1	13	52	69
Imports	-	-	1	-	22
Non-trade receipts	67	68	78	70	70
Non-trade payments	43	49	50	56	64
Total receipts	20	24	37	49	70
Total payments	17	22	26	34	44

Source: Superintendência da Moeda e do Crédito, Relatórios and Boletim.

a. January-September.

/are yet to

are yet to be fully implemented, a quick succession of measures made the exchange reform a reality. The subsidization of imports was reduced in March 1961 with the doubling of the preferential import rate, and entirely eliminated in July with the abolition of the preferential treatment for wheat, petroleum and other imports, henceforth transferred to the free market. The purchase of exchange for non-preferential imports was transferred to the free market in March 1961, and the exchange auctions abolished. Meanwhile, on the export side, the range of exports subject to special exchange rates was narrowed still futher, so that by July 1 all export proceeds were negotiable in the free market except for certain cocoa exports, which were finally transferred to the free market in October 1961.

As a result of these various measures, all exchange transactions came to be handled at a single exchange rate, with the qualification that: a) special retention taxes were applied to the conversion of proceeds from coffee and cocoa exports to finance spcial support and improvement programs for these two industries (in the case of coffee the tax was very substantial); and b) luxury-type imports continued to pay a high additional premium through the requirement that the importers purchase licenses for them at special auctions.

The cruzeiro/dollar rate in the free market was allowed to depreciate by about a third in early 1961, before being stabilized at 260 per dollar for several months. The impact of the new policies on Brazil's foreign payments was largely favorable, with the trade deficit in 1961 substantially reduced from 1960 and the range and value of non-coffee exports considerably improved after years of stagnation. On the other hand, the sharp rise in the cost of imported goods contributed to the acceleration of the domestic price inflation, especially in the absence of vigorous measures for internal stabilization. This and the emergence of a serious governmental crisis in August induced a wave of speculation against the cruzeiro in the second half of the year. The return to a split exchange market, which would separate trade and financial transactions, was briefly attempted in November-December 1961. As this merely added to the widespread market uncertainty, the scheme was abandoned in early 1962, and the unified market re-established.

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CHAPTER IV

PRIMARY INDUSTRIES

I. AGRICULTURE

From 1957 to 1961, farm production in Latin America increased at the rate of 2.5 percent yearly, which represents a marked decline as compared to the 1950-57 period, when the rate was more than 4 percent. This decline was caused by a drop in the prices of farm export products affecting, among other commodities, cotton, bananas, and wool. In contrast, the drop in coffee prices failed to affect the yield for that crop, since production was maintained at a normal level by previous plantings and reached high levels in most countries. The size of total farm drop-off has largely depended in each country on the relative importance of each crop.

Among export items, meat shipments were drastically affected by droughts in Argentina. On the other hand, meat production rose considerably in Central America, which has begun to ship refrigerated supplies to the United States market.

A relative decline in farm production for domestic consumption is apparent, contrasting sharply with the steady rise in urban demand. In some cases, this decline is explained by the fact that import substitution--chiefly grains and cotton--has been completed, and, in others, by unfavorable weather conditions. The decline in production becomes even more serious considering the low nutritional levels prevailing in Latin America, with the exception of Argentina and Uruguay.

A comparison of the 1961 level with that of 1950 shows that few Latin American countries have succeeded in expanding per capita agricultural output for domestic consumption. Furthermore, some of the countries that have succeeded have encountered problems relating to their subdivision into regional markets; as a result, national production does not necessarily provide an index of supply to the main centers of consumption. In Brazil, for example, increased farm production for domestic consumption during 1961 appears to correspond largely to areas other than those customarily supplying the industrial centers in the south. This is

/partly due

partly due to an extension of the area planted in cotton, which has tended to displace food crops, despite the efforts made by agricultural development agencies in São Paulo through the introduction of selected seed and other improvements that were successfully applied to cotton.

In countries where farm production for domestic consumption lagged behind population growth between 1950 and 1961, a complex series of factors--many of which are structural--hinders the introduction of modern techniques such as those employed in much of the agricultural export sector. In such countries, output has dropped off during the last five years or any increase has been based on the production of a series of commodities with an already high per capita consumption. Therefore, these increases did not make any significant contribution to an improved national diet. This was true for tubers in some countries and for corn in others.

The economic development plans prepared by Chile and Colombia reflect an attempt to correct negative factors. In other countries, such as Venezuela, new laws are designed to break up the current excessive concentration of rural property, which is one of the factors against greater productivity.

1. Production for Export

Export agriculture quotations on the international market have dropped sharply since the close of 1956. Nevertheless, comparing the growth rates for 1950-57 and 1957-61, it is evident that the increase was slightly more rapid in the latter period. This is because of special circumstances relating to coffee and sugar production and because domestic prices were supported in several of the chief producing countries.

a. Coffee

Coffee production increased from 2.5 to 3.8 million tons between 1957 and 1959. In 1960, continuing the typical two-year cycle, production declined to 2.9 million tons, climbing to 3.5 million in 1961 (see Table IV-1).

/Table IV-1

Table IV-1

LATIN AMERICA: COFFEE PRODUCTION, 1950 AND 1957-61

(Thousands of tons)

	1950	1957	1958	1959	1960	1961
Brazil	1071	1409	1860	2640	1800	2280
Central America	159	262	271	289	292	302
Colombia	422	456	462	480	462	468
Mexico	66	97	120	97	120	112
Peru	6	18	20	21	22	30
Venezuela	34	50	60	54	52	50
Others	151	206	182	251	228	274
Total	1900	2457	2930	3787	2931	3471

Sources: ECLA, Statistical Supplement to the Economic Bulletin of Latin America, October 1961 and unpublished data; United States Department of Agriculture, Foreign Agriculture Circular, FCOF 4-61, December 1961.

/This fairly

This fairly regular production level resulted from broad plantation expansion at the beginning of the 50's, motivated primarily by the international market prospects at that time with regard to demand and prices. However, prices dropped off because the new level of production--which was also higher in Africa--exceeded world-wide expansion of coffee consumption.

The producing countries have been obliged to take steps to limit exports and, simultaneously, to protect the income of domestic producers. At the start of the 1957-61 period, the Brazilian Coffee Institute (IBC) imposed measures designed to restrict coffee sales to exporters and to maintain the domestic wholesale price. These measures consisted of compulsory delivery to the IBC of all coffee earmarked for stocks or destruction. Although the mean price showed an initial slump, since these deliveries brought a lower price than sales to exporters, devaluation of the currency enabled price indices (1948=100) to remain higher than the index of wholesale prices up until mid-1960.[1] As a result, farmers realized that intensive coffee cultivation was to their advantage. This had particular effect on production in the State of Paraná and in other new settlement areas where commercial crop quality was low because of plant immaturity. On the other hand, careful preparation would have brought the cost to a higher level than in the other producing areas.

This change in the quality of exported coffee and the expansion of stocks led to amendments in the regulations with a view to improving the commercial bean and to seeking formulas designed to cut production to a level compatible with domestic and foreign demand. In 1961, minimum marketable quality standards were established and it was predicted that this measure, by encouraging a selective harvest and better preparation of the bean, would reduce the harvest by one million bags. However, its true effectiveness was apparently more radical than

1. The same is true with respect to the wholesale price index for other farm products, whose larger increase during the last two years is partly due to changes in domestic cotton prices.

/expected, for

expected, for at the same time there was a decline in the ratio of coffee prices to wholesale price indices, so that in the end production fell below crop estimates.

Exports made in 1961 did show a considerable improvement in quality. On this basis, the unit value of exports might have increased, but international quotations, in a new dip, neutralized any such possibility.

Among the measures proposed for decreasing the future volume of production, the most important entailed the destruction of 1 billion coffee trees.[2/] Instead of allowing time for a slow decline of production, adoption of this measure would eliminate such a waiting period and, consequently, the accumulation and destruction of surpluses. It would also provide for use of the land recovered to grow commodities in short supply on the domestic market. The impact of such a step on farmer income would have been substantial, for in 1961 per-hectare income for coffee was exceeded only by cotton. Since all other crops, for both domestic consumption and export, yield much less than coffee on a per-hectare basis, application of the proposed measure will unquestionably meet with strong opposition.

Colombia, which is the second largest Latin American producer, also has a stockpiling problem, although its production, in contrast to Brazil, has barely exceeded that of preceding years. The 1961 crop, for example, was smaller in 6 of the last 10 years. The weak reaction of Colombian production is explained in part by the extreme subdivision of its plantations, particularly as compared to other producing countries, and by its characteristic family type of farming. Another important factor is the normal use of hillside land for coffee growing and flat land for other crops, which makes mutual displacement very difficult.

As in Brazil, Colombia has followed a policy designed to restrict the flow of coffee to the export trade and to maintain the income level of the coffee growers.

---

2. According to press information, this measure was referred to the IBC for study in June 1961.

/Although it

Although it has been easier for Colombia to sell its output on the international market than it has for Brazil, because of its smaller volume, stocks have been accumulating since the establishment of delivery quotas to the National Federation of Coffee Growers. Judging by the movement of domestic quotations, the level of prices received by the producers has continued to be favorable. An index (1952 = 100)[3] of coffee quotations in Manizales indicates that the coffee price level was higher than the general level of prices during the five-year period under consideration, with the exception of the maximum production year (1959). However, the relation between these indices does not accurately represent the fluctuations in actual income of the producers, since it fails to show the considerably lower price paid by the exporters to the producers for the share--10 percent of exports--that the latter were obliged to deliver without compensation to the Federation. Furthermore, it should be borne in mind that the plantation expansion mentioned above was concentrated mainly in the traditional coffee-producing areas. It may be stated, therefore, that the greater per-tree yields of the new plantations benefited the producers in general.

The support policy for domestic prices followed by Brazil and Colombia has circumvented the serious effects that a fall in producers' income parallel to a decline in international quotations would have had on their economies. With respect to the other Latin American producers, some were unable to avoid such effects, while in others coffee production accounts for only a minor share of agricultural output.

The first group includes some of the Central American countries, for which coffee is also a principal source of employment. Production of the Central American isthmus as a whole rose from 180,000 tons in 1950 to 260,000 tons in 1957, and subsequently to more than 300,000 tons in 1961 (see Table IV-2).

This growth resulted from a variety of trends, depending on the country. El Salvador, whose economy relies more heavily on coffee than any of the other Central American republics, shows a rapid rate of growth in coffee production

3. 1952 was taken as the base year in order to make this index comparable with the Colombia wholesale price index prepared by the Bank of the Republic (see its Revista Mensual, various issues).

/Table IV-2

Table IV-2

CENTRAL AMERICA: COFFEE PRODUCTION

	Production (thousands of tons)						Growth rate (%)		
	1950	1957	1958	1959	1960	1961	1950-57	1957-61	1961
Costa Rica	20	113	54	54	70	35	12.7	7.8	-11.5
El Salvador	72	16	88	94	87	44	2.2	3.4	10.3
Guatemala	58	57	84	96	90	97	6.6	2.1	10.0
Honduras	14	29	19	23	21	34	3.7	5.1	4.8
Nicaragua	15	53	22	22	24	31	26.3	--	--
Total	159	262	271	289	292	310	7.4	3.6	3.4
Index	42	100	103	110	111	115			

Sources: The same as for Table IV-1.

during the last five years. The greater per hectare yields from the new plantations were the deciding factor in maintaining growers' income. To a large extent, this increase in yield is based on improved cultivation techniques, including a more generalized use of fertilizers.

Guatemalan output increased during 1950-57 at an annual rate of 6.6 percent, which may be attributed in part to the recovery made by coffee growing after the last war. The level reached in the last three years is an out-growth of this recovery and of plantation expansion at the start of the 50's. Costa Rica and Honduras duplicated this expansion in production during the same period, as did Nicaragua in 1961.

As in the case of El Salvador, the drop in international prices has entailed a substantial loss in foreign exchange and income for the public sector and the farmers of the other four Central American countries. This statement is equally valid for the coffee-growing sector itself, since the fall of domestic prices--which, naturally, reflect the movements of international quotations--was only partially compensated for by better per-tree yield.

/The production

The production of other countries has followed the lines already noted. However, it should be pointed out that in Peru the settlement of new areas along the Amazon watershed in the Andes has led to a steady expansion in the production of tropical crops, including coffee. The Peruvian plantations have followed a trend that is not governed by price prospects on the international market, but is based instead on national factors, for example, internal migration, and on the lack of other crops that can be planted on small plots and that will cover the high domestic freight charges to the export ports. Mainly for this reason, it may be assumed that the current pace of expansion of the cultivated area will continue. Even without considering these possibilities, present production (30,000 tons) should triple over the next five years as the trees planted during the last seven years begin to produce.

b. Sugar

Approximately one half of Latin America's sugar production is destined for the foreign market. Although practically all the countries produce sugar, it figured as an important export item in only a very few during 1950-57. For the rest, it represented a small and variable fraction which at times signified no more than an occasional shipment. The rates of production growth have varied according to the principal use to which the crop is put. The exporting countries showed the lowest comparative rate (1.7 percent), while the importers registered a production rise to an annual mean peak of 22 percent (see Table IV-3).

Beginning about 1957, some of the chief producers obtained growing surpluses that were mainly sold on the international market. In addition to Brazil, whose exports during the preceding period had shown considerable fluctuation, Mexico initiated regular, expanding exports, as did a few of the minor producers. In 1960, the Cuban quotas in the United States preferential market were suspended and transferred to other producers, including some of the Latin American countries. The number of this latter group was increased in 1961, leading to special conditions in the market that resulted in expanded production in several countries.[4/]

4. Chapter I, Section II, point 3, summarizes the main events in the international sugar market.

/Table IV-3

Table IV-3

LATIN AMERICA: SUGAR PRODUCTION

Countries	Production (Thousands of tons)						Growth rate (%)			
	1950	1957	1958	1959	1960	1961	1950-57	1957-59	1957-61	1960-61
Exporters	6604	7347	7469	7657	7971	8284	1.7	2.1	3.0	3.9
Cuba	5558	5672	5784	5964	5862	6767	0.2	2.5	4.5	15.4
Dominican Republic	490	836	837	809	1112	952	7.9	-1.6	3.3	14.4
Peru	427	677	680	705	807	875	6.8	2.0	6.6	8.4
Others	129	162	168	179	190	290	3.3	6.1	15.7	52.6
Recent exporters	2045	3958	4310	4666	4958	5325	9.9	8.6	7.7	7.6
Brazil	1401	2714	3004	3108	3319	3722	9.9	3.3	8.2	12.1
Mexico	590	1164	1210	1448	1518	1480	10.2	11.5	6.2	-2.1
Others	54	80	96	110	121	133	5.8	17.3	13.6	9.9
Producers for Consumption										
1-Net exports in 1960-61	852	1046	1479	1373	1320	1129	3.0	14.6	1.9	-8.2
Argentina	613	722	1114	979	859	710	2.4	16.4	-0.4	-17.3
Colombia	159	234	264	277	328	259	5.7	8.8	2.6	8.8
Others	80	90	101	117	133	160	1.7	14.1	15.5	20.3
2-With net imports	76	304	289	326	387	419	22.0	3.6	8.4	8.3
Total	9577	12655	13547	14022	14636	15157	4.1	5.3	4.6	4.2

Sources: International Sugar Council, Statistical Bulletin, 1961; United States Department of Agriculture, The Sugar Situation, Washington, March 1962.

/This redistribution

This redistribution of quotas favored Peru and the other producers grouped with it in Table IV-3, with the exception of the Dominican Republic. Excluding the latter and Cuba, this group of countries increased its production by 13 percent in 1960 and by 16 percent in 1961. Cuban output, for its part, found new markets, registering a 1961 level considerably higher than the 1959 figure.5/ For the exporting countries as a whole, growth during the five-year period (3 percent) was almost double the rate for the seven preceding years.

Among the producers showing irregular or recent exports, growth rates have been higher than that noted in the paragraph above but lower than the 1950-57 level. In the case of Mexico, whose output during this period practically paralleled consumption, the lower rate of growth was due, on the one hand, to initial difficulties in converting production to the type of raw sugar required by the American market and, on the other, to a decline in the rate of increase of indirect sugar consumption. Moreover, in 1961, unfavorable weather conditions led to a slight drop in production.

With regard to the rest of the producers, 1960 and 1961 marked increases, except in the case of Argentina. Argentina's 1958 and 1959 output reached a high level owing to the extraordinary yields obtained in the Tucumán area. In the following seasons, production dropped as these yields dwindled to a normal level and as the shrinking of the cultivated area of that zone, initiated in 1955, continued unabated. However, since sugar consumption also dropped, it was possible to export 123,000 tons in 1960 and 154,000 during the first eight months of 1961.

c. Cotton

Between 1957 and 1961, the annual growth rate for Latin American cotton output slightly exceeded that of the 1950-57 period, rising from 4.4 to 4.8 percent (see Table IV-4). During the initial period, expansion was primarily due to a steady increase in production by Mexico and Peru and to the introduction of the crop into the Central American countries and Colombia. The volume of fiber obtained in Argentina and Brazil fluctuated somewhat but tended to decline or level off.

5. See Chapter I, Table I-10.

/Table IV-4

Table IV-4

LATIN AMERICA: COTTON FIBER PRODUCTION

	Production (thousands of tons)						Growth rate (%)		
	1950	1957	1958	1959	1960	1961	1950-57	1957-61	1960-61
Argentina	142	105	171	100	90	128	-4.1	6.1	42.2
Brazil	393	397	377	475	555	625[a]	1.0	12.0	12.6
Colombia	8	28	33	66	70	76	19.6	28.0	8.5
Mexico	260	478	529	383	460	414	9.1	-3.5	-10.0
Peru[b]	74	105	115	116	130	129	5.1	5.3	-0.8
Others	36	119	122	94	97	117	18.6	-0.4	20.6
Total	913	1232	1347	1234	1397	1489	4.4	4.8	6.6

Sources: United Nations, Economic Commission for Latin America, Statistical Supplement to the Economic Bulletin of Latin America, October 1961; United States Department of Agriculture, Foreign Agriculture Circular, FC 14-61, November 1961; FAO, 1952 Yearbook and Agricultural Statistics; Cotton World Statistics, March 1962, Vol. 15, No. 8.

a. Preliminary
b. Peruvian Chamber of Cotton.

/During the

During the subsequent five-year period, these trends by countries have undergone substantial change. Actually, Mexican and Peruvian output has reached a limit with reference to lands best suited to the crop, and have shown a certain degree of stagnation since the beginning of the period.[6] The countries that introduced the crop after the last world war have continued to increase their production at a high over-all rate (7.1 percent), which is, at any rate, lower than that of the preceding period. This leads to the assumption that they are nearing a relatively stable level.

Aside from Colombia, Brazil was the only country to step up its rate of production growth in this five-year period (see Graph IV-1). Although there are many reasons for this acceleration, a marked influence was exercised by the changes in regulations on cotton exports. The elimination of compulsory sale of foreign exchange at the official rate improved the prices received by growers in the south. The cotton-growing area of this region was cut back from 1.4 million hectares in 1950 to a minimum of 933,000 hectares in 1959; 1960 was the first year in which this trend was reversed. It should be noted that not only have the yields of this zone--which had compensated for the limited area under cultivation--continued to improve, but the fiber currently obtained is of a better quality.[7] Considering the keen competition for land in Southern Brazil, these three factors--yield, quality and price--explain the increases in area planted and in production. In contrast, the situation in Northern Brazil is quite different. The perennial type of plant adopted because of the frequent droughts limits the introduction of improved methods; consequently, per hectare yields have shown a slight downward trend (see Table IV-5).[8]

Production increases in Colombia have served to replace fiber imports and to satisfy the growing demands of local textile manufacturers. The National Institute of Cotton Development has backed these increases with an incentive

6. 1956 for Peru and 1957 for Mexico.

7. In 1954, 56 percent of the fiber harvested in the State of São Paulo was less than 1.1/32 inches long. In 1959, this ratio was less than 10 percent.

8. Even so, harvests in recent years have responded to genetic improvements and have produced a finer type of fiber.

/Graph IV-1

Graph IV – 1

LATIN AMERICA: TRENDS IN COTTON PRODUCTION, 1950–61

(thousands of tons)

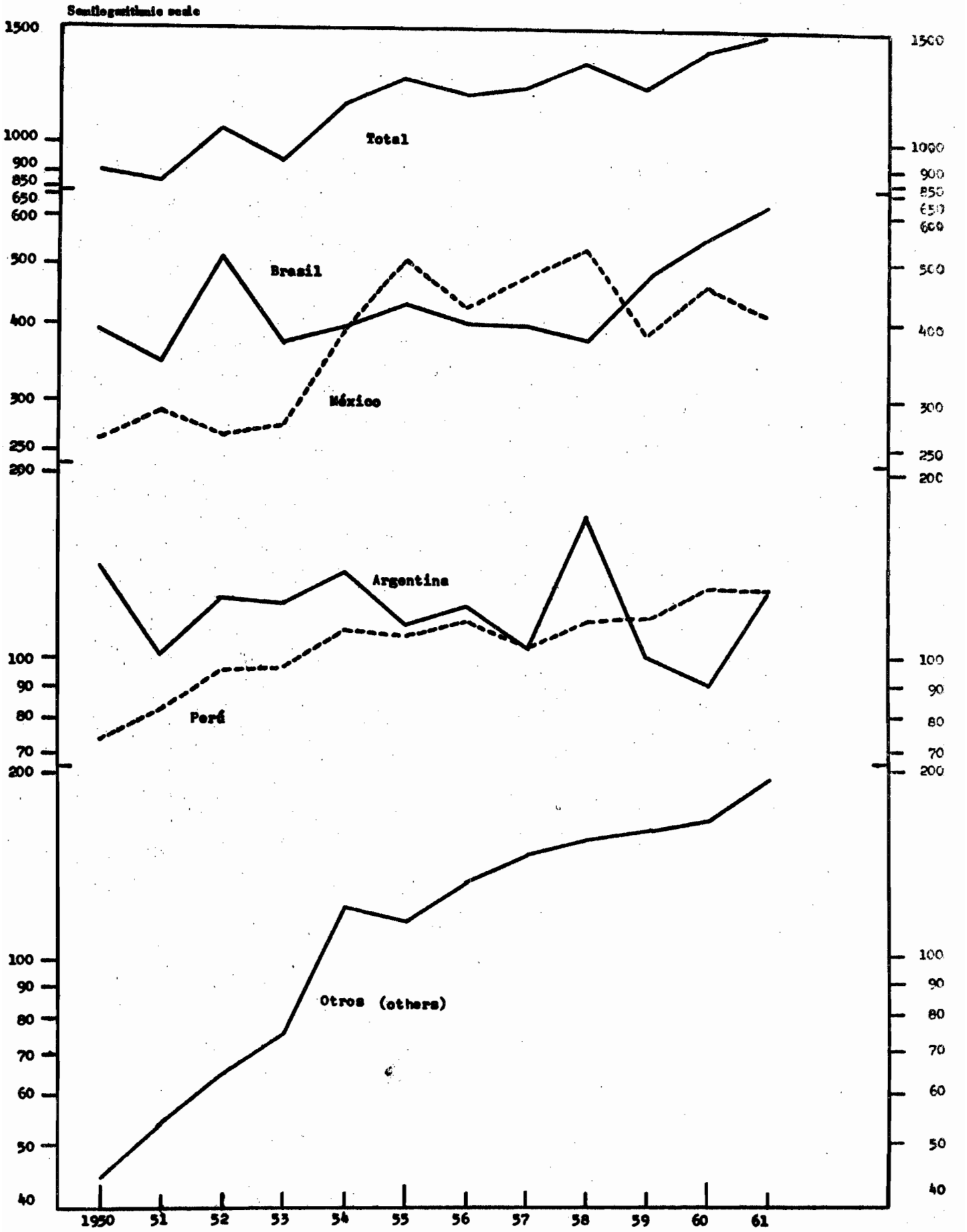

Table IV-5

BRAZIL: COTTON FIBER PRODUCTION BY PRINCIPAL ZONES

	1950	1955	1957	1958	1959	1960
North						
Area (thousands of hectares)	1276	1472	1699	1707	1813	1969
Production (thousands of tons)	158	158	183	119	204	253
Yield (kilos per hectare)	124	107	108	70	112	128
South						
Area (thousands of hectares)	1414	1145	1072	1000	933	961
Production (thousands of tons)	235	270	214	262	274	297
Yield (kilos per hectare)	166	236	200	262	294	309
Total						
Area (thousands of hectares)	2689	2617	2771	2707	2746	2930
Production (thousands of tons)	393	428	397	381	478	550
Yield (kilos per hectare)	146	164	143	141	174	188

Source: Conjuntura Económica (various issues).

/domestic price

domestic price and technical assistance accompanied by credits and facilities for the acquisition of fertilizer. Expanded production--from 14,000 tons in 1950 to 71,000 in 1960--has made it possible to eliminate fiber imports and has given rise to the formation of small surpluses that were exported in 1961. Per hectare yields are low in comparison with the other Latin American producers and since in addition, internal prices are higher than those in the world market, the reduced increments in production in 1960 and 1961, and those forecast for 1962, appear to indicate future stabilization of output at the 1961 level.

Cotton production in Mexico and in Peru depends almost entirely on irrigation. Mexican irrigation policy has been the basic factor in the development of its production, and increases in output have matched the expansion of irrigated surface area. Since in recent years this area has remained almost unchanged, cotton cultivation has reached its limit. Production has lagged behind the peaks reached in 1955 and 1958, partly because of unfavorable weather conditions in 1959 and 1961, and partly because of the low level of international prices.

Output rose sharply during 1950-54 in Peru thanks to heavy investments made by growers along the central coast in distribution canals and wells for tapping underground water.[9/] During the next three years, very few additions were made to the irrigated area. This led to production decreases because of excessive draining of underground waters during dry spells[10/] from sources in the Andes. In the 1957-61 period, Peruvian cotton-growers along the central coast have had to face a persistent drop in the level of the water table. They have been forced to deepen their wells considerably and to reduce, if not the area, at least the unit volume of irrigation. This has resulted in a production standstill on the central coast and for this reason the growth of national output now derives from the expansion of irrigated lands in the northern zone of the country following completion of the Quiros River project. This northern zone produces fiber that is extra-long but has a comparatively low yield. Consequently, the national per hectare average has remained almost stationary, as

9. Since the Peruvian national accounts include the government only in the series of agricultural investments, it is impossible to essay a quantitative evaluation of the importance of these installations.

10. Peru has no agency responsible for controling water extraction based on the capacity of the underground sources.

/pointed out

pointed out in a study made by the Central Bank of Peru,[11] even though the other zones have doubled their yields as a result of more intensive use of fertilizer and more efficient control of pests.

The sharp rise in Central American production at the start of the 50's was due to the recent introduction of this crop. The drops registered during the last five-year period are the consequence of a slump in international quotations. El Salvador and Nicaragua were also affected by crop infestations, combined, in the case of Nicaragua, with unfavorable weather conditions. In Nicaragua, too, credit policy was a particularly decisive factor. Poor crops in 1959 caused the total of credits extended to farmers by the National Bank of Nicaragua to climb to close to 14 million dollars. In order to alleviate this situation, the government authorized payment of this debt within a term of eight years, but at the same time restricted the granting of new credits to farmers obtaining yields of more than 22 quintals per manzana over the last three years, one of which was marked by heavy infestation and excessive rainfall. This limitation contributed to the 1960 decline in production. In 1961, thanks to the lifting of some of the restrictions and to the rise in international market quotations for short-fiber cotton--which favored all the Latin American countries with the exception of Peru--Nicaraguan output showed an increase which almost caught up to the 1957 level.

d. Meat[12]

Like sugar, beef production for export is concentrated in a handful of countries that were able to enter the international market because of their ecological conditions, past improvements in strains of cattle, and investments in refrigerating facilities. However, other countries whose export volume is still limited as compared to the original group have now begun to participate in the international meat trade but their export has expanded rapidly within the five-year period under consideration and promises to continue growing at a comparatively high rate in the near future.

11. See Actividades productivas del Perú, Lima, 1961.
12. Reference is made only to beef.

/Output in

Output in the first group of countries has shown considerable stagnation in the past decade. Cattle herds were cut back in Argentina, Uruguay and, apparently, Paraguay. In Argentina, the most important country of the group, cattle stock declined up until 1959, causing a steady reduction in exportable balances. To counteract the resulting loss of exchange, the government permitted an increase in the price of cattle for domestic consumption and reduced slaughter of such animals by 30 percent, other than for Buenos Aires. In addition, it reduced export taxes, helping to raise the internal price level for livestock.

Drought in six of the ranching provinces drastically affected fattening, but did serve to reverse the previous trend of cattle stock in 1960, increasing herds by 10 percent. Since most of the additional cattle stock were cows, a substantial increase in production is predicted. However, since the drought persisted throughout 1961, the number of head produced during the year increased by only 10 percent. Unless the unfavorable weather conditions should continue, it is assumed that the retention of the past two years will be reflected in a 40-percent increment in 1962 production and that this will make it possible to expand exports and, probably, the supply on the domestic market to offset the 30-percent drop recorded between 1957 and 1961 in per capita consumption.

Uruguay, traditionally the second largest meat exporter, has suffered from highly adverse weather conditions during the five-year period under consideration that have drastically reduced its output. In 1959 and 1960, domestic consumption quotas were not met and Argentine meat had to be imported. Output for 1961 dropped also because of a prolonged strike in the main cold storage plant preparing meat for export.

Brazil and Mexico are included among the countries whose beef production is destined for internal consumption but which had exportable surpluses during the five-year period. In Brazil, improved quotations on the international market in 1957 and 1958 entailed sharp increases in the exportation of frozen and refrigerated meat, but the unfavorable effect on supplies to the factory centers in the south and a drastic curtailment of production reduced these exports to a point where they were practically non-existent by mid-1961, despite a new rise in international beef prices (see Table IV-6).

Meat exports from Mexico were restricted at the start of the 50's during a campaign to erradicate foot-and-mouth disease. Foreign sales of livestock and meat are now subject to certain quotas that are designed to prevent excessive curtailment of

/Table IV-6

Table IV-6

BRAZIL: BEEF PRODUCTION AND EXPORTS

(Thousands of tons)

	Production		Refrigerated exportation
	Total	Refrigerated	
1956	1,077	142	11
1957	1,156	166	29
1958	1,285	197	38
1959	1,261	166	26
1960	1,197	183	15
1961	...	...	...

Source: Anuario Estadístico do Brasil.

domestic supply. In contrast to the countries mentioned above, Mexico's proximity to the American market gives it an edge in exporting, making it possible to alternate shipments of livestock and meat, depending on price conditions. Expanded production pushed up quotas during the five-year period. The decline in exports beginning in 1958 is due to a smaller volume of purchases by American packers.[13/] The government has attempted to improve the quality of export cattle by various measures, including re-fattening at the border ports. Thanks to this improvement in weight per head, and to an increased demand for meat by-products, livestock exports rose by 50 percent and dressed meat by 5 percent in 1961. However, efforts to improve fodder and cattle with a view to expanding exportation of meat for direct consumption were frustrated by a drop in American purchasing caused by increased domestic production (see Table IV-7).

Growing purchases of meat for processing in the United States have prompted the installation of cold storage plants in four Central American countries--Costa Rica, Guatemala, Honduras and Nicaragua--which have extensive natural pastures and cattle stock that has been partially improved by the introduction of pure-breds from Europe and the United States. The forage capacity of the prairies has been improved by the use of high-yield African species that have made it possible to achieve steady increases in stock volume as well as a level of production that has tended to exceed consumption. This is particularly evident in the case of Honduras and Nicaragua, which have regularly exported livestock to El Salvador, Costa Rica and other countries.

13. Mexican meat exports are utilized for canning purposes by United States packers. Only a limited percentage is used for direct consumption.

/Table IV-7

Table IV-7

MEXICO: PRODUCTION AND EXPORTS OF CATTLE AND MEAT

(tons)

	Production	Exportation	
		Cattle	Fresh Meat
1957	486,166	70,802	7,615
1958	525,450	105,285	33,210
1959	...	73,718	26,427
1960	...	72,416	22,418
1961	...	103,000[a/]	...

Source: For production: ECLA; 1957-60 exportation: Banco Nacional de Comercio Exterior, Comercio Exterior de México, 1960, Mexico City, 1961.

a. Estimates based on 1961 United States import figures.

Except for the Matadero Modelo in Managua, the cold storage plants have been installed in areas that are relatively distant from the major consumer centers. Preference has been given to locations in the ranching regions themselves or at the ports of embarkation for the United States. The system of export quotas in the Central American countries designed to regulate internal supply has been most strict in Nicaragua, where the simultaneous exportation of livestock and meat has tended to act as a brake to the growth of urban consumption. Livestock exports have had to be suspended several times when production was insufficient to meet the demand of the Matadero Modelo. In 1961, such exportation was definitively forbidden; this measure chiefly affected Costa Rica, where one of the two export cold storage plants was forced to shut down.

Exports of dressed meat have come to represent an important source of exchange for these countries, whose relative share in such exports tends to equal that of other traditionally secondary products such as cacao and lumber.

/In Costa Rica

In Costa Rica and Nicaragua, dressed meat is the third most important export item and the same may be true in 1962 for Honduras and Guatemala once the cold storage plants under construction have been completed. Data are lacking on recent exports, but the trend of this trade may be evaluated roughly by studying the import figures for the United States (see Table IV-8).

With reference to meat for direct consumption (undressed), the same drop in purchasing by the United States experienced by Mexico also affected exports from Honduras. This was not the case in Nicaragua, where sales increased sharply over the past two years. Cattle that was formerly exported live to Costa Rica--where it was re-exported as meat to the United States--is now processed industrially. Nicaragua is apparently in a position to increase this type of production. In addition to the American market, it has been searching for new markets in Europe since 1960 and may possibly initiate exports to that area in 1962.

e. Fishery Products

Over the past five years, maritime fishing has achieved a higher growth rate than any other activity in Latin America,[14] in regard to both catch and processing for consumption and export. While the world fishery output grew at the rate of 5 percent annually during 1957-61, the same sector in Latin America rose by 42 percent annually, amounting to 15 percent of the world total by 1961. Although statistical data for 1950 are incomplete, the percentage corresponding to that year was less than one percent and by 1957 had only reached slightly more than 4 percent (see Table IV-9).

Shellfish production[15] increased its growth rate to 11 percent yearly, three times the world rate. Factors in this growth were increased Mexican shrimp fishing and recent installation of new shrimp-processing plants in other Latin American countries.

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14. River fishery, an important sector in several countries, has also expanded rapidly. However, the lack of a continuous series of statistics prevents preparation of the corresponding data.

15. Mollusks and marine crustaceans. Statistics on shellfish also include certain minor amounts of river fishery.

/Table IV-8

Table IV-8

UNITED STATES: IMPORTATION OF CENTRAL AMERICAN MEAT 1957-61

(Thousands of pounds and thousands of dollars)

	1957		1958		1959		1960		1961	
	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars
A. Refrigerated or frozen meat, bone-in										
Costa Rica	719	143	1099	213	1034	322	65	30	---	---
Honduras	---	---	408	99	79	23	---	---	---	---
Nicaragua	---	---	---	---	35	10	179	54	1462	407
Subtotal	719	143	1507	312	1148	355	244	84	1462	407
B. Refrigerated or frozen meat, boned										
Costa Rica	23	6	1662	291	8714	2862	15263	5219	8674	3070
Guatemala	---	---	---	---	---	---	---	---	1927	675
Honduras	---	---	---	---	1430	458	3390	1269	5499	2246
Nicaragua	---	---	40	12	5729	1822	9853	3114	13022	4271
Subtotal	23	6	1702	303	15873	5142	28506	9602	29122	10262

Source: United States Department of Commerce, F.T. 410 (various issues).

/Table IV-9

Table IV-9

LATIN AMERICA: FISH AND SHELLFISH PRODUCTION

(Thousands of tons of live fish and percentages)

	1950	1957	1958	1959	1960[a]	1961[a]	Rates 1950-57	Rates 1957-60	Rates 1960-61
A. Fish									
Total:	...	1061	1528	2820	4300[b]	4900[b]	...	59.4	14.0
Argentina	39	67	68	73	80	...	8.0	6.1	...
Brazil	153	216	187	174	166	170	5.0	-8.4	2.4
Chile	21	161	176	232	340	360	33.8	28.3	5.9
Ecuador	10	24	28	33	40	42	13.3	18.5	5.0
Mexico	...	43	75	82	...	...	...	...	...
Peru	83	452	895	2117	3490	4150	27.4	97.6	18.9
Venezuela	48	65	65	68	87	89	4.4	10.2	2.3
B. Shellfish									
Total:	...	147	189	193	205	210[b]	...	11.7	2.4
Brazil	...	...	26	26	28	...	...	...	...
Chile	16	52	50	40	43	44	18.3	-6.2	2.3
Colombia	...	...	1	1	2	2	...	...	0.0
Ecuador	...	2	3	3	3	4	...	14.5	33.3
Mexico	...	70	86	89	...	...	...	...	...
Panama	...	4	5	6	6	...	...	14.5	...
Peru	...	2	5	6	5	6	...	35.7	20.0
Venezuela	---	3	3	7	7	8	...	32.6	14.3

Sources: FAO, Fishery Yearbook (various issues) and national statistics.

a. Preliminary data.
b. Estimates based on incomplete data.

/The intensive

The intensive development of these activities following the last war was the result of technological discoveries relating to fishing, which called for the use of ships with an ever-widening radius of action and highly efficient nets. In the marketing area, the ultra-rapid freezing available today has almost eliminated the old barriers imposed by distance on this highly perishable product. At the start of the 50's, these innovations enabled the Latin American countries to increase their production, in view of the growing international demand for frozen and canned products.

During the last five-year period, this demand grew slowly. In contrast, the demand for fishmeal grew apace; the use of this product for fodder and, to a lesser extent, as fertilizer, spread considerably in Europe and the United States. Among the Latin American countries, Peru has received the greatest benefit, since its substantial fishery potential includes a high percentage of one particular species--the anchoveta--which is unfit for human consumption. Beginning around 1957, plants designed exclusively for fishmeal preparation were established, while at the same time the traditional fishing boat was modified and modern systems designed to locate the anchoveta banks were introduced.

The increased capacity of the boats and the greater yield from each fishing trip, together with already existing facilities for refrigeration and unloading, made increased fishmeal exports possible. From 62 000 tons exported in 1957, a monthly rate of 100,000 tons was reached in the second half of 1961. However, export value was not pegged to export volume, since meal prices on the international market dropped beginning in the second quarter of 1959. In fact, the price dropped from 182 dollars per ton in March 1959, to 100 dollars, which held until January 1961. The equivalent of this last quotation at Peruvian factories was 60 dollars, an amount barely exceeding the estimated costs of production. Nevertheless, it should be noted that later in 1961, prices began to climb steadily, reaching 88 dollars by the end of the year.

This price recovery in 1961 has provided an incentive not only for the Peruvian producers, but also for Chilean plans to expand such production. A total of 35 plants were operating in Chile in 1961, with a capacity of 100,000 tons of fishmeal; this figure is three times that for 1959. In 1960, the

/government granted

government granted a series of incentives--especially tax exemptions--to companies reinvesting 75 percent of their profits in such expansion or in the improvement of housing for their workers. Nevertheless, the prospects for increasing production to more than 200,000 tons, in accordance with the national plan for fishery development, depend upon the installation of new plants and improvements in the fleet operating in the north, where fishery conditions are similar to those found in Peru.

From 1960 to 1961, the drop in international prices brought about the concession of subsidies for purchases of fishmeal and for the exportation of meal which amounted to a total of 20 percent of the f.o.b. value. This subsidy, which covered the difference between Chilean costs and ex-factory prices, was made necessary, to a certain extent, by the great variation in capacity of the Chilean plants,[16/] which explains the high domestic production cost. Expansion currently planned in the north will be carried out through installations with a large capacity that will help to reduce the average cost, which by the end of 1961 compared favorably with the international price.

In most of the other Latin American countries, fishmeal is still a by-product of the processing of species destined for human consumption. However, the relative recovery shown by prices at the end of 1961 has brought to the fore in some countries the study of plans previously abandoned. Although they were unable to take advantage of increased world demand for meal during the five years under consideration, these countries have registered a considerable increment in the volume of fish unloaded, or have outlined the necessary plans for improving the fleet and land installations, as in the case of Brazil, for example, in order to increase productivity. In all the countries, including Chile and Peru, direct consumption of fishery products has shown a moderate but steady rise as refrigeration systems for transportation and sale were improved and as canned production spread. Naturally, this has provided additional incentive to the producers.

16. Between 2 and 25 tons per hour, equivalent in raw fish.

/With respect

With respect to shellfish, production (see Table IV-9) has been greatly affected by a decline in the international price of refrigerated and frozen shrimp and by the repeated requests of the American producers for application of a tax on importation, which is currently duty-free.[17] The prices for frozen shrimp in the United States dropped in 1959 to a level 16 percent below the 1957 figure, where they have remained throughout 1960 and up to mid-1961. During the second half of the latter year they climbed again, recovering their initial level.

These price fluctuations signify a relative decline in the value of Mexican shrimp exports, whose volume grew by 26 percent between 1957 and 1960, with a value increase of only 6 percent. Domestic sales also increased for both refrigerated and canned shrimp, whose consumption expanded geographically. The shrimp fleet was thus able to augment production at a growing rate that may be tentatively estimated at 7 percent annually from 1957 to 1961.

The drop in shrimp prices led to curtailment of production in the other exporting countries in 1959 and 1960. In Costa Rica and Panama, this cut back was fairly moderate, and production recaptured its initial level in 1961. In Peru, the drop was more acute (approximately 15 percent), so much so that by the end of 1961 there were still no signs of recovery. Ecuadorean production continued to grow--in 1960 its output was 18 percent higher than in 1958--in spite of a shut-down of the smaller companies that lasted until mid-1961. At that time all companies resumed fishing and modifications in equipment were introduced, including some ships with a wider range of action that will have a greater choice of fishing grounds.

