

CEPAL

Review

Director
RAUL PREBISCH

Technical Secretary
ADOLFO GURRIERI

Deputy Secretary
GREGORIO WEINBERG



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA

SANTIAGO, CHILE / AUGUST 1983

CEPAL

Review

Number 20

Santiago, Chile

August 1983

CONTENTS

Note by the Director	7
Letter from the Constitutional President of the Republic of Ecuador, H.E. Dr. Osvaldo Hurtado to Messrs. Enrique V. Iglesias, Executive Secretary, ECLA, and Carlos Alzamora, Permanent Secretary, SELA	9
Letter from Messrs. Enrique V. Iglesias, Executive Secretary, ECLA, and Carlos Alzamora, Permanent Secretary, SELA to H.E. Dr. Osvaldo Hurtado, Constitutional President of Ecuador	11
Bases for a Latin American response to the international economic crisis. <i>Carlos Alzamora T. and Enrique V. Iglesias</i>	17
The world crisis and Latin America. Conclusions of the meeting of leading personalities convened by ECLA in Bogotá from 19 to 21 May 1983	47
The crisis of capitalism and international trade. <i>Raúl Prebisch</i>	51
Latin America: crisis, co-operation and development. <i>Guillermo Maldonado, Eduardo Gana and Armando Di Filippo</i>	75
Renegotiation of Latin America's debt: An analysis of the monopoly power of private banks. <i>Robert T. Devlin</i>	101
Wages and employment in international recessions: recent Latin American experience. <i>Víctor E. Tokman</i>	113
Is there a fair and democratic way out of the crisis? <i>Adolfo Gurrieri and Pedro Sáinz</i>	127
The external debt and the financial problems of Latin America. <i>Carlos Massad</i>	149
Some CEPAL publications	165

Latin America: crisis, co-operation and development

*Guillermo Maldonado**
Eduardo Gana and
Armando Di Filippo

The present article is structured around several basic ideas. In the first place, attention is drawn to the twofold character of Latin American unity, with reference to the close interdependence between regional 'inward-directed' co-operation policies which foster development and 'outward-directed' concerted measures which reduce the region's external vulnerability. In addition, emphasis is placed on the structural root of that vulnerability, in the economic sphere, associated with Latin America's peripheral position in the international order, and reflected in the gradual dwindling of the share of Latin American exports in world trade. The structural resolution of this problem of peripheral status implies restoring the economic and social development of each and all of the Latin American countries to the central place that is due to it in the action taken by the State, by entrepreneurs and by the other social agents. The world order has entered upon a period of uncertainty which looks likely to be prolonged, and the Latin American countries must find a way to evade the danger of fragmentation and isolation by stepping up their efforts on behalf of regional co-operation and integration. The lethargy into which economic integration programmes have lapsed today is not attributable to 'an instrumental crisis' but, in essence, to the slackening of the drive for industrial development and the recent—but inevitably fleeting—phase of international financial permissiveness, which has sustained the equally fleeting development styles founded on international borrowing. It is also suggested in the introduction to the article that the strengthening of regional co-operation and integration does not imply increasing confrontation with the centres, but represents an additional and autochthonous way of reactivating and dynamizing the world economy, and buttressing a multipolar world, capable of counteracting the risks implicit in the present East-West confrontation, which are a threat to Latin America as well.

*Director, International Trade and Development Division of ECLA. Co-ordinator, Project on Regional Integration and Co-operation. Staff member, International Trade and Development Division.

I

Introduction

When the Executive Secretary of ECLA presented to the social communication media a provisional balance-sheet of the Latin American economy during the year 1982, he stated that in view of the gravity of the negative effects on the region produced by the international crisis, ECLA, in fulfilment of its responsibilities, would immediately embark upon an internal process of collective reflection with the aim of offering its ideas to the Latin American governments, as possible means of constructing a joint response on the part of the region to this dramatic conjuncture. The following pages are the authors' personal contribution to the exercise that ECLA is carrying out. Accordingly, they are open to constructive criticism for their improvement. It is hoped that some of the ideas expressed may give rise to fruitful discussion and that they may be of some use to the governments and to the private, academic and political sectors of the Latin American countries.

There are certain *idées-force* which serve as guidelines for the present study. The first of these is the need to reduce the region's external vulnerability, which has betrayed itself in its full dimensions in the recent international circumstances. Suffice it to refer here to the drastic proportions attained by the problem of external indebtedness in many of the Latin American countries and by the South Atlantic conflict. Both are attended by negative sequels which will hinder the recovery of regional development.