In countries producing chiefly or exclusively for the domestic market, shellfish output rose in Argentina and Venezuela but decreased in Chile and Brazil, which are the principal producers. In Chile the decline was due in part to the conservation measures adopted during the five-year period to protect certain species the take of which had become excessive in relation to their potential, while in the last two years it was the result of the loss of fishing installations in the area affected by the earthquake of May 1960.

17. Import duties are applicable only to products processed by cooking.

/In Brazil,

In Brazil, there was a drop in shellfish production, except for shrimp, production of which actually doubled between 1958 and 1960, when it amounted to 24 000 tons, with an unloading value estimated at 3.4 million dollars. This output was obtained with relatively deficient equipment, since the fleet is chiefly composed of small boats lacking preservation facilities, and that have equipment virtually unchanged in recent years. Aside from its low productivity, the fleet has a limited radius of action and are limited under certain weather conditions that would, in many cases, be acceptable for deeper-draft boats. Considering the importance of consumption of shrimp and other fishery products in the southern part of the country, studies have been initiated in São Paulo on how to expand this fishing, and specific recommendations have already been made to the government so that it may take the necessary steps.[18] One of these measures, which has already been adopted, is the importation of modern ships and equipment to be sold to the fishermen, shrimpers, and others through a system of long-term credits. However, it should be kept in mind that the success of this plan depends partly upon the possibility of obtaining such equipment by means of barter in exchange for coffee.

2. Agricultural Production for Domestic Consumption[19]

Although available statistics on farm production for domestic consumption contain serious gaps, the series upon which Graph IV-2 was based measure with a fair degree of accuracy the changes undergone by the chief agricultural commodities destined for such consumption in each country. Although the curves for each country might be modified in certain years by the inclusion of other products, their general trend is unlikely to change in any significant way.

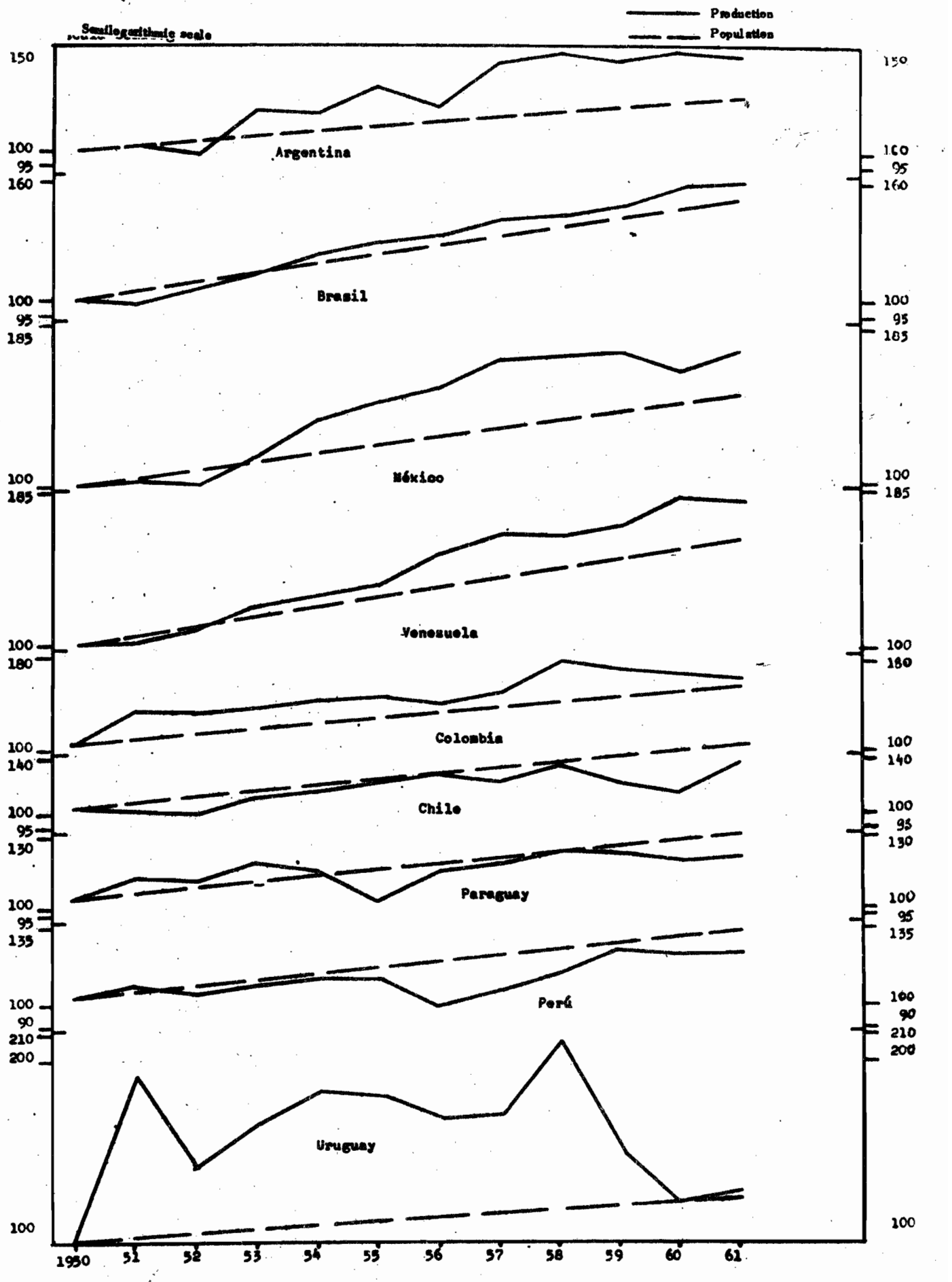
The graph indicates that in most of the countries for which information is available per capita production of these commodities was greater at the end of the 1950-61 period than in the initial year of 1950. It also shows that production growth has followed a regular course in only two of the countries

18. The State Research Group on Maritime Fishing, formed by the Oceanographic Institute of the University of São Paulo and the Fish and Game Service, operates in the State of São Paulo.

19. This section includes products that are cultivated in some countries exclusively for domestic consumption, although in others they are used primarily for export. Therefore, it inevitably involves a certain degree of repetition of the preceding section.

Graph IV – 2

LATIN AMERICA: AGRICULTURAL PRODUCTION FOR DOMESTIC CONSUMPTION



covered by the graph--Brazil and Venezuela--while the rest experienced variations that run the gamut from the maximum of Uruguay to the minimum of the Mexican curve.

In general, during the past five years, there has been a trend to stagnation or to a decline in the ratio of such production to population. In spite of its regularity, the growth of Venezuelan and Brazilian production during the period barely succeeded in compensating for total population increases; the same was true for Argentina and Mexico. In the other countries, the 1957-61 period marked the prolongation of a previous stagnation, except in Ecuador and Peru, where such production spiraled upward from the low level plumbed in 1957.

The standstill in Argentine production is largely due to unfavorable weather conditions that affected the principal stock-raising and grain-growing areas of the country. However, it must be remembered that Argentine farm output is utilized for both internal consumption and export and that this fact detracts from the accuracy of the distinction here drawn. For this reason, the series utilized in Graph IV-2 should be considered only as a rough approximation of consumer trend.

In Brazil, farm production for domestic consumption has risen during the past five years on a par with population growth. This trend is based on a sharp increase in the production of yucca (manioc), beans, rice and corn, which are the staples of the popular diet. Another important though less significant factor was the increase in production of sugar and edible oil seeds. Meat production showed very little upward movement, while the volume processed showed very little variation during the period, apparently because of a certain shortage in internal supply. For example, exports of refrigerated beef declined gradually from the 1958 peak until by the end of 1961 they had to be prohibited.

In spite of the increase in total production of many agricultural commodities for domestic consumption, the corresponding increases in supplies to the urban consumer areas were not necessarily forthcoming, since the chief expansion took place in regions that do not have transportation systems capable of carrying local surpluses to the São Paulo and Rio de Janeiro markets. Furthermore, there was a drop-off in the production of certain important products. For example, in 1955 wheat output amounted to 1.1 million tons, but fell steadily thereafter, with reductions in both the area cultivated and the per hectare yield. The

/real prices

real prices[20] of national wheat have also shown a downward trend since 1955. As in recent years, the Brazilian 1961/62 wheat shortage will be partially met by imports from the United States (Law 480), which may go as high as 1.5 million tons.[21] The 1961 price for American wheat was two thirds less than the national level; consequently, the government subsidy for local wheat was eliminated, to all practical purposes, for the 1961/62 harvest.

Since the Mexican series of farm production for internal consumption shows a high incidence of corn and wheat, the variations in the harvested volume of these grains tends to influence, perhaps excessively, the over-all index of this production. Thus, the drop shown for 1960 (see Graph IV-2) reflects the losses in both crops caused by unfavorable weather conditions. Likewise, the long-range trend shown by the Mexican curve reflects the special conditions prevailing in the country with respect to these products.

During the first half of the past decade, Mexico imported a large tonage of both commodities and was, accordingly, given certain preference in the agricultural development policy. From 1950 to 1957, corn production increased 44 percent, while wheat climbed by 134 percent, a figure that was exceeded only by the level of copra production. Even though imports continued until 1959,[22] production outran consumption in 1960, making possible the exportation of 457,000 tons with a value of 22 million dollars. In 1961, production rose 7 percent to reach a level 20 to 25 percent higher than in 1957.

Since 1957, Mexican wheat imports--in contrast to the preceding period when they amounted to more than 200,000 tons--have dropped to less than 1,000 tons. Output reached a level of 1.4 million between 1957 and 1959, and increased by an additional 100,000 tons in 1961. The standstill in production evident since

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20. That is to say, wholesale prices of the product deflated by the index of wholesale prices.

21. Compare this figure with that of less than one million tons in 1960/61 and less than 500,000 in 1958/59.

22. In recent years, a share of corn imports is in seed and in border traffic with the United States.

/1957 is partly

1957 is partly due to the fact that wheat has been displaced by corn and other crops in some of the irrigated areas in the northwest. However, the reduced area of cultivation was compensated for by a steady rise in yields per area unit[23] as the result of more intensive fertilization and the use of improved seed.

The growth shown by farm production for domestic consumption in Venezuela can be attributed to the agricultural development policy followed with a view to replacing certain imports of foodstuffs that had come to represent an enormous drain on foreign exchange. In 1957, imports of foodstuffs, beverages and tobacco amounted to 185 million dollars, which was cut to 145 million in 1961. During the five-year period under consideration, the most important increase has been exhibited by stock-raising products, especially meat, milk and eggs. This results from a rise of almost 20 percent annually in the production of concentrated fodder, which made it possible to achieve rates representing 7 percent a year in meat produced and 13 percent in milk delivered for canning and pasteurization. According to partial estimates, egg production will parallel the rate for milk output; this is confirmed by the curtailments in American egg shipments to Venezuela.

With respect to the other countries, it has already been mentioned that farm production for internal consumption in Ecuador and Peru showed a substantial increase during the last five years. In Ecuador, this resulted from a broad expansion of sugarcane and potato crops, while in Peru, it was based on the recovery of subsistence production following the 1956-1958 drought period in the inter-Andean valleys. However, these droughts only served to accentuate the effect of long-range economic factors that caused a setback in production for consumption. Although these factors are complex and their effect difficult to measure, particularly because of the lack of complete statistics, generally speaking, it may be stated that they relate to basic investments,

23. Since 1958, the average for the country has been 1,600 kilograms per hectare.

/credit and

credit and policy on imports and prices. Investments in roads, experimental stations, irrigation installations and other infrastructure elements were formerly oriented toward promoting agricultural and mining export activities. This made it possible for farm production for domestic consumption to prosper only in the zones surrounding the main cities, that is, along the country's coastal area, which has a heavy concentration of export agriculture, government activities and industry.

Following the exchange reform of 1949, the increase in agricultural production for export brought about a virtual stagnation in that part of the coastal area engaged in the cultivation of products for internal consumption, and the production of foodstuffs was, to a certain extent, restricted to the inter-Andean valleys. Any prospects for obtaining prices that would cover the cost of transportation from these valleys to the coast have been repeatedly frustrated in view of the ease with which foodstuffs can be imported both in their natural state and in processed form due to the almost continual increases in certain exports that doubled in volume between 1954 and 1961. For example, products such as wheat, meat, honey, barley, corn and temperate-zone fruits--whose production had risen during the last war and up to 1950 in an effort to meet balance of payments difficulties--began to be imported in increasingly larger quantities, displacing the output of the inter-Andean valleys. This led to the decline registered in per capita national production.

In Chile, farm production for domestic consumption tended to keep pace with population growth during the first seven years of the previous decade. A standstill was reached during the 1957-61 period that has resulted in a per capita reduction and is a consequence of the steady decrease in production of wheat, the country's most important crop. Actually, wheat output in recent years has barely been sufficient to cover consumption. Except for corn, which rose sharply, other grains have, in general, shown little fluctuation in production volume. The same is true for the output of legumes. For example, beans, while registering sharp ups and downs, have shown a general tendency to decline since 1957.

In contrast to these products, which may be considered to be traditional in Chile, there was a substantial increase in the production of sugar beets, which

/led to

led to a considerable step-up in the output of sugar, meat and milk in the southern zone. The cultivation of sugar beets was stimulated by the Production Development Corporation (CORFO), in order to reduce growing imports of sugar as well as for its importance as a fodder supplement. Although its cultivation contributed to the steady increase in meat and milk output, an additional factor in this increase was the greater supply of fodder made possible by press cake and by the more extensive areas devoted to pasturage and hay that replaced the dwindling grain-raising areas.

Of singular importance to the 1960 farm production was the earthquake that devastated the southern part of the country and led to the abandonment of vast areas of crop and ranch lands. The production index rose almost 6 percent in 1961, partly because of the renewal of normal farm activities in the affected areas and the favorable weather conditions prevailing in the rest of the country.

II. MINERAL PRODUCTION

From 1957 to 1961 Latin American mineral production did not maintain the rate of expansion achieved in prior years. This was due, primarily, to the much less favorable conditions existent in the international oil market. The slower growth of production of fuels and iron--of which important new deposits had been opened between 1950 and 1957--was not compensated for by the greater expansion of production of non-ferrous metals brought about by the large investments initiated in the early 1950's under the incentive of relatively favorable prices (see Table IV-10).

During the 1950-57 period, Latin American mineral production achieved a considerable growth rate, reaching a high of 8.5 percent under the incentive of favorable world demand for oil and the opening of iron mines in Peru and Venezuela. Fuel production achieved an annual rate of 9.3 percent reflecting the continued expansion of the Venezuelan oil industry and, to a lesser degree, that of the Mexican industry. Likewise, annual production of ferrous metals increased at the rate of 24.7 percent annually, owing to the start of mining operations in Colombia, Peru and Venezuela, and continued increases of production in Brazil and Mexico. On the other hand, the annual rate of increase of production of basic non-ferrous metals was only 3.4 percent, which does not compare favorably with the 4.5 percent rate of over-all world production.

During the last five years (1957-61) this growth has dropped, and the annual general index of production has been only 2.9 percent. This drop was caused by the slow growth rate (2.7 percent), of fuels--the most important component of the Latin American index--and by termination of iron production programs in Peru and Venezuela at a time when exploitation of new deposits was beginning in other iron-producing countries. On the other hand, production of basic non-ferrous metals--principally copper, lead and zinc--has increased considerably in Latin America as in the rest of the world.

Although the increase of internal consumption of mineral production has exceeded that of production during the past decade, the latter is still oriented toward the world market, where demand and prices, as well as the supply provided by non-Latin American exporters, exert considerable influence on the short-term fluctuation of the Continent's production. Thus, the drop in the growth rate of oil production was the result of partial substitution of refined fuels by natural gas on

/Table IV-10

Table IV-10

LATIN AMERICA: INDICES OF MINERAL PRODUCTION

(1955 = 100)

	1950	1957	1958	1959	1960	1961[a]	Rates of Variation (%) 1950-57	1957-61
Total Production	70	124	119	127	135	139	8.5	2.9
Fuels[b]	67	125	120	128	134	139	9.3	2.7
Metallic Minerals	79	121	115	124	142	142	6.3	4.1
Ferrous	38	178	167	180	206	203	24.7	3.3
Non-ferrous	87	110	104	114	133	134	3.4	5.1
Precious	100	95	96	95	98	97	-0.7	0.5
Others	82	110	118	121	110	125	4.3	3.2

Notes and sources: The indices have been estimated on the basis 1955 prices. For coal, crude oil, iron ore, copper ore, tin ore, silver, gold, sulphur and potassium nitrate the prices listed by ECLA, Statistical Supplement to the Economic Bulletin of Latin America, November 1960; in the case of other minerals, unit export prices, computed from official statistics of the principal exporting countries, were used.

a. Preliminary estimate.
b. Includes only part of natural gas production.

/the North American

the North American market. This reduced the annual rate of increase in the consumption of crude oil and was eventually reflected in imports.

In 1961, external factors, which will only be outlined here as they have already been discussed in detail elsewhere in this survey[24] also affected Venezuelan iron production which dropped more than the production increases in other countries. Prices for lead and zinc were unfavorable throughout the five-year period and remained at a level lower than that of the previous 11 years. On the other hand, the price of silver, which is now relatively good, only improved in 1961.

World market conditions differ from country to country, in accordance with the workings of sometimes complex factors which include, among others; capacity, planned in advance; the combination of metals and metalloids in minerals, and the greater or lesser concentration of mining properties. For example, in the case of zinc, incentives for increased production may be the result, as it was in 1961, of a rise in the price of silver, a metal with which it is often combined.

With regard to strip copper mining, there is a certain underutilization of reduction capacity. The increased unit cost from an even lower use of that capacity is one of the basic limiting factors responsible for decreased production. Inversely, production losses caused by factors that are independent of normal operating plans, such as strikes, may be recovered later.

Likewise, in certain cases the number of enterprises engaged in mining operations may be a factor in slowing down or accelerating production. For example, in 1958 the principal copper smelting enterprise in Peru had a concentration capacity of only 19 percent of national production. About half of the copper smelted at the plant was produced by the firm. The other producers were in a position to sell their concentrates either to the latter or directly to exporters, as Peru does not have export duties that differentiate among products according to degree of processing. During periods of high prices several marginal mines begin to produce, selling directly to the exporters and thus increasing the proportion of natural products--ores and concentrates--in the country's exports. When prices drop the opposite holds true.

The differences in mineral production policies of the Latin American countries are as great as those found in the structure of the mining industry among the countries themselves. In Venezuela, where the mining industry has been an important

24. See Chapter I.

/source of

source of fiscal revenues and foreign exchange, the policy of the government in recent years has tended toward obtaining an increased share in the industry's earnings. In 1955, Chile reformed its legislation on large-scale mining operations with a view to increasing production and thereby increasing fiscal revenues and foreign exchange income, albeit at the cost of a decreased governmental share in the total income of the mining enterprises. Therefore, while the new Venezuelan laws of 1958 increased the nominal share of the government in mineral production from 50 to 60 percent,[25] the Chilean "New Deal" law established descending marginal rates on exports that exceeded a given basic volume. In 1961, additional tax legislation was promulgated in order to provide the large enterprises with a 15 percent expansion rate of productive capacity every three years.

The production of the other two principal exporters, Mexico and Peru, is based on mixed deposits owned mainly by large foreign enterprises. In Peru, production is not only in the hands of a varying number of both national and mixed-ownership concerns, but production of metallic minerals has accounted for over one fourth of foreign exchange receipts from exports since 1950. In Mexico, the latter proportion is less than 10 percent. Furthermore, mineral production has lost its relative importance as a source of fiscal revenues. In this regard, it should be pointed out that production and export taxes paid by the mining industry were substantially increased in 1955, further burdening mineral production at a time when world market prices were dropping. The drop in prices that took place in 1953 and 1954 was partly offset by the devaluation of Mexican currency abroad, but subsequent price drops were not accompanied by the latter phenomenon. In 1961, the Mexican government decided to provide relief for the industry by reducing taxes by half for mining concerns the majority of whose capital was owned by persons of Mexican nationality and for those which would adopt such a policy in the future. In order to avail themselves of that advantage, some enterprises established affiliates with the requisite participation by Mexican capital, thereby bringing about considerable changes in their legal ownership.[26]

25. This percentage increases in direct proportion to the amount of production sold at discounts not recognized by the government.

26. See the statement by President Adolfo Lopez Mateos in Tercer Informe de Gobierno rendido ante la Representación Nacional, el 1° de septiembre de 1961, p. 4 /Third Presidential Message to the Congress, September 1, 1961/

/On the other

On the other hand, Peru's Mining Law of 1952 exempted mineral production from the taxes paid by other sectors of the economy. This privilege, besides benefiting foreign companies, also aided a considerable number of firms of national and mixed ownership engaged in production of minerals. A large part of the increased production subsequent to 1957 was the result of investments made because of the incentive provided by that law.

Peruvian mineral production, however, was appreciably changed by introducing strip mining operations for extracting copper and iron, which has considerably increased domestic product without increasing employment, fiscal revenues, or, initially, net foreign exchange. This was due in part to small payments in Peru, but also to the accelerated amortization of the loan originally granted to the industry by the United States Export-Import Bank,[27/] as well as to repayments of loans obtained from other foreign sources. Since increased production did not improve fiscal revenues to an important degree, it was necessary to finance increased public expenditures by raising the rates of direct taxes paid by other sectors.

During the period under consideration, production for internal consumption increased over production for export. In Mexico, production of iron ore, tin and oil has increased rapidly and continuosly. In Argentina and Brazil mineral production has also increased rapidly and continuosly in order to supply internal demand for liquid fuels and basic metals. The respective production indices of those countries, for both the extracting and refining industries, have climbed steadily and, in the case of Brazil, those indices compare favorably with those of the first seven years of the previous decade.

The increased production for internal consumption in the abovementioned countries was due in large measure to the development achieved in the mechanical industries sector of their manufacturing industry.[28/] In the other countries, production for domestic consumption increased only in the case of certain minerals, principally coal and oil, which are used throughout the economy.

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27. By the end of 1961 only 89 million dollars were owed on a 122 million dollar loan obtained in 1959.

28. See Chapter V, section IV.

/1. Oil

1. Oil

The figures for oil production reflect only one aspect of the industry, which also covers a whole series of operations whose results--in terms of crude oil or gas extracted--can only be appreciated over a given period of time. Thus, the figures in Table IV-11 which show a drop during the 1957-61 period in the rate of increase of production throughout Latin America, should be related to prospecting operations carried out in the producing countries. For example, although drilling operations have been minimal in Venezuela, production has increased continually, drawing upon the enormous reserves that were previously measured. On the other hand, in Brazil, although intensive drilling has not added new fields to the already existent ones, it has expanded the nation's reserves. In Argentina, operations on a modest scale have produced the most important increase in Latin American production of crude oil during the period under discussion.

Venezuelan production of crude oil increased from 547 million barrels in 1950 to 1,014 million in 1957, and the new conditions created in the world market as a result of the reopening of the Suez Canal obliged the companies to adopt measures designed to readjust production accordingly. In 1958, there was a 32 percent drop in the number of wells completed, but production decreased by only 6.3 percent owing to the initial output of some concessions on Lake Maracaibo that had been granted previously.

The existent conditions led the companies to reduce their costs to the minimum, limiting operations to development of existent property and improvement of oil pipelines for exports. The number of wells completed has decreased to a fraction not only of the peak achieved in 1957, but even to a fraction of the maximum figures for previous years, during which world market conditions could have been described as relatively normal (see Table IV-12).[29]

During 1960 and 1961, production remained at the high level achieved in 1957 and even exceeded that level owing to more intensive extracting operations carried out in existent fields. Independent producers still have reserves that will permit

29. The table shows a series of costs per additional barrel. Payments for concessions in 1956 and 1957 have been omitted. The table shows the effects of the measures taken.

/Table IV-11

Table IV-11

LATIN AMERICA: PRODUCTION OF CRUDE OIL

(Millions of 42-gallon barrels)

Country	1950	1955	1957	1958	1959	1960[a]	1961[b]
Argentina	23.4	30.5	34.0	35.8	44.7	63.9	84.9
Brazil	.3	2.0	10.1	18.9	23.6	29.6	34.8
Colombia	34.1	39.7	46.8	46.9	53.6	55.4	53.2
Mexico	20.6	89.4	88.3	93.5	96.4	99.0	106.7
Venezuela	546.8	787.4	1014.5	950.8	1011.5	1041.7	1065.7
Others	19.0	26.5	30.7	31.2	30.3	32.9	33.6
Total	644.2	975.5	1224.3	1177.2	1260.0	1322.7	1378.3

Sources: 1950, 1955, 1957-60: Bureau of Mines, U.S. Department of the Interior, Minerals Yearbook, 1961; United Nations, Monthly Statistical Bulletin (several issues); Petroleum Press Service; and the Bank of London and South America, Fortnightly Review (several issues).

Note: The totals do not always agree with the sum of the components of the table, as the figures have been rounded out.

a. Preliminary figures.
b. Estimates based on partial data.

/Table IV-12

Table IV-12

VENEZUELA: COMPLETED WELLS, PRODUCTION AND OIL COSTS

Year	Completed Wells (Units)	Production (Millions of tons)	Additional Cost per Barrel (Dollars)
1948	889	71.7	...
1953	951	94.2	0.41
1957	1746	148.4	0.46
1958	1195	139.1	0.67
1959	707	147.9	0.58
1960	430	152.4	0.41
1961	400	155.2	0.24

Source: World Oil, Houston, Texas (several issues).

Table IV-13

BRAZIL: RESERVES AND PRODUCTION OF CRUDE OIL AND NATURAL GAS

Year	Crude Oil			Natural Gas
	Reserves	Production	Consumption	(Millions of Cubic Meters)
	(Millions of barrels)			
1950	26	0.3	33.0	61.2
1954	40	0.1	58.4	63.6
1955	35	2.0	64.6	61.8
1957	200	10.1	70.1	158.5
1958	250	18.9	83.1	300.0
1959	260	23.5	...	427.2
1960	600	29.6	94.0	535.2
1961	...	33.6	...	...

Sources: World Oil, Houston, Texas (several issues); Bureau of Mines, U. S. Department of the Interior, Minerals Yearbook; United Nations Statistical Office; Confederaçao Nacional da Industria / Brazilian National Oil Industry Association /.

/them to

them to maintain that high rate of production during the next eight years and for a considerably longer period of time if one takes into account the estimated production figures of existent concessions.

The Corporación Venezolana de Petróleo /Venezuelan Oil Corporation/ was established in 1960 and was granted exclusive drilling rights outside of zones occupied by existent concessions. In May 1961 it began drilling operations in promising areas, and by the end of that year it had already achieved an important daily productive capacity. However, priority has been given to development operations and this has resulted in a considerable increase in measured reserves.

During the past 10 years intensive drilling operations have been carried out in Brazil and several important oil deposits have been developed on the coast of Bahia. Production from the aforementioned deposits--all of which are owned by Petroleo Brasileiro (PETROBRAS), a government agency--has reduced the country's dependence on foreign sources of supply appreciably and supplies one third of internal demand for crude oil (see Table IV-13). The increase of reserves in 1960 to 600 million barrels, assuring present production as well as its intensification, was due primarily to operation of the new fields in Bahia.

PETROBRAS is engaged in intensive drilling operations in other areas, but up to the present the results achieved have not been very promising. On the other hand, its work in the field of refining has provided the country with a refining capacity of 300,000 barrels per day, an amount sufficient to supply internal demand.

In Argentina, where most of the oil operations are under the aegis of Yacimientos Petrolíferos Fiscales /Governmental Oil Deposits/ (YPF), production increased from 1950 to 1957 at a cumulative annual rate of 5.4 percent, which was considerably below the rate of increase of internal demand (7.3 percent). In 1958, the government authorized YPF to conclude contracts with private firms for drilling and temporary operations in areas that it owned. That same year YPF concluded contracts for oil operations varying in duration from 15 to 30 years with six important concerns which undertook to drill and develop production in zones parallel to the Andes and in the extreme southern part of the country. Operations were begun

/toward the

toward the end of the year and in 1959 Argentine production of crude oil increased by 37 percent. It was necessary to limit production owing to delays in construction of pipelines leading to the refineries.

Thus the rate of growth which, as has been mentioned above, was 5.4 percent during the 1950-57 period, increased to 23.4 percent from 1957 to 1960. By December 1960 the industry was in a position to supply the entire internal demand for crude oil. The possibility of obtaining exportable surpluses was confirmed in the early part of 1961, and during that year operations were oriented principally toward development and expansion of deposits discovered after 1958. Preliminary information indicates that by mid-1961 investments by YPF and private concerns were being used to consolidate production systems. Drilling was continued in other areas up to the end of that year, and it is expected that there will be further increases of production and exports of crude oil in 1962.

Production on a commercial scale was initiated in Chile in 1949. During the 1957-61 period, the Magallanes fields were developed and expanded. Investments of the Empresa Nacional de Petróleos /National Petroleum Company/ (ENAP) were used for consolidating those deposits, and for this purpose the Straits of Magellan were prospected for oil during 1960-61. The results obtained in production of crude oil have been very promising (see Table IV-14). ENAP has continued to prospect for oil in the northern part of the country, and in the early part of 1961 exploratory wells were drilled in the provinces of Tarapacá and Atacama. During that year ENAP invested one million dollars in geological and geophysical research in the central provinces, thereby increasing its investment in exploration, apart from the drillings in the Magallanes area, to 5 million dollars.

Production of crude oil has increased at a moderate rate in Mexico, because Petróleos Mexicanos (PEMEX), a government agency, has assigned a large part of its investments to construction of refineries and pipelines for gas and oil. Because of this, during the past five years production of natural gas has been tripled, and the product has been used fairly extensively since completion of the gas pipeline between Ciudad Pemex and the nation's capital. The capacity of refineries increased to 351,000 barrels per day in 1961, and exceeds production (283,000 barrels).

/Table IV-14

Table IV-14

CHILE: RESERVES AND PRODUCTION OF CRUDE OIL

Year	Reserves (Millions of barrels)	Production (Thousands of barrels)
1950	30	630
1955	40	2577
1957	50	4337
1958	55	5568
1959	75	6428
1960	60	7231
1961	150	10300

Sources: World Oil, Houston, Texas; United Nations Statistical Office.

PEMEX was most active in prospecting in 1959, and as a result of its operations the new Santa Ana oil field was discovered in Campeche Bay. This field went into production in July 1961 with an initial output of 10,000 barrels per day. In 1962 total production may increase to 40,000 barrels per day, equivalent to present capacity.

In Peru and Ecuador, where private companies have been operating relatively old deposits, production has shown an unfavorable trend since 1957. Ecuadoran production has been decreasing since 1955, and the minor drilling operations that have been carried out have failed to discover new fields to replace the only one that is in production at present. In Peru, the drop in production of the old deposits of Brea-Pariñas has offset increases in other wells of the coastal area and the new production of the tributaries of the Amazon and the continental shelf. In Brea-Pariñas, a deposit whose ownership has been the object of litigation for some time, the concessioner has limited investment in new wells, maintaining production on the basis of secondary recovery, flooding and other techniques usually employed in order to increase the extraction index of depleted deposits.

/2. Copper

2. Copper

During the last few years, short-term fluctuations of the international market have been only a subsidiary factor in the variations in annual production of copper in Latin America. The major factor has been the additions to productive capacity, which are reflected in the production levels and have enabled Latin America to regain during the last four years the relative position in world production that it held in 1950.

Production was in fact 30 percent higher in 1957 than in the five-year period 1950-55, due to the combination of high prices and the favorable investment conditions which prevailed in Peru from 1952 and in Chile from 1955. In Peru, the Mining Law of 1952, which is still in force, resulted in a continuous increase in production, which rose from 30,000 tons in 1952 to 57,000 tons in 1957 (see Table IV-15).

Similarly, the new law (Ley del Nuevo Trato) which was passed in Chile in 1955 resulted in investments amounting to some 180 million dollars by the three major concerns during the following five years, and a rise in production from just over 360,000 tons in 1953-54 to 486,000 tons in 1957. During 1959-60, mining was started of further copper deposits in El Salvador. The initial production capacity of 120,000 tons of blister made up the loss due to exhaustion of an existing deposit and even enabled a slight increase in the figure of national production.

In Peru, the production level also rose substantially in 1960, when mining operations were started on a commercial scale of the Toquepala deposits,[29] the reserves of which are calculated at 1 billion tons of ore with a copper content of 1 percent. The initial refining capacity is 140,000 tons a year, at a cost of little over 11 cents a pound.[30] In 1961, this cost was reduced still further when the yield of the ore processed rose to 1.67 percent, which further broadened the cost margin with African copper (see Table IV-16).

The investments made to put the Toquepala mine into production amounted to 237 million dollars by the end of 1959, of which 120 million was financed by a

29. Actually, three contiguous deposits, one of which is Toquepala, are concerned.

30. See Forbes' Financial Weekly, New York, March 1, 1960.

/Table IV-15

Table IV-15

COPPER PRODUCTION IN LATIN AMERICA

(metal content, in thousands of tons)

Country	1950	1955	1957	1958	1959	1960[a]	1961[b]
Chile	362.8	433.5	485.5	467.0	546.3	532.3	547.6
Mexico	61.7	54.7	60.6	64.9	57.2	60.3	49.3
Peru	29.9	43.4	57.1	53.6	50.7	212.4	215.0
Others	25.1	23.0	21.5	17.1	12.8	15.7	15.7
Total	479.5	554.6	624.7	602.6	667.0	820.7	827.6

Sources: 1950, 1955, 1957-60: United States Department of the Interior, Bureau of Mines, Minerals Yearbook; 1961: United Nations, Monthly Statistical Bulletin; Central Bank of Chile, Boletin; Bank of London and South America, Fortnightly Review (various issues).

a. Preliminary figures.
b. Estimates based on partial data.

/Table IV-16

Table IV-16

COPPER: ESTIMATED COST OF PRODUCTION IN 1960
FOR TOQUEPALA AND CHIEF PRODUCERS

(cost per pound in United States cents)

	Estimated cost	
	Maximum	Minimum
United States	28	18
Chile	18	15
Africa	15	13
Toquepala (Peru)	...	11

Source: Forbes' Financial Weekly, New York, March 1, 1961.

loan from the Export-Import Bank of the United States.[31] Further amounts were invested in 1961 for the purpose of increasing flotation and smelting capacity to more than 250,000 tons. The low cost of production and the future plans for expansion are the result of the open-cut working of the Toquepala deposits and also of the tax concessions granted by the government, which in 1954 concluded a special agreement with the company under which, in accordance with the provisions of the Mining Code of 1952, the company is exempted from the major income taxes and the export and import duties paid by other sectors in Peru and, at the same time, from exchange and import controls.

Chile's Law of 1955 has been revised by the government, which has submitted a new draft Law based on the fact that the tax reductions granted by the 1955 Law have not yielded the results anticipated. Although copper production rose, this increase did not keep pace with that of world production. Thus, whereas Chile's

31. American Smelting & Refining Co., Annual Report, 1959.

/share of world

share of world production was 20.8 percent in 1945-49,[32] it was only 16.1 percent in 1955-59 and fell to 15 percent in 1960 and 1961. This fall was partly responsible for the international agreement by copper producers to reduce production by 10 percent beginning in October 1960.[33] This agreement, which was observed by a number of Chilean producers, was not adhered to by the main African concern--which preferred to increase its stocks--or by the United States producers.[34]

The new draft Law provides that the companies shall pursue an investment program capable of increasing ore-reduction capacity by 15 percent every year, which may also reduce the close dependence of Chilean production on prevailing prices. The incidence of simultaneous fluctuations in production quotation and prices (see Graph IV-3) has particularly marked repercussions on the Chilean economy, since copper supplies 15 percent of the country's taxation revenue and 68 percent of its foreign exchange.

It seems likely that the Law will produce substantial results within a relatively short time, since in July 1961 one company initiated a project designed to increase its extraction and smelting production by 7 percent over a period of a year. The company which owns the ore deposits in El Salvador similarly plans to set up a refinery at Chañaral for reduction of the concentrates at present sent to the United States.

There has been little variation during the last 11 years in Mexican production, which has remained at around 60,000 tons a year. In 1961, however, production fell to 49,000 tons, due in part to a 3-months strike in the country's principal mine towards the end of the year and caused a loss equivalent to 5.6 million tons of recoverable metal content.

3. Lead

Latin American lead production dropped by 5 percent between 1957 and 1961 as a result of a 33 percent drop in world metal quotations. This drop was general in

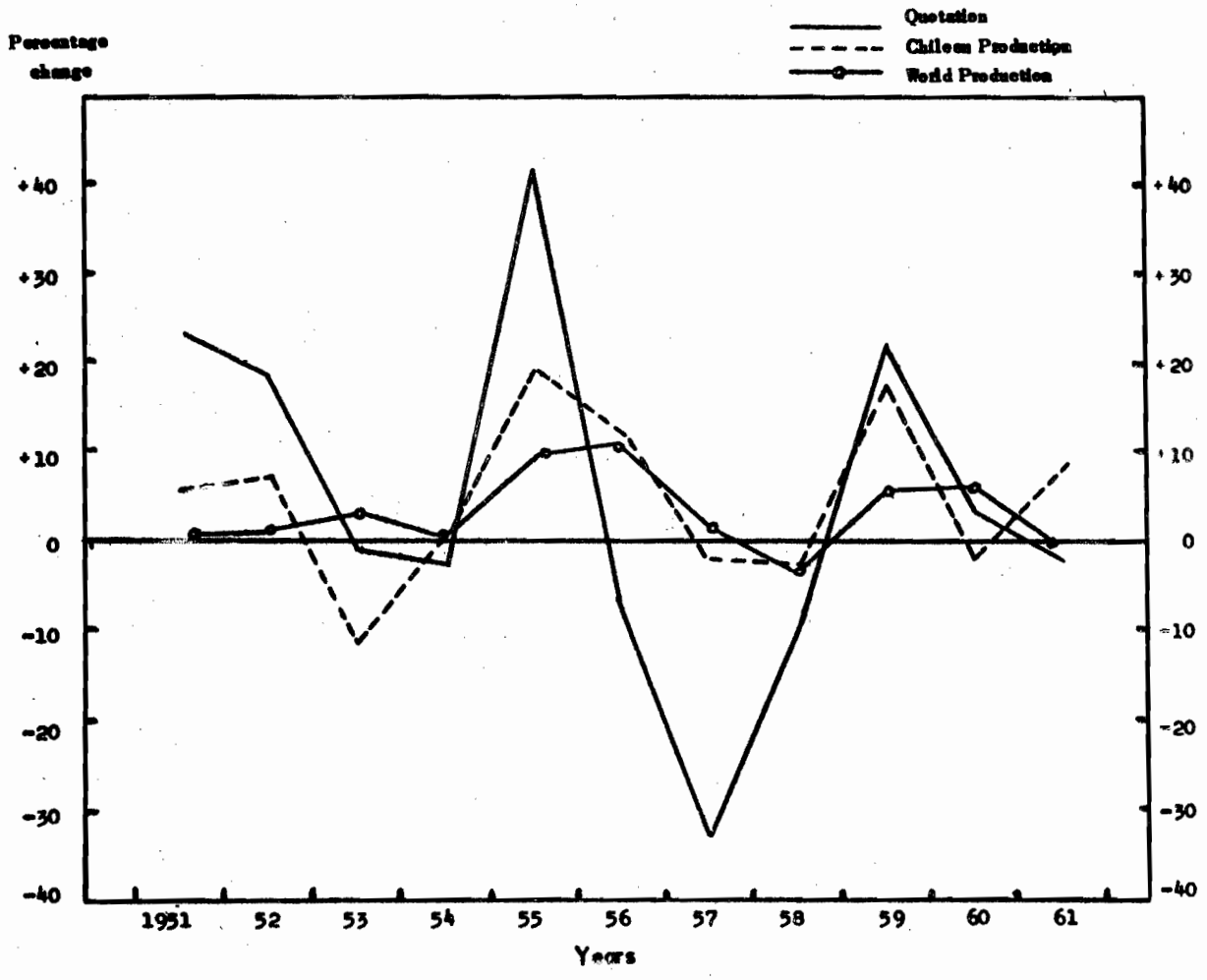
32. Excluding those countries with a centrally planned economy.
33. See The Economist of November 25, 1961.
34. The action of the United States producers was due to the special conditions which prevailed on the United States market for domestic copper.

/Graph IV-3

Graph IV – 3

COPPER: VARIATIONS IN ITS INTERNATIONAL QUOTATIONS AND IN WORLD AND CHILEAN PRODUCTION, 1951–61

(percentage variation over the previous year)



Sources: Copper Department, Santiago, Chile; and United Nations, Monthly Bulletin of Statistics.

the three main exporting countries (see Table IV-17), though certain domestic factors helped to accentuate it in Mexico and Bolivia and to contain it in the case of Peru.

Mexican production shows a long-term declining trend. From 238,000 tons in 1950, it fell to 211,000 tons in 1957 and 190,000 tons in 1960, at which level it was maintained in 1961.

In Peru, lead production rose from 65,000 tons in 1950 to 131,000 tons in 1957. The fall in prices in 1957 and the import quotas imposed by the United States in October 1958 led the principal mining and refining concern to reduce its purchases of concentrates from other companies by 20 percent in 1958 and a further 10 percent in 1959 and to increase the refining of concentrates obtained from its own mines.[35] Due to the rise in the price of lead, there was an increase of 30 percent in 1960 in the operations of the refinery, relating mainly to the refined ores purchased by the company (see Table IV-18).

The increase in production in 1960 was partly due to the conditions which prevailed on the market for silver, production of which is insufficient to meet international demand. In 1961, expectations of a rise in the price of silver led to an increase in the production of refined lead and also in the volume of exports, which were 21 percent higher than in the previous year. There was, however, no change in the total of ore mined in Peru, the above increase being partly accounted for by greater refining and export of stocks of ore held by producers.

35. See Cerro de Pasco Corporation, Report to Stockholders (1959).

/Table IV-17

Table IV-17

PRODUCTION OF LEAD ORE IN LATIN AMERICA

(metal content, in thousands of tons)

	1950	1955	1957	1958	1959	1960	1961[a]
Mexico	238.1	210.8	211.0	200.0	195.0	189.8	189.3
Peru	62.1	118.7	124.0	120.0	115.2	151.2	150.0
Others	31.1	57.3	78.4	72.0	74.3	67.2	65.1
Total	331.3	386.8	413.4	392.0	384.5	408.2	404.4

Sources: 1950, 1955, 1957-60: United States Department of the Interior, Bureau of Mines, Minerals Yearbook; 1961: British Bureau of Non-Ferrous Metal Statistics, World Non-Ferrous Metal Statistics; International Monetary Fund, International Financial Statistics; and Bank of London and South America, Fortnightly Review.

a. Estimates based on partial data.

Table IV-18

PERU: OPERATIONS OF THE LEAD REFINING PLANT, 1957-61[a]

(in thousands of tons)

	Production	Production of	
		Own ores	ores purchased
1957	69.8	23.2	46.6
1958	65.0	28.4	36.6
1959	57.3	24.3	33.0
1960	73.5	30.5	43.0
1961	77.2	29.2	48.0

Source: Annual reports of the refining company.

a. These figures are not strictly comparable with those of Table IV-17, since they relate to production subject to subsequent refining.

/4. Zinc

4. Zinc

As in the case of lead, the production of zinc in Latin America fell after 1957, accompanied by a corresponding fall in world zinc prices which recovered however in 1960 and 1961 due a slight improvement in prices and to expectations, subsequently confirmed, of increases in the price of silver. In 1961, production rose to 515,000 tons of recoverable metal, about 10 percent higher than the figure for 1960 and some 7 percent higher than the 1957 figure.

In Mexico, zinc production was favored by an improvement in the average zinc yield of mixed lead, zinc and silver ores and by the completion of a zinc refining plant with a capacity of 30,000 tons. A further positive factor was the partial reduction of taxes on production and exports granted from 1960 to one of the major producers. The tax concessions granted by the Mining Law of 1961 to Mexican companies, the majority of whose shares are Mexican-held, was a special inducement in the case of zinc to foreign companies to seek participation in their ownership by Mexican shareholders. The major foreign producer transferred 51 percent of its shares to a refining company and to another recently formed mining company. In addition to the new 30,000-ton refinery already mentioned, construction will be started shortly of another refinery, also with a capacity of 30,000 tons, thus enabling a large part of the national production to be refined in Mexico. These investments are favored by the system of production and export taxes, which are charged at lower rates on refined products than on ores and concentrates.

In the other countries, the low refining capacity continues to be a major production deterrent, since it compels those countries to incur high domestic freight costs for transportation of ore to the ports for export and also because it imposes a limit on sales to countries which do not possess refineries. In Argentina, production of concentrates has been almost double the refining capacity (see Table IV-19) and has therefore resulted in the accumulation of large stocks, particularly since Argentina imports a considerable amount of zinc in bar form. Production in Bolivia and Guatemala, which is entirely of concentrates, has been reduced virtually to zero with the fall in prices which began in the first quarter of 1957 and lasted until the middle of 1959. Since then, Bolivia's exports of zinc

/Table IV-19

Table IV-19

LATIN AMERICA: PRODUCTION AND REFINING OF ZINC

(in thousands of tons)

Country		1950	1955	1957	1958	1959	1960	1961
Argentina	A	12.7	21.1	35.0	44.0	47.0	33.9	29.5
	B	7.5	13.5	14.0	15.0	14.0	17.7	16.2
Mexico	A	223.5	269.4	254.0	243.0	239.0	243.6	260.2
	B	53.5	56.1	56.3	57.4	55.6	52.9	60.6
Peru	A	87.9	166.1	158.0	132.0	141.0	178.1	210.4
	B	1.3	17.1	26.7	28.8	29.0	26.7	32.7
Others	A	19.9	35.9	34.5	21.3	5.9	13.0	15.0
Total	A	344.0	492.5	481.5	440.3	432.9	468.6	515.1

Sources: 1950, 1955, 1957-60: United States Department of the Interior, Bureau of Mines, Minerals Yearbook; 1961: United Nations, Lead and Zinc Study Group, Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics; and Bank of London and South America, Fortnightly Review.

A. Concentrated ores.
B. Refined zinc.

/have corresponded

have corresponded to the zinc content of the silver concentrates and the increase in these exports in 1960 and 1961 therefore merely reflects the state of the silver market. The same appears to apply to the recovery in Guatemalan production in those years.

In Peru, production has been considerably affected by the lack of adequate refining facilities. The existing refinery belongs to a company whose reduction operations are confined exclusively to its own concentrates, the remaining producers being obliged to sell their production directly on the foreign market. Between 1956 and 1959 production fell by 20 percent, although the company that owns the refinery increased its own production by 15 percent. These figures clearly demonstrate the critical situation in which the other producers found themselves.

5. Tin

Bolivian tin production,[36] which had fallen from 32,000 tons in 1950 to less than 28,000 tons in 1957 as a result of the low level of world prices and the difficulties encountered in the management of the nationalized mines, had to be reduced even further in 1958 and 1959 in accordance with the terms of the International Tin Agreement. Production was only 18,000 tons in 1958; in 1959 it rose to 24,000 tons and then fell again.

From 1960, Bolivia has been one of the countries that have failed either to comply with the Agreement quotas or subsequently to take advantage of the continuous rise in prices in 1961. The inability of the Bolivian mining industry to increase its production in accordance with the new demand position is attributable to factors whose influence have been felt for a number of years. One of these is the extensive exhaustion of the main tin veins which have not been replaced by new discoveries. It is sufficient to point out that the current yield of the ore extracted is below 1 percent compared with an average yield in 1950 of 8 percent. Moreover, the equipment used for mining and in the subsequent concentration processes should be repaired or, in some cases, replaced.[37]

36. The production of the remaining countries is small and is regarded as a by-product of the refining of other ores.

37. A loan of 38 million dollars was obtained from the Inter-American Development Bank in June 1961 for the purpose of improvement of this equipment.

/Finally

Finally, a major problem is the bad condition of the track and the out-of-date rolling stock of the railroad to Antofagasta. Although it continues to carry the concentrates to that port, it is not in a position to increase its services nor is there sufficient capital available to properly repair track and equipment.

The costs of the Bolivian Mining Corporation (COMIBOL), which incurred a loss in 1959 and 1960, are also affected by other factors, one of which is the excess of manpower. In order to remedy this and other difficulties, the government of Bolivia has concluded an agreement with IDB, IDA and an agency of the government of the Federal Republic of Germany under which each of the signatories has furnished part of the capital required to finance the repair and modernization of the company's equipment. In addition the IDB provides the necessary technical assistance for rationalization of the Company's production processes.

6. Iron ore

In 1950, production of iron in Latin America was confined to the iron produced by the two exporting countries, Brazil and Chile, and the ore reduced by the Mexican iron and steel industry. The demand for high-content ore by the United States, connected with the exhaustion of its Mesabi Range reserves, led to mining being started of the Cerro Bolívar deposits in Venezuela and the Marcona deposits in Peru. By 1957, total Latin American production[38/] had reached 18 million tons of fine metal content, four times the 1950 figure. Although this total has been since exceeded, the rate of increase slowed down considerably with the reduction by the United States of its purchases of Venezuelan iron, which has been partly replaced by Canadian ore.

The exploration of new ore deposits, the commencement of working of some of these and the introduction of new methods of ore concentration during the five-year period reviewed are of particular significance in view of the possibilities which exist for expansion of these mining operations in the near future. A number of important deposits have been discovered in southern Argentina and are at present being surveyed and evaluated. Even though the first assays reveal a sulphur content slightly higher than that normally acceptable by the export market, there is a possibility of using this ore locally and thus eliminating the present imports by the iron and steel industry.

38. Including those small producers whose ore is used in the manufacture of cement.

In Brazil, due to more intensive working of existing deposits, annual production has now passed the 6-million-ton mark (see Table IV - 20).

The government of Mexico has requested the collaboration of the United Nations in the preparation of a census of workable deposits, many of which are known only superficially due to previous lack of interest in their exploitation because of their location.

Chilean production, which remained stagnant up to 1957, has doubled since work began on new deposits in the northern part of the country. At the end of 1960, official permission was obtained by a mining company to invest an initial amount of 15 million dollars for the purpose of working a deposit which, within five years, is expected to yield more than 5 million tons of crude ore per year. The Compañía de Acero del Pacífico (CAP) has purchased an iron ore deposit which is expected to supply the future needs of its iron and steel works and, in addition, enable the export of more than a million tons, beginning in 1962. As in the case of Mexico, the Chilean government has taken a direct interest in iron production. The Instituto de Investigación Geológica, in collaboration with the United Nations, has discovered an ironfield in northern Chile which according to preliminary estimates might yield 5 million tons a year. This deposit will be worked by the Empresa de la Gran Minería S.A., a recently formed company, whose initial capital of 60 million dollars will be subscribed by the government.

During recent years, the ore produced at Marcona in Peru has shown inferior yields of iron and a certain increase in the percentage of impurities. In 1961, the company that mines the ore built an ore-treatment plant and increased its sales to 4.2 million gross tons, i.e., by 20 percent over 1957. Toward the end of the five-year period reviewed, work began at the ore deposits at Acarí, resulting in an increase in Peru's total production by 67 percent between the two years indicated.

/Table IV - 20

Table IV-20

LATIN AMERICA: PRODUCTION OF IRON ORE

(metal content, in thousands of tons)

Country	1950	1955	1956	1957	1958	1959	1960	1961[a]
Brazil[b]	1351	2368	2853	3484	3630	3984	5027[c]	6214[c]
Chile	1771	922	1598	1620	2182	2340	2844	3802
Colombia[d]	--	99	128	142	149	125	176	179
Mexico	286	430	488	569	582	535	521	688
Peru	--	1058	1613	2146	1555	2095	3139	3572
Venezuela	127	5483	7218	9942	10062	11177	12667	9602
Others	12	310	318	377	104	126	114	(114)
Total	3547	10670	14216	18280	18264	20382	24488	24057

Sources: United Nations, Monthly Statistical Bulletin (various issues) and Statistical Yearbook, 1960; United States Department of Interior, Bureau of Mines, Minerals Yearbook, 1960; Central Bank of Chile, Boletin.

a. Preliminary estimates.

b. The coefficient of metal content normally used for the production and export of Brazilian iron (70 percent) has been applied. It should, however, be borne in mind that this coefficient appears to over-estimate the metal content in the later years.

c. Production of pig-iron, plus exports.

d. Production of pig-iron.

Chapter V

MANUFACTURING INDUSTRY

I. INTRODUCTION

The growth of industrial production during the last five-year period was decidedly positive for Latin America as a whole. The gross aggregate value for this sector showed a cumulative annual increment of approximately 8 percent between 1956 and 1961, as compared to 5.2 percent for the preceding five years. According to provisional data available, 1961 saw an almost equally strong expansion, of about 7.5 percent.[1/] Since the growth rate of the industrial sector is greater than that of any other major sector of the economy, it may be asserted that the general economic expansion shown by Latin America during this period was primarily due to the development of manufacturing.

As a result of a more rapid rise, manufacturing increased its share in the total product of the Latin American economies from 21 to 24 percent between 1956 and 1961. It should be noted that the displacements that have taken place in the Latin American productive structure in favor of the manufacturing sector correspond--at least in general terms--to the normal structure of economic development, which usually implies a more intensive growth of industrial production.

1. Diversification and import substitution

One of the outstanding and favorable features of recent Latin American industrialization has been the diversification of production. The results vary considerably from one country to another, depending upon the degree of national development, but the process has always basically entailed the extension of import

1. From the standpoint of balanced regional evolution, one less encouraging fact should be pointed out. As the data in this section show, the stepped-up pace of expansion for the countries as a whole can be primarily attributed to the rapid progress experienced in certain countries. The high rates of growth in these countries offset the slower development recorded in most of the Latin American republics. The dynamic rate of Brazilian industrial development was maintained throughout the entire period under consideration. Mexico held second place for several years, although in 1961 some momentum was lost. On the other hand, the notable recovery made by Argentine industry in that year weighed heavily in the regional total.

/substitution to

substitution to new fields and, at the same time, a more regular supply to the national markets of various products that were formerly scarce.

The process of import replacement does not necessarily imply a saving of foreign exchange in the short run, at least not in absolute quantities. In fact, the establishment of new industries--especially those representing the final stage of a manufacturing process--can give rise to substantial increases in the importation of raw materials, semi-manufactured products, and fuel, in addition to requiring the purchase of equipment, since the new activity often tends to increase the supply to the market of articles that were previously imported.

Consequently, the primary significance of successive import substitutions is that they make economic growth possible. Actually, this process enables national productive activities to win over gradually fields that were formerly supplied by foreign industries, opening up new prospects for employment of the local labor force. This, naturally, contributes to expanded production in the sector. However it again should be kept in mind that new industries create new needs and, consequently, foreign exchange may be in short supply throughout this entire process.

Therefore, it is not surprising that, in general terms and despite certain year-to-year fluctuations, the import coefficients for the Latin American countries[2/] have shown remarkable stability. Of course, at a more advanced stage of their evolution, those countries that have adequately balanced physical resources and a variety of climates are likely to achieve a more self-sufficient position on the whole.

Although calculations of the degree of industrial self-sufficiency are usually beset by problems of methodology and statistics, it may be stated on the basis of very tentative approximate estimates that about two thirds of the needs of the Latin American countries for industrial products are currently satisfied by national production. This percentage is higher with respect to basic consumer goods, more or less equal to the general average in the case of intermediate products, and significantly less for products of the mechanical industries, particularly production equipment. Available figures appear to confirm also that the degree of self-sufficiency in the field of industrial products has risen during the last decade.

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2. That is to say, the ratio of total imports to total production.

/With respect

With respect to the strictly internal aspects of diversification, several countries have carried out appreciable "technological integration" between the successive industrial processes. In this way, manufacturing activity, which used to be restricted in many fields to the final stages of fabrication, has undergone progressive expansion and now also covers corresponding basic and intermediate stages. This process, in addition to increasing the domestic value added embodied in final products, has increased the external economies within manufacturing and related sectors. Special mention should be made of the improved utilization of by-products and co-products, as well as of the several advantages derived from the existence of local suppliers of raw materials and semi-manufactured goods.

This process has not always been easy. It has often been held back by the well-known "bottlenecks" of Latin American production systems--phenomena typical of under-development and semi-development--which continue to exist even in the most advanced economies of the region. Moreover, their relaxation at some points occasionally made conditions worse at others. A case in point is the recent easing of Brazilian over-land transportation, thanks to the creation of the national automotive industry, which has led in turn to temporary difficulties in the field of steel supply, etc. However, the same example of Brazil illustrates the fact that bottlenecks tend to straighten out in the normal course of development itself, if only at the close of a long and somewhat tortuous process.

2. Elasticity of supply

One very promising fact, with regard to progress in overcoming some limiting factors, is the beginning of production equipment manufacture, already firmly established in certain countries, and is likely to promote elasticity of supply in a growing variety of industries, including the construction of certain social overhead projects.

There are also signs of an encouraging development, although still at a very moderate rate, of the human resources required for industrialization: skilled man-power and business management. A definite increase in the technical know-how should also be noted, since this is a vital element in running the complex operations of modern industry, even though its insufficiency in some aspects may yet constitute a limiting factor to be reckoned with.

/Unfortunately,

Unfortunately, very little progress has been made with reference to other necessary resources, as for example the foreign exchange earned on current account.3/ And, aside from the savings of the companies themselves, whose importance cannot be overlooked, minimum progress has been made in the formation of national private savings channeled to industry.

With respect to the growing elasticity of supply, another factor, new and sporadic though it may appear, can be pointed out as an interesting symptom of Latin American industrialization: the "chain reaction" of the creative stimuli of certain new industries that have spread to other related fields, bringing about a sustained growth in the manufacturing sector concerned. Phenomena such as this have been limited for the time being to a specific field of industry in the most advanced Latin American countries. The specific case in point is that of the new mechanical industries in Brazil and Argentina. Their "spontaneous" expansion has been encouraged by the increased national and foreign resources available and by the size of the respective domestic markets, together with the prospects offered by the Latin America Free Trade area. Mention should also be made of the fact that the possibility of obtaining high prices--as a result of strong protective measures and exchange difficulties--has contributed in no small way to the notable prosperity experienced by some of these industries.

3. Industrial competitiveness and exports

The industrialization policy of the various countries showed increasing efforts during both the 1956-61 period and part of the immediately preceding period. Several countries have resorted to almost every instrument capable of promoting their production directly and through the creation of new industries, although combining them in different fashions and with varying degrees of continuing emphasis. The measures applied have been highly diverse on many occasions: multiple exchange rates and tariff reforms, tax exemptions and selective credits, etc., in addition to the establishment of state enterprises supplying basic input items.

/The criterion

3. On this point, see Chapter II.

The criterion for application of most of these measures was that they should indirectly furnish assistance to the production activities concerned to compensate for their production costs, which are generally higher than those in the industrial countries, at least initially.[4/]

Although it is generally recognized that protectionist policies and other still more far-reaching measures are very important in creating and encouraging local industry, it is also true that incentives so created sometimes tend to over-extend themselves and outlast the need. As a consequence, some Latin American industries still show certain signs of weakness in their development, demonstrated especially by the fact that because of their non-competitive prices and quality they find it difficult to export regularly on a large scale.

On the other hand, in several cases the state has adopted or supported measures designed to contribute to the formation of productive resources that it was able to affect: technical training of labor and of business managers, increased efficiency through better organization and applied technology, along with some other steps designed to promote the channeling of private savings to industry. However, such measures--which can also reduce production costs--have remained outside the central focus of industrialization policy, with the exception of certain steps taken recently.

At any rate, since many of the Latin American countries have joined one of the two regional free trade areas[5/]--a step that will require gradual adaptation of current

4. The immediate causes of high production costs vary according to the kind of manufacture involved; observations on this point will be made in the study by sectors. (See Sections II,III and IV of this Chapter.) However, certain important causes should be noted here that are common to all activities: smaller scale of production, particularly disadvantageous in the case of highly mechanized and capitalized industries; lack of modern equipment; inefficient work methods; long-drawn-out productive processe partly attributable to lack of effective training; expensive and irregular supplies; insufficient infrastructure and inadequacy of other external economic factors; lack of financing or harsh financing terms. New industries are prone to other problems as well, since th production lines may still be affected by technological maladjustments, their markets may not be organized, and, in addition, their recent investments, just starting to rep themselves, often constitute a heavy burden. It is unnecessary to stress that current conditions are not in all aspects disadvantageous for local industry in Latin America; suffice it to say that labor costs are less, costs of technological research are insignificant, and tax rates are lower than in the industrialized countries.

5. See Section V of Chapter I, pp. 132 ff.

/conditions

conditions in order to achieve a higher degree of competitiveness--a notable change has already taken place in the lines of the industrial policy described above.

High costs and prices are not characteristics of all Latin American industries. On the other hand, in addition to the protectionist barriers in the prospective export markets, other factors also have conspired against the exportation of Latin American industrial products, or at least the exportation of those with no evident initial advantages. Thus, various costs connected with foreign trade, particularly freight charges, have helped to create differential surcharges. Another frequent disadvantage of the low-capital Latin American industries has been their inability to compete abroad with regard to commercial credit terms offered.

Furthermore, there is no doubt that on many occasions foreign markets have remained beyond reach simply because the entrepreneurs were not "export-minded." However, it is no less true that the benefits to be obtained from creation of the free trade areas will depend to a large extent on the efforts made by the entrepreneurs who will be responsible not only for seeking means of increasing their industrial efficiency and rationalizing their costs, but also for applying, on an individual and collective basis, the known techniques of trade promotion.[6/] Furthermore, a decisive factor in obtaining good results from the free trade areas will be participation by the entrepreneurs in the practical implementation of the treaties that govern these areas, through active intervention in the establishment of the stipulated agreements on specialization and complementarity, which will make possible, through understanding among entrepreneurs in the various countries, a reduction of the number of items produced in any one location and allow for a more large-scale manufacture with more efficient equipment.

In order to achieve an over-all view of current Latin American industrial exports, two types of exporting businesses should first be differentiated:
a) those established for the express purpose of producing for export and
b) those producing primarily to meet domestic needs. About two thirds of

6. Among the trade promotion measures whose application will undoubtedly be necessary on a larger scale are personal visits to the respective markets, establishment of sales organizations in the markets, and remittance of free samples and low-priced advertising items to introduce products.

industrial exports by the Latin American countries in 1958 were made by companies belonging to the first group, of which approximately 95 percent were foreign concerns.7/ It should also be observed that almost all the merchandise exported by this group consisted of products with a very low degree of processing--metals that have undergone primary smelting, frozen meats, raw sugar, etc.--or by-products of Venezuelan petroleum, the industrial processing of which, like the smelting and refining of non-ferrous metal, is only an extension of the primary exploitation activities of the countries involved.

With regard to the products exported by the other group--constituting approximately one third of total industrial exports--almost one half was also composed of articles with only rudimentary processing (edible and non-edible oils, boards, etc.) or petroleum derivatives produced in countries which, like Brazil and Mexico, are only marginal exporters of such products. Two thirds of the other half corresponded to foodstuffs with a greater degree of processing and only the remaining one third--that is, about 6 percent of the general total for Latin America, with an approximate value of 120-125 million dollars--covered manufacturing products other than foodstuffs with a relatively high degree of processing. More than three fourths of these latter exports were composed of yarns, fabrics and textile manufacturers, and the rest included a great variety of small items from all kinds of industries. 8/

4. Geographic disparities in industrial development

As already noted, the results achieved in development of manufacturing industry in Latin America differ greatly from one country to another. The possibility of faster development is largely determined by the very disparities that have predominated in this field for many years. Actually, no other sector of the economy reflects such sharp differences among the Latin American countries as their degree of industrialization.

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7. The percentages given in the text have been estimated on the basis of data from seven countries--Argentina, Brazil, Chile, Mexico, Peru, Uruguay, and Venezuela--whose 1958 industrial exports, with a value of 1 760 000 000 dollars, represented more than three fourths of all industrial exports by Latin American countries, estimated at around 2 250 000 000 dollars. These figures include inter-Latin American exports.

8. Two Latin American industries have very recently arisen that, with no preferential treatment whatsoever, are opening up markets abroad: newsprint and cellulose from Chile, and industrialized fishery products--fish meal and canned fish--from Peru.

/During the

During the 1956-1961 period, very little progress was made in balancing out these inequalities, and in some cases they have even become more acute. Even so, many of the less developed countries have endeavored, successfully, to follow--at a certain distance to be sure--the path of the more industrialized Latin American republics.

Since various geographic inequalities in industrialization, no matter how obvious, do not lend themselves to representative statistical measurement, and many others cannot be demonstrated because of the lack of suitable data, only three series of comparative indices will be presented here, based on three different criteria, in order to illustrate certain characteristics of these disparities.

As a possible first criterion of comparison one could consider the volume of manufacturing production, not from the standpoint of the size of the Latin American countries, which differs so greatly, but in relation to population. If we take as a basis the simple average of coefficients for the industrial gross product per capita in Ecuador, El Salvador and Honduras for 1960,9/ the corresponding index for Peru is approximately 1.5 times larger; Colombia, 2.5 times larger; between 3 and 3.5 times larger for Chile, Brazil, and Mexico; and 6.5 times larger for Argentina.10/

9. 1959 in the case of Honduras.

10. The significance of this criterion is rather relative. In fact, the corresponding coefficients--which are perhaps surprising in some cases--have been decisively affected by the varying degree of participation of indigenous ethnic groups in production and consumption. Furthermore, the selection of one of the methods customarily adopted in such comparisons for converting the various monetary units may also cause a certain variation in results. In order at least to reduce the effect of such selection, the adduced figures have been calculated as simple averages of the somewhat different coefficients corresponding to the three methods of conversion described, respectively, in the Economic Bulletin for Latin America (ECLA), Vol I, No. 2, in a recent United Nations publication (Patterns of Industrial Growth 1938-1958, New York, 1960), and in the provisional version of Document E/CN.12/589, also published by ECLA. The nature of such averages itself indicates that the figures cited can only be considered as rough estimates of magnitude.

/Another

Another possible indicator of industrial development might be based on the share of the manufacturing sector in total production by the primary and secondary sectors. The manufacturing sector tends to expand during economic development, or at least during its first stages, more rapidly than the other major sectors of the economy. But since in the more advanced stages the tertiary sector as a whole, corresponding to the various services--trade, transportation, government, financial services, health, entertainment, etc.--tends to expand at the same rate or to an even greater extent, this variable is better excluded from the comparison.11/ Considering the share of the manufacturing sector in the combined product of the primary and secondary sectors in this light, the coefficient for Brazil amounts to more than 50 percent and it is almost as much for Mexico; for Argentina and Chile it exceeds 40 percent; in Colombia somewhat more than 30; in Peru and Costa Rica about 20; in Venezuela, Bolivia and Nicaragua approximately 18; and in Honduras slightly over 16 percent. It should be remembered that in some countries the relatively low share of the manufacturing sector is related to the greater importance of one or more of the primary sectors. Such is the case in Argentina, Chile, Peru, and especially Venezuela.

Finally, to illustrate the degree of industrial diversification in the various countries--and in part to ascertain their progress toward inter-industry integration--a comparison may also be made of the percentages of specific groups of activities within the respective manufacturing structures. One easily applied criterion is to consider the over-all share of the intermediate and mechanical industries in the total aggregate value of the product of manufacturing industry.12/ In 1959, the total for these two groups

11. The likewise relative value of the criterion adopted here is clear from the fact that even on this basis an "accidental" factor--the importance of the mining-petroleum sector, determined largely by the corresponding natural resources--greatly influences the results, as may be noted in some of the figures presented.

12. The concepts of intermediate and mechanical industry used in this chapter are defined in the introductory summaries of the corresponding sections. (See Sections III and IV.) As may be noted, both terms are used in a fairly broad sense. Thus, for example, the products of intermediate industries include certain parachemical items--soaps, candles, etc.--as well as other articles that are generally finished products. The mechanical industries include, among other activities, the manufacture of simple tools and utensils. It is evident that the inclusion of such items increases somewhat the percentages for these two groups in the less industrialized countries.

/represented in

represented in Brazil more than one half of industrial production, in Argentina and Mexico close to one half, in Chile and Venezuela more than 40 percent (in the latter country because of petroleum refining), in Colombia something less than one third, in Peru about one fourth, in Ecuador and Costa Rica slightly over one sixth, in Salvador and Honduras between one seventh and one eighth, and in Panama (1956) one eleventh. 13/

Graph V-1 shows the close inter-relationship of the three aspects under discussion with respect to the degree of industrial development in the eleven Latin American countries on which sufficient information was available. In fact, the location of the points corresponding to the various national positions--their concentration along an axis of almost 45 degrees and their tendency to fall into groups according to the various categories of per capita industrial product--indicates a trend substantially parallel to manufacturing development in the three aspects noted. 14/

The very marked regional differences in the levels, diversification, and integration of manufacturing production, as well as in various other external manifestations of the industrial economy, correspond, of course, to the markedly different supplies of productive resources and markets available, not only among the various countries but also between certain areas within their territories.

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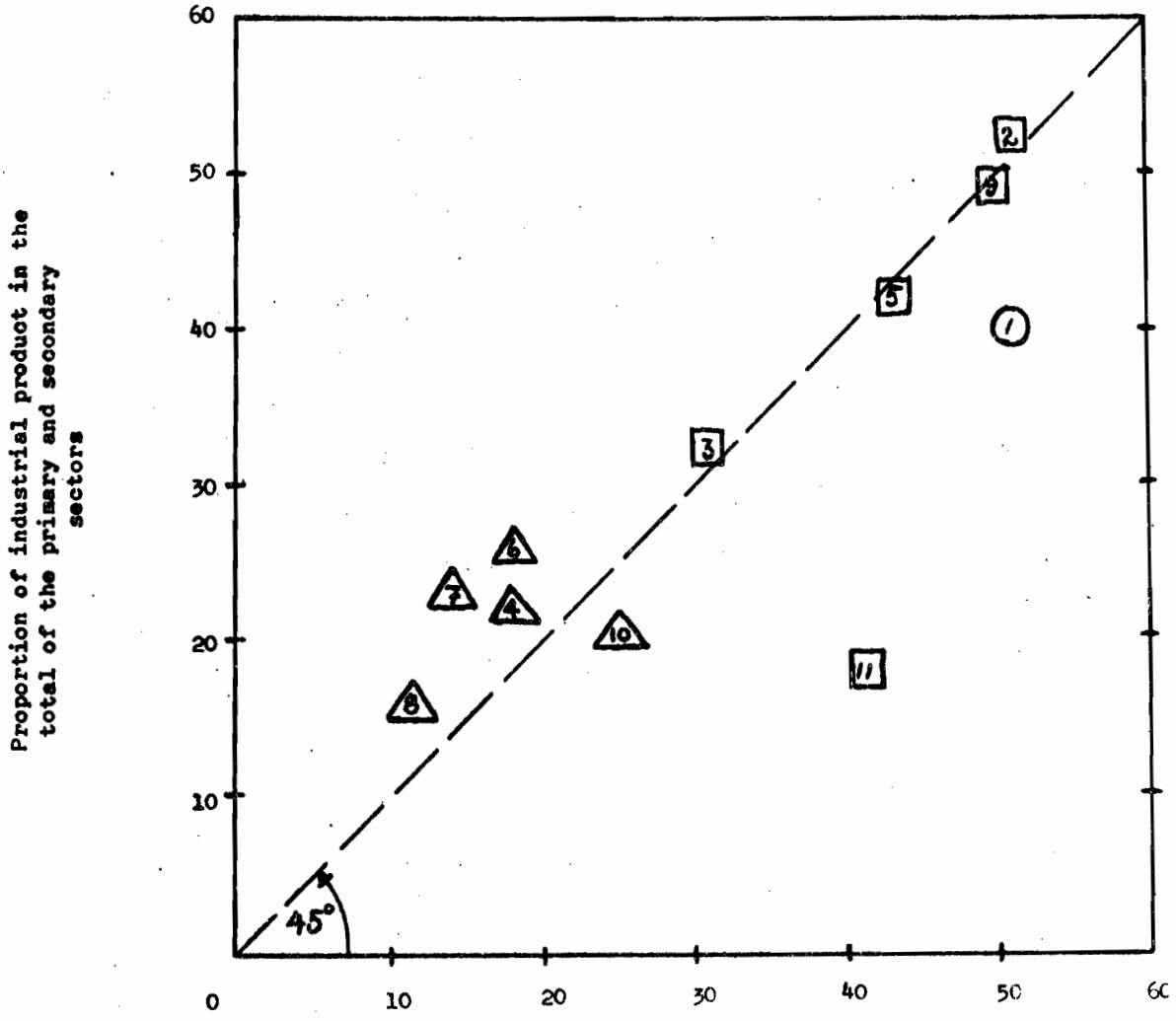
13. The data for many of the countries mentioned have been taken from ECLA (E/CN.12/602); on El Salvador and Honduras indirect information for 1958 has been used that was compatible with the data for the immediately preceding years presented in the respective studies by ECLA on their economic development (E/CN.12/495 and E/CN.12/549). For Panama, data were only available for the year 1956, taken from an ECLA study, El Desarrollo Económico de Panamá (E/CN.12/494).

14. The only relatively divergent case is Venezuela, whose position is located some distance from the intermediate axis in two directions. In effect, the high share of petroleum extraction "depresses" the relative position of the manufacturing sector of this country, a fact which tends to undervalue the degree of its industrialization according to the second criterion. On the other hand, the outstanding role of petroleum refining increases the participation of intermediate industries in its industrial production, which in turn tends to overvalue the degree of industrialization according to the third criterion. It should be noted, furthermore, that the point corresponding to Argentine industry is also slightly displaced downward, due to the large relative importance of two other productive sectors of its economy. In graph V-1 the data corresponding to the third indicator--referring originally to 1959 or an earlier year--have been extrapolated to 1960 in order to standardize the bases for comparison.

/Graph V-1

Graph V-1

LATIN AMERICA: INDUSTRIAL PRODUCT PER CAPITA, MANUFACTURING STRUCTURE AND RELATIVE POSITION OF THE SECTOR IN THE PRODUCTION OF GOODS IN ELEVEN COUNTRIES, 1960



Proportion of the combined product of intermediate and mechanical industries in the total of industrial product

Sources: For most of the basic data: various studies and statistical series prepared by ECLA; for certain aspects in Ecuador, El Salvador and Venezuela: data published by the central banks.

Note: △ Less than 30 percent of the highest coefficient for industrial product per capita,
□ From 30 to 65 percent,
○ Over 65 percent (in this interval there is located only the basis for comparison, i.e. Argentina, with 100 percent).

Code:

1. Argentina
2. Brazil
3. Colombia
4. Costa Rica
5. Chile
6. Ecuador
7. El Salvador
8. Honduras
9. Mexico
10. Peru
11. Venezuela

The slow formation of more "evolved" resources and the virtual stagnation of markets in the less developed countries may be attributed to a large extent to the very low mobility of existing factors--especially of unskilled labor--and to the serious lack of transportation and power and to the many institutional and cultural vestiges of a pre-capitalistic society that condition the environment. Even though such an economy has certain segments that show higher productivity, the circumstances noted tend to hinder the eventual tendencies to balance out, which are characteristic of more advanced economies. Actually, one of the typical features of underdeveloped economies is their excessive subdivision into very hetereogeneous and barely connected sectors, among which there is not only little transmission of creative impulses but frequently even very little simple exchange of products. This juxtaposition of notably independent sectors is often combined with the existence of both relatively overpopulated areas--in which there is a high degree of "under-employment"--and others that are virtually uninhabited. As is well known it is not unusual in Latin America to find considerable sectors of the population still outside of the money economy, engaged only in a family self-sufficient economy at the subsistence level.

As regards the industrial development within the various nations, certain measures designed to bring about a planned decentralization can do much to solve this problem. In this connection, broader action has been undertaken lately with respect to the backward areas of such countries as Brazil and Mexico, while work is also under way on the preparation or implementation of important regional development programs in several other countries, such as Peru, Bolivia, etc. On the other hand, the measures aimed at integrating the Latin American economies and at making them mutually complementary may produce some similar effects among the nations of the region.

5. Changes in industrial structure

Although the development of manufacturing is in different stages of evolution in various Latin American countries, their industries may be divided into two clearly defined groups of widely differing behavior. They include the same activities nearly everywhere, and their manifest differences are particularly apparent with regard to growth rate. One of these groups is composed of "vegetative industries," especially those producing non-durable consumer goods; the other, of "dynamic industries," primarily those of an intermediate or mechanical nature.

/The first

The first group, which we shall call current consumer goods industries, includes all those branches of manufacturing that have, to all practical purposes, exhausted the possibilities of substituting imports or are about to do so. Their exports are insignificant or, at least, are not in steadily increasing demand abroad. Nor is it to be expected that other circumstances, will offer any special incentive to their development. Consequently, they evolve along vegetative lines, that is to say, their growth is limited to the rate of increase in population or income.

Virtually all the "traditional" industries belong to this category; these are the latter-day manifestations of the old cottage industries, in a more modern and, in some instances, highly mechanized, form. This sector produces the major part of current consumer goods and some durable consumer items, as for example wooden furniture, whose manufacture does not entail a complicated technique.[15/]

The average growth rate of the mechanical industries, producing goods for which there is a rapidly expanding demand, is almost three times greater on the regional level. This sector includes durable consumer goods of metallic bases and capital equipment. These manufacturing branches generally have excellent prospects with regard to substituting imports and, at least in the more highly developed countries, offer great attractions to investors. This imparts a high degree of dynamism to their development.

Many of the intermediate-goods industries, particularly those supplying certain branches undergoing sustained expansion, also exhibit considerable forward drive. These branches of sustained growth include for the most part activities which derive their dynamism from the general trend of development and transmit it to the intermediate industries. For example, rapid growth of the mechanical industries stimulates iron and steel production; the wide-spread endeavor to modernize agriculture spurs the fertilizer industry; greater motorization of transportation increases petroleum refining; and progressive urbanization is an inducement to the production of construction materials. In addition to the incentive provided by

15. Section II of this chapter provides a more precise definition of the industries included in this group.

/growing demands

growing demands for other types of products, the intermediate industries have good prospects as regards possibilities of replacing imports. Consequently, although their development is the more likely to encounter difficulties insofar as the necessary factors of production are in short supply, their over-all growth during the last 10 years in Latin America as a whole was approximately 2.5 times greater than that of the traditional industries, that is, almost as intensive as the expansion of the mechanical industries. 16/

Because of the more rapid growth of the intermediate and mechanical industries, their joint percentage of the manufacturing product is also steadily increasing. While in 1950 their relative position in the manufacturing product of Latin America was only slightly more than 36 percent, as compared to more than 58 percent for the traditional industries and 5.5 percent for the residual group, 17/ in 1959 their

16. It should be noted that, in addition to the types of industries mentioned, there are two groups included in the section on International Standard Industrial Classification (ISIC) which do not actually fit into any of the three large groups described here. These are the activities grouped under the heading of "various manufacturing industries," which because of their heterogeneity and their somewhat erratic behavior are not well suited to be included in one of the three above; and the group called "printing and publishing," which by nature differs greatly from all the others. Therefore, in calculating the manufacturing structure, these two categories have been considered as a small residual group. Participation by this residual sector at both the beginning and the end of the last decade fluctuated between 5 and 5.5 percent of total manufacturing production for Latin America. Its over-all rate of growth falls approximately between those of the vegetative and the dynamic industries.

17. See the definition given in the preceding note.

/participation was

participation was close to 50 percent, as compared to 45 percent for the first group.[18] According to provisional estimates, in 1961 the respective ratios were approximately 52 percent for the dynamic industries, about 43 percent for the traditional sectors, and slightly more than 5 percent for the residual group.

The most dramatic structural change of the 10-year period took place in Brazilian industry. The existing percentages for the vegetative and dynamic groups--with the residual group included in the latter--have been almost completely reversed. In fact, the position of the dynamic sector rose from approximately 40 percent of the total to almost 60 percent, while the quota for the vegetative group declined accordingly in the opposite direction.

18. The data on the consolidated manufacturing structure of Latin America cited in this Survey have been taken from Document E/CN.12/602 of ECLA, with minor adjustments in certain figures resulting in a slight expansion of their coverage. The calculation of Latin American growth rates for the three large groups of activities into which the manufacturing sector is divided has been based--following in principle the methods of the document cited--on the data for 10 countries whose industrial production represents about 90 percent of Latin America's industrial product. The basic data for structure have been taken in most cases from industrial censuses or official surveys of broad coverage; in two cases (Peru and Colombia) they have been taken from ECLA investigations and in another (Venezuela) from a survey made by the national Central Bank. In projecting the structure data, use has been made of the industrial production indices, subsequent censuses or surveys, as well as other indicators of manufacturing production. In the cases of Colombia, Costa Rica and Ecuador, series prepared by the advisory group of the United Nations, the National University and the Central Bank have been adopted respectively, while data for Argentina and Mexico for the last five-year period have been adjusted with a view to completing their coverage. For 1961, all figures utilized were provisional and estimates were necessary, even for some aspects of the year 1960. Consequently, all the figures covering the last five years should be considered as indicating only approximate volumes. In order to convert the values expressed in national currency to dollar constants--with a view to consolidating and weighting data--the method described by ECLA in the Economic Bulletin for Latin America, Vol. I, No. 2 has been employed.

/It may be

It may be anticipated that although transformation of the Latin American manufacturing structure--and that of the industries in the various countries belonging to the region--is capable of maintaining this same trend over a period of several years, the process will undoubtedly reach certain limits in time, since the industries of the first group, supplying a major share of current consumer goods and some durable goods, will inevitably retain a relative position within the manufacturing framework. As this limit is neared, the pace of structural transformation noted will necessarily decline. The minimum participation that should be reserved for the current consumer goods industries depends, of course, on existing conditions in each country, but it is interesting to observe that in the United States the relative position of this group has declined to almost 20 percent. The North American example probably indicates the maximum limit for displacement of the respective quotas of the two main manufacturing sectors under current conditions of final demand, inter-industrial relations and foreign trade.

The following sections will analyze the development of Latin America's industries on the basis of the three groups divided as follows: a) current consumer goods industries, constituting the major share of traditional industries; b) intermediate industries, and c) mechanical industries.

The study of each of these three main groups will not be proportional in length to their participation in production. Actually, only a brief general summary will be made of the evolution of the current consumer goods industries, for which sufficient up-to-date information is lacking. The greater availability of data on the development problems of the intermediate and mechanical industries makes possible a more detailed study that is also consistent with the particular interest due their evolution in the current stage of Latin American industrialization, since it is hoped that their development will contribute to stopping large gaps in the productive system and to eliminating various obstacles to subsequent progress.

II. CURRENT CONSUMER GOODS INDUSTRIES 19/

Latin American industries of current consumer goods as a whole have shown a cumulative annual expansion of approximately 4 percent in production for domestic consumption and for export over the last five years. This rate of growth is slightly lower than the simultaneous rise in the total product of the Latin American economies, although it clearly exceeds the demographic rate of growth.

It should be noted that the recent expansion of this manufacturing group denotes a slight improvement with respect to the increase shown in the preceding five-year period, which amounted to barely 3.5 percent. One of the most important factors in this recent dynamic growth is the rapid rise of certain current consumer goods industries in Brazil, parallel to the general increase in that country's level of manufacturing activity. Aside from this, it confirms the fact that the slow expansion generally experienced by this group might also be improved elsewhere, if Latin American conditions should become more favorable.

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19. It has already been noted that the industries considered in this section are, actually, those described in the preceding section as "traditional" or vegetative. Consequently, they are somewhat more inclusive with regard to certain aspects and slightly more restricted with respect to others than is suggested by the title, although in any case most of the aggregate value of this group corresponds to that of the current consumer goods industries proper. To put it more succinctly, the items considered here are those included in groups 20-26 and 29 of the ISIC, that is, those that cover, in addition to almost all the current consumer goods of primarily vegetable and animal origin, some durable consumer items--furniture and certain wooden housing structures--as well as those activities that represent the preliminary stages of preparation for manufacture of such consumer items, as for example production of textile thread, preparation of skins and furs and lumber processing. It should be noted that, for practical statistical reasons, this group excludes certain items which, by their nature, should be included: writing paper and certain finished chemical products. Note that the industrialization of certain important primary export products--grain and sugar milling, manufacture of vegetable oils and meat freezing, for example--are included in the group as defined, which means that any analysis of the data should be undertaken with certain reservations.

/Furthermore, the

Furthermore, the notable decline in the share of current consumer goods industries in Latin America's manufacturing production--from 58 percent in 1950 to approximately 43 percent in 1961--also demonstrates the effect of this head-long Brazilian industrialization, which produced a radical change in that country's industrial structure by a remarkable increase in the non-traditional industries.

The similar structural changes simultaneously taking place in other nations differed in degree of intensity but were invariably less pronounced. Although the percentages corresponding to the two chief industrial groups--vegetative and dynamic--were at more or less the same level in the large countries, in many others the first group still predominates, corresponding in 1959 to about 70 percent in Peru, 75 percent in Costa Rica and Ecuador, and about 85 percent in El Salvador and Honduras.

With regard to the composition of this great manufacturing group in Latin America, it should be noted that in 1959 almost one half was composed of industries manufacturing foods, beverages and tobacco, and close to one quarter by the textile industries, including in both cases the preliminary stages of the corresponding industrial processes. For the rest, relatively greater importance was assumed by activities centering around the manufacture of garments and footwear,[20/] while relatively smaller percentages were ascribed to the leather, fur, wood and furniture industries.

There are many reasons for the slow general evolution of the current consumer goods industries. Above all, it should be borne in mind that although the expansion of this sector has not been held back by lack of experienced entrepreneurs or shortage of skilled labor to the same degree as in the other productive fields, it has, on the other hand, failed to receive similar special incentives.

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20. Available information may possibly underestimate the relative importance of this branch because of the customarily strong participation in this field of crafts, for which complete data are not generally available.

/The prospects

The prospects for import substitution in these industries have become generally quite uncertain[21] and, with the exception of certain food items, they have scarcely succeeded in establishing a foothold in important foreign markets. Furthermore, the tendency to satisfy the requirements of a highly diversified demand in small national markets has often led to the manufacture of too many varieties of products on a very small scale. Moreover, it should not be forgotten that these industries have, generally speaking, been least favored by the great changes taking place in demand. It is not strange that under such conditions the renovations and modernization of productive equipment should often have been delayed, thus preventing cost reduction and the conquest of new consumer sectors, including the domestic market.

A brief examination of growth rates by branches--in terms of the gross aggregate value--explains other aspects of the lagging expansion in such activities. One of the outstanding rates of growth, although only in a relative sense, has been that of the aggregate food, beverage and tobacco industries (4.5 percent), which slightly exceeds the pace of the entire group.[22] This sector is followed in second place by the coefficient of aggregate increase for the garment, footwear, leather and fur industries (close to 4 percent), which is slightly below the average for the group. The weakest expansion corresponds to the textile branches and to lumber and furniture. It should be noted that the growth of these latter sectors (3 percent) is only very slightly more than population growth.

The general view provided by these rates of increase for the various branches within the group--and for certain larger combined sectors therein--may be supplemented by an analysis of the evolution of the manufacture of certain important products.

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21. This statement is valid not only for Latin America as a whole, but also for a great many of the countries individually, although there are still possibilities for relatively important replacements in this field in some of the countries, particularly in Central America.

22. In estimates on this aspect, data for the three branches have been considered as a whole, since it is difficult to separate them for certain countries.

/Table V-1 indicates

Table V-1 indicates the growth rates for Latin America--and for the entire world for purposes of comparison--of the production of wheat flour, sugar, beer, cigarettes, cotton textiles and leather shoes. These rates, calculated on the basis of data expressed in physical terms, corroborate broadly the validity of the coefficient mentioned above, based on constant value data. However, no matter how eloquent the productive evolution of such diverse and varied articles may appear, it is not necessarily representative of the entire group, as the importance of such items within the whole are not known to any precise degree.

The slow rate of expansion characterizing these industries is not restricted to Latin America alone. Comparing the five-year and four-year growth rates for Latin America with the same world rates, a marked similarity of evolution is immediately noticeable. However, such a similarity in growth coefficients should not lead to the conclusion that the developments and operation conditions of the industry have been equally unfavorable in the rest of the world and, particularly, in the more developed countries. Actually, the situation is quite different if we compare these figures with the per capita production levels in the more industrialized zones. Per capita production of most of the six products considered in Table V-1 is generally 2, 3 and up to 3.5 times higher in the industrialized countries than in Latin America (see Table V-2). This explains the lack of urgent concern in such countries for speeding up their pace of development in this field.

Since the installation and operation of current consumer goods industries does not usually meet with any substantial difficulties in the initial or intermediate stages of industrialization--import replacement usually begins with their establishment or modernization--the sluggish rise or virtual stagnation of Latin American production in these items is primarily due to the fact that the income of those broad population sectors where the consumption of such products is the lowest has expanded at a very low rate. Another factor is the limited possibility of exportation, together with high production costs.[23/]

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23. Other factors are the various aspects of weather conditions that influence needs and determine possible crops, as well as certain traditional consumer habits: for example, the preference for corn flour as compared to wheat flour shown by the Indian sectors of the population.

/Table V-1

Table V-1

LATIN AMERICA AND THE WORLD: ANNUAL GROWTH RATES OF THE PRODUCTION OF CERTAIN CURRENT CONSUMER ITEMS, 1955-56 and 1956-60

(Based on data indicated in physical terms)[a]

	Wheat Flour	Sugar	Beer	Cigarettes	Woven Cotton Fabrics	Leather Shoes[b]
			Latin America			
1957[c]	0.4	14.9	6.4	4.2	-4.2	6.1
1958[c]	4.5	6.8	4.5	6.3	11.8	5.3
1959[c]	4.2	3.5	0.1	0.7	0.3	0.0
1960[c]	1.7	4.6	5.3	3.7	5.7	...
1951-56[d]	3.6	0.7[e]	2.6	3.5	2.3	1.8[f]
1956-60[d]	2.6	7.3	4.3	3.8	3.2	3.8[f]
			World[g]			
1951-56[d]	2.1	3.4	3.0	4.2	3.8[f]	4.0[h]
1956-60[d]	2.7	7.0	4.1	3.9	3.8[f]	3.9[h]

Sources: Statistical Yearbook of the United Nations; several ECLA publications and various national sources (central banks, commercial banks, financial institutions and industrialists' associations).

a. The basic data for flour, sugar and textiles are given in weight measures (kilos); for beer in volume measures (liters); for shoes (pairs) and for cigarettes in units.

b. In general, the data cover only factory production, including all types of footwear--shoes, boots, sandals, etc.--providing that the upper part is made entirely or mostly of leather.

c. Rate of increase over the preceding year.

d. Annual cumulative growth rates.

e. The low rate is due to the abundant Cuban harvest for the first year indicated in the comparative data. Without considering the Cuban data, the rate for the period would be 5.0.

f. 1956-59 period.

g. Excluding Mainland China.

h. 1955-58 period.

/Table V-2

Table V-2

LATIN AMERICA: PER CAPITA PRODUCTION OF SIX CURRENT CONSUMER ITEMS AS COMPARED TO CERTAIN HIGHLY INDUSTRIALIZED AREAS OF THE WORLD, 1960

(Based on data indicated in physical terms)[a]

	Wheat flour		Sugar		Beer		Cigarettes		Cotton Textiles		Leather footwear[d]	
	Coefficient[b]	Index[c]	Coefficient	Index	Coefficient	Index	Coefficient	Index	Coefficient	Index	Coefficient	Index
Latin America	30	100	73	100	17	100	858	100	2.7	100	0.56[e]	100
United States	63	210	14	19	59	341	2 726	325	9.3	344	3.5[f]	618
Six European Common Market Countries[e]	89	337	28	38	50	288	1 055	125	6.3	233	1.8[g]	321
Seven European Free Trade Area Countries[e]	60	200	21	28	64	369	1 813	216	5.2	190	2.0[f]	357
USSR[e]	...	...	31	42	9	51	1 115	133	5.4	198	1.7	303

Sources: The same as for Table V-1.

a. The basic data for flour, sugar and textiles are given in weight measures (kilos); for beer in volume measures (liters) and for footwear (pairs) and cigarettes in units.
b. These figures represent per capita production in terms of the measures indicated in note a.
c. Relative numbers whose basis for comparison--100--is Latin American production for each particular item.
d. In general, the data covers only factory production.
e. 1959.
f. 1957.
g. 1958, provisional.

/The fact

The fact that the food industries have shown a somewhat higher rate of increase than the other current consumer sectors is chiefly because this branch has, to date, been the only one of the group to find fairly important and sustained areas of expansion in the export market. With regard to the relatively sharp fluctuations in their output over the short term, it seems unnecessary to point out that many of the activities in this industrial field are closely tied to weather conditions that affect the successful outcome of agricultural and stockraising activities in one way or another. Thus, the high incidence of these industries in the manufacturing structure of Latin America--more than 20 percent together with the related branches--has contributed to the already troubled evolution of the Latin American economies.

With regard to textile industries, the broad fluctuations registered in certain years indicate quite a close tie-in with alternating inflationary and deflationary trends.[24] While the frankly inflationary periods customarily show a marked accumulation of commercial stocks for speculative purposes--to which the products of this industry are particularly well suited--periods during which restrictive measures are applied touch off a stampede to liquidate such stocks.

Over the long run, the problems of this industry are, in general, identical to those characterizing the entire vegetative manufacturing group, although they may perhaps appear in a more drastic form in this particular field. The preliminary results of a recent study by ECLA[25] shows the urgent need for a) increasing industrial efficiency by means of the pertinent systematization, b) renewing out-dated equipment, and c) curtailing the variety of types manufactured. It is expected that such measures will not only permit an increase in regional exchange and an expansion of domestic consumption, with the subsequent possibility of improved utilization of equipment, but a higher salary level as well.[26]

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24. On this point, see Chapter III.

25. See Annual Report to the Economic and Social Council, 1962 (E/3581; E/CN, 12/AC.50 Rev. 1), p. 38.

26. Although the capacity of the textile industry is under-utilized in several Latin American countries, in some it is still in a formative and supplementary stage.

/The need

The need for speeding up the process of modernization and rationalization would appear to be even greater in another traditional branch of Latin American industry: tanning and curing. These activities show a considerable margin for expansion in a number of South American countries, some of which can increase their exports of dressed skins.[27]

Expanded manufacturing of leather footwear is not always marked by very slow growth but does invariably show a high degree of instability. This branch is one of the most badly depressed Latin American manufacturing activities with respect to under-utilization of installations. In Argentina and Uruguay more than one half of installed capacity--including the most out-dated plants--was on several occasions inoperative for extended periods. Nevertheless, other countries show a trend toward expansion of the factory component of this industry, which tends to curtail participation by craftmen although to date it has failed to detract from their importance.[28]

The lumber industries are currently among the most slowly growing productive branches in Latin America, but in contrast to other traditional industries they offer very favorable prospects for development in the near future. In fact, the expansion of domestic demand is picking up and foreign market potentials are promising. The large volume of natural resources available to these industries would make it possible not only to cover growing domestic needs, but also to export a substantially greater supply to the rest of the world. At present, Latin America produces each year about 13 million cubic meters of sawnwood and 250 000 cubic meters of plywood. Net exports of lumber to the rest of the world are not significant, and it is still necessary to import increasingly larger volumes of plywood and a fairly constant volume of cellulose and paper. According

27. The margin for improvement extends--aside from the curing operations themselves--to cattle raising, with a view to protecting the quality of skins from the effects of pests and markings, and to efficient preservation of dressed skins for sale.

28. For example, in Peru--according to an estimate made by ECLA, based on data furnished by the national association in this field--30 percent of 1955 production came from workshops employing no more than 15 workers.

/to the

to the preliminary results of a recent joint investigation by ECLA and FAO,[29] much of the Latin American lumber industry is in a fairly rudimentary stage of development and, generally speaking, is barely able to provide quality products at a reasonable cost. This situation results from careless reforestation, an inadequate and expensive system of transportation, and unsuitable equipment.

29. See ECLA, op. cit., p. 39.

III. INTERMEDIATE INDUSTRIES[30/]

1. General Development

As noted in the introduction, intermediate industries in Latin America as a whole constitute a very dynamic group of activities. In fact, the gross product of this manufacturing group showed an annual increase of 11 percent during the last five-year period, one of the highest sectoral increase rates. According to available information, this trend has held firm during 1961. Although such expansion includes countries representing more than four fifths of the Latin American population, one of the most decisive factors in this growth on the regional level has undoubtedly been the sustained development of almost all the intermediate industries in Brazil, together with the substantial contribution made by the corresponding Mexican sector. To better illustrate the impetus prevailing within this manufacturing group, Table V-3 shows the annual growth rate for certain of its products.

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30. The term "intermediate industries" customarily refers to those industrial branches supplying "input"--raw material, fuel, supplementary materials, etc.--to other manufacturing branches as well as to other productive activities (construction, agriculture, etc.). However, for practical reasons, as used in this analysis the term covers all those activities and only those activities included in ISIC classifications 27 and 30-34, which means that the inclusion or exclusion of certain extreme or related cases has not been based strictly on the criterion of input. For example, the total product of the chemical industry has been computed within the product of the intermediate industries because of the difficulty of separating certain finished products: soap, matches and many pharmaceutical items destined for human consumption. The same is true for petroleum refining, a branch which supplies fuel to various industries and to a large sector of the commercial transport field and furnishes raw material to the petrochemical industry but also leaves a sizeable volume to private consumption. On the other hand, it did not seem advisable to include within the group those "traditional" manufacturing branches--the leather industry for example--which meet the needs of the current consumer goods industries and whose evolution is closely pegged to this latter sector. In short, the products of the activities included in the manufacturing group studied here are primarily although not exclusively materials manufactured in great homogeneous masses--chemical products, cement, primary-process metals, etc.--while the industries themselves are also characterized by a marked similarity of behavior as to their rate of expansion, capitalization, etc. It is highly probable that if the soaps, detergents and pharmaceutical articles for final consumption could be excluded from this group the over-all growth rate would be even higher than shown here. The same statement may be made regarding the effect of excluding artificial fibers, although the theoretical basis for such exclusion would be more problematic.

/Table V-3

Table V-3

LATIN AMERICA AND THE WORLD: GROWTH RATES OF THE PRODUCTION OF CERTAIN IMPORTANT INTERMEDIATE MATERIALS, 1956-61[a]

	Cumulative annual growth rate	
	Latin America	World
Pulp for paper and cardboard	13.3	4.1[c]
Paper and cardboard	8.1	5.1[c]
Sulphuric acid	13.8[b]	5.9[d]
Caustic soda	17.8[b]	7.7[c]
Sodium carbonate	18.6[b]	2.0[c]
Petroleum derivatives[e]	10.9	6.4[b]
Cement	5.7	7.1[c]
Pig-iron	11.2	3.8[c]
Crude steel	12.3	3.2[c]
Finished steel	12.0	3.2[c]

a. The following tables present a great part of the basic data used as a basis for estimating Latin American growth rates. Note that the original data indicate production in physical terms (tons), while the growth rate for the intermediate group as a whole--indicated previously in the text--represents the expansion of the manufacturing sector in terms of constant value. Nevertheless, the fact that two types of basic data are involved does not exclude the possibility of certain comparisons and an evaluation, with a fair degree of precision, of which branches have expanded over and above the mean growth rate for the group and which of them fell below this mean. It should also be noted that although most of the intermediate materials included in the table are the chief products of the respective industrial branches, their figures fail to indicate in themselves the evolution that has taken place within the over-all manufacturing sector, since the exact weights are not known. (In particular, the increments of the chemical products included in the table are not indicative of the average development of the chemical industry as a whole.)

b. Base year 1955 and final year 1960.

c. Base year 1955 and final year 1959.

d. Base year 1951 and final year 1955.

e. Crude petroleum submitted to processing.

/The activities

The activities included in the group of intermediate industries represented about 31 percent of Latin America's manufacturing output in 1959. This implies a notable structural change if we consider that this sector's participation amounted to only 24 percent in 1950. It should be noted that these percentages are weighted averages of the corresponding national figures and, consequently, the manufacturing structure of the larger, industrialized Latin American countries has a predominant effect on them. The countries where the relative position of this group played the most outstanding part in national industrial structure in 1959 were Brazil, Mexico, Chile, Argentina and--owing to the great importance of petroleum refining--Venezuela. Certainly, the composition of the manufacturing product varies considerably among the different Latin American countries, particularly as regards their degree of industrialization; for example, participation of the intermediate industries in the manufacturing structure of Costa Rica, Ecuador, El Salvador and Peru fluctuated between 12 and 19 percent.

As to the progress made in the replacement of imports, the evolution over the five-year period presents various facets in the different industrial branches of the group, depending on the particular problems of each; hence this aspect of development will only be dealt with in analysis of the manufacturing sectors. However, in overall, approximate terms, it may be noted at this point that in several important lines production currently represents around two thirds of apparent consumption. In some of these areas, the contribution of foreign trade to local supply is much greater, as for example in the semi-heavy products of the petrochemical industry. In others, however--cement for example--their role is a lesser one.

To better appreciate the degree of development achieved by the intermediate industries in Latin America, in relation to world levels, and for an appraisal of the significance of the current volume of production, a comparison on the international level should be made of per capita production and consumption of the most important products in this sector. Table V-4, prepared for this purpose, shows the 1961 per capita production of crude steel, cement, paper, sulphuric acid, caustic soda and petroleum derivatives[31] in various Latin American countries, the region as a whole, the United States and two groups of highly industrialized European nations. The apparent consumption per capita for these same items appears in Table V-5.[32]

31. Petroleum derivatives are considered together.

32. Since the data on 1961 imports are still largely incomplete, the coefficients used in Table V-5 correspond to 1960.

/Table V-4

Table V-4

LATIN AMERICA: PER CAPITA PRODUCTION OF SIX INTERMEDIATE INDUSTRIAL PRODUCTS AS COMPARED TO THE UNITED STATES AND CERTAIN EUROPEAN CONTRIES, 1961

(Kilograms per capita)

	Crude Steel	Cement	Paper and cardboard[a]	Sulphuric acid[b]	Caustic soda[b]	Petroleum derivatives[b]
Argentina	20	135	17	8	2	618
Brazil	38	69	9	3	1	178
Chile	56	112	14	10	1	205
Colombia	12	108	4	2	2	255
Ecuador	-	45	0	-	-	125
Mexico	47	88	12	7	2	482
Peru	6	58	5	2	0	216
Uruguay	3	154	14	-	0	531
Venezuela	8	205	8	1	0	6 811
Latin America[c]	26	86	9	4	1	286[d]
United States[e]	499	310	167	90	24	2 195[d]
Six European Common Market countries[f]	430	361	37	53	32	638
Seven European Free Trade Area countries[f]	356	256	63	40	25	594

Sources: For data on Latin American production, see the sources for later tables on the respective industries. For data of other regions: United Nations, Statistical Yearbook 1959 and Monthly Bulletin of Statistics; Petroleum Press Service.

a. Taken as a whole.
b. 1960 data.
c. Estimated on the basis of data for all the Latin American countries.
d. Excluding Venezuela (if included, the coefficient would be 527).
e. 1960 data for steel, cement and petroleum derivatives and 1959 data for all others.
f. 1960 data for steel and cement and 1959 data for all others.

/Table V-5

Table V-5

LATIN AMERICA: PER CAPITA CONSUMPTION OF SIX INTERMEDIATE INDUSTRIAL PRODUCTS AS COMPARED TO THE UNITED STATES AND CERTAIN EUROPEAN COUNTRIES, 1960

(Kilograms per capita)

	Crude steel [a]	Cement	Paper and cardboard [b]	Sulphuric acid	Caustic soda	Petroleum derivatives [b]
Argentina	80	126	22	8	3	706
Brazil	43	68	12	3	3	196
Chile	51	110	11	10	2	243
Colombia	25	85	9	2	3	228
Ecuador	...	47	4	...	...	125
Mexico	45	91	15	10	3	475
Peru	14	56	7	2	2	215
Uruguay	36	152	14	3	2	621
Venezuela	79	224	18	1	2	1 415
Latin America [c]	39	82	13	4	3	342 [d]
United States	500	...	134	...	...	3 893
Six European Common Market countries [e]	360	351	42	...	...	627
Seven European Free Trade Area countries [e]	328	239	50	...	..	843

Sources: For production: the same as Table V-2; for foreign trade: United Nations, Yearbook of International Trade Statistics; Statistical Office of the European Communities; Foreign Trade Statistics; Petroleum Service; national official publications.

a. Includes ingot-steel equivalents of imported processed steels.
b. Taken as a whole.
c. Estimated on the basis of data for all the Latin American countries.
d. Including Venezuela (if excluded, the coefficient would be 301).
e. European data refer to 1959.

/Latin American

Although it is not surprising that Latin American per capita production levels--as well consumption levels as influenced by limited capacity to import--should be lower than those attained by the more industrialized countries of the world, these two tables indicate the very broad margins of difference that exist, particularly in reference to certain of these products.

The differences in per capita production are particularly marked with regard to caustic soda, sulphuric acid and steel.[33/] A comparison of the Latin American coefficients with those of the more developed areas--taking simple averages of the figures for the United States and Europe--reveals that the latter exceed the Latin American levels 27, 15 and 16 times, respectively, for these three items. With reference to paper and cardboard, the ratio is 1:10. Per capita cement production of petroleum derivatives and cement shows somewhat less impressive gaps, with a ratios of 1:4 and 1:1.3 respectively.

Considering next the per capita consumption of these products, it may be seen that in most cases Latin American imports have served to mitigate the interregional differences indicated. Even so, the consumption of caustic soda and steel is 10 times greater in the more developed countries, while for paper and cardboard it is almost 6 times greater. For petroleum derivatives, the ratio rises to 1:5 because of large European imports in this field. The ratio for cement is the same as for production, that is, 1:3.5, while imports of sulphuric acid are held to a minimum because of the problems involved in transporting large quantities of this commodity.

Although the needs of the various economies for intermediate products may differ considerably depending upon their degree of development and their industrial structure, it is interesting to note that the highest growth rates registered in Latin America among those presented above correspond to the intermediate products that are most widely used and whose manufacture is, relatively speaking, the most underdeveloped in the region. In this sense, the coefficients corroborate the fact that the unsatisfied demands of Latin America for such items are great indeed.

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33. The first two materials have been selected for comparison as the most widely used chemical products (i.e. employed in the manufacture of a wide variety of other products).

/At the same

At the same time, the coefficients reflect the current efforts of various countries to narrow rapidly the gaps that separate their production and consumption levels from those of certain more advanced areas.[34] The expansion potential in these industries is even greater if the excellent prospects for import replacement are considered.

The foregoing underlines the fact that the pace of development for many of these manufacturing activities are chiefly determined at present by limiting factors of supply. Therefore, it is worthwhile to examine the evolution of the supply of scarce productive factors, relevant to the development of these industries. Although very little information is available on this point, the analysis carried out makes it possible to venture certain general observations.

Since several of the industries included in this group are characterized by greater technological complexity, their development implies the progressive advancement of the industrialization process through stages which are increasingly more demanding with regard to the number and caliber of technical personnel and to the need for specialized foremen and skilled manpower. Although it is true that the operation of various Latin American plants still requires--and will continue to require for some time--the advisory services of large foreign firms or the participation of a more or less sizeable foreign personnel, it is equally true--as corroborated by information on many of the countries--that remarkable efforts have been made in this field, particularly in Argentine, Brazil, Chile, and Mexico, which already have numerous and efficient teams of national experts. In emphasizing this positive aspect, it is also necessary to stress the fact that the difficulties still unresolved are substantial.

The problems related to technological training are, of course, not the only ones affecting the process of Latin American industrialization as it concerns the human element. Mention must also be made of existing deficiencies in the field of business organization and administration, public relations and technical standards of production and installation. Although such deficiencies are not restricted to the intermediate

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34. When the basis for comparison is a low initial volume, the sharp increments in terms of percentage may, obviously, result from increases that are not significant in absolute terms. This is unquestionably the case of various incipient intermediate industries in Latin America and, in analyzing such cases in particular, this fact will be duly noted. However, it should be borne in mind that the entire group of intermediate industries, with its considerable importance, is also growing at a rapid pace. For example, with reference to steel expansion, it will be noted later that steel production now amounts to about 5 million tons. Steel products manufactured during the past year represent at world prices an approximate value of 700 million dollars. (See point 6 of this section.)

/industries

industries, the importance of this problem in that sector is particularly vital because its costs system is extremely vulnerable to industrial inefficiency. During the last five years, national efforts designed to solve these problems have been redoubled through the establishment of productivity centers and other measures. However, experience seems to show that the relative inflexibility of these programs makes them more useful in improving the efficiency of certain key industries than in raising the productivity level of labor in the manufacturing sector in general. There is still a need for socially and politically acceptable formulas that would make it possible to transmit on a massive level the broad gamut of technical experience accumulated by private enterprise in the industrial countries to the developing countries for utilization by their entrepreneurs.

The intermediate industries as a whole are characterized by heavier capital investment than that prevailing in the consumer industries and even in some mechanical industries. Therefore, the sharp expansion of this industrial sector has demanded stepped-up investments. Financing of the growing need for capital has entailed greater efforts by the Latin American economies concerned, but has also been favored by a significant phenomenon arising in the last five years. This has been the reorientation of new foreign investments to the intermediate industries together with a greater flow of investment toward the recently created machine manufactures. The international financing institutions--especially the Export-Import Bank of the United States--have continued to furnish important cooperation, and at the same time commercial credits for the purchase of certain equipment have increased. In connection with national efforts themselves, it should be noted that direct and indirect public investment has continued to play a predominant role in this field, particularly in Brazil, Mexico and Venezuela, and to a lesser degree in Argentina, Colombia and certain other countries. However, emphasis should also be placed on the contribution made by existing firms through continual investment and several recent measures designed to promote the participation of domestic private capital in the financing of these industries. In reference to the growing interest of foreign private capital, it is important to note that most of these investors were large international firms. This points up the favorable evaluation of the general outlook for the industries under discussion which, in turn, may be partly due to the measures for protection and economic integration already adopted and those planned for the future.

/Another aspect

Another aspect to consider is the impact of heavy capital investment in these industries with regard to determining optimum plant size. Amortization of their expensive equipment weighs heavily on total costs and makes several of the intermediate industries very vulnerable to operational scale. The fact that many Latin American companies have to date been unable to secure competitive positions on the international market and that their operating conditions have an adverse effect internally on the general level of costs and prices is closely associated with their plants not producing on a more economical scale. By way of example, it might be noted that of the 15 integrated steel works currently in full operation in Latin America, there is only one whose production amounts to a million tons a year, while the second largest has a capacity of 600 000 tons. 35/ Furthermore, none of the mass-production chemical factories is similar in size to those commonly found in highly industrialized countries. 36/

The shortage of certain productive factors in Latin America and their important role in determining the total capacity of the various intermediate industries is a further reason for utilizing these factors in the most rational manner possible. A broader distribution of the various specialized sectors among several countries might solve this problem. At any rate, the establishment of regional markets should promote the formation of more adequate industrial plants. Such considerations may be decisive in the case of industries now being established that are particularly sensitive to the scale of production, as exemplified by certain heavy chemical industries. 37/

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35. These are the Volta Redonda plant in Brazil and the Monclova plant in Mexico. Two other integrated works with a 60 000-ton capacity should begin operating in Latin America within a year in addition to the Monclova plant: San Nicolás in Argentina and Puerto Ordaz in Venezuela. Within five years or so, there will probably be five or six plants with a capacity of more than a million tons: two or three in Brazil, one in Argentina and perhaps one in Venezuela.

36. Production scale requirements are not, of course, uniform nor are they as inflexible for all intermediate industries. For example, cement exports to the United States are made at prices identical to the domestic levels by factories with a capacity of from 200 000 to 400 000 tons.

37. The United Nations is conducting several studies designed to clarify costs structure for the most important industries--particularly the intermediate sector--in Latin America. The results of these surveys, which will guide decisions regarding new investments, will make it possible to determine optimum operating scales, depending on local conditions.

/2. Manufacture of

2. Manufacture of Paper and Pulp

During the last five years, the paper industry has made considerable strides in many of the Latin American producing countries. This strong development has been made possible by i) a steady increase in demand; ii) the abundance of raw material, except for newsprint; iii) the growing interest of national and foreign investment capital; and iv)the concession of official and foreign financing. Furthermore, the operation and expansion of existing plants and the establishment of new ones based on tried and tested formulas have not encountered the technological problems faced by various other intermediate industries.[38]

Data on development for Latin America as a whole and for many of the countries reflect a) rapid expansion as compared to the preceding five-year period; b) more balanced geographic distribution of production in recent years; c) continual progress in regional self-sufficiency for paper and cardboard; and d) progressive integration within the industry.[39] At the same time, information on projects now under way point to e) substantial expansion in the near future.

a) Production growth

Pulp production showed a cumulative annual growth of almost 13.5 percent over the last five years, while the paper and cardboard manufacturing sector registered an increase of 8 percent and newsprint manufacture, considered separately, showed a yearly increase of 23 percent (see Table V-6). All these growth rates compare favorably with those for the preceding five-year period, which amounted to almost 9 percent for pulp, slightly over 7 percent for paper and cardboard, and less than 4 percent for newsprint. The more vigorous development shown by pulp can be traced to a general endeavor to bring lagging local cellulose production gradually up to the needs for paper manufacture.[40]

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38. Nevertheless, it should be noted that product quality and optimum use of installed equipment have been adversely affected by the fact that, in general, the region lacks facilities for technical education in the paper and cellulose field.

39. That is to say, a higher degree of local production of pulp per unit of manufactured paper.

40. The case of newsprint will be discussed later, together with other related aspects.

/Table V-6

Table V-6

LATIN AMERICA: PRODUCTION OF PULP, PAPER AND CARDBOARD, 1951, 1956, 1960 and 1961

(Thousands of tons)

	Pulp for Paper and Cardboard				Paper and Cardboard (Total)				Newsprint			
	1951	1956	1960	1961[a]	1951	1956	1960	1961[a]	1951	1956	1960	1961[a]
Argentina	42	61	80	103	231	308	295	370	3	17	9	12
Bolivia	-	-	-	-	1	1	1	1	-	-	-	-
Brazil	167	209	322[b]	337	326	486	609[b]	639	42	39	68[b]	70
Central America[c]	-	-	0	0	-	-	1	2	-	-	-	-
Chile	21	20	105	122	46	66	120	131	11	11	52	70
Colombia	1	2	9	11	10	35	53	58	-	-	-	-
Cuba	-	-	25	30	36	45	87	91	-	-	15	20
Ecuador	-	-	-	-	1	1	1	1	-	-	-	-
Mexico	81	145	240	265	190	255	403	422	-	-	14	18
Paraguay	-	-	-	-	-	0	1	1	-	-	-	-
Peru	7	18	30	32	22	34	48	55	-	-	-	-
Uruguay	3	5	6	6	25	32	36	40	-	-	-	-
Venezuela	-	-	-	-	9	15	55	60	-	-	-	-
Total--Latin America	322	451	817	911	897	1 278	1 710	1 874	56	67	158	190
Growth rates compared to preceding year			11.1	11.5			5.9	9.6			5.3	20.2
Cumulative annual growth rates[d]		7.0		15.1		7.3		8.0		3.7		23.2

Sources: Direct information from the producers or their trade associations and from public agencies. Estimates have been made for countries with small-scale production.

a. Preliminary estimates.
b. Provisional.
c. El Salvador and Guatemala.
d. For 1951-56 and 1956-61 respectively.

/In referen

As regards the relative importance of the paper industry--considering it in the broader sense, that is, including the manufacture of paper products--it should be noted that its 1959 product amounted to about 8.5 percent of the product of all intermediate industries. It has been estimated that the expansion of this manufacturing branch, in terms of value added at constant prices, has lately run close to 12 percent per year.

b) Geographic distribution

Despite the heavy concentration of the paper industry in the three largest Latin American countries, its recent stage of development encompassed a far broader geographic area. More or less sizable production increases were registered in Brazil, Chile, Colombia, Cuba, Mexico, Peru and Venezuela; the latter country joined the ranks of cellulose producers in 1961. Argentina, too, has shown progress in pulp manufacture. Uruguay is the only one of the producers of certain importance where paper manufacture made very little headway and the less significant pulp industry came to a standstill. In the other five producing countries--Bolivia, Ecuador, El Salvador, Guatemala and Paraguay--the volume of paper manufacure is very limited and the pulp industry nonexistent. Six Latin American countries do not produce paper and eleven do not engage in pulp manufacture.

However, since recent development has been spread over eight countries, the degree of industrial concentration has recently slackened. While in 1956 more than 80 percent of paper and cardboard manufacture and over 90 percent of pulp processing was still carried out by Argentina, Brazil, and Mexico, in 1961 the over-all production of these three nations amounted to only 70 and 77 percent of the respective regional totals. In recent years, Chile has assumed an important position among the producing countries, particularly for cellulose, and it is currently the only Latin American country making sizable exports, especially of kraft pulp and newsprint.

c) Self-sufficiency

Averaging out the 1959-60 period, domestic production of paper and cardboard in Latin America covered slightly more than two thirds of total regional requirements. Local manufacture also supplied two thirds of the pulp used in national paper production. These percentages, compared to those given above, show a new and growing self-sufficiency. Actually, the 1956 coefficients of self-sufficiency[41] were 62 percent for paper and cardboard and 54 percent for pulp as

41. That is to say, the locally produced share of total apparent consumption.

PROVISIONAL

ECONOMIC AND SOCIAL SURVEY

OF LATIN AMERICA, 1961

VOLUME I

Prepared jointly by the Secretariats
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PAN AMERICAN UNION

WASHINGTON, D.C.

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INTRODUCTORY SUMMARY

In 1961, Latin America's total production continued to increase at the same modest pace--about four percent--as in the three preceding years. Given however the region's high annual population growth of almost 2.5 percent, average per capita income and output for the area as a whole advanced at an unsatisfactory rate. In many countries, product per inhabitant not only failed to expand, but even contracted, during the year. Sizable increases in total product were recorded in a limited number of countries, including, among others, Argentina, Brazil, Mexico, Panama, and Peru. The accelerating pace of economic growth in Brazil, in particular, made even more apparent the disparity between that country and most of the rest of Latin America in this respect in recent years. Almost everywhere else, the tempo of development lagged behind the more adequate expansion rates that had been achieved in the early part of the last decade.

Manufacturing continued to be the most dynamic sector of production but the primary industries continued to lose ground. Owing largely to the accelerated tempo of industrialization in some countries, notably Brazil and Mexico, manufacturing activities continued to gain in relative importance. In 1961, for example, manufacturing output increased twice as fast as total product, in contrast with primary production, which lagged behind the rise in total output of goods and services, thus continuing a trend that had begun earlier. The growth of the service sector was also moderate, but a sharp increase occurred in construction activity, after a protracted period of depression in many countries.

Agriculture showed the slowest rate of expansion in 1961. While there were moderate increases in the production of export crops, notably cotton and sugar, output of foodstuffs for domestic consumption remained virtually stagnant despite various official attempts to overcome the institutional and technological obstacles to progress in this sector. The failure of agricultural output in recent years to keep pace with population increases is a serious handicap to Latin American efforts to achieve a balanced pattern of development. The unsatisfactory performance of this sector has tended to accelerate the movement of rural populations into urban areas, thereby greatly intensifying economic and social pressures in the cities where employment opportunities are limited, and housing, educational, and other social welfare facilities fall far short of requirements.

Mining, which had until 1957 been one of the fastest-growing sectors of production, showed only negligible production increases. This reflects in part the unfavorable market conditions for Venezuela's iron and petroleum exports. Production of copper (in Chile, Mexico, and Peru), and lead (in Mexico and Peru) was similarly stagnant.

Production of both petroleum and iron for domestic use, on the other hand, was considerably stepped up to meet the growing fuel and raw material needs of the expanding industrial sector in Argentina, Brazil, Mexico, and a few other countries. Partly stimulated by the rising price of silver, a by-product in many zinc deposits, the region's output of the latter metal also rose substantially.

Within the manufacturing sector, the rapid growth of production has continued to be accompanied by a notable change in its composition. In 1961, while the output of the traditional industries --chiefly nondurable consumer goods--rose by less than the gross product, the rate of expansion of some of the newer industries, engaged in the production of durable consumer goods, capital goods, and intermediate products such as steel, chemicals, petroleum and paper, was about three times higher. This striking contrast is closely associated with the tendency of demand for durable goods and industrial materials to increase much more rapidly, as income and output rise, than that for many types of nondurable consumer goods. Moreover, the extent to which domestic production can still be substituted for imports is much greater in the intermediate and capital goods industries than in the traditional branches of manufacturing, where the import substitution process has already been carried quite far. The opportunities for industrialization and import substitution, however, rise with the size of the market --which is small in many of the less-developed countries of Latin America--and with the existing industrial base. This explains in part why in recent years the main impetus for the industrial transformation and growth of Latin America has come chiefly from the few countries endowed with a large domestic market and a relatively well developed industrial complex, particularly Argentina, Brazil and Mexico. It also provides the essential rationale for economic integration, both in Central America and among the countries of the Latin American Free Trade Association. In this connection, efforts made for several years by national governments and international institutions to promote the establishment of a Latin American common market were climaxed in 1961 by the ratification of both the Montevideo Treaty, creating the Latin American Free Trade Association (LAFTA), to which eight South American countries and Mexico now belong, and of the General Treaty of Economic Integration and its Protocol on Import Duty Equalization, which aims to bring about the economic integration of Central America. Since September 1961, moreover, the Central American Economic Integration Bank, designed to help develop regional industries has functioned officially. There is no doubt that further substantial efforts in this direction of economic integration will continue to be necessary if Latin American industrialization is to be speeded up substantially.

Apart from the limitations still imposed by the size of markets and the shortage of financial, technological, and specialized

human resources, the growth of production in 1961 continued to be held back in many parts of Latin America by the stagnation of aggregate demand. As in preceding years, many countries were handicapped by the lack of vigor of export demand, a factor which continues to discourage primary production and makes the need for an accelerated tempo of industrialization ever more acute. Where industrialization is proceeding with sufficient rapidity and on a large enough scale, as for example in Brazil and Mexico, sizable increases in domestic demand compensated for the weakness of foreign demand. In most countries, however, this was not the case. On the whole, both consumption and investment have grown very slowly in Latin America in the past few years and especially in 1961.

Apart from the inauspicious developments in the export sector, the weakness of demand and of investment activity has also been caused, in several cases, by excessively restrictive monetary policies pursued in recent years to curb inflationary pressures or to prevent the intensification of foreign payments disequilibria. The policies adopted by many countries in recent years to overcome these difficulties had aimed essentially at bringing the total demand for goods and services into closer balance with the available supply. In some cases, however, this was done at the cost of drastic and indiscriminate curtailment of credit to the private sector and of a substantial curtailment of public and private investment expenditures.

By 1961, the severe monetary controls imposed in earlier years had been relaxed in some cases and where there had been a measure of success in overcoming price and balance-of-payments difficulties government investment spending increased. On the whole, however, in 1961 severe shortages of credit still hampered economic activity in a number of countries, and exceptionally high unemployment levels still depressed consumer demand. Under such conditions, manufacturing output, remained in some instances far below existing capacity, and incentives to invest were weak. Thus, despite some recent improvement in private and public investment in Argentina, Chile, and a few other countries, share of total output going into fixed capital formation for Latin America in 1961 was little changed from the two preceding years and was still substantially below the levels attained in the early fifties.

In the export sector, the relative stagnation of the past few years has originated primarily in the unsatisfactory level of export prices, which have remained depressed, ever since the 1957-58 recession. In 1961, the weakness of export prices extended to nearly all major products, except tin. A slight improvement in total export receipts was nevertheless recorded during the year, but, as in 1960, this was achieved primarily as a result of a rise in the volume shipped. In individual cases, notably Bolivia, Brazil, Peru, Mexico and some of the Central American countries, the increases

were more or less marked, but elsewhere receipts failed to expand, or contracted.

The geographical distribution of Latin America's total export trade changed during the year. The slower rate of growth of economic activity in the industrial nations, particularly the United States and Britain, was reflected in a fall in Latin American exports to these countries. Shipments to Japan, on the other hand, whose economy continued buoyant, increased. The reorientation of Cuba's export trade toward the centrally planned economies also raised the share of that region in the total. Intra-Latin American trade, however, dropped sharply, owing in particular to the virtual disappearance of Cuban petroleum imports from Venezuela, to the greater degree of self-sufficiency achieved by Argentina's domestic petroleum industry, and to the reduced exports of Argentine wheat to the rest of the area. Within Central America, on the other hand, regional trade showed a substantial increase in 1961. This may be attributable in large part to the progress of the area's economic integration program, which culminated in 1960 with the establishment of the common market.

As to the commodity composition of Latin American exports, among the major mineral products only tin enjoyed substantially increased demand. Low prices and import quotas continued to limit the market for lead and zinc in the United States, although exports of both metals to Western Europe increased in 1961. Copper shipments were down somewhat, while exports of crude petroleum showed a slight increase, despite a fall in intra-Latin American sales and the increasing competition of the USSR in world markets. Exports of refined petroleum and derivative products increased faster than those of the crude products, a tendency that has been noted for several years.

Coffee continued in oversupply in 1961 and market possibilities remain restricted, notably in certain European countries. As both price and volume of exports fell, those countries unable to expand secondary exports were faced with sharply falling export receipts. In Brazil and some of the Central American countries, an expansion of cotton exports helped to offset the unsatisfactory conditions prevailing in the coffee market. Other countries also benefited from the relatively stable price situation and rising demand for cotton. Wool prices, on the other hand, declined in the face of stagnant world consumption at a time of rising production. Uruguay nevertheless increased its sales substantially, partly at the expense of stocks. Uruguay's meat exports, on the other hand, were affected by a prolonged strike in the main packing plant and declined substantially, while Argentina's meat export receipts, in the face of an eight percent price decline, remained at their depressed 1960 level. In the sugar market, excess supply continued to prevail, as political events caused major dislocations of the established trade pattern.

The weakness of primary product markets continued to discourage new foreign investment in the primary industries, which had been one of the major poles of attraction for foreign capital in Latin America until a few years ago. In the manufacturing sector, on the other hand, foreign capital continued to be attracted by the prospects of expanding internal markets, increasing protection and tax incentives. On balance, in 1961, private direct foreign investment to Latin America appears to have risen somewhat, with the bulk of the funds going, as in most recent years, to three countries, namely, Argentina, Brazil and Mexico. Relatively large inflows of direct foreign investments have also characterized Peru and Panama in recent years.

The outward movement of short-term and speculative capital, on the other hand, represented a disturbing element during 1961. In several countries, the success of monetary stabilization measures undertaken in recent years had encouraged a substantial inflow of foreign funds and some repatriation of domestic capital. By the end of 1961, however, the re-emergence of inflationary pressures, dim export prospects, and balance of payments strains contributed in part to an outflow of short-term funds in a number of countries. In Venezuela, on the other hand, the large scale outflow of funds which had occurred since 1958 was virtually arrested following the modification of the exchange system in November 1960 and the revaluation of the exchange rate applicable to financial transactions in the course of 1961.

Medium-term credit from foreign banks and exporters continued to play a significant part in the financing of Latin American imports. But such intensive use had been made of this type of credit in previous years that the very existence of the outstanding debts has recently contributed to reduce the amount of new loans. Official lenders, which had also granted substantial medium-term credits to Latin America in earlier years to alleviate severe balance-of-payments difficulties and bolster monetary stabilization efforts, continued their support in 1961 and took the lead in important debt consolidation operations in favor of the countries most heavily burdened by the rising amortization payments. Large credits were thus made available to Argentina and Brazil, for instance by combined groups of creditors from the United States, Western Europe and Japan, which included not only government entities but also private banks and commercial creditors.

The net flow of official capital from the United States and the international financial organizations rose in 1961. The total flow of funds from official sources, which varies widely from year to year, is expected to benefit in the future from a variety of recent developments in the area of international financial cooperation which are increasing the size, range, and flexibility of

resources available for lending to Latin America. Bilateral development assistance continues to be of greater significance than credits channeled through multilateral agencies; thus in 1961 outright donations from the United States Government remained a major component of foreign assistance in a few countries while a significant expansion took place in the loans granted under the agricultural surplus disposal program. The United States Export-Import Bank also continued to play an important part both in the granting of new credits and the refinancing of old ones. The official contribution of Western Europe, and specially the Federal Republic of Germany, to the flow of official capital to Latin America increased somewhat in the past two years, though in absolute terms it was still small, except in the area of export credit guarantees and the consolidation of medium-term commercial debts incurred in earlier years.

Among international institutions, the International Bank for Reconstruction and Development increased the pace of its disbursements to Latin America in 1961. Latin America, moreover, accounted for 45 percent of the first U.S. $60 million of new loan commitments made during the year by the new International Development Association, created to supply development financing on relatively easier terms to countries already burdened with heavy foreign debt repayments. Of particular importance, finally, was the beginning of operations in 1961 of the Inter-American Development Bank. This Bank has made a number of loans from both its own funds and those of the Social Progress Trust Fund, on terms specifically geared to the solution of some of the most urgent economic and social problems of Latin America including, in particular, those of housing and public health. The Bank's own resources have been used dhiefly for the financing of industrial and infrastructure proyects, while most of the Social Progress Trust Fund was committed for housing and public health program.

In 1961, for the third consecutive year, the region's net balance of payments deficit stood near U.S. $350 million. While in the two preceding years these deficits had been financed primarily out of national holdings of gold and foreign exchange and certain short and medium term credits - in 1961 drawings on the International Monetary Fund became the largest balancing item. In spite of these deficits, in 1959 and 1960 the expansion of the IMF's resources had raised Latin America's drawing rights enough to increase the region's gross exchange reserves. In 1961, however, these reserves declined by U.S.$300 - 350 million.

For Latin America as a whole, the slight improvement in export receipts and net capital inflow experienced in 1961 led to a small expansion -two or three percent- in the capacity to import from the rest of the world. Except in a few countries, the capacity to import has now more or less recovered from the

set-back experience in 1958 and 1959 under the impact of declining export prices and reduced capital inflows. No net progress was made, however, in the 1957-61 period taken as a whole, even excluding Venezuela, where the failure of exchange receipts to recover their exceptionally high level of the 1956-57 petroleum boom period must be considered as a special case. Total imports, which had contracted along with exchange availabilities in 1958 and 1959, had also resumed a slow expansion in most countries in 1960. In 1961, sizable further increases took place in Panama and Peru, where the capacity to import had risen substantially during the year. In Argentina and Chile, on the other hand, substantial import rises placed a considerable strain on the balance of payments. On the whole, the obstacles to the satisfactory adjustment of import demand to the existing level of the capacity to import continued to be considerable in most parts of Latin America. Despite a significant slowing down of price inflation in many of the South American countries, where it had prevailed for years, excess demand pressures continued to pose serious problems in a few countries. Everywhere, moreover, specific shortages and bottlenecks in domestic productive structures contributed to the determination of an irreducible minimum in total import requirements, which can be expected to increase rapidly in the next few years if the pace of Latin America's economic development quickens to the extent presently contemplated in the Charter of Punta del Este.

The general social and economic outlook in Latin America thus continues to be dominated by the difficulties which for some years have beset the export sector, by the tensions inherent in the region's underdevelopments, and by the efforts made to overcome both.

Chapter I

EXPORT TRADE

INTRODUCTION

The value of total exports from Latin America in 1961 amounted to approximately US$ 8.7 billion, thus recovering to the 1956-57 levels, following a period of contraction that lasted three years. This recovery took place, however, principally in 1960, when total exports had already reached a value of approximately US$ 8.6 billion. This means that although the recovery was completed in 1961, it took place in an atmosphere of relative stagnation in which the general prospects for exports in the near future were not very bright. The expansion of foreign demand, which in 1960 contributed substantially to the process of recovery--in spite of the recession in the United States during the second half of the year--did not maintain the same dynamic rate in 1961, owing to the decline in industrial activity in nearly all the Western European countries. International markets for primary products, with very few exceptions, were dominated by a situation in which supply exceeded the current rates of consumption, bringing about, as a result, a downward price trend.

Moreover, there was no definite movement toward easing the protectionist measures adopted by some industrialized countries. Lead, zinc, and crude oil and its derivatives continued to be subject to import quotas in the United States, and as a result of these restrictions the volume of these products that Latin American countries were able to export to the United States market continued to decrease or, as in the case of lead, became stagnant.

In the countries belonging to the European Economic Community the process of liberalization of trade within the Community and its associated countries continued to advance, but as progress was made in this respect, the discriminatory tendency of the common external tariff on products from the rest of the world, including those from Latin America, became increasingly evident. Furthermore, the possible entry of the United Kingdom into the European Common Market could have strong repercussions, since, if the same preferential treatment is accorded to some members of the British Commonwealth as is granted to

/other

other associated territories of the European Economic Community, the prospect for Latin American exports of coffee, cacao, sugar, hides, wool, etc., would be reduced even more.

This chapter begins with a brief analysis of the conditions under which economic activities have developed in the industrialized countries, to give a broad view of the situations that, in turn, affected over-all foreign demand. Two important points can be mentioned: a) even though consumers' total expenditures continued to expand, this expansion was concentrated mainly in services, whereas total expenditures in durable goods registered a sharp decline; b) investments in inventories underwent large-scale fluctuations and as a general rule they accentuated the downward trend of prices of raw materials, which had already been affected by a decrease in activity of basic sectors such as the metallurgical and textile industries.

The second section of the chapter deals with the evolution of the international market for a selected group of Latin American export products. The analysis includes changes that have taken place in production, exports, consumption and stocks, both in the Latin American countries and in countries outside the region, in order to study the relationship between these changes and the general course of prices in foreign markets. Even though these notes do not cover all the Latin American basic export products, they include those that constitute a substantial portion of the exports of each country, which together account for over 69 percent of the total exports of Latin America. This study shows that in regard to only two products, tin and wheat, were the limitations of available supply an important element, while in regard to the other products foreign demand was the most important factor in determining the total value of Latin American exports.

The third section makes a study of Latin American exports as a whole. On the one hand a comparison is made of the course of quantity and unit value indices of exports from Latin America with those of exports from other trade areas; on the other hand, the relative changes that have taken place in each Latin American country are analyzed. Even though in 1961 total Latin American exports regained the level established some years before, in several countries it was a year of decline.

/In the

In the fourth section, the study is supplemented with an analysis of the changes that took place in the distribution of exports, by destination, and special attention is called to exports to the United States, which in 1961 showed a marked decline as compared with previous years, largely due to the reorientation of exports from Cuba toward the countries with centrally planned economies, and also to the decrease in exports of such products as petroleum and its derivatives, iron ore, lead and zinc from other countries. Exports to Western European countries continued to increase, but only those destined for members of the European Economic Community exceeded the 1957 figures. The most important relative increases took place in exports to Japan and, as regards those to other than industrialized areas, in exports destined for the countries with centrally planned economies. Inter-Latin American exports as a whole decreased again, even though this decline was limited to a few countries and basically reflected the limited exportable balances of Argentine wheat and a decrease in the sales of Venezuelan oil to those Latin American countries whose domestic production has increased. It is significant that trade between the Central American countries has continued to show substantial increases, and this is of particular interest when the liberalization measures adopted by the countries that signed the Central American Treaty on Economic Integration are taken into account.

The last section of the chapter summarizes the course followed in the formation of two preferential trade areas within Latin America: The Central American Treaty on Economic Integration and the Latin American Free Trade Association. The progress achieved by means of multilateral Latin American cooperation can in this way be shown without attempting to evaluate as yet, the results of a process that is just beginning to take a definite direction.

I. ECONOMIC ACTIVITY IN THE INDUSTRIALIZED COUNTRIES

Economic activity in the majority of the world's industrialized countries reached new and higher levels in 1961. Some notable differences in this movement, however, can be observed among certain countries. In some European countries, particularly in the European Economic Community, the growth of economic activity achieved relatively high

/rates in

rates in 1961, although they were below those of 1960. On the other hand, in the United States, Canada and the United Kingdom the process of expansion, which had been less rapid over the past several years, was interrupted in the second half of 1960 and early in 1961. In the United States, the recessive pressures were present for a longer period, resulting in a lower rate of growth of the gross national product than that recorded in 1960. Partial data on Canada, Japan, the United Kingdom and the European Economic Community lead to a similar conclusion. It can be said, therefore, that in 1961 economic activity in this group of industrialized countries showed less favorable conditions for the expansion of a demand for goods and services than in 1960 and, consequently, for an increase in trade between these countries and the non-industrialized areas.

The foregoing is confirmed by the pattern of behavior of total expenditures. In the majority of the industrialized countries, total private consumption (at constant prices), has shown increases even during periods in which there was a decline in the gross national product, and in other cases it has declined proportionately less than the total product (see Tables I-1, I-2 and I-3 as general reference). But from the point of view of the countries supplying foodstuffs and industrial raw materials, the significance of the several components of total consumer expenditures in the industrialized countries varies greatly.

The growth of private consumption in the United States in 1961 originated principally in the services sector, in which imports play an insignificant role. Expenditures for nondurable consumer goods increased less, both in absolute and relative terms, while the durable goods sector showed a decrease of 4.1 percent from the 1960 levels (see Table I-1). During the second half of 1960, a contraction could already be observed in the consumption of durable goods which continued through the first nine months in 1961, while expenditures for nondurable consumer goods increased slightly and expenditures for services increased much more. At the same time, a sharp contraction in gross private investment took place, although in this case it involved almost exclusively a decrease in the volume of inventories, as new construction and

/Table I-1

Table I-1

UNITED STATES: GROSS NATIONAL PRODUCT

(At constant 1954 prices)

Years and Quarters a/		Gross National Product Total	Personal Consumption expenditures				Government purchases of goods and services	Gross private domestic investment
			Total	Durable Goods	Nondurable Goods	Services		
			(Billions of dollars)					
1957		408.3	270.8	38.5	132.6	99.8	75.1	58.5
			(Indices: 1957 = 100.0)					
1958		97.7	100.9	92.7	100.8	104.0	104.4	80.9
1959		104.9	106.8	106.5	104.7	109.7	106.7	104.4
1960		108.0	110.2	108.6	106.9	114.9	106.8	103.6
1961		109.9	112.1	104.2	108.3	120.1	113.8	98.6
1960	I	108.0	109.1	109.4	106.3	112.6	104.4	113.8
	II	108.6	110.6	110.4	107.8	114.4	107.3	106.5
	III	107.8	110.2	106.0	107.1	116.0	108.3	100.2
	IV	107.4	110.6	108.1	106.6	116.8	106.9	93.8
1961	I	106.1	109.7	97.7	106.8	118.0	110.9	84.8
	II	109.1	111.4	103.4	107.5	119.4	112.8	97.9
	III	110.7	112.6	103.6	109.0	120.8	114.1	103.2
	IV	113.8	114.8	110.0	110.0	122.1	117.6	108.5

Sources: Department of Commerce of the United States, Statistical Abstract 1960 and Survey of Current Business, March 1962.

a. Seasonally adjusted quarterly totals at annual rates. Shown in roman numerals.

Table I-2

PERCENTAGES OF VARIATION [a/] IN THE GROSS NATIONAL PRODUCT AT CONSTANT PRICES, IN SELECTED COUNTRIES

Years and Quarters [b/]	Canada				United Kingdom				Japan			
	Gross National Product	Private Consumer Expenditures	Government Expenditures for Goods and Services	Gross Capital Formation	Gross National Product	Private Consumer Expenditures	Current Expenditures in the Public Sector	Domestic Capital Formation	Gross National Product	Private Consumer Expenditures	Government Purchases of Goods and Services	Gross Private Investment
1957	0.9	3.0	1.1	- 6.5	1.8	2.4	- 3.2	3.3	8.9	5.5	- 5.8	39.5
1958	0.9	3.1	4.2	-14.1	0.9	2.5	- 1.0	- 3.5	0.7	7.3	23.1	-38.1
1959	3.4	4.4	0.8	4.9	2.7	4.2	2.0	9.2	17.8	5.7	13.2	73.2
1960	1.7	3.0	1.0	- 5.3	4.4	3.7	2.3	20.4	12.6	8.9	11.2	26.4
1961												
1960												
I	1.6	0.0	0.5	7.1	1.3	1.6	2.0	- 0.8	2.3	1.1	2.3	8.2
II	- 1.6	1.9	1.0	-11.8	1.2	0.8	- 1.3	10.4	- 1.1	3.7	2.7	-16.1
III	0.8	0.0	3.1	- 7.5	- 1.7	- 1.0	- 1.3	- 1.9	2.3	3.0	- 0.9	7.7
IV	0.8	1.5	- 0.5	8.5	0.9	- 0.1	6.0	2.0	10.6	3.5	16.6	19.6
1961												
I	- 2.4	- 0.4	0.3	-11.0	1.0	2.2	5.0	- 6.8	4.0	- 3.5	- 5.8	26.3
II	2.5	1.6	2.3	- 3.3	1.8	0.8	- 5.1	3.9				
III	2.4	1.3	2.5	2.0	- 0.8	- 1.3	2.2	- 3.2				

Source: United Nations, Current Economic Indicators

a. From the figure for the preceding year or quarter.
b. Seasonally adjusted quarterly totals at annual rates.

/Table I-3

Table I-3

EUROPEAN ECONOMIC COMMUNITY: GROSS NATIONAL PRODUCT AT 1954 PRICES AND EXCHANGE RATES

	Billions of dollars	Indices: 1957 = 100.0		
	1957	1958	1959	1960
Gross national product	144.0	102.4	107.4	114.7
Total private consumption	93.1	102.0	106.0	112.7
Food	32.1	103.1	106.9	112.2
Clothing	13.3	97.0	100.0	106.8
Durable goods	8.2	102.4	107.3	117.1
Others a/	34.2	102.9	107.0	114.0
Total public consumption	18.1	102.8	108.3	113.3
Defense	6.1	96.7	106.6	111.5
Civil	12.0	105.0	109.2	114.2
Gross domestic capital formation	29.3	102.0	108.9	120.1

Source: O.E.C.D., General Statistics Bulletins, July 1961.

a. Excluding rents.

/the production

the production of capital goods changed little from 1960 to 1961. On the other hand, one of the most important components of national expenditures--government purchases of goods and services--maintained a general rising trend, except for a brief interruption during the last quarter of 1960.

Therefore, the moderate recession that took place in the United States in 1960-61, appears to have followed a course similar to the one in 1957-58. At that time, private consumption expenditures did not decline, but rather, were reflected in a considerable increase in the services sector and, to a lesser extent, in nondurable consumer goods. On the other hand, consumer expenditures for durable goods suffered a decline of 7.3 percent between the two years. The contraction of gross private investment in 1957-58 was also greater than in 1960-61, but in the former period, in addition to a marked decline of investment in inventories, there was a contraction in the production of equipment and capital goods. If one examines the indices for industrial activity and some sectors of the manufacturing industry, it can be seen that the contraction in 1957-58 was greater than in 1960-61, particularly in sectors closely related to imports from Latin America, such as the basic metals and metal products industries.

In Canada and the United Kingdom the trend toward expansion was even weaker in 1961, and in both countries the gross product virtually stagnated, capital formation declined, and private consumption grew only meagerly (see Table I-2). Nevertheless, industrial activity increased slightly in Canada, particularly in the textile industry, which in recent years has been subject to considerable fluctuation. In the United Kingdom a new decline took place in this branch, which was counteracted by a slight increase in the metals industries.

In the three countries mentioned, the growth of the national product had already been slow in previous years: from 1957 to 1960 the annual average was 2.5 percent in the United States, 2.0 percent in Canada, and 2.6 percent in the United Kingdom--comparing unfavorably with the 4.6 percent annual growth rate achieved by the countries in the European Economic Community (see Table I-3) whose growth, according to preliminary estimates, continued at only a slightly lower rate in 1961.

/In the

In the European Economic Community growth took place in nearly all sectors, although during the period up to 1960 it was greater in fixed capital formation and the consumption of durable goods, which was reflected in a sharp increase in the metal products industry, with a corresponding favorable effect on the demand for the raw materials involved. On the other hand, in 1961 a certain displacement was observed in private consumer demand which took the form of an increase in the share going to services and a decline in the share going to durable consumer goods.1/ However, total industrial production increased over 6 percent, and, as in previous years, Italy showed the highest rate of increase (see Table I-4).

The net effect of these trends was that European imports of basic products, which in 1960 had increased almost 13 percent in volume, showed an additional increase of less than 3 percent, which was counteracted by an equivalent decline in prices. Imports of copper, crude petroleum, coffee and cacao showed the highest increases, while purchases of oils, cotton, sugar and meat declined.

The volume of United States imports of basic products suffered an absolute drop in 1961, particularly with regard to copper, iron ore and sugar. These changes were, in general, reinforced by a drop in prices, but they were counteracted by some increases in imports of cacao, meat and petroleum.

1. See United Nations, Economic Bulletin for Europe, Volume 13, No.2, November 1961.

/Table I-4

Table I-4

INDUSTRIAL PRODUCTION: Annual Variations in the Indices of Industrial Production in Selected Countries a/

ıtry	1955	1956	1957	1958	1959	1960	1961
;ium	9.4	6.0	0.8	-6.5	5.2	5.7	4.7
ıce	7.3	9.4	8.6	4.3	3.4	12.0	5.4
ıral Republic of Germany	15.2	7.8	5.8	3.4	6.6	11.1	6.1
.y	9.2	7.6	7.8	5.1	9.0	15.2	9.9
ıerlands	7.2	4.2	2.4	0.0	9.4	12.9	1.3
ıpean Economic Community	10.9	8.2	6.1	2.6	6.3	11.8	6.4
;ria	16.7	3.8	5.8	2.7	4.0	8.3	3.9
ıark	2.8	1.8	6.1	3.3	8.0	5.2	...
ıay	7.3	5.1	4.9	0.0	6.2	7.3	7.5
ıen	6.7	3.6	3.5	2.5	4.1	6.3	5.2
;ugal	7.2	9.2	5.4	7.3	5.4	11.0	...
;ed Kingdom	5.6	0.0	1.8	-1.7	7.0	6.6	0.0
ıpean Free Trade Association b/	6.5	0.9	2.6	-0.9	6.8	6.3	1.5
;ed States	2.8	2.8	0.9	-7.3	13.7	2.6	0.8
ıda	10.0	9.1	0.0	0.0	7.5	0.8	3.1
ın	8.3	23.1	16.0	0.6	23.8	30.0	20.4

Sources: O.E.C.D. Statistical Bulletin, March 1962, United Nations, Monthly Bulletin of Statistics.

a. Adjusted seasonally.
b. Excluding Switzerland

Japan, whose trade with Latin America represents approximately 4 percent of that area's exports as compared with 2.6 percent in 1957, was the only country in which the rapid expansion of economic activity and imports of basic products continued almost without any interruption. During the first nine months of 1961, imports of basic products exceeded those for the corresponding period in 1960 by more than 25 percent in volume, and almost 20 percent in value, and special mention should be made of wool, cotton, corn, sugar, fuels, tin, and iron ore concentrates.[1/]

1. See United Nations, Commodity Survey 1961, April 26, 1962.

II. THE FOREIGN MARKET AND BASIC EXPORT PRODUCTS

Latin American export trade in 1961 was characterized by a marked persistence of the crisis which had begun in 1958. In fact, the period 1957-61 was a particularly critical one for Latin America's primary products. In spite of the increase in export volume, receipts rose only slightly, owing to the general decline of international prices. This decline of prices was not, of course, the same for all products, nor was it due to similar causes in all cases. Nevertheless, it may be said that the decline in industrial activity in the United States in 1957-58 and the simultaneous decline in the rate of expansion of the European Economic Community were common factors in the drop in prices for a number of products, such as nonferrous metals and textile fibers, whereas in the case of others, especially tropical agricultural products such as coffee, cacao, and sugar, the most important influence on prices was the high rate of growth of production.

The evolution of prices of the chief export products of Latin America during the last five years is presented in graphs I-I to I-III. In these it may be observed that the decline during 1960-61 covered almost all the exportable products, and that in 1961 only tin --for reasons that will be examined later-- achieved a substantial recovery.[3/]

Various international organizations have studied and reported on the causes of the long-term stagnation of exports of primary products, but it would be inappropriate to analyze their conclusion in this survey. It is important, however, to point out that this problem of the instability of the primary products market has become the object of closer scrutiny, and that a new approach is being taken in studying measures to mitigate its unfavorable consequences. Until recently, the chief recommendations by groups of experts on the means to moderate the instability of the export market have been limited to the creation of institutional mechanisms -such as, the international agreements on products-- that would set a limit to the amplitude of the price fluctuations inherent in that instability. Although the establishment of such mechanisms may be necessary for meeting serious imbalances in the external economy, it does not directly help to solve the basic problem, the lack of diversification in production.

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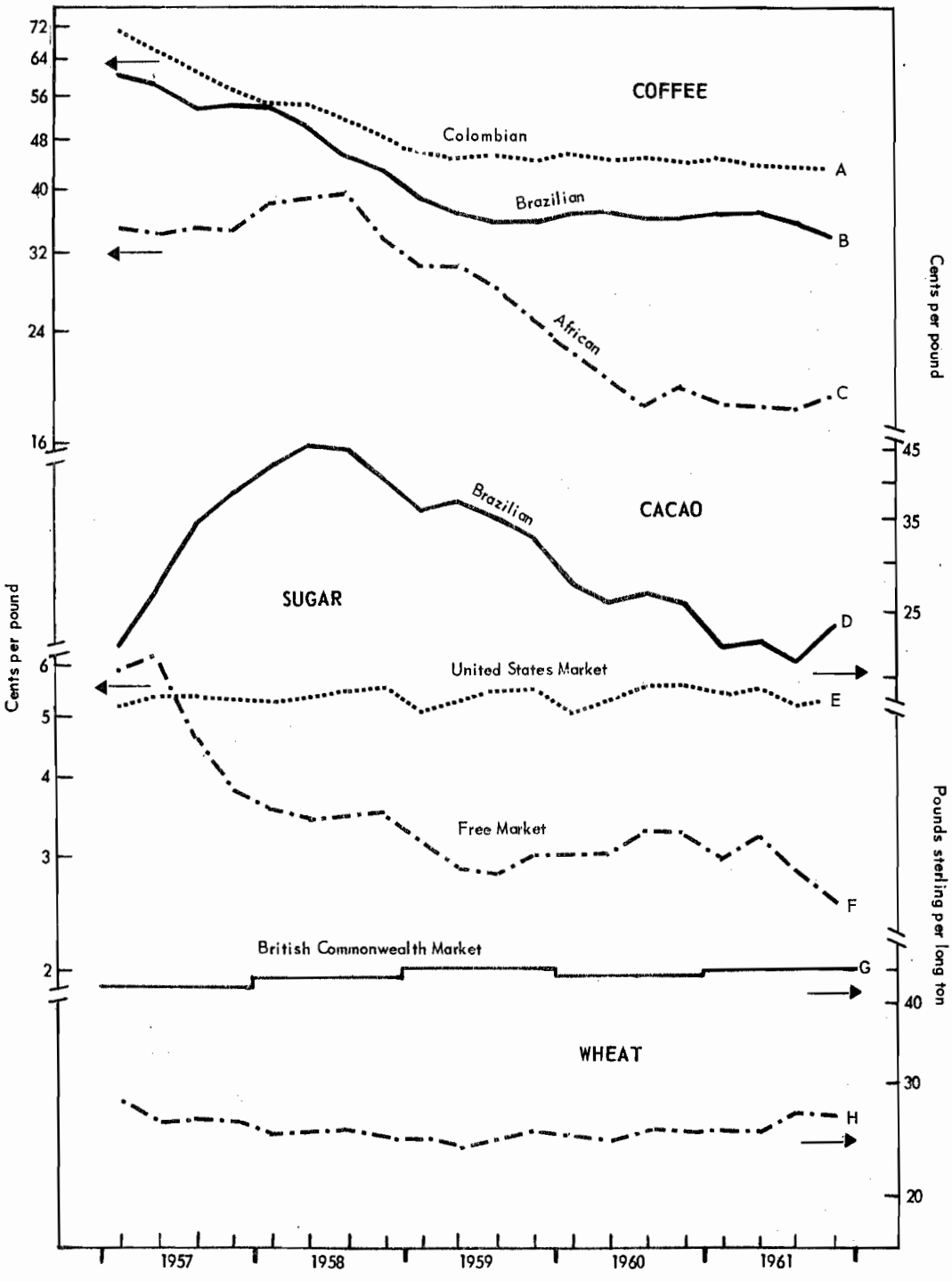
3. See point 8 of this same section.

/Graph I-1

Graph I

INTERNATIONAL PRICES OF SELECTED FOOD PRODUCTS



Source: United Nations, Monthly Statistical Bulletin.

A. Cash prices for Manizales coffee, ex dock New York.

B. Cash prices of Santos 4 coffee, ex dock New York.

C. Cash prices of Native Uganda coffee, ex dock New York.

D. Cash prices of Bahia cacao, ex warehouse New York.

E. Prices of sugar on the New York Exchange for deliveries under Contract No. 6 to 1960 and Contract No. 7 in 1961, with adjustments by the U. S. Department of Agriculture to make the series comparable (See U. S. Department of Agriculture, Sugar Reports).

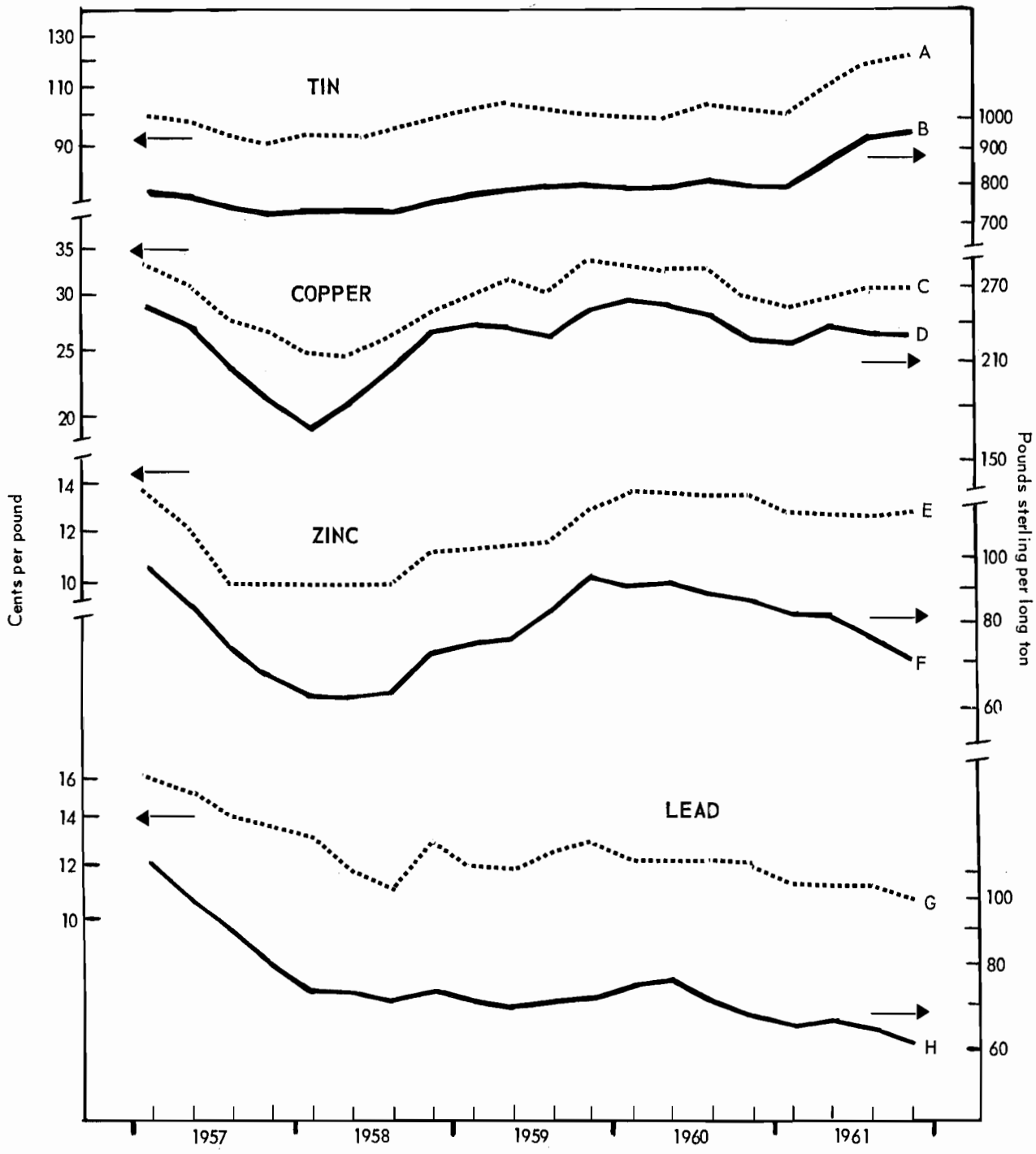
F. Cash prices, in New York, for exports to the world market (except the United States), raw sugar, f.o.b. Cuban port, according to Contract No. 4 of the New York Exchange, to 1960. Beginning with 1961, prices in New York according to Contract No. 8, raw sugar, for export to the world market (except United States), f.o.b. Caribbean ports.

G. Contract price according to the Sugar Agreement of the British Commonwealth.

H. Prices c.i.f. of Argentine wheat in the United Kingdom.

Graph II

INTERNATIONAL PRICES OF NONFERROUS METALS



Source: United Nations, Monthly Statistical Bulletin

A. Import price, c.i.f. New York

B. Import price, cash, London

C. Domestic price, f.o.b. refinery in New York, by electrolytic process, in bars and ingots.

D. Import price, cash, ex warehouse London, eletrolytically refined bars.

E. Domestic price, in New York, Prime Western zinc.

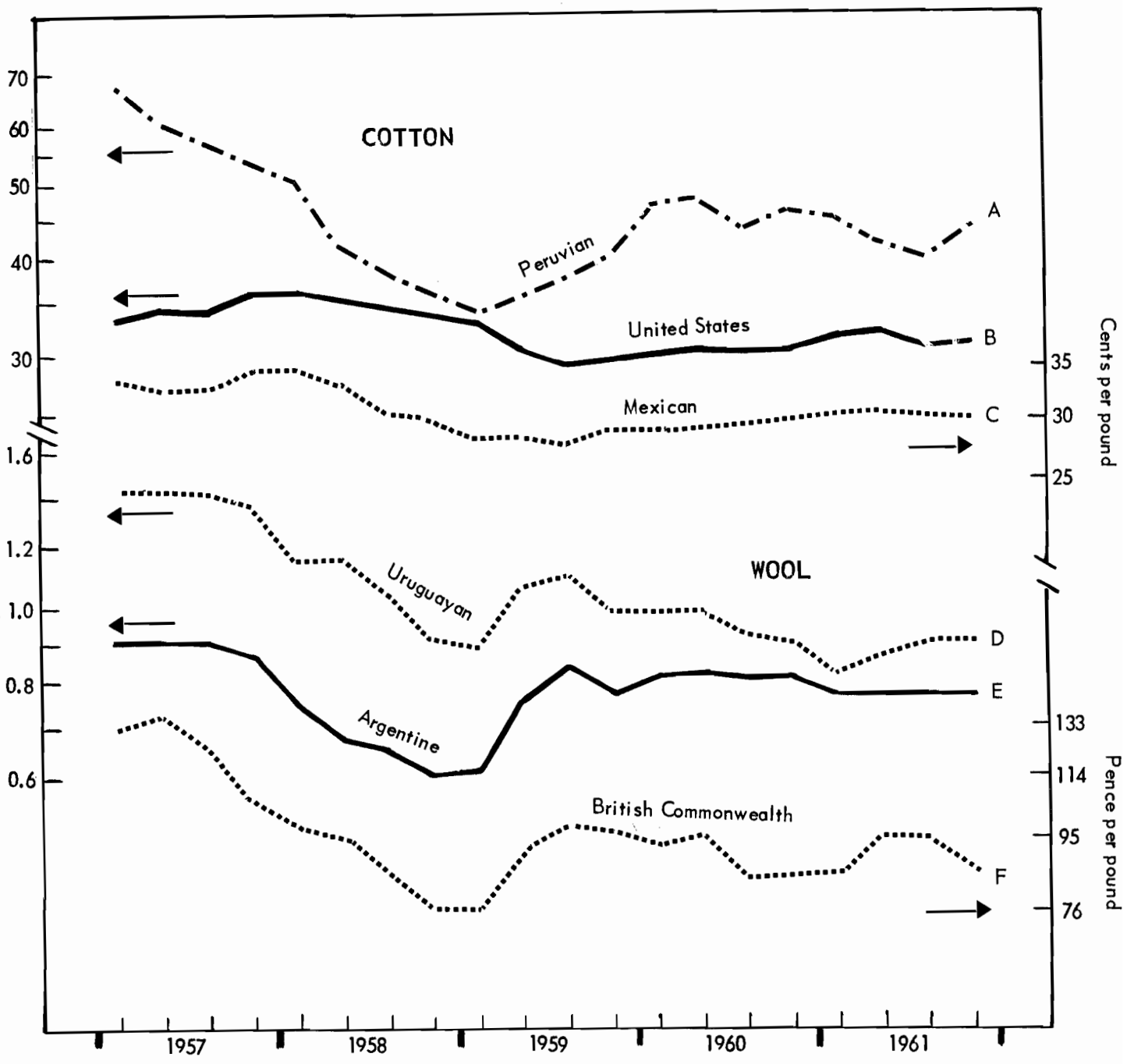
F. Import price, cash, ex warehouse London, zinc of 98.75 per cent purity.

G. Domestic price, New York.

H. Import price, cash, ex warehouse London, lead of 99.97 per cent purity.

Graph III

INTERNATIONAL PRICES OF NATURAL FIBERS



Source: United Nations, Monthly Statistical Bulletin; International Cotton Advisory Board, Quarterly Bulletin

A. Pima cotton, No. 1, from Peru, prices c.i.f., average weekly quotations for shipment during the following 3 months.

B. "US Memphis Territory" cotton, SM-1-1/16", prices cash, c.i.f. Liverpool.

C. Mexican Matamoros cotton, SM 1-1/32", prices cash, c.i.f. Liverpool.

D. Import price, Boston, Uruguayan wool 58's -60's, scoured.

E. Import price, Boston, Argentine wool 40's - 36's, scoured

F. Import price, c.i.f., based upon quotations of the wool auctions in the United Kingdom and the Dominions, Merino 64's, scoured

In view of the somewhat limited results achieved by international agreements on products, attention has been diverted to studying measures which might effectively moderate the effects of instability. The proposals made by a group of United Nations' experts are of this nature.[4/] They suggest the creation of a fund to make compensatory payments or loans to countries whenever their export receipts are lower than those of a base period. This system of compensatory financing is not, of course, intended to take the place of, but rather, to complement, a price stabilization policy based on international agreements on products. Its justification lies in the fact that one of the most unfavorable consequences of the instability of the market for primary products is the uncertainty it creates as to the level of foreign exchange receipts, which, in turn, hinders the programming of long-term investments.[5/]

This idea of compensatory financing was also set forth in one of the documents adopted by the Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level, held in Punta del Este, Uruguay, in 1961,[6/] in which the member governments unanimously agreed to entrust to a group of government experts the preparation of a draft on this matter.[7/]

This background serves, on the one hand, to illustrate the importance the problem of instability in the international market for basic products has taken on, and on the other, to point out the degree of agreement that has been reached regarding the kinds of measures required to reduce its causes and to mitigate its effects. The evolution of the market for basic products in 1960-61 has made it more urgent not only to find new formulas for international cooperation, such as the compensatory system proposed, but also to review and strengthen the international agreements that are now in force in this respect.

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4. See International Compensation for Fluctuations in Commodity Trade, United Nations, sales number 61.II.D.3.

5. Op. cit., p. 13

6. See Latin American Export Commodities, OAS, Official Documents, Ser. H/X.1, July 1961

7. See Charter of Punta del Este, Title IV, Chapter II, "International Cooperation Measures." The meeting of this group of government experts took place in Washington during the first quarter of 1962, under the sponsorship of the OAS.

1. Coffee

After a two-year period of relative stability, international coffee prices showed a tendency in the second half of 1961, to drop to their lowest level since 1950. This tendency basically reflected on the one hand, the increase of exportable world production during the crop year July-June, 1961-62, and on the other, the delay in the negotiations being undertaken by the member countries of the present International Coffee Agreement to sign a new long-term agreement, which would include measures to solve the problem of the excessive accumulation of surpluses.[8/] As is known, the present agreement, renewed for another term ending in September 1962, is limited strictly to establishing a system of export quotas. This system has served to lessen the tendency toward price declines.

The problem of surplus production and accumulation of stocks has become increasingly serious. As a result of it, the ratio of stocks to exports rose from 49 percent in 1957-58 to 146 percent in 1960-61, in spite of the high level of exports during the last two years (see table I-5).

In general, since coffee is the largest Latin American export item, and in Brazil, Colombia, and El Salvador it accounts for more than 50 percent of total exports, fluctuations in its price have more serious and broader repercussions on the Latin American economies than do those of any other product. Given the amounts exported in 1961, each drop of 10 cents (U.S.) per pound in the price of coffee would cost the three aforementioned countries about US$320 million, of which some US$225 million would be lost by Brazil and about US$75 million by Colombia. Price fluctuations of this magnitude are not uncommon in the coffee market. Indeed, between 1957 and 1961, prices of Brazilian and Colombian coffee each fell more than 20 cents per pound.

8. At the end of December 1961, the Coffee Study Group released a draft a long-term International Coffee Agreement which proposes: a. a system of basic export quotas; b. regulations so that importing countries would limit their imports from countries that are not members of the Agreement; c. production goals, in order that producing countries may adjust their production to the amounts needed for domestic consumption, exports, and stocks; d. determination of minimum prices, taking into consideration the normal differentials between types, grades, and qualities of coffee; e. creation of an international fund to cooperate in the financing of agricultural diversification in the coffee-producing areas, in the reduction of stocks held by producer countries, and in other programs that the Council administering the Agreement may approve. This draft Agreement has been submitted to the interested governments for study.

/Table I-5

Table I-5

GREEN COFFEE: PRODUCTION, STOCKS, AND WORLD EXPORTS

(In millions of bags of 60 kilos each)

	1957-58	1958-59	1959-60	1960-61	1961-62 a/
Initial stocks:	18.2	27.4	40.4	63.1	64.2 b/
Percentage of variation:	4.0	50.5	47.4	56.2	1.7
Production:	55.0	61.7	78.8	66.1	74.7
Percentage of variation:	21.1	12.1	27.7	-16.1	13.0
Total supply:	73.2	89.1	119.3	129.2	138.9
Percentage of variation:	16.4	21.7	33.8	8.3	7.5
Exports:	37.3	39.0	43.8	43.2	...
Percentage of variation:	3.0	4.6	12.3	-1.4	...
Percentage of stocks over exports:	48.7	70.3	92.2	146.1	...

Source: George Gordon Paton, Complete Coffee Coverage, New York, January 16, 1962.

Note: Commercial years July-June. The percentages reflect the variation over the previous commercial year.

a. Preliminary estimates.
b. Deducting 8 million sacks destroyed in Brazil.

With reference to demand on the part of importing countries, the evolution of the international market has also shown a tendency toward stagnation. Although the total volume of world imports increased 13 percent in 1959, import levels during 1960 and 1961 remained almost stationary, and in the United States --the world's major consumer-- imports in 1961 declined below those of 1959 (see Table I-6). It must be pointed out, however, that a large part of the 1959 increase in

/world imports

world imports went to replenish stocks, which had declined considerably in the second half of 1958.[9] It should be emphasized that per capita consumption in the United States did not increase throughout the period 1950/1960, in spite of the fact that per capita personal income rose between the beginning and the end of that period from $1,491 to $2,242, while coffee prices at the consumer level dropped from 79.4 to 67.2 cents (U.S.) per pound.[10] It therefore seems doubtful that the demand for coffee will increase to any great extent in response to a further lowering of prices; so a decline in prices will only lead to a corresponding decline in the foreign exchange receipts of the exporting countries.

During the post-war period, European imports have been increasing almost without interruption. Until recently, however, that increase represented only the re-establishment of the pre-war levels. Considering the area as a whole, the most important increases took place in 1959 and 1960, years in which total imports exceeded those of the immediately preceding year by 14 and 10 percent respectively.

Two points relating to European demand are worth noting: the first concerns the taxes levied by some European countries on the importation and/or consumption of coffee, the existence of which is undoubtedly an important factor in the slowness of the increase in demand. It is reasonable to suppose that the gradual reduction of these taxes could help bring about a substantial increase in coffee consumption, particularly if it is remembered that per capita consumption in the European countries is lower than in the United States. A study made of this matter with reference to price levels and taxes in 1958 showed that France, the Federal Republic of Germany and Italy would increase their importation of coffee by 3.5,

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9. Coffee stocks in bean form, in the United States at the end of each period were as follows (in thousands of bags):

	1957	1958	1959	1960	1961
March	3 447	2 307	2 410	2 857	2 965
June	2 881	2 349	2 278	2 931	3 145
September	2 324	1 826	3 271	3 440	3 211
December	2 959	2 114	3 370	3 204	2 815

10. See G. Gordon Paton, Coffee Annual 1960, and Complete Coffee Coverage, New York, April 28, 1961

/Table 1-6

Table I-6

COFFEE--WORLD IMPORTS: TOTAL AND SELECTED COUNTRIES

	(Millions of sacks of 60 kilos)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
Total	36.9	100.5	113.3	114.9	119.0
United States	20.9	96.6	111.0	105.7	107.2
Canada	0.8	112.5	125.0	125.0	137.5
Latin American countries b/	0.7	114.3	71.4	85.7	100.0
Federal Republic of Germany	2.6	103.8	115.4	126.9	134.6
France	3.2	100.0	106.3	109.4	106.3
Italy	1.3	107.7	107.7	130.8	130.8
Belgium-Luxemburg	0.8	112.5	125.0	137.5	125.0
Netherlands	0.6	116.7	133.3	150.0	183.3
Sweden	0.9	111.1	122.2	133.3	144.4
Norway	0.4	100.0	100.0	125.0	100.0
Finland	0.5	80.0	120.0	120.0	120.0
United Kingdom	0.7	100.0	128.6	128.6	142.8
Other countries-Western Europe	1.5	126.7	133.3	146.7	166.7
Total, Western Europe:	12.5	106.4	116.8	127.2	132.0
Countries of centrally planned economy	0.5	100.0	140.0	180.0	200.0
Others	1.5	93.3	120.0	126.7	146.7

Sources: Pan American Coffee Bureau, Coffee Statistics (various issues); G. Gordon Paton, Complete Coffee Coverage, op. cit.

a. Preliminary estimates.
b. Argentina, Chile, and Uruguay.

/4 4, and

4.4, and 9.1 percent respectively, if taxes on coffee in effect in each country were lowered by 50 percent.[11] The decline of prices in 1959 and 1960 and the increase of imports in the majority of the European countries during those years are an example of the expansion of the market accompanying a reduction in consumer prices.[12] Since, however, the decline of international prices of coffee has been excessive for exporters, the outlook for greater reductions to consumers depends to a great extent on the elimination of duties and taxes on imports.

The other point is not related to the total growth of European imports, but to that portion of them that comes from Latin American countries. The countries forming the European Common Market, the chief importers of coffee in that area, have agreed to give preferential treatment to imports from associated overseas countries and territories, and the Treaty of Rome provides for an external tariff of 16 percent on imports from other sources.

In 1959, through negotiations in the GATT, that rate was reduced to 13 percent. In July 1961, the Commission of the Community proposed to lower it to 8 percent, but to date this recommendation has not been carried out.[13] Since the beginning of 1962, the discriminatory aspects of the Treaty of Rome have begun to be put into effect in almost all the countries of the EEC. Belgium, Luxemburg, and the Netherlands, which had no customs duties on coffee, established a tariff of 4.8 percent. Italy, for its part, raised the specific tax on imports from "third countries" from 65 to 75.8 lira and reduced it from 65 to 45.5

11. See article on Taxes on Coffee and on Consumption in the Importing Countries, FAO Monthly Bulletin of Agricultural Economics and Statistics, September 1960.
This study also showed that the Federal Republic of Germany in 1958 charged a 38-cent import tax, plus an 82-cent domestic tax on each $1.30 per kilo unit value of importation. Italy charged an import tax of 10 cents and a domestic tax of $1.10 on an import unit value at $1.02. In July 1961, the Commission of the Community recommended the gradual elimination of the domestic taxes. If the recommendation is accepted, elimination of domestic taxes will be achieved by 1965.

12. The sharp decline in international prices from those of 1956-57 is also the reason for the extremely low estimates made in a study on the growth of coffee imports by the member countries of the European Common Market from 1956 on: 10.2 million bags was the estimate for 1965, but by 1960 imports had already reached 10.5 million. See Coffee and the European Common Market, special report prepared by the Economist Intelligence Unit of London and published by the Pan American Coffee Bureau, New York, 1958.

13. It should be pointed out now that the Community has reached a preliminary agreement to lower the common external tariff to 12 percent, with another provisional reduction of 2.4 percent. Therefore, when the tariff enters into force in January 1963, it will be 9.6 percent. (See The New York Times, June 23, 1962)

/lira on imports

lira on imports from associated territories.[14] In France, where tariff discrimination is less important than import quotas, the rates are now 18 and 14 per cent respectively. The German specific tax was reduced to about 16 percent without discrimination. If this new discriminatory treatment is not modified, it is possible that a substantial part of the future increase in imports by that group of countries may come from African producers.

Table I-7

GREEN COFFEE: WORLD EXPORTS, BY SELECTED COUNTRIES AND AREAS

	Millions of bags of 60 kilos	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Brazil	14.319	90.0	121.8	117.5	118.5
Colombia	4.824	112.8	132.9	123.1	117.4
El Salvador	1.399	95.9	96.4	84.2	102.3
Guatemala	1.060	113.7	130.7	125.4	118.4
Mexico	1.480	88.6	83.8	93.5	100.2
Other Latin American countries	4.253	86.6	76.8	89.3	81.9
Total, Latin America	25.936	99.8	119.9	117.4	116.8
Total Africa	8.641	101.5	110.9	127.1	132.0
Others	1.609	115.5	82.4	88.1	
World total	36.186	100.9	116.1	118.4	120.7
Percentage of world total:					
Latin America	71.7	70.9	74.0	71.1	69.4
Brazil	39.6	35.3	41.5	39.3	38.9
Colombia	13.3	14.9	15.3	13.9	13.0

Sources: U.S. Department of Agriculture, Foreign Agricultural Circular, FCOF 2-61, July 1961; G. Gordon Paton, Complete Coffee Coverage, New York, April 2, 1962.

14. These taxes, however, affect only imports in excess of those of 1959.

/World coffee

World coffee demand increased considerably in 1959 and has continued to advance over the last two years, though at a lower rate. As the largest producing area, Latin America in 1959-61 exported substantially more than it had in previous years (see Table I-7). Nevertheless, the relative position of Latin America's exports among world exports has persistently deteriorated. In fact, in 1950, 83 percent of all world exports came from Latin America, while in 1960 and 1961, they represented only 71 and 69 percent, respectively.

The increased consumption of soluble coffee, for which inferior grades are used, is one of the factors that favors African exports. These are mostly of the Robusta variety, which is lower in price than the Arabica cultivated in the Latin American countries. The decline in prices of African coffee in 1960 and 1961 was proportionally greater than the decline in prices of the Latin American types, and this seemed to favor an increase in exports of the former.[15/] Furthermore, although the principal African producers have already adhered to the International Agreement, the application of the quota system according to that instrument does not cover all exports, because of the special treatment accorded to territories or countries that are considered associated with Belgium, France, Portugal, and the United Kingdom.

After the increase of total Latin American coffee exports in 1959, the amount exported in 1960 and 1961 showed a slight decline, particularly on the part of the two most important producers: Brazil and Colombia (see again Table I-7). The Central American countries, some of which do not have sufficient funds or the institutions necessary to take effective action in their respective domestic markets, are at present negotiating for the creation of a special fund that would help them to finance a withholding system capable of mitigating the seasonal fluctuation of their exports and thus contribute to the stability of external prices.[16/]

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15. If the prices of two basic grades of coffee--Santos No. 4 of Brazil and Native No. 10 of Uganda--are compared, it will be seen that the percentage that the African coffee price is to the price of Brazilian coffee substantially declined in recent years, and consequently the competitive position of African coffee improved.

Prices, U.S. cents per pound:	1958	1959	1960	1961
Santos No. 4	48.4	37.0	36.6	36.0
Native Uganda	37.6	28.7	20.2	18.5
Price of Uganda as a percentage of Santos price	77.7	77.6	55.2	51.3

16. The creation of the aforementioned fund was approved at the Special Meeting of the IA-ECOSOC at the Ministerial Level, held in Punta del Este, Uruguay, in 1961.

2. Beef

After having fallen approximately 5 percent at the beginning of 1961, the price of beef on the international market remained close to the new level. During the last four years, the beef market has been subject to a persistent imbalance between supply and demand. Although recently prices have fluctuated less, the outlook for the market is not very encouraging, in view of present restrictions and the possibility that these may be intensified in the future. The disequilibrium of the market started in 1958 with the decline in production and export of United States and Canadian meat. In 1959, this trend spread to the chief exporting countries of Western Europe, Latin America, and Oceania (Australia and New Zealand), causing a considerable fluctuation and a rise of 24 percent in the international quotation over that of 1957. This level was maintained in 1960, in which year the supply of meat increased somewhat, due to the fact that the exporting countries of Western Europe and the principal importing countries regained their former production levels. Meat available for export in Latin America and Oceania increased to a lesser degree. It was only in 1961, however, that increases in meat production in the importing countries and in the supplies available for export from Latin America and Oceania made possible a continuous supply, although at lower prices. (See Graph I-IV, page 35.)

The changes described were accompanied by a considerable shift in the sources of me supply, and, consequently, in the pattern of international trade of the product. Aided by an intensification of the cattle trade between the European countries, meat supplies in Western Europe increased, so that in 1960 and 1961, there was a sharp drop in purchases from Latin America. This change did not affect Oceania, which found a ready market in the United States, but it did affect Latin America, especially Argentina and Uruguay, which may find it difficult to market their exportable surpluses in 1962.

Up to 1957, international trade in beef consisted chiefly of the chilled or frozen product, whereas that in cattle on the hoof for slaughter was of small importance. In the period before 1957, the United Kingdom and continental Europe supplemented their deficient production with imports of meat from South America, and to a lesser extent, from Oceania, whereas the United States did this by importing cattle on the hoff from Canada and Mexico. In 1961, imports from the areas mentioned on the part of the United Kingdom and continental Europe declined sharply, the former by 52 percent and the latter by approximately 43 percent. In the U.S. market, in

/contrast

contrast, imports of meat increased from 57 000 tons in 1957[A] to 268 000 tons in 1961, an increase that chiefly benefitted Oceania and the new exporting countries in Central America.

The factors that have brought about these changes in the international market are related to regional variations in meat production and to the trade policy followed within continental Europe by the importing countries of the European Economic Community.

After the decline in 1959, world production in 1960 and 1961 exceeded that of 1957 by 3 and 6 percent, respectively. (See Table I-7-a.) This recovery, however, has not been general. In 1961, whereas the production of the United Kingdom and of the European Economic Community exceeded that of 1957 by 10 and 20 percent, respectively, production in Latin America and Oceania is still below that of 1957. The increases in Europe were not based exclusively on domestic cattle, but in part on the significant volume of trade in cattle on the hoof. The United Kingdom, for example, increased its purchases of fattened cattle (chiefly from Ireland) from 50 000 head in 1957 to 254 000 head in 1961,[B] while those of the European Economic Community increased more than 15 percent in the same period. The internal trade of the Community also grew rapidly, the number of head of cattle imported from countries within the Community increasing eightfold. (See Table I-7-b.)

These events have had a particularly unfavorable effect upon Argentine exports. It should be explained here that exports from Argentina (and this is also true of those from Uruguay) consist of chilled and frozen meat that competes directly with fresh meat. In contrast, Australia and New Zealand export large quantities of meat of kinds inferior to the U.S. Choice grade.[C] While faced with reduced European purchases, these countries have been able to direct their exports to the U.S. market,

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A. According to direct information from the U.S. Department of Commerce, because of the sampling system used in that year in U.S. import statistics, this figure might be somewhat larger.

B. These figures refer to "Fat Cattle"; see The Commonwealth Economic Committee: Intelligence Bulletin, Feb. 1962, London. They differ from those presented in Table I-7-e, which refer to total cattle.

C. U.S. Department of Agriculture: Australia's Livestock Industry, May 1962, and Recent Trends in New Zealand's Livestock Industry, June 1962, Washington, D.C.

/Table I-7-a

Table I-7-a

PRODUCTION OF BEEF IN SELECTED AREAS AND COUNTRIES

	Thousands of tons	Indices: 1957 = 100			
	1957	1958	1959	1960	1961a/
North America	7 794.0	92	92	100	104
Canada	652.9	91	88	96	101
United States	7 141.1	92	93	101	104
Western Europe	4 970.1	101	101	108	116
Denmark	194.2	98	76	79	78
United Kingdom	835.3	99	87	100	110
Yugoslavia	142.9	96	110	109	...
European Common Market	3 064.0	101	105	111	120
Belgium and Luxembourg	171.5	118	120	123	120
France	1 307.2	97	96	104	115
Fed. Rep. of Germany	927.9	105	107	108	111
Italy	444.6	102	121	129	154
Netherlands	212.8	101	103	114	113
Other countries	733.7	104	109	112	116
Eastern Europe	646.0	123	128	143	...
Czechoslovakia	178.0b/	98	99	121	124b/
East Germany	144.0b/	97	117	131	136b/
Poland	244.1	124	127	137	139b/
Other countries	79.9	221	219	236	...
Soviet Union	1 996.4	107	120	120	116
Africa	326.2	148	150	157	163
Oceania	1 086.2	104	100	85	90
Australia	815.3	106	105	84	90
New Zealand	270.9	99	88	88	93
Latin America	5 195.7	104	86	91b/	92b/
Argentina	2 500.9	102	71	76	80
Brazil	1 319.0	104	96	103	102
Chile	120.3b/	117	122	126	125
Colombia	310.8	111	96	99	103
Cuba	184.7	99	108	...	...
Guatemala	30.0	103	103	110	...
Mexico	402.0	112	100	102	106
Paraguay	108.4	104	95	83	83
Uruguay	219.6	106	118	146	123
TOTAL	22 014.6	101	98	103	106b/

Source: U.S. Department of Agriculture: Foreign Agriculture Circular, September 1, 1959, and and Foreign Crops and Markets, World Summaries, various issues.

Note: The over-all total and the total for each region represent the sums of the production of the countries listed.

a. Preliminary.
b. Partly estimated figures.

/Table 1-7-b

IMPORTS OF BOVINE CATTLE BY SELECTED COUNTRIES, BY AREA OF ORIGIN, 1957-1961
1957 IN THOUSANDS OF TONS OF MEAT EQUIVALENT; INDICES 1957 = 100

	Latin America	Mexico	Western Europe Total	EEC	Others[d]	Eastern Europe	United States	Canada	Others	Total
United States[a]										
1957	67.2	67.2	-	-	-	-	...	69.6	-	136.8
1958	142.3	142.3	-	-	-	-	...	190.5	-	166.8
1959	104.8	104.8	-	-	-	-	...	98.6	-	101.6
1960	119.0	119.0	-	-	-	-	...	78.4	-	98.4
1961	160.7	160.7	-	-	-	-	...	145.4	-	152.9
United Kingdom[b]										
1957	-	-	161.2	-	161.2	-	...	-	-	161.2
1958	-	-	78.9	-	78.9	-	...	-	-	78.9
1959	-	-	57.9	-	-	-	...	-	-	57.9
1960	-	-	62.4	-	-	-	...	-	-	62.4
1961	-	-	-	-	-	-	...	-	-	-
European Economic Community[c]										
1957	-	-	105.0	5.4	99.6	13.2	...	-	0.4	118.6
1958	-	-	97.5	107.4	96.8	113.6	...	-	500.0	95.8
1959	-	-	112.4	370.4	98.4	128.8	...	-	700.0	116.2
1960	-	-	130.5	614.8	104.2	212.1	...	-	1 050.0	142.7
1961	-	-	145.5	803.7	109.8	118.2	...	-	1 700.0	147.7

Sources: Commonwealth Economic Committee: Intelligence Bulletin, London, April 1962; Institut National de Statistique: Bulletin mensuel du commerce exterieur de l'Union économique belgo-luxembourgeoise, Brussels; Direction Générale des Douanes et droits indirects: Tableau general du commerce exterieur, 1957, 1958, Paris; Istituto Centrale de Statistica: Statistica annuale del commercio con l'estero, Rome, 1957; Central Bureau voor de Statistiek: Maandstatistiek van der in---, uit--- en doorvoer per goederensoort, Amsterdam; Commissioners of H.M. Customs and Excise: The Trade of the United Kingdom, vol. II, 1957, 1958, 1959, 1960, 1961, London; United States Bureau of the Census: Report FT110, United States Imports of Merchandise for Consumption, Commodity by Country of Origin, 1957.

a. It was not possible to distinguish by origin the animals imported for breeding or slaughter and dairy cows.
b. Excludes dairy and breeding cows.
c. Includes dairy and breeding cows.
d. Includes Yugoslavia.

/where in

where in the years studied the demand for meat for processing purposes has exceeded production. (See Table I-7-c.) Thanks to the opening of this new market, it has been possible for them to maintain a comparatively stable volume of exports, in spite of a decline between 1957 and 1961 of 77 percent in sales to the United Kingdom and of 80 percent in those to the European Economic Community.

For the reasons explained above, and because of sanitary restrictions placed by the United States on the importation of meat, meat from Latin America has been especially affected by the trends in the production of fresh meat and in the trade of Western Europe. In that area, the chief market for meat from Latin America is the United Kingdom. In that country, the increased imports of fattened cattle resulted in stable meat production between 1957 and 1960, except for a decline in 1959. Per capita consumption of beef, however, declined from 54.4 pounds in 1957 to 47.9 pounds in 1960, that is, 12 percent. This was in part due to increased consumption of meats of other kinds.

Consequently, imports of beef declined from 453 000 tons in 1957 to 347 000 tons in 1960, or a total of 24 percent. The reduction in imports from Latin America was less: 11 percent with reference to total meat imports. Imports of chilled meat, however, dropped 17 percent, a reduction caused not only by greater production, but also by increased purchases of fresh meat from Ireland.

In 1961, imports of the United Kingdom dropped 20 percent more, although consumption, estimated at 49.6 pounds per capita, showed an increase of between 4 and 5 percent. This time, imports from Latin America declined by 27 percent, chiefly because of a drop of 61 000 tons in purchases of refrigerated meat. Although it is true that much of this drop was because of the increased production in 1961 (10 percent above that of 1960), another contributing factor was the increase in purchases from Ireland and Yugoslavia, which amounted to 30 000 tons of fresh and refrigerated meat.

In the countries that make up the European Economic Community a similar situation has prevailed, i.e., the substitution of imports of cattle for those of meat and increased purchases from areas other than Oceania and Latin America. In this case, however, the meat trade is more complex, owing to the differences between the internal trade of the six countries of the Community and the trade of the Community with the rest of the world.[D/]

D. For a detailed analysis of the special problems of this trade, see Exports of Meat from Argentina and Uruguay to the Countries of the European Common Market, OAS Special Committee on Basic Products, Doc. 11, July 1962, Washington, D.C.

/Table I-7-c

Table I-7-c

IMPORTS OF BEEF (FRESH, CHILLED, AND FROZEN)[a] BY SELECTED COUNTRIES, BY AREA OR ORIGIN, 1957-61

(1957 in thousands of tons; indices 1957 = 100)

	Latin America	Argentina	Brazil	Mexico	Uruguay	Central America	Others	Western Europe Total	Western Europe EEC	Western Europe Others[b]	Eastern Europe	Australia	Canada	New Zealand	United States	Others[c]	Total
United States																	
1957	6 990	398	-	5 840	-	337	415	3 674	-	3 674	-	2 471	21 506	22 682	-	-	57 323
1958	536.2	168.3	-	572.6	-	431.7	459.9	293.1	-	293.1	-	306.2	112.1	363.9	-	-	283.4
1959	478.8	-	-	376.9	-	2 360.1	825.1	539.2	-	539.2	-	4 106.2	47.1	321.8	-	-	414.8
1960	477.2	-	-	303.2	-	3 869.9	628.0	578.9	-	578.9	-	2 462.6	39.5	261.3	-	-	327.4
1961	573.7	27.6	-	412.4	-	4 142.5	468.3	773.9	-	773.9	-	4 253.8	67.7	308.6	-	-	450.4
United Kingdom																	
1957	262 924	255 473	299	-	7 152	-	-	4 063	1 326	2 737	-	130 026	-	55 358	-	416	452 787
1958	96.4	98.6	125.4	-	19.1	-	-	121.7	149.5	108.2	-	94.0	-	24.8	-	166.1	87.5
1959	81.9	81.6	197.9	-	90.3	-	-	248.9	249.1	248.7	-	82.7	-	0.1	-	2 397.9	77.3
1960	88.9	78.6	255.1	-	448.9	-	-	451.9	236.2	556.5	-	48.9	-	36.6	-	3 027.1	76.7
1961	65.1	58.8	401.3	-	277.4	-	-	1 265.7	231.3	1 776.7	-	24.4	-	21.4	-	4 094.6	62.6
European Economic Community																	
1957	90 142	64 835	9 405	-	15 902	-	-	88 300	31 700	56 600	1 833	2 193	-	12 511	-	6 721	201 700
1958	80.1	95.5	209.3	-	25.2	-	-	102.4	104.9	101	110.5	28.6	-	35.3	-	34.5	92.1
1959	84.3	100.1	172.3	-	56.2	-	-	118.7	184.4	81.9	141.6	18.6	-	6.2	-	81.9	101.4
1960	66.1	86.3	36.9	-	92.3	-	-	185.0	297.8	121.8	458.4	38.4	-	30.1	-	65.3	124.7
1961[d]	73.0	101.8	25.3	-	62.9	-	-	108.7	258.6	17.3	109.1	...	-	...	-	...	91.2

Sources: The same as Table I-7-b

a. This heading corresponds to the standard International Trade Classification (SITC) whose section for food, Chapter 01, Group 1, covers "meat: fresh, chilled, or frozen."
b. Includes Yugoslavia.
c. Principally African countries.
d. Provisional.

/The internal

The internal trade of the Community has developed intensively; between 1957 and 1961, imports of cattle increased eightfold, and those of meat two-and-a-half times. These increases seem to be due both to the preferential treatment accorded the two meat exporting countries within the Community--France and Holland--and to the trade in certain qualities of meats that had previously been in surplus in some countries. Thus, for example, France imports kinds of meat that she herself does not produce in sufficient quantity, and simultaneously exports others, of which she has a surplus, according to the preference of her consumers. With some differences, a similar situation is true with reference to the cattle trade, which increased sharply when Germany lifted the sanitary restrictions that she had imposed on the importation of French cattle.

This specialization of the market for meat has made it possible for the Community to expand the production of meat in accordance with consumer habits in the various countries. Production increased by 20 percent between 1957 and 1961, during which period the population increased by 4 percent.

The cited rise in production also partly reflects a tendency that began about the middle of the past decade and that has been accentuated by the greater tariff protection given to milk.[E/] This gave an incentive for the continued growth of European herds, in which dairy cattle predominate. In addition to the increase in cattle raising, other factors influencing the growth of production and the resulting decline in meat imports from Oceania and Latin America included increased economic efficiency in the cattle trade within the Community and increased imports of cattle from the European countries. (See Table I-7-b.)

The net imports of meat from areas outside the Community give evidence of the displacement of Oceania and Latin America as suppliers. In the years 1958-60, these imports remained at a level 12 percent lower than that of 1957, whereas inter-regional imports increased. In 1961, however, the general increase in cattle herds, plus the fact that Italy made a substitution in its imports from Denmark, importing meat instead of cattle on the hoof, caused a sharp decline that reduced the level by

E. See United Nations, Economic Survey of Europe in 1960, Chap. III, p. 25, United Nations 1962.

/40 percent

40 percent from that of 1957. (See Table I-7-d.) Latin America has borne only part of this decline, as will be seen later in studying its two principal markets in the Community, whereas the trade of other non-European areas declined more than the average.

The situation and outlook for Latin American meat in the Community basically depend upon prevailing conditions in the German and Italian markets. In 1957, the Federal Republic of Germany and Italy respectively purchased 78 and 32 percent of their total meat imports,[F] from Latin America. By 1961, with respect to West Germany, this percentage had gone down to 34 percent, whereas Italy's percentage remained stable, with only slight variations, until 1960--that is, until one year before the radical change was made in its cattle and meat trade with Denmark.

In the case of West Germany, the decline noted above represents a 45 percent reduction in imports from Latin America. Net imports from all sources have fluctuated considerably, having gone down from 46 700 tons in 1957 to a low of 7 300 tons in 1958. In 1959 and 1960, imports practically regained the 1957 level, and in 1961, they reached 72 900 tons. In those years, Germany's meat trading position with respect to the rest of the countries of the Community changed considerably. From having been a net exporter in 1957 and 1958 (see Table I-7-e), it became a strong and growing importer in 1960 and 1961. Between 1957 and 1960, this change of position represented a volume of meat imports that equalled the reduction of 23 000 tons in purchases from Latin America. This did not happen with imports from European countries outside the Community, which regained the 1957 level after the European cattle crisis of 1959.[G]

In general, the geographical changes in the German meat trade partly resulted from the quantitative controls applied to meat exports and imports by the German Government's Office of Food Reserves. This office, which is responsible, among other things, for protecting German cattle raisers from excessive price fluctuations, established fixed and supplementary quotas (the latter according to variations in supply and demand) upon imports of both cattle and meat. Since Germany has signed

F. That is, without excluding exports.

G. In some European countries of significance in this case, the crisis began in 1958.

/Table I-7-d

Table I-7-d

EUROPEAN ECONOMIC COMMUNITY

PRODUCTION AND IMPORTS OF BEEF

(Thousands of tons)

	Production		Imports of meat[b]	
	Total[a]	From imported cattle[b] [c]	Total	From Latin America
1957	3 064	113	170	90
1958	3 110	114	152	86
1959	3 203	118	146	90
1960	3 391	136	157	70
1961	3 670	132	100	78

Sources: The same as Tables I-7-a, I-7-b, and I-7-c.

a. The increase is slightly exaggerated because of double counting of French exports of animals on the hoof.

b. Excludes trade between the countries of the Community.

c. In their meat equivalent.

Table I-7-e

Federal Republic of Germany

PRODUCTION OF AND FOREIGN TRADE IN MEAT, FRESH, CHILLED, AND FROZEN

(Thousands of tons)

	Production		Net imports or exports (-) of meat			
	Total	From imported cattle[a]	Total[b]	Latin America	EEC	Rest of Europe
1957	927.9	76.7	46.7	42.1	- 5.1	5.5
1958	974.6	99.3	7.3	20.5	-10.8	- 2.4
1959	990.0	115.5	38.7	36.5	0.6	0.9
1960	998.0	123.5	44.8	18.5	18.2	4.5
1961	1034.0	118.5	72.9	23.1	43.6	6.0

Sources: The Commonwealth Economic Committee; Intelligence Bulletin.

a. Meat equivalent of the imported animals over one year of age. The equivalence was obtained from: European Economic Community: Growth of production of beef in the countries of the European Economic Community [not official title], Brussels, 1961. The meat equivalent per animal for 1959, the last shown in that publication, was used for the years 1960 and 1961.

b. Includes trade in meat with other areas, in addition to those indicated.

/bilateral

bilateral treaties with its European meat suppliers, among which Denmark and Ireland are most important, the bidding system for additional quotas has affected the Latin American exporters in a quasi-discriminatory manner, and, in part, it accounts for the recovery in the volume of purchases from other European suppliers.

Italy, the other principal importer of Latin American meats in the European Economic Community, increased its beef production more than any of the other five member countries. This increase must be largely attributed to the massive importation of cattle on the hoof, which began in 1959. By 1960, beef production had increased 29 percent over 1957, but since this still did not satisfy the growing demand, imports also increased by 36 percent. In 1961, however, the drop that started in domestic cattle prices led in the last quarter of the year to the temporary prohibition of importation of cattle and adoption of a policy restricting the importation of beef. The latter dropped in 1961 by 61 percent; not so imports of cattle, which exceeded those of the year before, and thereby contributed to a 19 percent increase in meat production.

Until 1961, Italian meat imports from Latin America remained higher than they had been in 1957. Since 1958, however, they have declined persistently, and have had no share in the increases in total meat imports in 1960, in which year Italy significantly expanded its purchases from France and Denmark.

The conditions that prevailed in the Italian market for meat during 1961 lead us to believe that a period may have begun during which the demand for beef production which now shows some abatement is being increasingly satisfied with domestic cattle.[H/] On the basis of the incomplete information available, the increase in the total or per capita apparent consumption of beef and lamb in 1961 was considerably less than it had been in any of the last four years. If this situation does prevail and were to persist, it would have unfavorable repercussions upon purchases from Latin America, which in 1961 supplied two thirds of all Italian meat imports.

Since 1957, the situation of the market for meat in the United States has been characterized on the one hand, by the decline in slaughter of domestic cattle in 1958 and 1959 and its rapid rise in 1960 and 1961, and on the other, by the larger increase in the demand for frozen meat for processing than in that for fresh meat.

H. Based principally on family budgets, the coefficient of the elasticity of demand in relation to income for all Italian meats was double the average coefficient of the European Economic Community and greater than that of any other country in Europe. See: FAO, Agricultural Commodities Projections for 1970, Rome, 1962.

/The decline

The decline in domestic production in 1958 resulted in a simultaneous increase in the importation of cattle on the hoof and meat. In 1959, however, the cattle industry in the two U.S. sources of live-animal supply, Canada and Mexico, was adversely affected by climatic conditions, and the number of animals they could offer was greatly reduced. This made it necessary for the United States to raise its imports of beef to 237 000 tons, which amount represents a considerable increase over the 57 000 tons imported in 1957. Beef exports from the United States, which up until 1957 were about 32 000 tons annually, have been less than 4 000 tons since 1958.

In 1960 and 1961, the beef cattle industry found more favorable natural conditions, and the number of animals began steadily to increase. Domestic beef production, however, did not regain the per capita level of 1957, and there was, therefore, a renewed increase in imports of cattle on the hoof and meat in 1961.

Whereas the main suppliers of cattle on the hoof to the United States are Canada and Mexico, the large imports of meat have been principally from Western Europe, Oceania, and Central America, areas that not only have met most of the increase in import demand, but have also compensated for the reduction in purchases from Canada. Latin America, represented almost exclusively by Central America and Mexico has, with certain fluctuations, been able to keep up its contribution to U.S. meat imports. In this connection, the large increase in Central American meat has compensated for the relative decline in meat from Mexico. Despite the fact that the supply from the latter country increased from 5 800 tons in 1957 to 24 800 tons in 1961, in relation to the United States' total meat imports, it has declined from 10.1 percent to 9.6 percent. Chiefly, this is because most United States meat imports have been limited to the frozen product, generally for processing purposes.

This preference for forzen meat not only has an adverse effect upon Mexican exports, but also adds another limitation, in addition to the controversy over the sanitary restrictions imposed by the United States on meat from Latin America, to the efforts of the Latin American exporting countries to find markets to make up for those partially lost in Western Europe.

The outlook for 1962-63 is not encouraging. On the one hand, a significant increase is expected in Latin American supplies available for export, but on the other, it also appears that production in European importing countries will continue to expand without interruption. Furthermore, prior to November 1962, the Council of

/Ministers

Ministers of the EEC is to issue a regulation on a common agricultural policy with reference to meat. If the proposals of the Commission of the Community are accepted, there is serious danger that meat from "third countries," including those of Latin America, will be virtually excluded from the market of the Community. To a great extent, this will depend upon the internal prices, "guide prices," that the Community establishes, since these, in turn, will determine, in the short run, the duties on imports, and, in a longer run, the amounts produced and consumed in the Community. Until the details of the policy to be followed by the Community in these aspects are defined, Latin American beef producers have reason to fear the worst. Finally, there are grave doubts as to future sales to the United Kingdom in the event that country joins the European Common Market.

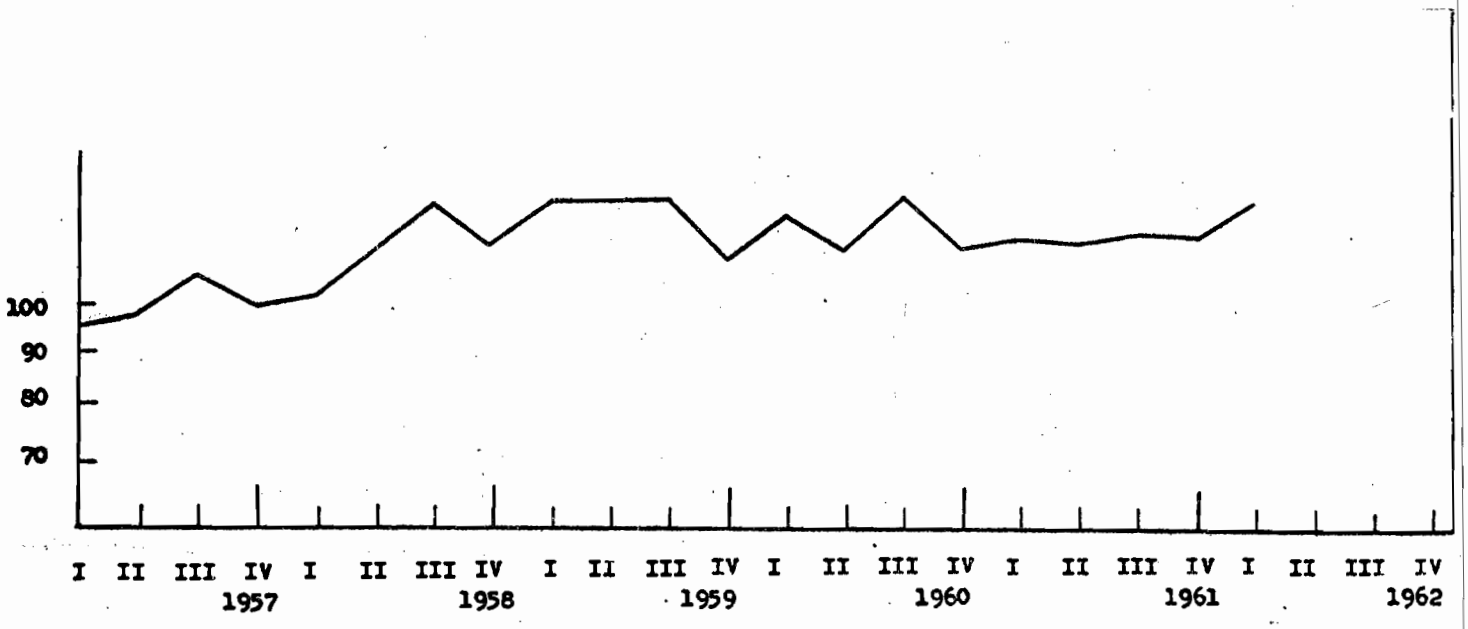
/Graph

Graph IV

INTERNATIONAL MEAT PRICES

Quarterly averages

1957 = 100



Source: United Nations, Montly Bulletin of Statistics, New York, several issues.

Note: The series covers the quotations, domestic and imported, for refrigerated hindquarters from Argentina.

3. Cacao

World production of cacao beans in the crop year 1960/61 reached a record 1.15 million long tons. This culminated a period of three consecutive years of increase, and represented a rise of 50 per cent over the 1957/58 total (see Table I-8). The evolution of prices in the international market in the period 1957-61 reflected successive phases of contraction and expansion in the total supply. Thus, for example, since production in 1957/58 had declined in relation to that of the previous year, the increase shown in 1958/59 represented only the reattainment of a previous level. In the two years following, world production continued to increase, whereas recuperation in world imports and consumption was slower.

The decline in world production in 1957/58 reflected solely the decline in African production. This contraction began to affect prices in the middle of 1957 and the price rise continued until August 1958. Within a little more than a year, the price of Bahía cacao in New York rose 50 per cent, or 42 per cent, if the annual averages for 1957 and 1958 are compared. Neither world imports nor world consumption of cacao beans were negatively affected in 1957; on the contrary, they reached the highest figures recorded since 1950. In 1958, however, the effects of rising prices made themselves felt: compared to the previous year, imports went down by 17.5 per cent and consumption by 7.2 per cent. This meant that stocks were being fully utilized; those of cacao beans in the consuming countries decreased by 25.4 per cent in 1958 (see again Table I-8).

The decline of prices of cacao beans from the levels reached in August 1958, continued practically without interruption until September 1961. On the one hand, this reflected the increases in world production, and on the other, the slowness with which world imports and consumption were recuperating. Although there was, in fact, a 15 per cent increase in world imports in 1959, part of these were allocated to replenishing inventories, and only to a small extent did this reflect an increase in consumption. Nevertheless, imports and consumption were still below those of 1957. In 1960, the volume of world imports reached a record level, but as in the previous year, part of the increase was allocated to stocks. The same tendency was still evident in 1961, even though it was apparent that consumption substantially exceeded 1957 levels.

Table I-8

CACAO BEANS: PRODUCTION, STOCKS, IMPORTS, AND CONSUMPTION, 1957-1961

	(1,000 long tons)	Indices: 1957/58 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62
World production	769	117.3	134.7	149.4	152.4
Africa	442	126.7	147.7	192.5	188.2
Latin America	300	104.3	117.0	89.3	101.3
Year-end stocks	**(1,000 long tons)**	**Indices: 1957 = 100.0**			
	1957	1958	1959	1960	1961
In consumer countries	261	74.6	86.0	115.3	160.7
Net imports:					
World total	786	82.6	95.4	107.5	...
Federal Republic of Germany	107	83.2	95.6	104.4	115.4
France	59	93.2	93.7	94.6	98.6
Italy	28	78.6	93.6	98.6	126.4
Netherlands	75	81.3	99.1	109.6	143.2
Spain	25	68.0	85.6	93.6	81.6
Switzerland	11	72.7	109.1	139.1	162.7
United Kingdom	95	90.5	81.3	97.2	89.6
United States	218	85.8	95.1	109.4	154.2
Total: 8 countries	618	84.9	92.8	104.6	126.9
World consumption of cacao beans	904	92.8	95.0	101.2	111.1
Federal Republic of Germany	104	85.6	90.4	102.9	115.4
France	62	87.0	79.0	83.9	96.8
Netherlands	77	83.1	94.8	107.8	124.7
United Kingdom	109	87.2	67.0	67.9	73.4
United States	232	88.8	87.1	92.7	103.9

Sources: Cocoa Statistics, Londres, Gill, and Duffus, September 1961. Cocoa Market Report, Londres, Gill, and Duffus, April 3, 1962.

/In the

In the final months of 1961, circumstances were once again propitious for a moderate rise in prices. On the one hand, world production estimates indicated a relatively small increase in 1961/62, owing to the reduction foreseen in African production. On the other hand, the chief producer and consumer countries, since the beginning of 1961, have been discussing the advisability of establishing an international agreement on cacao, which might make it possible to attain a certain amount of stability in international cacao quotations. During the middle of the year, a Special Committee of the International Study Group on Cacao presented a draft agreement.[17/]

It is difficult to anticipate the degree to which prices will recuperate during the coming months. In the last four months of 1961, the quotation on Bahía cacao in New York rose from 20.3 cents (U.S.) per pound --the lowest level of the year-- to 25.5 cents, an increase of 25 per cent. But the stocks that the consuming countries had on hand showed considerable increases in 1960 and 1961, and at the end of this past year, they were 60 per cent higher than they had been at the end of 1957. It is probable, therefore, that diminished production will have only a moderate effect on prices.

A little more than 50 per cent of the cacao in Latin America is produced by Brazil. Total production in Latin America showed small increases in 1957/58 and 1958/59, and a larger increase in 1959/60. In 1960/61, however, Brazilian production fell off considerably, and, as a result, total Latin American production was 23.7 per cent lower than it had been the previous year. Estimates for 1961/62 indicated that production may be restored to 1957/58 levels. But if production in Latin America did not go down between 1956/57 and 1959/60, exports, on the other hand, declined in 1957 and 1958--in the very years in which there was a decided improvement in prices in the international market (see Table I-9).

17. The draft agreement, which is now being considered by the countries that are members of the Study Group, suggests: the establishment of a price scale within which an effort would be made to stabilize the quotations in the international market; a system of export quotas that would be applicable when prices are lower than the established minimum; and the creation of an international fund for the purpose of encouraging cacao consumption and helping countries to finance the cost of keeping the surplus when restrictions are put upon exports. In general, the draft agreement incorporates the principles adopted in the International Sugar Agreement. (See Commonwealth Economic Committee, Tropical Products Quarterly, London, September 1961).

/Table I-9

Table I-9

CACAO BEANS: WORLD EXPORTS, BY SELECTED COUNTRIES AND AREAS

	(1,000 long tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
Cameroon	53	101.9	99.1	109.4	124.9
Ghana	260	75.8	96.2	116.5	155.9
Ivory Coast	65	70.8	95.8	95.2	134.0
Nigeria	135	65.2	105.8	116.1	139.6
Other African countries	49	89.8	98.0	132.6	...
Total: Africa	562	76.3	98.9	114.8	...
Brazil	108	94.4	72.5	114.4	88.2
Costa Rica	7	114.3	148.6	164.3	145.7
Dominican Republic	24	100.0	89.2	107.1	50.0
Ecuador	27	81.5	104.1	129.6	118.5
Mexico	7	71.4	75.7	42.9	71.4
Venezuela	15	86.7	53.3	53.3	...
Total: Latin America	188	92.6	79.8	111.2	...
World total	775	81.2	95.0	113.9	...
Latin American percentage of the world total	24.3	27.7	20.4	23.7	...

Source: Cocoa Market Report, Londres, Gill, and Duffus, April 3, 1962.

a. Preliminary Figures.

/The decline

The decline in Latin American exports continued in 1959, while exports from Africa were restored to a level comparable to that of 1957. This decline basically reflected a 23 per cent reduction in Brazilian exports, and seemingly resulted from the policy of minimum export prices that that country adopted to mitigate the depressive tendency of international prices. When this policy was abandoned, Brazilian exports recuperated and exceeded those of previous years. Once again, total Latin American exports reached a level comparable to that of 1956, one of the highest of the whole decade.

The decrease in cacao production in Latin America in 1960/61, was reflected in a decline in exports, a decline that chiefly affected the two countries where production had fallen off the most: Brazil and the Dominican Republic.[18/] If, as estimated, harvests in both countries improve in 1961/62, total exports from the area will also increase. If a longer period than that between 1957 and 1961 is taken into account, it should be pointed out that total Latin American production and exports have gradually become a smaller and smaller part of the world totals. This is partly due to the fact that African production has increased importantly in recent years, thanks to the advances made in pest control and in cultivation methods, whereas production of some Latin American countries has remained relatively stationary and local consumption has been absorbing a greater percentage of production.

One of the important factors that will affect the future of the cacao market is the establishment of the European Economic Community. The Treaty of Rome provided for a 9 per cent tariff on imports from "third countries." The tariffs in effect in 1957, the basis for the Treaty, were 5 per cent for Italy, 10 per cent for Belgium, Luxembourg, the Netherlands and the Federal Republic of Germany, and 25 per cent for France.[19/] The first revision of national tariffs was made on January 1, 1961, a year before the date provided for in the Treaty, but at the

18. In 1960/61, Brazilian production fell off 39 per cent and that of the Dominican Republic 31 per cent in relation to the previous year.

19. Since, however, the application of the tariff had been suspended in all the countries except the Federal Republic of Germany, the common tariff is greater than the average national tariffs in effect.

/same time

same time, the Community temporarily reduced the common external tariff by 20 per cent. The Commission of the Community has proposed to speed up even more the reductions in tariffs for associated territories. It has also proposed, however, that the external tariff be reduced by 50 per cent, that is, from 9 to 4.5 per cent, and that countries that have taxes on cacao consumption[20] reduce these 50 per cent by January 1, 1963, and eliminate them completely by January 1, 1965.[21]

The tariff preference in itself is not so great as to keep Latin American cacao from maintaining its normal share of the region's total imports, especially if the Commission's recommendations are accepted. Although, however, the associated territories now produce only part of the imports of the Community, it is possible that the preferences granted will give them sufficient incentive to increase their production.[22]

The inclusion of the United Kingdom in the EEC could have very serious effects upon latin American exports of cacao, if the African states of the British Commonwealth, especially Ghana and Nigeria, should become associated countries. Since at present, half the imports of the EEC already come from Ghana and Nigeria, with one third coming from associated territories and one sixth from Latin America, it is evident that the granting of preference to such important competitors as the two African states mentioned will further diminish Latin America's chances for maintaining its present participation in the European common market.

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20. The importance of these taxes is even more evident if it is considered that retail prices of chocolate in Italy and the Federal Republic of Germany are increased by about 30 and 12 per cent respectively as a result of domestic taxes. (Cf. FAO Monthly Bulletin on Agricultural Economics and Statistics, October 1961.)

21. After this Chapter had been written, the Community agreed upon a preliminary lowering of the common external tariff to 6.75 per cent, with another provisional reduction of 1.35 per cent. Thus, the tariff that will enter into force in January 1963 will be 5.4 per cent. (See The New York Times, June 23, 1962.)

22. See FAO Monthly Bulletin of Agricultural Economics and Statistics, October 1961.

4. Sugar

The parcelling of the international sugar market, which had already reached a considerable degree with the existence of various preferential areas and a free market area,23/ went even further from the middle of 1960 on, as a result of various events that culminated in the exclusion of Cuba from the U.S. preferential market and the emergence of the USSR as the chief buyer of Cuban sugar.24/

These changes in the geographic distribution of the sugar trade have had important consequences. On the one hand, the importance of the free market area for the exports of some Latin American countries has been substantially modified, and, in certain cases, the export market of these countries has even expanded. On the other hand, the International Sugar Agreement, whose basic objective was to promote the stability of quotations on the free market, has virtually ceased to operate since 1960, inasmuch as it has been unable to enforce the regulations on export quotas. At the end of 1961, negotiations were undertaken to renew the Agreement, but the effort ended in failure, since it was impossible to arrive at an understanding regarding the quota for Cuba.

World production of centrifugal sugar in 1958/59 showed an increase of 11 per cent over the previous year. After maintaining approximately the same level in 1959/60, it again increased in 1960/61, this time by 12 per cent over the preceding year25/ (see Table I-10). The expansion of world trade during

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23. The preferential areas were those of the United States, the United Kingdom, and the French community. The free market comprises that area where trade is carried on outside of the preferential areas.

24. Theoretically, the sugar exports and imports of the USSR are in the free market area. Actually, the USSR is a member of the International Sugar Agreement and has a basic export quota assigned to it of 200,000 tons a year, even though its position in international trade has been as a net importer of quantities that in the 1955-59 period varied between 766,000 and 120,000 tons a year. Since 1960, however, imports of the USSR from Cuba have not met the conditions of a free market, since they are carried out through bilateral agreements and at negotiated prices. Therefore, it is necessary to differentiate between them and typical free-market transactions and to consider the Cuban-Soviet sugar trade as a special category.

25. The expansion of world production of centrifugal sugar in the post-war period has been one of the largest for any agricultural commodity, but world consumption up to 1959 grew at a rate comparable to that of production. (See "Trends and Forces of World Sugar Consumption," FAO Commodity Bulletin Series No. 32, Rome, 1961.)

/Table I-10

Table I-10

SUGAR: WORLD PRODUCTION, BY SELECTED AREAS AND COUNTRIES

	1957-58	1958-59	1959-60	1960-61	1961-62[a/]
United States[b/]	4.431	109.5	110.9	119.5	129.4
Latin America	14.234	111.2	112.0	122.4	113.7
Argentina	767	154.4	135.6	119.1	102.0
Brazil	3.106	121.4	114.3	122.2	132.1
Colombia	269	108.3	124.5	145.0	162.8
Costa Rica	47	123.4	117.0	157.4	202.1
Cuba	6.447	102.0	100.2	115.7	93.4
Dominican Republic	867	114.6	129.1	158.0	121.1
El Salvador	50	108.0	112.0	116.0	124.0
Guatemala	73	96.0	105.4	128.7	154.7
Haiti	48	114.6	137.5	166.6	166.6
Mexico	1.311	111.4	132.0	121.3	140.0
Nicaragua	64	117.1	109.3	115.6	159.3
Peru	769	103.2	117.2	122.5	125.4
Other Latin American countries	416	108.6	113.9	139.1	130.6
Africa	2.710	103.6	108.8	96.8	114.2
Australia	1.399	110.3	100.1	107.4	106.5
Western Europe	7.519	117.5	102.9	140.4	108.5
Eastern Europe[c/]	3.955	106.0	101.4	131.8	119.5
Philippines	1.378	109.7	110.9	113.4	116.2
Taiwan	1.024	104.9	86.1	101.9	92.0
USSR	5.700	119.3	110.5	115.8	122.8
World total	49.073	111.1	110.0	123.9	117.1

Sources: U.S. Department of Agriculture, The Sugar Situation, March 1961, and Foreign Agriculture Circular, FS-5-61, December 1961.

a. Preliminary estimates.
b. Includes production of associated territories.
c. Including Yugoslavia.

this period was not as great. This is explained in part by the fact that the increased production has been evident, not only in traditionally exporting areas such as Latin America but also, and sometimes to a greater degree, in areas that were traditional importers, Western Europe, in particular. The effect of this growth of world supply (Table I-10) tends to have increasingly strong repercussions on the free market, not only because of its very nature, but also because the chief importing area of that market, continental Europe, has in recent years been

/achieving

achieving more and more self-sufficiency through its domestic supply.26/ The sensitivity of prices in the free market area is illustrated by what happened at the end of 1956 and the beginning of 1957. The fear of war brought on by the Suez conflict gave rise to a wave of speculative buying, and prices rose from an average of 3.24 cents (U.S.) per pound in October 1956 to 6.46 cents in April 1957.

The price trend in the free market area since the middle of 1957 was in the direction of re-establishing the levels existing prior to the Suez conflict. In 1959, a persistent weakness began to appear, in part because of the growth of production in Western Europe, which in 1958-59 was 18 percent over that of previous year, and in part because of the increase in Latin American production. Total world imports in 1959, however, were only 4 percent lower than they had been in 1957. On the other hand, Western European imports declined by 18 percent and those of the USSR by 50 percent (see Table I-11). The critical situation of prices in the free market during 1959 is even more apparent if it is remembered that they were below the minimum level provided for in the International Agreement, even though the maximum permissible restrictions (20 percent of basic quotas) were applied to the exports of the member countries.

We have already mentioned the events that, in 1960, altered the traditional pattern of the sugar trade. During most of that year, the price level in the free market showed a slight improvement over 1959. This was largely due to the increased import requirements of Western Europe, exclusive of the United Kingdom, because of its decreased production in 1959-60, and to the fact that the USSR raised the volume of its own imports to five times that of 1959. Prior to the partial cancellation by the United States of its Cuban sugar quota, the USSR had signed a trade agreement with Cuba that called for the purchase of a million tons of sugar a year throughout the 1960-64 period. When Cuba was completely excluded from the United States market, the USSR decided to purchase the remainder of the unsold quota, which came to some 700 000 tons. This diminished the impact of Cuba's exclusion on prices in the free market, and the situation was also helped by the establishment in Cuba of a minimum export price. Nevertheless, in the last quarter of 1960, quotations on the

26. See Economic Survey of Europe in 1960, United Nations publication, sales no. 61.II.B.1, Chapter III, p. 35.

/Table I-11

Table I-11

SUGAR: WORLD IMPORTS, BY PRINCIPAL COUNTRIES

	(1 000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961a/
Finland	169.3	100.6	92.4	73.4	85.4
France	211.4	64.4	108.0	185.6	185.4
Federal Republic of Germany	605.2	9.6	35.0	25.1	16.9
Netherlands	288.3	84.5	58.9	72.0	48.6
Norway	139.6	106.2	110.2	109.5	111.9
Portugal	26.1	61.7	10.0	108.8	30.7
United Kingdom	3 014.0	92.8	88.4	79.8	80.1
Switzerland	210.4	118.3	94.6	103.4	128.1
Total: Western Europe	5 073.1	89.2	84.8	82.8	...
Canada	627.8	106.3	110.1	98.3	105.3
Continental China	68.5	323.2	80.0	695.6	1 506.5
Japan	1 141.4	104.8	104.9	112.0	115.1
United States	3 913.9	111.8	107.0	118.5	113.5
USSR	671.0	58.8	49.9	255.9	510.6
World total	15 342.9	101.0	95.5	113.4	...

Source: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

free market in New York were purely nominal, since they reflected only the minimum export price established in Cuba.27/

The exclusion of Cuba from the U.S. market in the second half of 1960 stimulated exports from other producer countries, including several Latin American ones. Chiefly affected were exports from the Dominican Republic, Brazil and Mexico, and, to a lesser degree, those of smaller producers which also showed a considerable increase in 1960 (see Table I-12).

It should also be pointed out that the benefits derived by those countries from this market development consisted both in the increase in the volume of total exports

27. Beginning in January 1961, the New York Sugar Exchange replaced Contract No. 4, which covered transactions in sugar for export to the free market at prices f.o.b. Cuban port, by Contract No. 8, which covers transactions in sugar from 12 countries (most of them Latin American, excluding Cuba) at prices f.o.b. Caribbean ports.

/Table I-12

Table I-12

SUGAR: WORLD EXPORTS, BY SELECTED COUNTRIES

	(1,000 tons)			Indices: 1957 = 100.0	
	1957	1958	1959	1960	1961[a/]
Argentina	96	-	-	105.1	184.6
Brazil	409	189.6	148.1	209.0	182.1
Cuba	5.307	106.1	93.3	106.2	120.9
Dominican Republic	795	86.9	87.2	138.3	99.8
Haiti	24	26.7	25.5	123.9	187.5
Mexico	94	194.4	143.1	491.9	650.6
Nicaragua	9	244.4	277.7	404.4	344.4
Peru	496	82.9	100.6	103.6	96.8
Latin America	7.373	105.5	94.5	119.3	...
Australia	781	84.7	82.8	100.9	103.2
Czechoslovakia	219	189.0	179.3	156.4	118.2
France	544	92.7	82.2	114.7	104.1
India	160	34.0	11.7	11.8	80.8
Indonesia	143	60.8	27.3	24.5	...
Italy	361	1.9	4.7	-	-
Philippines	875	112.1	120.4	124.4	148.5
Poland	70	398.4	437.0	481.2	614.2
Taiwan	857	91.9	77.6	106.5	76.4
USSR	214	101.8	100.3	122.4	388.7
World Total	15.382	100.4	94.8	113.1	...

Sources: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

and in the larger part of them going to the preferential market of the United States instead of to the free market, with the accompanying advantage of the higher price level in the former. For example, total imports of the United States from the Latin American countries (exclusive of Cuba) increased from 273 000 tons in 1959 to 1 337 000 tons in 1960, or 390 percent (see Table I-13). Imports of sugar from the Dominican Republic that resulted from redistribution of the Cuban quota, however, were subjected during the last quarter of 1960 and the first quarter of 1961 to a tax equivalent to the difference between prices on

/Table I-13

Table I-13

SUGAR: STOCKS AT THE START OF THE RESPECTIVE PRODUCTION YEAR

(1,000 short tons, raw value)

		1958/59	1959/60	1960/61	1961/62	1962/63[a]
Exporting countries						
Argentina	June 1	9	157	414	386	250
Brazil	June 1	424	622	670	426	605
Colombia	May 1	17	27	41	80	121
Cuba	Jan. 1	603	1.347	1.192	1.196	630
Dominican Republic	Dec. 1	83	212	125	188	152
Mexico	Nov. 1	336	503	553	196	131
Peru	Jan. 1	128	106	120	73	46
Subtotal		1.600	2,974	3.115	2.545	1.935
Australia	Jul. 1	157	179	210	222	245
India	Nov. 1	397	169	650	1.400	1.372
Indonesia	May. 1	22	22	88	100	80
Philippines	Oct. 1	98	274	345	228	147
South Africa	June 1	74	116	193	191	213
Taiwan	Nov. 1	83	155	109	103	85
Subtotal		831	915	1.595	2.244	2.142
Importing countries						
Austria	Oct. 1	61	95	116	89	26
Belgium	Oct. 1	24	42	20	41	27
Canada	Sep. 1	62	89	66	85	74
Federal Republic of Germany	Oct. 1	187	591	333	678	172
Finland	Aug. 1	46	52	50	49	55
France	Oct. 1	88	144	199	929	482
Italy	Aug. 1	61	252	755	491	394
Japan	Oct. 1	159	150	170	202	196
Netherlands	Oct. 1	78	161	62	174	102
Sweden	Oct. 1	99	165	160	209	192
United Kingdom	Sep. 1	506	488	619	541	384
United States	Oct. 1	845	1,353	1,275	1,165	1,295
Yugoslavia	Sep. 1	114	114	27	107	77
Subtotal		2.330	3.696	3.852	4.760	3.476
Total[b]		5.015	7.998	8.986	10.007	7.970

Source: U.S. Department of Agriculture, Foreign Crops and Markets, February 23, 1962.

a. Forecast.

b. Includes other countries not listed.

Note: The dates are for the first year indicated in each columm, with the exception of January, which corresponds to the second year indicated.

/the free market

the free market and those on the preferential market. This was done in harmony with the sanctions imposed upon the Dominican Republic by the Organization of American States in the middle of 1960. The maintenance of those sanctions throughout 1961 accounts for the fact that total imports of the United States from the Dominican Republic were less that year than they were in 1960.28/ When the sanctions were lifted at the beginning of 1962, purchases authorized from that country were substantially increased. In fact, as shown in Table I-13, purchases from the Dominican Republic authorized for the first quarter of 1962 exceeded purchases in all of 1960.

Important changes occurred in the sugar market in 1961. The strong growth of production in Western Europe, combined with considerable increases in such net exporting countries in Latin America as Cuba, the Dominican Republic, Mexico and Brazil, plus those in other areas (Eastern Europe, Taiwan, and Australia), was reflected in a downward price trend in the free market. This trend was accentuated during the second quarter of 1961, bringing prices down to the lowest levels in 20 years. An added factor was that importer stocks were higher at the end of 1960 than they had been in recent years (see Table I-13). As a result, the imbalance between supplies available for export and demand by the importing countries rose to a high level in 1961.

There are indications that this situation will change in the immediate future. Estimates are that sugar production in Western Europe in 1961-62 will be considerably lower than it was in the preceding year, and reductions are also foreseen in Cuba, the Dominican Republic, Eastern Europe, Taiwan and Australia. Altogether, it is estimated that world production in 1961-62 will be 5.5 percent less than it was in 1960-61. The outlook for a significant recovery of prices in the free market, however, is dimmed by the large stocks on hand in the majority of the importing and exporting countries and by the uncertainty with regard to the final destination of sugar imported by the USSR. The importance of this last factor

28. On March 31, 1961, the Congress of the United States passed a law extending the sugar legislation until June 30, 1962, and giving the President authority, in distributing U.S. purchases of extra-quota sugar, to exclude those countries with which the United States did not maintain diplomatic relations. Since this provision was applied to the Dominican Republic, the share of extra-quotas sales to which it would otherwise have been entitled (618 174 tons) was redistributed among other countries. Consequently, total sugar imports from the Dominican Republic in 1961 were limited to the regular quota of 111 157 short tons, plus extra-quota purchases of 221 796 short tons in the first quarter of that year (see U.S. Department of Agriculture Sugar Reports, July 1961 and January 1962).

/became

became evident at the beginning of 1962 when prices on the free market in New York declined from 2.44 cents (U.S.) per pound at the end of December 1961, to 1.94 cents at the end of January 1962, apparently under the pressure of the re-exportation of Cuban sugar by the Soviet Union (see Table I-12). The magnitude of the decline led the Cuban Government at the beginning of February 1962, to announce the suspension of sugar sales to the free market for the rest of the year. This, together with the report that Cuban production in 1962 will be lower than was originally estimated, has caused the market to react and prices to rise to what they were at the end of 1961.

Prices in the United States preferential market fluctuate freely, but the margin for these fluctuations is limited by the price level guaranteed to domestic producers and by the manipulation of import quotas. The price average in 1961 was not appreciably higher than it had been in the two previous years.

Prices and imports in the preferential markets of the United Kingdom and the United States are more stable than those in the free market, since in the former, by their very nature, changes in supply and demand are not reflected so quickly or so extensively. Under the sugar agreement of the British Commonwealth, not only the quantities to be imported but also their prices are set in advance. About two thirds of the total imports of the United Kingdom come from British Commonwealth countries and the rest from the countries of the free market area (see Table I-14). Nevertheless, total imports of the United Kingdom from both the countries of the Commonwealth and from those of the free market area have been declining since 1958, although this has affected imports from the latter area more strongly. Imports from Latin American countries in 1960 were 44 percent lower than they had been in 1957, and the decline continued in 1961.

The situation is entirely different with regard to import volume. Up to 1959, imports from Cuba represented a little more than one third of total sugar supplies in the United States market (see Table I-15). In 1960, the partial cancellation of its quota reduced imports from Cuba, but since imports from other Latin American countries simultaneously increased, the region as a whole supplied approximately the same percentage as in previous years. The total exclusion of Cuba in 1961, however, reduced total Latin American participation in the U.S. sugar market to a little more than one fifth. In spite of this, the quotas established for the first half of 1962 indicate that the Latin American countries will be able to provide a larger percentage than they did in 1961.

The reason why quotas have been established only for the first half of 1962 is that the sugar legislation in force will expire on June 30, 1962. There is some uncertainty as to the future of this legislation. In his budget message to Congress

/Table I-14

Table I-14

UNITED KINGDOM: TOTAL SUGAR IMPORTS, BY COUNTRY OF ORIGIN

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a/]
Total	3,014	92.8	88.4	79.8	80.1
Countries of the British Commonwealth	1,835	94.8	92.3	90.2	86.6
Others	1,179	89.7	82.4	63.5	70.0
From:					
Argentina	8	-	-	112.5	112.5
Brazil	137	31.4	88.6	11.2	15.4
Cuba	455	110.3	74.3	41.8	22.4
Dominican Republic	374	95.0	70.3	84.3	61.7
Peru	57	80.9	97.4	89.1	8.9
Total: Latin America	1,047	90.4	77.0	55.8	35.2
Percentage of the total from Latin America	34.7	33.9	30.3	24.3	15.2

Sources: International Sugar Council, Statistical Bulletin.

a. Preliminary figures.

on January 18, President Kennedy stated that legislation would be proposed extending the Sugar Act with substantial revisions. "Under this legislation," he said, "the difference between the domestic and world prices of sugar, which is currently received by foreign suppliers of sugar, will be retained by the United States...." As the U.S. Department of Agriculture explained the proposal, a fee equal to the difference between domestic and world free-market prices would be applied to all imports of sugar, and this would serve to separate the business of importing sugar from the foreign aid program of the United States, the idea of foreign aid being implicit in the present preferential price.29/ This and other proposals, including one to substitute a global quota system for the system of quotas by countries, are now being considered by the Congress of the United States.

29. See U.S. Department of Agriculture, Agricultural Stabilization and Conservative Service, Sugar Reports, No. 118, February 1962.

/Table I-15

Table I-15

UNITED STATES: TOTAL SUGAR SUPPLIES, BY AREA OF ORIGIN
(Thousands of short tons, rough value)

	1957	1958	1959	1960	1961[a/]	1962[b/]
Quotas of domestic producers:						
In the hemisphere	2,708	3,013	2,966	3,289	3,324	1,388
Virgin Islands	15	6	12	9	17	8
Hawaii	1,060	700	978	940	1,030	620
Puerto Rico	920	815	970	894	980	603
Subtotal	4,703	4,534	4,926	5,132	5,351	2,593
Foreign suppliers subject to quotas:						
Cuba	3,127	3,438	3,215	2,420	-	-
Philippines	930	980	980	980	980	490
Others	215	279	279	433	371	163
Authorized extra-quota purchases	-	-	-	1,200	3,117	1,604
General total	8,975	9,231	9,400	10,164	9,820	4,850
Purchases from Latin American countries, chargeable to quotas and extra-quotas:						
Brazil	-	-	-	100	306	80
Colombia	-	-	-	-	46	30
Costa Rica	1	1	4	10	30	10
Dominican Republic	57	80	82	453	333	479
Ecuador	-	-	-	-	36	-
El Salvador	-	-	-	6	11	5
Guatemala	-	-	-	6	10	5
Haiti	6	6	7	36	45	5
Mexico	40	62	65	400	676	399
Nicaragua	9	14	14	42	31	50
Panama	3	4	4	10	7	5
Peru	75	76	97	274	625	330
Total	191	243	273	1,337	2,157	1,398
Porcentages of the total from Latin American						
Cuba	34.8	37.2	34.2	23.8	-	-
Other Latin American Countries	2.1	2.6	2.9	13.2	22.0	28.8

Sources: U.S. Department of agriculture, Sugar Report, (various issues).

a. Preliminary figures.
b. Assigned quotas and extra-quota purchases authorized for the first half of 1962.

5. Grain

a. Wheat

During the second half of 1961, a strengthening of the international prices of wheat was to be noted. They had declined moderately during 1957 and in the following three years remained relatively stable, but at the lowest level recorded since 1950. The 1961 average was thus slightly higher than that of the two preceding years, but did not regain the 1957 level. This trend in recent months toward higher prices seems to reflect certain basic changes in the general outlook of the market. In the first place, world production in the last two years was lower than that of 1958/59, and another decline in the 1961/62 harvest is expected (see Table I-16). In the second place, import demand, which showed annual increases of 6.7 and 4.1 per cent in 1958/59 and 1959/60, respectively, went up again by 20.5 per cent in 1960/61. It is expected that an even higher level will be reached in 1961/62, in view of the prospect of another decline in Western European production and an increased amount of contract purchases from Canada by mainland China. Furthermore, the agreement signed in May 1960, between India and the United States, provides for the former to import 16 million tons of wheat within a four-year period, under the terms of Public Law 480. Altogether, then, it appears that import demand in 1961/62 will be higher than that of 1960/61, while world production is expected to decline for the third consecutive year. It is therefore to be hoped that international prices will show greater improvement than they did in the second half of 1961. In this connection, it should be observed that current negotiations for renewal of the International Wheat Agreement which expires in July 1962, a preliminary agreement has been reached to raise the maximum and minimum prices set forth therein.

The trend in the international wheat market thus helps to mitigate the adverse effects of large surplus stocks accumulated in the United States and Canada, even though as of July 1961, there had been no reduction in the total stocks in the two largest wheat-exporting countries in the world. Nevertheless, there is good reason to suppose that stocks will be considerably lower at the end of the commercial year 1961/62.

/Table I-16

Table I-16

WHEAT: WORLD PRODUCTION, BY SELECTED COUNTRIES AND AREAS

	(Millions of tons)	Indices: 1957-58 = 100			
	1957-58	1958-59	1959-60	1960-61[a]	1961-62[a]
World total:	209.0	123	119	117	112
Argentina	5.8	115	100	69	90
Australia and New Zealand	2.8	214	200	275	221
Continental China	23.4	124	134	...	...
Latin America	10.1	105	93	77	91
United States	36.4	137	115	138	112
USSR	49.0	156	141	130	134

Source: United Nations Food and Agriculture Organization, Monthly Economic and Agriculture Statistical Bulletin, March 1962.

a. Preliminary estimates.

Production and exports in Latin America and in the rest of the world have followed very different courses. World production in 1958-59 showed an increase of 23 percent over the previous year. The increase in Latin America was considerably less, and in the two following years, total production of the area declined below that of 1957-58, the countries chiefly affected being the two exporters: Argentina and Uruguay (see Table I-16). In both countries, this decline in production was due to adverse weather conditions.[30] As a result, Latin America has been unable since 1959 to take advantage of the rising trend in world wheat exports (see Table I-17). In spite of the reduction in stocks in Canada and Argentina, total stocks on hand in the four principal world exporting countries during the middle of 1961 were 13 percent higher than in 1957. It is nonetheless probable that total stocks will be reduced slightly in the immediate future, owing to the prospects of lower production in almost all the principal areas and of another increase in world exports to Western Europe and mainland China.

30. In 1959 there were severe floods in Uruguay, and Argentina suffered a serious drought in the 1960-61 season.

/Table I-17

Table I-17

WHEAT: STOCKS AND TOTAL SUPPLIES IN THE PRINCIPAL EXPORTING COUNTRIES. WORLD EXPORTS

	(Thousands of tons)	Indices: 1957 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62[a]
Stocks at the beginning of the commercial year: [b]					
Argentina	4 355	109.4	100.0	87.5	62.5
Australia	3 130	60.9	117.4	126.1	126.1
Canada	20 820	88.2	75.8	73.9	72.5
United States	24 739	96.9	142.5	144.6	154.8
Total: 4 countries	53 044	92.4	111.3	111.0	113.2
Total supplies:					
Argentina	7 702	111.3	98.9	74.2	76.0
Australia	3 837	165.3	188.7	239.7	195.8
Canada	30 210	91.1	86.8	92.5	71.1
United States	51 030	125.1	128.9	142.5	141.1
Total: 4 countries	92 779	114.5	115.1	124.5	115.2
World exports:					
Argentina	2 114	132.3	99.8	90.3	...
Canada	8 633	94.7	88.0	108.1	...
France	2 269	46.5	77.9	68.7	...
Sweden	102	117.6	81.4	180.4	...
United States	10 952	110.2	126.7	164.6	...
Uruguay	225	83.6	...	...	...
USSR	3 932	152.5	124.6	93.5	...
Subtotal	29 878	108.6	112.1	132.8	...
Others	2 518	139.2	105.4	65.6	...
World total	32 396	111.0	111.6	127.5	...

Source: U.S. Department of Agriculture, The Wheat Situation, October 1961, February 1962.

a. Preliminary estimates.

b. Commercial years July-June.

/Table I-18

Table I-18

WHEAT AND WHEAT FLOUR: WORLD IMPORTS, BY SELECTED COUNTRIES AND AREAS

	(1,000 tons)	Indices: 1957/58 = 100.0		
	1957-58	1958-59	1959-60	1960-61
Belgium	429	114.7	95.1	112.4
Finland	312	107.7	87.5	37.5
Federal Republic of Germany	2 619	92.8	80.0	84.2
France	255	214.9	128.6	157.3
Italy	379	20.8	30.0	620.8
Norway	295	115.3	110.2	104.7
Netherlands	1 023	118.6	108.9	91.9
Switzerland	367	89.4	92.4	85.0
United Kingdom	5 112	103.7	87.5	92.2
Other Western European Countries	1 719	134.3	86.4	130.9
Western Europe	12 510	106.9	87.5	112.5
India	3 021	115.5	118.6	126.6
Japan	2 437	100.8	105.3	116.3
Pakistan	884	61.1	100.7	126.1
Other Asian countries	3 123	60.6	70.8	73.5
Asia[a]	9 465	88.5	97.7	106.4
Continental China[b]	70	78.6	0.0	4,041.4
Brazil	1 253	163.4	142.4	152.0
Other Latin American countries	989	149.3	185.9	180.8
Others	4 438	119.8	182.4	175.3
World total	28 725	106.7	111.1	133.9

Source: FAO, World Grain Trade Statistics, 1959-60, 1960-61.

Note: Commercial years July-June.

a. Excludes Continental China.

b. There is no official information published on imports of Continental China. The figures presented are based on the export statistics of countries other than those having centrally planned economies.

/b. Corn

b. Corn

The trend in the world corn market is in some ways similar to that of wheat. International prices showed a sharp decline in 1958, and since then have remained lower than at any time since 1950, with only slight fluctuations. To a certain extent, this price decline in the world market was influenced by the changes in United States price-support policy, which consisted chiefly in reducing the minimum guaranteed price and in eliminating restrictions on the area under cultivation.31/ As a result, U.S. production showed successive increases in the 1958-59/1960-61 period, and total stocks accumulated as of the middle of 1961 were 43 percent higher than they had been in 1957 (see Table I-19).

As in the case of wheat, Latin American production of corn has not shown increases comparable to those in other areas. On the other hand, exports (exclusively from Argentina) increased considerably between 1958 and 1960, and in spite of their sharp decline in 1961, they continued higher than in 1957. Those increases, however, could barely restore exports to a level comparable to that of the 1946-48 period, since during this period Argentine production declined steadily and amounts available for exports were generally very low. Thus, because of the stagnation of its production, Argentina's position in the international market with respect to both wheat and corn has suffered a setback, especially in comparison to what it was during the prewar years.32/

31. This policy was again changed in 1961. Restrictions on the cultivated area were re-established and the minimum price guaranteed was raised.

32. See El Desarrollo Económico de Argentina, United Nations publication N° 59, II.G.3. Vol. II, pp. 10-14.

/Table I-19

Table I-19

CORN: PRODUCTION, STOCKS, AND WORLD EXPORTS

	(Millions of tons)	Indices: 1957/58 = 100		
	1957/58	1958/59	1959/60	1960/61a/
World Production	176.0	113	122	126
Latin America	21.1	101	102	106
Argentina	4.8	102	85	100
United States	87.7	117	132	136
USSR	7.0	238	171	264

	(Millions of tons)	Indices: 1957 = 100			
	1957	1958	1959	1960	1961a/
Stocks as of July 1					
Argentina	2.4	200.0	210.5	147.4	168.4
United States	50.0	106.5	112.2	128.1	142.7
Exports:					
Argentina	0.8	213	340	326	317
United States	4.5	100	124	124	142
World total	7.5	129	140	146	149

Source: FAO Monthly Bulletin of Agricultural Economics and Statistics, February 1962; U.S. Department of Agriculture, Foreign Crops and Markets, September 28, 1961.

a. Preliminary figures.

6. Cotton

6. Cotton

Although world stocks of cotton continue to be too high to permit any considerable price rise, there has been a gradual improvement in the ratio between stocks and consumption in the last five years, since the proportion of the former to the latter has dropped from 55 per cent in 1957/58 to 43 per cent in 1961/62 (see table I-20). Although the annual increases in production slightly exceeded the increases in consumption, the absolute level of consumption since 1956-57 has been higher than that of total production. In the 1960/61 season, however, production and consumption were approximately in balance, and preliminary estimates for the trade year 1961/62 indicate that this situation will continue with no great change. Within this relatively favorable general picture, there are two distinct trends.

As regards short-staple and medium-staple cotton (which are the types most extensively produced by all the Latin American producer countries except Peru), once the 1957/58 depression in the textile industry was over, world consumption remained high for three years; it appears to be continuing at close to the same level in the present 1961/62 season. It is probable, however, that there will be some changes in consumption by various geographic areas. For example, a decline in consumption in the group of countries that have centrally planned economies is foreseen, particularly in the People's Republic of China, where, because of the agricultural crisis, a higher priority may perhaps be given to the importation of food. In Western Europe also, a certain decline in consumption is to be expected. In the Federal Republic of Germany there has been an accumulation of stocks of cotton yarn and textiles during the last few months. In the United Kingdom, in September 1961 new orders declined 18 per cent in relation to 1960, and much of the productive capacity of the textile industry was left idle. On the other hand, the recovery in industrial activity and in income levels in the United States makes it seem likely that there will be an important increase in the demand for cotton, an increase that is expected to compensate to a large extent for the declines in other countries.

Table I-20

Table I-20

COTTON: WORLD CONSUMPTION AND SUPPLY, 1957/58 - 1960/61

	(Million of bales of 478 pounds) 1957/58	Indices: 1957/58 = 100.0 1958/59	1959/60	1960/61	1961/62a/
Initial stocks	23.4	94.0	89.3	86.3	85.9
United States	11.4	76.3	78.1	66.7	63.2
Latin America	1.6	137.5	112.5	118.7	112.5
Others: net exporters	1.6	112.5	106.2	81.2	106.2
Others: net importers	6.2	98.4	85.5	96.8	109.7
Centrally planned countries	2.6	123.1	123.1	130.8	100.0
Production	41.6	107.7	113.7	114.2	112.0
United States	11.0	104.5	131.8	130.9	130.0
Latin America	5.2	105.8	100.0	115.4	121.1
Centrally planned countries	13.6	115.4	117.6	102.9	102.2
Others	11.7	103.4	99.1	112.0	106.8
Total supply	65.1	102.6	104.3	104.0	102.6
Total consumption	42.9	106.3	112.3	110.7	110.2
United States	8.0	108.8	112.5	103.8	110.0
Others: net exporters	4.5	106.7	115.6	120.0	120.0
Others: net importers	15.9	96.9	105.7	110.0	108.8
Centrally planned countries	14.5	114.5	117.9	113.1	109.8

Sources: International Cotton Advisory Committee, Cotton, World Statistics, March 1962; U.S. Department of Agriculture, Foreign Agriculture Circular, FC-16-61, December 1961.

a. Preliminary estimates.

/The market

The market for extra-long-staple cotton has shown a different trend. The production of such fiber in 1958-59 increased 60 percent over that of the previous year, and although it declined somewhat in the two years following, it continued to be almost 50 percent higher than in the years prior to 1958/59. This is chiefly because of the increases achieved in Egypt and Sudan (see Table I-21). Both consumption and exports in producer countries increased less than production, for which reason there was a considerable increase in stocks. As a result of this, between 1957 and 1959, prices of extra-long-staple cotton declined proportionately more than those of other types. Another increase in exports in 1959/60 brought about a moderate reduction in stocks and a slight recovery in prices, although not to the 1956/57 level. It is probable that this situation will continue to improve in 1961/62, especially in Peru and Sudan, since in Egypt, the chief producer country, the leaf-worm plague destroyed more than a third of the crop.

The subsidy given to United States exporters in the commercial year 1961-62 increased from 6 to 8.5 cents (U.S.) per pound. Despite this, it is likely that the volume of exports from that country to the world market will decline, since that increase will not entirely compensate for a rise of some 3 cents in the domestic support price. This will represent a slight disadvantage for exported cotton relative to that marketed internally. Furthermore, a reduction may be foreseen in the export programs financed by the Government of the United States.

The decline in the pressure exerted by U.S. surpluses on the cotton market and the high level of consumption in recent years--stimulated, in part at least, by the reduction in prices--leads us to believe that the improvement in the market in 1961 may mean the end of the downward price trend observed in previous years. Moreover, favorable results have been achieved from a broad technological research program on the use of cotton mixed with artificial fibers to make a great variety of products. This presents the possibility that cotton may partially regain its former share of the total textile fiber market, a share that declined in recent years precisely because of the competition of artificial fibers.

Regarding the general outlook for the market in the immediate future, it is pertinent to mention two recent agreements whose influence on international cotton trade cannot yet be definitely determined. One agreement,

/Table I-21

Table I-21

EXTRA-LONG-STAPLE COTTON: PRODUCTION, EXPORTS, AND STOCKS

	(1,000 bales of 478 pounds)	Indices: 1957/58 = 100.0			
	1957/58	1958/59	1959/60	1960/61	1961/62[a]
Initial stocks					
Egypt, U.A.R.	160	190.6	312.5	156.0	196.9
United States[b]	82	132.9	150.0	162.0	129.3
Peru	8	250.0	87.5	87.5	112.5
Sudan	500	60.0	50.0	52.0	70.0
Others	10	130.0	170.0	250.0	250.0
Total	760	98.3	118.0	88.8	105.9
Production					
Egypt	847	139.9	127.3	123.4	75.0
United States	80	102.5	86.2	83.8	81.3
Peru	107	120.6	112.1	134.6	126.2
Sudan	167	326.9	338.3	290.4	419.2
Others	50	112.0	160.0	144.0	140.0
Total	1,251	159.7	152.8	144.9	128.3
Consumption in producer countries	97	153.6	159.8	164.9	164.9
Total supplies available	1,914	135.6	138.7	121.6	117.6
Exports					
Egypt	639	139.3	193.4	143.7	...
United States	10	230.0	40.0	80.0	...
Sudan	356	165.2	153.4	110.9	...
Peru	92	150.0	123.9	148.9	...
Others	42	100.0	107.1	111.9	...
Total	1,139	147.6	170.8	132.1	...

Source: International Cotton Advisory Committee, Cotton, Monthly Bulletin, March 1962.

a. Preliminary estimates
b. Includes 50,000 bales of strategic reserves.

/already accepted

already accepted in principle by the United States, Canada, India, Japan and the countries of the European Economic Community, will serve to regulate exports of cotton textiles, increasing the possibility that the less-developed countries may augment their exports of cotton textiles, and avoiding changes in certain markets or in branches of production.

The other agreement, which is a short-term one--October 1961 through September 1962--and which has been signed by the previously mentioned countries, provides for the adoption of measures to: a) appreciably increase access to markets in which imports are now subject to restrictions; b) maintain orderly access to markets in which there are no restrictions; and c) if necessary, prevail upon exporting countries to modify their export policy to a certain degree, in order that the import markets may not be affected. Beginning in January 1962, the participating countries maintaining quantitative restrictions on imports of cotton textiles are obliged to give the countries whose exports are now restricted much greater access to their markets.33/

Also, a provisional committee on cotton textiles was created, and this has been given the task of proposing long-term solutions to the problems affecting international trade in these textiles. The preliminary study made by this committee at the end of October 1961, on the possibilities of a long-term agreement, reaffirmed the two basic principles of the short-term agreement already mentioned: to give greater access to exports from countries in the process of development and to prevent changes in the markets of the importing countries. The proposals for the long-term agreement were to have been presented to the member countries of the GATT before April 30, 1962.

Another matter of importance, which will also influence the cotton market, is the fact that the U.S. Tariff Commission received orders to investigate whether there is need to impose an additional tax of 8.5 cents (U.S.) per pound of cotton content on imports of textile products. The purpose of this tax would be to compensate for the effect of the 8.5 cents per pound

33. United Nations, Commission on International Commodity Trade, Commodity Trade Developments, Memorandum No. 40, October 31, 1961.

/subsidy

subsidy that the United States presently grants on its cotton exports to maintain their competitive position in the international market. Undoubtedly, therefore, it will be necessary to reconcile the objectives set forth in the previously mentioned agreement on trade in cotton textiles with the protectionist aim of the measure that may possibly be taken by the United States.

With few or only temporary exceptions, cotton production in Latin America has been rising during the last few years, especially in certain countries that had not heretofore been producers, or whose production had been on a very small scale. Although a part of that increased production has been absorbed by domestic consumption and production in some countries has fluctuated widely from year to year, the total volume of Latin American exports showed a rising trend between 1957/58 and 1960/61 (see Table I-22). This is partly because new exporters have appeared on the scene: El Salvador, Guatemala, Nicaragua, and more recently, Colombia, countries that did not export cotton at the beginning of the past decade. Among the traditional producers, only Mexico, and to a lesser extent Peru, have shown an increase in exports in the last ten years. In fact, Brazil's exports declined radically in 1956/57 and in 1958/59, as a result of prolonged droughts that shrank production and made it necessary to set low export quotas to give priority to domestic consumption. Although in the last two years there has been a substantial recovery in the volume of exports, it is still in no way comparable to that of the 1953/54 through 1955/56 period. Estimates for 1961/62, however, indicate progress in the restoration of Brazilian production.

At the beginning of the trade year 1961/62, cotton stocks in Latin America were slightly lower than they had been the year before. Although an increase in total production is foreseen, it is believed that consumption in Argentina, Brazil and Colombia will increase, so that the amount of cotton available for export will not be appreciably larger than it has been during the present season, particularly if, as expected, production in Mexico declines.

/Table I-22

Table I-22

COTTON: WORLD EXPORTS, BY PRINCIPAL AREAS AND COUNTRIES

	(1,000 bales of 478 lbs.)	Indices: 1957/58 = 100.0		
	1957/58	1958/59	1959/60	1960/61
United States	5 717	48.8	125.6	116.0
Latin America[a/]	2 404	138.8	105.3	180.4
Brazil	216	112.5	207.4	332.4
Costa Rica	1	600.0	300.0	300.0
El Salvador	133	185.7	85.0	104.5
Guatemala	35	182.8	148.6	242.8
Haiti	3	66.7	-	-
Honduras	4	500.0	125.0	100.0
Mexico	1 411	128.3	92.0	113.5
Nicaragua	146	226.7	78.8	95.9
Paraguay	35	85.7	14.3	57.1
Peru	420	128.1	102.6	118.8
Africa	2 796	121.7	131.8	117.0
Centrally planned countries	1 454	141.3	143.2	117.3
Others	1 651	115.8	110.4	103.4
World total	14 022	96.2	123.5	119.0

Source: International Cotton Advisory Committee, Cotton, World Statistics, March 1962.

a. Total includes exports from Argentina and Colombia during the last two years.

7. Wool

International wool prices during the 1957/61 period have generally tended to decline, although the magnitude and direction of the fluctuations have not always been the same in the various main producing and exporting countries. The sharpest decline was experienced by Uruguayan wools, the prices of which went down almost constantly from the beginning to the end of that period. In contrast, the drop in prices of Argentine wools in 1958 was followed by a period of recovery in 1959 and 1960, and although they again declined in 1961, the difference between the level of prices in that year and in 1957 was perceptibly less than that affecting Uruguayan wools.

In London, which is the representative market for wool from countries of the British Commonwealth, auction prices of fine wools followed a course more like that of the Uruguayan wools, although after the sharp decline in 1958, prices in the London market showed less pronounced fluctuations than those for Uruguayan wools.34/ That difference in price behavior persisted through 1961. Whereas prices for Argentine wools remained unchanged during the course of that year, those for wool from Uruguay and the British Commonwealth showed a moderate recovery.

The most important factor in this price deterioration has been the behavior of consumption. During the 1957-58 depression, the textile industry was one of the sectors most severely affected by a reduction in demand. This reduction was reflected in a decline in the consumption and volume of imports, as well as in an increase of stocks in producer countries (see Table I-23). To this was added the fact that world production showed successive increases in 1958/59 and in 1959/60 (see Table I-24). While the main Latin American producer countries, Argentina and Uruguay, did not share in this expansion of world production, the British Commonwealth countries, on the other hand, made a decisive contribution. They represent 50 per cent of total production, not counting

34. Latin American sales are not transacted under the same auction system as the one used by the British Commonwealth producer countries. For this reason, the wool prices shown in charts I, II, and III are for the Boston, United States market.

/Table I-23

Table I-23

WOOL: CONSUMPTION OF WOOL (CLEAN BASIS) FOR SELECTED COUNTRIES

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961
Australia	31.3	91.4	105.8	107.3	94.2
Belgium	36.2	87.8	97.8	107.7	105.2
United States	154.0	99.9	124.4	122.3	122.3
France	140.8	85.7	86.0	90.2	89.6
Holland	11.8	80.5	95.8	83.4	84.7
Italy	73.0	97.0	103.2	123.0	114.9
Japan	85.4	85.5	120.0	142.9	165.2
United Kingdom	218.3	92.3	105.8	100.0	98.1
Federal Republic of Germany	82.1	84.0	86.7	83.4	84.0
Sweden	3.5	142.9	142.9	154.3	128.6
Total 10 countries	836.4	91.3	105.8	107.8	108.2
Other countries	223.6	103.1	104.9	103.7	...
Centrally planned countries	278.0	109.9	117.0	121.1	...
World total	1,338.0	97.1	108.0	109.9	...

Source: Commonwealth Economic Committee, Wool Intelligence.

Table I-24

WOOL: WORLD PRODUCTION (GREASY BASIS), SELECTED COUNTRIES

Country	(1,000 tons) 1957-58	Indices: 1957-58 = 100.0 1958-59	1959-60	1960-61	1961-62[a]
Argentina	186	102.9	103.4	100.0	100.2
Australia	651	111.0	117.2	113.8	117.1
United States	134	99.6	107.7	109.5	109.8
New Zealand	225	108.9	116.4	118.6	120.8
United Kingdom	52	104.4	108.7	105.2	109.7
Union of South Africa	136	105.0	106.6	102.0	107.7
Uruguay	91	87.5	79.5	90.5	97.6
Other countries	399	101.3	103.4	103.3	104.1
Subtotal	1 872	105.3	109.3	108.2	110.7
Centrally planned countries	419	109.4	119.4	119.8	118.1
World total	2 291	106.0	111.1	110.4	112.1

Source: Commonwealth Economic Committee, Wool Intelligence.

a. Estimates.

/that of

that of the countries that have centrally planned economies. This latter group of countries also showed substantial increases in production in 1958/59 and 1959/60, and their demand for imported wools therefore decreased.

Estimates for 1961/62 indicate another increase in world production, principally on the part of the British Commonwealth countries. It is estimated that production in Argentina and Uruguay will be approximately the same as in 1957/58; in the case of the latter country, this would mean an increase over the preceding year. Actually, since Uruguayan production during recent years has been below that of 1957/58, the increase foreseen for 1961-62 will represent only a recovery to the 1957-58 level.

It does not seem likely, however, that the small increase in world production foreseen for 1961/62 will depress prices. At the beginning of the 1961/62 season, stocks on hand in the chief producer countries were the lowest recorded since 1957/58 (see Table I-25). On the other hand, while it is true that there was a slight decline in consumption in 1961, this decline was largely in the United States, and was a reflection of that country's mild industrial recession in 1960/61. Now that industrial growth in the United States has been reactivated, there is reason to hope that consumption will also go up.

Exports of virgin wool from the five chief world exporters increased by 22 per cent in 1958/59. This increase undoubtedly resulted from the low level of exports in 1957/58, which was reflected in a 54 per cent increase in total stocks of the main producer countries at the beginning of the 1958/59 season (see Table I-25). It is important to point out that the fluctuations in the volume of exports from Argentina and Uruguay during the 1957/61 period have been greater than those affecting other exporting countries. This is due in part to the different methods of wool marketing used in the countries of the British Commonwealth and in the two South American countries; in part, it is also due to certain features of the foreign exchange policy in these two countries. Whereas sales of wool by producers in the British Commonwealth are transacted through brokers at public auction, those of South American exporters are directly negotiated through private contracts. Because of this, South American exporters have often been able to retain their stocks when prices

/Table I-25

Table I-25

WOOL: STOCKS OF WOOL (CLEAN BASIS) IN SELECTED COUNTRIES[a]

Country	(1 000 tons) 1957-58	Indices: 1957-58 = 100.0 1958-59	1959-60	1960-61	1961-62
United Kingdom[b]	35.8	79.9	78.5	60.9	40.5
United States[c]	4.5	-	-	-	-
British Wool Marketing Board Initial Stocks in Australia, New Zealand, and South Africa	12.3	132.5	110.6	155.3	199.2
Initial stocks in Argentina	17.2	303.5	81.4	137.2	29.0
Initial stocks in Uruguay	6.8	200.0	66.2	186.8	13.2
New Zealand Wool Commission	-	500.0	500.0	-	-
South African Wool Commission	-	320.0	180.0	-	-
Total	79.3	154.5	88.5	100.3	60.7

Source: Commonwealth Economic Committee, Wool Intelligence.

a. At the beginning of the respective trade year, which extends from October to September in Argentina and Uruguay and from July to June in the other countries.
b. Governmental strategic reserve.
c. Stocks in possession of the Commodity Credit Corporation.

Table I-26

WOOL: IMPORTS BY SELECTED COUNTRIES

Country	(Millions of lbs., actual weight) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Belgium	189.3	84.8	104.4	100.3	121.0
United States	273.6	94.6	144.6	113.1	118.0
France	443.3	76.2	82.6	84.5	90.0
Italy	250.1	86.0	103.0	110.4	101.0
Japan	275.3	99.4	134.0	151.5	170.0
The Netherlands	31.9	79.6	114.4	95.9	100.0
Portugal	9.0	152.2	142.2	122.2	130.0
United Kingdom	675.0	97.6	111.4	95.9	95.0
Federal Republic of Germany	237.2	77.1	100.4	88.3	94.0
Sweden	9.7	122.6	114.4	115.4	103.0
Switzerland	16.0	87.5	85.6	82.5	92.0
Total 11 countries	2 410.4	89.3	110.0	103.3	110.0

Source: Commonwealth Economic Committee, Wool Intelligence, December 1961.

a. Preliminary figures.

/go down

go down, in the expectation that they will be given exchange-rate concessions or tax exemptions to compensate for this decline.[35] These expectations, based on the system of multiple official exchange rates used in Argentina and Uruguay until 1959, generally were fulfilled. Even under the system of free exchange rates established in those countries in 1959, tax exemptions had an important stimulative effect on recovery in volume of exports in 1960-61. The fact that the South American countries have shown relatively larger increases than those recorded in the countries of the British Commonwealth, however, only draws attention to the fact that exports from Argentina and Uruguay had declined considerably in the year taken as a base (see Tables I-26 and I-27).

Imports of Argentine and Uruguayan wools by the countries that have centrally planned economies, particularly by the USSR, were relatively high in 1957/58 and 1958/59. Lately, these imports have declined considerably because of the difficulties encountered in balancing the bilateral agreements covering these transactions[36] (see Table I-28). Japan's purchases, which have increased substantially in the last three years, did not reach significant amounts in the exports of South American countries until 1960/61.

35. See "Wool: South American Export Developments", FAO Monthly Bulletin of Agricultural Economics and Statistics, February, 1961.

36. In the 1959/60 season, the USSR made its purchases of Uruguayan wool conditional upon the purchase of Soviet oil by Uruguay. Consequently, Uruguayan exports to the USSR declined sharply. See U.S. Department of Agriculture, Foreign Crops and Markets, April 18, 1960.

/Table I-27

Table I-27

WOOL: EXPORTS OF VIRGIN WOOL, BY PRINCIPAL PRODUCER COUNTRIES

Country	(Millions of pounds, actual weight) 1957/58	Indices: 1957/58 = 100.0 1958/59	1959/60	1960/61
Argentina[a/]	150	245.3	186.7	226.7
Australia[b/]	1 171	109.1	119.1	116.0
New Zealand[b/]	436	117.9	121.1	117.2
South Africa[b/]	218	111.5	131.2	111.5
Uruguay[a/]	93	129.0	69.9	160.2
Total 5 countries	2 068	122.0	123.5	125.8

Source: Commonwealth Economic Committee, Wool Intelligence, December 1961.

a. Trade years October-September.
b. Trade years July-June.

Table I-28

WOOL: EXPORTS OF VIRGIN WOOL FROM ARGENTINA AND URUGUAY, BY PRINCIPAL AREAS OF DESTINATION

	(Millions of pounds, actual weight)	Indexes: 1957/58 = 100.0		
ARGENTINA	1957/58	1958/59	1959/60	1960/61
United States	61	169	113	93
United Kingdom	20	295	245	280
Continental Europe	35	394	310	437
Japan	18	106	133	211
Centrally planned countries	9	511	300	222
Others	7	43	29	228
Total:	150	245	187	227
URUGUAY				
United States	3	600	400	700
United Kingdom	19	84	89	258
Continental Europe	45	76	62	133
Japan	--	--	--	600
Centrally planned countries	26	192	27	35
Others	--	200	100	400
Total:	93	129	70	160

Source: Commonwealth Economic Committee, Wool Intelligence, December 1960; November 1961.

8. Copper

In 1961, prices of copper on the international market, which in 1959 and 1960 had made a partial recovery from the sharp decline of 1957 and 1958, declined once again, even though at the beginning of 1962 they appeared to have reached a relatively stable level. The sharp decline of 1957 occurred after the 1955-56 period, when the supply had been scarce and prices high. But what at the beginning had been merely a readjustment of the market finally became a depression when there was a general reduction in demand for the metal among the countries affected by the industrial recession of 1957-58. In 1958, average prices in London reached their lowest level since 1951. Actually, in comparison with 1957 averages, prices in the London and New York markets were lower by 10 and 13 percent, respectively.

Owing largely to the increase in consumption of copper by certain industrial countries, 1959 and 1960 were years of price recovery (see Table I-29). This period of recovery, however, was relatively brief; in 1961 the market again showed signs of weakening, and this was reflected in a reduction in prices during the latter half of the year. Thus, during the 1957-61 period, average yearly prices in London consistently remained below those of 1952-56.[37]

Fluctuations in the price of copper strongly affect the economies of some Latin American countries, especially those of Chile and Peru and, to a lesser degree, Mexico. On the whole, it is estimated that, with the volume of exports from these countries in 1960, a reduction of 2 cents (U.S.) per pound would have meant a loss of US$34 million in their sales abroad. Of this loss, 26 million would have been sustained by Chile and more than 6 million by Peru. Total exports of the two countries in 1960 amounted to US$488 and US$430 million, respectively, the export of copper constituting 80 percent of Chile's exports and 21 percent of Peru's. As a matter of fact, between 1960 and 1961 the decline in prices was of just this magnitude, but this is not extraordinary when it is considered that after the reduction of 13 cents in 1957, annual variations were -3, +5, +1 and -2 cents, respectively.

37. The situation in the U.S. market is slightly different, although the trend is the same. Price variations in New York are less frequent than in London, since in the former market prices are to a certain extent controlled by important copper producers, who are both importers and consumers. Furthermore, the reestablishment in July 1958 of an import tax on copper in the United States introduced a new element of differentiation between price levels in London and in New York.

/Table I-29

Table I-29

COPPER: CONSUMPTION OF REFINED COPPER IN SOME COUNTRIES

	(1,000 long tons)	Indices: 1957=100.0			
	1957	1958	1959	1960	1961[a]
Canada	105.6	104	110	100	120
Chile	7.9	382	511	162	153
United States	1,207.3	93	108	100	106
Austria	24.0	109	87	103	133
Belgium	65.0	96	93	117	116
France	202.3	105	91	117	114
Italy	132.6	94	104	137	151
United Kingdom	641.5	104	99	113	106
Federal Republic of Germany	387.8	109	115	131	146
Sweden	66.5	117	116	135	135
Australia	49.3	120	119	131	119
India	46.7	121	114	131	140
Japan	172.5	84	125	170	192
Total	3,109.0	100	108	115	120

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Preliminary estimates.

/The rate of production

The rate of production and consumption of copper in this period has, of course, been the most important factor in the trend of prices. After the recession of 1957-58, consumption increased by 8 percent over those two years, an increase that was chiefly satisfied by resorting to stocks, since production of primary copper had declined in 1958 (see Table I-30). This decline in production, which was aggravated in the United States in 1959 by prolonged labor disputes, was one of the most important factors in the price recovery that year, since it made possible a substantial reduction in accumulated stocks in the United States. In 1960, however, the situation changed basically once again. One reason for this was the resumption of full production in the United States and another was the decline in consumption in the same country. In over-all figures, copper consumption continued to increase in 1960, but the rate increase was much less than that for production. At the end of 1960, therefore, stocks again reached the high level of 1957, even though their distribution was slightly different (see Table I-31). This high inventory, the maintenance of production figures comparable to those of 1960 (in spite of lower African production), and, finally, the speculative movements resulting from rumors of probable sales of copper from the strategic reserves of the United States, contributed decisively to the reduction of prices in the second half of 1961.

In 1960, copper production in Latin America was the highest in recent years, even though trends in the chief producer countries showed important differences. Production in Chile reached its highest point in 1959, when the exploitation of new copper deposits was undertaken; while in 1960 and 1961, chiefly owing to prolonged labor disputes, production progressively declined. Other factors seem to have entered into this, however, all of which have prompted the Chilean Government to propose certain tax reforms to give greater incentive to the larger foreign concerns that provide the major percentage of production.

Copper production in Peru was relatively small until 1959; in 1960, however, when the deposits of Toquepala were being fully exploited, the country's total production almost quadrupled. In Mexico, on the contrary, production in recent years has remained at the same level, and has even declined in comparison to what it was in 1957-58, owing to the fact that scarcely any new investments have been made in this sector of the mining industry.

The trend of exports in the Latin American countries has been approximately the same as that of production: a sharp increase in Peruvian exports in 1960-61; a moderate decline in Chilean exports; and a progressive reduction in those of Mexico, which, in part, reflects the stagnation of production and the expansion of internal consumption (see Table I-32).

/Table I-30

Table I-30

COPPER: WORLD PRODUCTION OF PRIMARY COPPER, BY SELECTED COUNTRIES AND AREAS

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
United States	1,052	90.7	71.5	104.7	102.5
Canada	289	98.8	114.7	125.9	123.4
Latin America	538	98.2	112.3	133.7	140.3
Chile	442	97.4	115.0	112.3	116.5
Mexico	54	108.7	107.6	107.6	107.6
Peru	41	92.5	88.6	396.6	436.7
Africa	709	95.1	122.6	130.4	130.6
Countries of centrally planned economy	472	105.6	112.8	123.7	123.7
Others	376	103.5	119.4	128.2	129.3
World total	3,436	96.9	102.9	121.5	121.6

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Preliminary estimates.

Table I-31

COPPER: STOCKS IN SELECTED COUNTRIES AT THE END OF EACH PERIOD

	(1,000 tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Australia[a]	10.8	148.1	111.1	134.3	117.6
Canada[a]	31.2	62.8	112.5	126.9	145.2
United States[b]	406.3	74.2	69.8	88.0	69.4
Japan[a]	25.3	71.1	34.4	9.9	...
United Kingdom[c]	88.5	66.8	62.1	129.4	147.9
Federal Republic of Germany[d]	101.5	119.2	102.1	122.0	129.6
Northern Rhodesia[a]	97.9	94.5	103.8	104.8	129.8
Union of South Africa[a]	7.6	123.7	164.5	156.6	392.1
Total	769.1	83.0	79.7	100.1	99.7

Sources: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics; United States Bureau of Mines, Monthly Copper Reports.

a. Concentrates, blister and refined.
b. Blister and refined in the hands of producers.
c. Blister and refined.
d. Refined and scrap.

/Table I-32

Table I-32

COPPER: EXPORTS OF UNWROUGHT COPPER

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Belgium	118	115.2	135.6	145.8	172.0
Canada	234	99.6	104.3	136.3	112.8
Chile	469	90.6	105.7	107.4	113.9
United States	367	101.9	41.9	122.9	114.7
Mexico	51	95.8	86.1	71.0	61.0
Peru	55	94.5	78.2	285.4	314.5
United Kingdom	76	121.0	172.3	111.8	152.6
Federal Republic of Germany	46	141.2	191.2	173.8	165.2
Northern Rhodesia	408	94.3	126.4	135.7	131.8
Sweden	18	88.9	100.0	94.4	100.0
Union of South Africa	67	104.4	108.9	107.4	111.9
Total	1 909	99.2	102.5	127.4	127.5

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

a. Preliminary estimates.

Table I-33

COPPER: IMPORTS OF UNWROUGHT COPPER (METAL CONTENT)

Country	(1,000 tons) 1957	Indices: 1957 = 100.0 1958	1959	1960	1961[a]
Austria	15	133.3	100.0	146.6	160.0
Belgium	187	103.7	115.5	159.3	157.8
United States	534	83.9	99.4	88.0	77.0
France	197	115.2	84.3	108.1	119.3
India	53	100.0	100.0	118.8	135.8
Italy	132	85.6	90.1	156.0	174.2
Japan	369	68.8	110.3	171.0	206.8
The Netherlands	23	143.4	139.1	165.2	200.0
United Kingdom	470	97.8	93.4	118.3	112.8
Federal Republic of Germany	527	101.9	105.5	126.1	144.2
Sweden	82	106.0	120.7	141.4	130.5
Switzerland	40	92.5	77.5	97.5	135.0
Total	2 629	93.7	101.3	126.2	134.1

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

a. Preliminary estimates.

/9. Tin

9. Tin

The market for perhaps no other basic Latin American export product has experienced a change as radical as that for tin. If the events of the past few years are examined, it will be seen that the persistent decline of prices that occurred between the end of 1956 and the end of 1957[38] was stemmed during the first months of 1958 through purchases of the metal by the Buffer Stock, which was created by the International Tin Agreement. These purchases were momentarily interrupted in September 1958, which provoked an abrupt decline in prices. When they were resumed shortly thereafter, however, and combined their effect with the export quotas in effect, since December 1957, they contributed to a price recovery that has been observed since the end of 1958 in the international price level of tin.[39] As this price recovery progressed, the restrictions on exports were made less stringent,[40] and, with the partial sale of its stocks, the operations carried on by the Buffer Stock were reduced. Important factors in that process were, on the one hand, the reduction of production of ore concentrates in 1958 and 1959, and on the other, the gradual but steady recovery of consumption, especially in the European countries (see Tables I-34 and I-35).

During the course of 1961 prices continued to rise in the international tin market, due to the maintenance of high consumption levels the year before and also to the slow reestablishment of production. Estimated production for 1961

38. Approximately 10 per cent, according to the monthly average of the London quotations.

39. This renewal of tin purchases by the Buffer Stock required the contribution of additional funds on the part of the member countries of the Agreement. Also, at the beginning of 1958, the International Tin Council reached an informal agreement with the USSR, whereby that country agreed to limit its tin exports to markets outside of the group of countries with centrally planned economies to an amount no greater than 13,000 tons a year, instead of the 18,000 tons that it had exported the year before. This agreement was another important factor in the recovery of the market, inasmuch as those exports had contributed to the depression in the course of 1957. Finally, it should be mentioned that by February 1958 the International Tin Council announced that it had sold the additional reserve of 5,000 tons of metal acquired with the additional funds supplied by the member countries in September 1957.

40. They were totally eliminated at the end of June 1960.

/Table I-34

Table I-34

TIN: PRODUCTION OF TIN IN CONCENTRATES IN SOME COUNTRIES, AND WORLD TOTAL

	(1,000 long tons)	1957 = 100.0			
	1957	1958	1959	1960	1961
Bolivia	27.8	63.8	85.7	69.8	74.5
Indonesia	27.7	83.7	78.0	81.5	67.1
Malaya	59.3	64.9	63.3	87.6	94.5
Nigeria	9.6	64.8	57.5	79.9	81.3
Rep. of the Congo	12.5	77.6	73.7	71.3	52.7
Ruanda-Urundi	1.8	82.6	62.3	66.6	83.3
Thailand	13.5	57.1	71.6	89.3	98.5
Subtotal	152.2	68.7	71.3	81.3	81.8
Others	27.8	106.2	117.1	130.3	133.8
World total	180.0	74.4	78.3	88.9	89.8

Source: International Tin Council, Statistical Bulletin.

/Table I-35

Table I-35

TIN: CONSUMPTION AND STOCKS, BY SELECTED AREAS AND COUNTRIES

	(1,000 long tons)	: 1957 = 100.0			
Consumption	1957	1958	1959	1960	1961[a]
United States	54.4	88.2	84.2	95.5	91.4
Western Europe	60.8	94.7	116.3	132.2	128.8
Japan	8.3	116.9	128.9	156.4	176.0
World total[b]	154.6	96.4	104.2	115.1	117.1
Stocks[c]					
United States	20.5	90.2	113.0	103.7	117.2
France	1.7	135.2	154.7	159.2	165.7
United Kingdom[d]	12.2	133.5	71.1	78.4	32.8
United Kingdom	1.6	81.5	84.3	92.1	91.6
Federal Republic of Germany	1.1	77.1	169.8	172.4	113.4
International Buffer Stock	15.3	152.0	65.0	65.0	-

Source: See Table I-34.

a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.
c. Stocks in the hands of consumers.
d. Stocks in bonded storage warehouses.

/is approximately

is approximately equal to that of 1960, for although it has increased in such countries as the Federation of Malaya, Nigeria and Thailand, it has declined sharply in Indonesia and the Congo Republic (see Table I-34). Bolivian production remains stationary.

It was possible to meet the increase in demand in 1959 and 1960 through the gradual elimination of restrictions on exports during those years and through the sale of supplies accumulated by the Buffer Stock. The Buffer Stock holdings increased substantially in 1958, but at the end of 1959, they had already been reduced to a little more than one third of the peak amount (see Table I-35). During the course of 1960, the situation of the Buffer Stock's supplies did not alter, owing to the fact that during that year prices remained within the limits of the middle sector of the price range (between 780 and 830 pounds sterling per long ton) established by the International Tin Council. In conformity with the regulations of the International Agreement, the manager of the Buffer Stock must not interfere in the market, so long as prices remain within that middle sector. That situation, that is, the maintenance of prices within the middle sector, prevailed until the end of the first quarter of 1961, but during the following months, prices went above the ceiling (880 pounds sterling per long ton), and the Buffer Stock had to intervene in the market again, this time selling metal until it had completely liquidated its supplies. Stocks in the hands of consumers in the United States also showed a considerable reduction, as was true of those in the storage warehouses in the United Kingdom (see Table I-35). In other consumer countries the volume of stocks is of slight significance. Because of the critical situation of supplies during the middle of 1961, the International Council thought it might be wise for the United States to help alleviate the shortage by selling metal from its strategic reserves, but the total amount made available was only 4,000 tons, since the Congress would not authorize the sale of larger amounts.

A new International Tin Agreement went into effect provisionally beginning in July 1961.[41] Since during the second half of 1961 there was an evident

41. Both agreements are designed to stabilize the market through two principal instruments: a) buying and selling operations in the free market by the manager of a fund financed by the member governments of the agreement, and b) establishment of export quotas when the market shows depressive tendencies. At the IA-ECOSOC meeting in Punta del Este, the United States Government expressed an interest in adhering to the agreement, which undeniably would be greatly strengthened thereby, since the United States is the world's chief importer.

/scarcity

scarcity of metal supplies, which was reflected in an increase in price levels that exceeded the maximum limit established by the International Agreement, the member producer countries proposed changing the price scale by raising its minimum and maximum limits. The producer countries made this proposal based on their need for remunerative price levels that would stimulate new investment in the mining of tin, which is the only one of the nonferrous metals, whose world production has not increased between the prewar and recent years.[42/]

The production of tin in Bolivia, the only significant exporter of this product in Latin America, has shown sharp declines in the last ten years. From a yearly average of 33,300 tons in the 1950-53 period, production declined to a yearly average of 28,300 tons in 1954-57 and to 20,600 tons a year in 1958-61. This decline in production is generally attributed to depletion of ores, to lack of sufficient investment for renovating equipment and installations, to lower labor productivity in the nationalized mines, and to the rise in domestic costs. The complexity of the factors that entered into the decline was made evident during 1960, when Bolivia was unable to produce sufficient tin to fulfill its export quotas for the first nine months of that year.[43/] In 1960 and 1961, conditions for mining production deteriorated even more. In fact, in 1959, with a foreign price level less than that of the next two years, production responded to the additional demand created by a barter transaction, which involved trading 5,000 tons of tin ore for surplus agricultural products from the United States. This transaction made it possible in 1959 to exceed the exports of the previous year, which otherwise would have been almost the same, owing to the export quota system in effect in 1958 and 1959. But, in 1960 and 1961, with prices on the rise, production and exports were unable to regain the level reached in 1959 (see Table I-36). The situation may improve in the near future, however, to the extent that progress is made in the mining production rehabilitation program, which was begun during the middle of 1961 and is being financed with credits from the Inter-American Development Bank and from the governments of the United States, the Federal Republic of Germany, and Argentina.[44/]

42. The International Council meeting during the middle of January 1962 fixed the floor price at 790 pounds sterling per long ton and the ceiling price at 965 pounds.

43. This also meant that in distributing export quotas while these were in effect, the percentage assigned to Bolivia gradually declined.

44. Inter-American Development Bank, News Release, July 18, 1961.

/Table I-36

Table I-36

TIN: EXPORTS OF TIN IN CONCENTRATES, BY PRINCIPAL PRODUCER COUNTRIES

	Long tons	Indices 1957 = 100.0			
	1957	1958	1959	1960	1961
Bolivia	27,467	62.0	83.3	66.8	67.0
Federation of Malaya	59,733	55.3	61.7	96.2	95.3
Indonesia	27,536	66.0	66.9	90.3	61.1
Nigeria	10,006	56.2	55.8	78.6	77.3
Rep. of the Congo and Ruanda-Urundi	11,816	60.7	59.7	57.8	...
Thailand	13,345	49.0	75.7	94.6	98.4
Subtotal [b]	149,903	58.4	67.3	85.4	...
Others	3,453	77.3	72.7	80.2	...
Total [c]	153,356	58.8	67.4	85.5	...

Source: Same as Table I-34.

a. Preliminary estimates.
b. Subtotal for member countries of the International Tin Agreement in their capacity as producers.
c. Refers to total of countries that report to the International Tin Agreement, but does not include the countries that have centrally planned economies.

10. Lead and Zinc

The international lead and zinc market has gone through an exceptionally critical period during the last five years. The prices of both metals started to decline at the beginning of 1957 but showed a small recovery between the end of 1959 and the middle of 1960. Since then, the depressive tendency has again been evident, and during the last months of 1961, the prices of both metals reached the lowest levels recorded in the London market since 1950.

This situation is connected to a certain extent with events in the United States market. The termination in 1957 of transactions for bartering these metals for agricultural surpluses (transactions that in previous years had absorbed significant quantities of both metals) determined the influx to the market of production in excess at current consumption at a time when economic activity was going through a period of recession in the majority of the industrial countries. The decline of prices in 1957-58, caused chiefly by the two circumstances mentioned, prompted the establishment of quantitative restrictions upon the importation of lead and zinc into the United States since the end of 1958. The effect of these restrictions on the price levels of both metals in the U.S. market has been relatively minor, particularly in the case of lead, the consumption of which has generally remained lower than it was in 1957, and which in that year was already low compared to that of the early years of the fifties. These restrictions, however, in establishing a protected market for U.S. producers, served to aggravate the difficulties of the other producers. In their discussions, the representatives of the countries composing the International Lead and Zinc Study Group failed to reach the unanimous agreement necessary to adopt international measures to give greater stability to prices. The Group did not go beyond recommending to the member countries a series of voluntary restrictions on production. In other words, although the work accomplished by the Study Group made it possible to conduct periodic studies of the situation of the market of the two metals, it did not yield such positive results as were obtained under similar circumstances with respect to the international tin market.

In the 1958-61 period, world production of lead, excluding that of the countries that have centrally planned economies, was less than that attained in 1957. With reference to zinc, production of this metal in 1961 for the first time slightly exceeded that of 1957 (see Tables I-37 and I-38). Furthermore, consumption

/Table I-37

Table I-37

LEAD: WORLD PRODUCTION OF REFINED LEAD, BY SELECTED COUNTRIES AND AREAS

	(1,000 metric tons)	Indices 1957 = 100.0			
	1957	1958	1959	1960	1961 a/
World total b/ c/	2,361	95.1	92.6	99.1	98.9
United States	819	84.5	73.3	78.6	85.1
Canada	130	93.1	94.6	110.8	120.0
Western Europe	765	104.3	106.4	112.3	108.6
Latin America:					
Argentina	26	123.1	130.8	100.0	134.6
Mexico	198	100.0	94.9	87.4	89.4
Peru	69	92.7	82.6	89.8	114.5
Australia	203	100.0	99.5	102.9	89.2
World production of primary lead b/ d/	1,907	96.1	94.1	95.3	94.4
Latin America:					
Argentina	32	96.9	100.0	84.4	81.2
Bolivia	24	91.7	91.7	54.1	54.1
Mexico	211	94.8	92.4	90.0	89.6
Peru	124	96.8	92.7	121.8	120.1

Source: International Lead and Zinc Study Group, Monthly Bulletin of Statistics.

a. Preliminary estimates.

b. Excluding the countries that have centrally planned economies.

c. Total production of metal (smelting and refining), including the metallic lead content of antimonial lead, whatever the source, including scrap.

d. Metallic content determined by analysis of ore and concentrates.

/Table I-38

Table I-38

ZINC: WORLD PRODUCTION OF ZINC (METALLIC) BY SELECTED COUNTRIES AND AREAS

	(1,000 metric tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961[a]
World total:[b] [c]	2,455	91.8	94.7	99.1	104.4
United States	960	78.2	80.9	82.4	84.7
Canada	224	102.2	103.6	105.8	108.5
Western Europe	844	98.6	101.7	109.3	114.8
Japan	138	102.2	115.2	131.2	153.6
Australia	112	104.4	105.3	108.9	125.9
Latin America:					
Mexico	56.6	101.4	98.2	93.5	89.4
Peru	26.7	107.9	101.1	100.0	122.5
Argentina	14.0	107.1	100.0	122.1	115.7
World production of primary zinc: [b] [d]	2,663	93.7	92.6	96.6	99.2
Mexico	254	95.7	94.1	96.1	102.8
Peru	158	83.5	89.2	112.7	135.4
Argentina	35	125.7	134.3	97.1	85.7
Bolivia	20	70.0	15.0	20.0	20.0

Source: That of Table I-37.

a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.
c. Total production of metal (smelting and refining), whatever the source, including scrap.
d. Metallic content determined by analysis of ore and concentrates.

/Showed a

showed a quicker recovery in the case of zinc than in that of lead, even though this does not seem to have greatly affected prices, since prices of both metals were lower during 1961 than they had been the year before. One cause of this seems to have been the fact that the European markets (in which consumption recovered more quickly) have been receiving significant quantities of lead and zinc from the countries that have centrally planned economies, especially from the USSR. Consumption in the United States has not re-established itself and that country is the principal market for the Latin American producers. With the exception of a brief improvement in 1959 in the case of zinc, consumption of the two metals during the 1958-61 period was consistently below that of 1957 (see Table I-39).

This has had an effect on stocks. In the United States during the 1958-61 period, lead stocks principally in the hands of producers, appreciably exceeded those in 1957; zinc stocks in 1961 were for the first time, lower by 3 per cent than those of 1957. In the United Kingdom and the Federal Republic of Germany, stocks of lead have increased substantially during the last two years, which fact seems to be related to the increased influx of metal from the Soviet Union. Something similar occured in the case of zinc stocks, although these are not as plentiful as those of lead (see Table I-40).

In the course of 1961, the United States adopted two measures related to the markets for lead and zinc. One of these consisted in the acquisition of some 100,000 tons of lead from stocks accumulated by producers in other areas and intended for the United States' strategic reserve. At the Fourth Meeting of the Lead and Zinc Study Group, held in October 1961, it was reported that purchase agreements had already been made covering 95,000 tons, which amount was taken from commercial supplies.[45/] The other measure was to complement quantitative restrictions on imports of lead and zinc with a system of subsidies to the small domestic producers. This measure was designed to maintain marginal exploitations in operation, and in this respect, its effect upon the total volume of production of the country has been relatively minor.

45. See Commodity Trade Developments, Memorandum No. 40. Although this source does not indicate it, most of these purchases were made in Canada and Australia.

/Table I-39

Table I-39

LEAD AND ZINC: CONSUMPTION OF REFINED LEAD AND ZINC (METALLIC) IN SELECTED COUNTRIES AND AREAS, AND WORLD TOTAL

	(1,000 metric tons)			Indices: 1957 = 100.0	
	1957	1958	1959	1960	1961[a]
Lead					
Western Europe	917	98.6	105.1	115.8	119.9
United States	909	86.9	95.9	89.0	90.3
Japan	82	60.9	86.5	115.8	154.8
World total[b]	2,147	92.8	100.3	102.9	107.1
Zinc					
Western Europe	936	102.5	108.5	119.3	123.3
United States	843	92.5	102.3	93.7	97.5
Canada	48	106.2	129.1	106.2	118.7
Japan	127	102.4	121.2	148.8	185.8
World total[b]	2,189	99.6	107.2	111.1	114.2

Source: International Lead and Zinc, Study Group Monthly Bulletin of Statistics.
a. Preliminary estimates.
b. Excluding the countries that have centrally planned economies.

/Table I-40

Table I-40

LEAD AND ZINC: TOTAL STOCKS IN SELECTED COUNTRIES AT THE END OF EACH YEAR

	(1,000 long tons)	Indices: 1957 = 100.0			
	1957	1958	1959	1960	1961
Lead					
United States	243.9	130.8	108.9	127.2	113.5
United Kingdom	51.3	88.5	93.8	138.2	124.6
Federal Republic of Germany	37.4	94.1	126.2	165.5	147.0
Japan	38.9	38.6	29.0	...	...
Total 4 countries	371.5	111.6	100.2	119.2	...
Zinc					
United States	217.9	113.8	106.0	104.4	98.0
United Kingdom	124.2	72.9	66.9	88.0	99.8
Federal Republic of Germany	32.4	92.0	104.0	134.3	153.3
Japan	6.8	83.8	51.4	52.9	...
Total 4 countries	381.3	98.1	92.2	100.6	...

Source: British Bureau of Non-Ferrous Metals, World Non-Ferrous Metals Statistics.

/The total

The total volume of lead and zinc imports by the United States declined substantially between 1957 and 1960. During the first year of this period, the decline, on the one hand, reflected basically the reduction in purchases on the part of the General Services Administration to build up strategic reserves, and on the other, it reflected a reduction in consumption. Added to these causes was the establishment of quotas upon "commercial imports for consumption." These quotas were fixed at 80 per cent of the average of commercial imports in the 1953-57 period (see Table I-41). The significance of each one of these factors in total imports has been different for the two metals. In the importation of lead, purchases for strategic reserves were 55 per cent less in 1958 than they had been in 1957, whereas purchases of zinc were 79.5 per cent less. In the years following, purchases of zinc for reserves declined more severely, whereas those of lead showed a partial recovery in 1961, thanks to the barter transactions mentioned above.

With regard to consumption, as has already been shown in Table I-39, the decline was sharper in lead than in zinc, even though, generally speaking, the consumption of both metals was lower than it had been in 1957. The establishment of quotas beginning in the third quarter of 1958 seemed to contribute to that decline, although in some cases, total imports for consumption continued to be higher than the quotas. This is especially evident in imports of zinc in 1959 and 1960 and in those of lead in 1959 and 1961, since the definition of "imports for consumption" is not exactly the same as that of "commercial imports for consumption."[46/]

46. In the statistics issued by the U.S. Department of Commerce, "imports for consumption" include imports on ore for smelting, refining, and subsequent export, whereas "commercial imports" totally excluded such imports. Furthermore, there is a difference in the methods of statistical computation used by the Department of Commerce and by the Treasury Department, which is responsible for controlling quotas. See: U.S. Tariff Commission, Lead and Zinc, Report to the President, Washington, October 1961, especially the notes to tables 15 and 16. According to this source, commercial imports of lead and zinc and the percentages of the quotas they represent have been as follows (in short tons):

	Lead		Zinc	
	Commercial Imports	Percentage of quota	Commercial Imports	Percentage of quota
1959	347,118	97.9	514,114	98.7
1960	354,216	99.9	501,602	96.3
1961	354,682	100.0	479.780	92.1

/Table I-41