The second of the main ideas underlying the present article is that there is no clear-cut differentiation between regional 'inward-directed' co-operation policies and 'outward-directed' concerted measures, since the two are closely interdependent. Any 'inward-directed' progress—especially in the field of co-operation for development—has its 'outward-directed' projections, inasmuch as it enhances the region's importance in the world assemblage and increases its bargaining power in the sphere of international economic relations.

The third central idea relates to the structural character of this vulnerability. In other words, as long as Latin America's position in the

system of international economic relations is not rectified, there will always be a dangerous gap in its external sector, since world demand for its primary commodities is invariably less dynamic than Latin American demand for the manufactured products which it buys to enable it to keep up adequate levels of economic activity. In present circumstances this state of affairs has been aggravated, inasmuch as it is making itself collectively felt in all the developing countries because of the crisis by which the industrialized countries are affected, and as a result of which their demand for primary commodities has contracted and the protectionist trends that have traditionally hampered regional exports to their markets have been exacerbated.

Consequently, the study draws attention to a fourth *idée-force*: the need to change the nature of Latin America's insertion in the world economy, to which end the economic and social development of each and all of the Latin American countries must be reinstated in the central place it should occupy among the concerns of the States, the private sectors and the other social agents. This implies looking at renegotiation of the debt and external financing in their true perspective: as instruments of the countries' development and not as a set of problems with a life of its own, separate from the rest of the economy.

Furthermore, the study posits the need to reinvigorate regional co-operation and integration, as one of the most fitting means of making a joint response to the international crisis and securing for Latin America a more assured place and stronger voice in the concert of nations. This possibility would be favoured by the renewed importance that economic development—both national and regional—would acquire. The path of integrated economic development may lead to a change in the asymmetrical and vulnerable position of the peripheral region. This trend must be visualized as a long-term incentive to dynamism and structural equilibrium, based on the gradual elimination of the centre-periphery dichotomy, which implies asymmetries in power and distributive inequalities that are clearly untenable from a broader historical viewpoint.

The need to co-operate on the intra-regional level and to join forces for concerted ac-

tion in the international sphere is becoming a matter of urgency for the Latin American countries in the present historical conjuncture. The world order has entered upon a period of uncertainty which is likely to be prolonged. In the monetary and financial area, changes of importance will continue to take place both in the systems providing liquidity to world trade and in the structure of international financing itself. In the field of trade, patterns of 'balanced and managed' trade are being imposed in the industrial centres, in disregard of the norms laid down by GATT and of the claims voiced through UNCTAD by the peripheral countries. Moreover, in the area of production, the recessive anti-inflationary policies applied by the centres depress their levels of activity and employment, thus fostering the growth of protectionism. At a deeper level and in a longer-term perspective, there are signs of unpredictable changes in the technological sphere, which will affect the distribution of world production capacity. The fragmentation and isolation of the Latin American countries do not seem to afford the best means of coping with the vitally important changes whose advent is sooner or later to be expected. Co-operation is the way not only to promote more dynamic and equitable regional development, but also to ensure the increase—or at least to prevent the progressive deterioration—of Latin America's importance in the world order.

The study indicates the close interrelationship between industrialization and economic integration. The loss of dynamism in economic development caused a break, in its turn, in the constant support accorded by the Latin American countries to industrial development, which, to attain full viability, requires the integration of markets and the harmonization of national policies. This accounts for the present lethargic state of the economic integration schemes operating in the area.

On many occasions recourse has been had to the convenient argument that this is an 'instrumental crisis' of schemes that were conceived in international circumstances different from those of today and were endowed with implementation mechanisms which necessarily require bringing up to date. Thus no heed is taken of the reason really underlying the crisis of inte-

gration schemes: the weakening of the countries' economic and social development and consequently of the industrial development process. Of course, postulating so direct a relation between economic integration and industrialization by no means implies that integration can or should disregard other sectors of economic activity. On the contrary, experience points to the necessity of taking action quickly and in depth in the sphere of food and agriculture, for example.

As a corollary to the analysis and to the close interconnection of the guiding ideas behind the present article, the conclusion reached is that regional co-operation and integration, needs strengthening, and that this course should not be viewed by the industrialized countries as a form of confrontation on Latin America's part. Quite the contrary. A Latin America that formed a dynamic and constantly growing political whole would become a positive factor in the reactivation of the international economy, the only way to weather the present crisis. From a different angle, the region's greater capacity

to take joint measures would help to maintain a multipolar world which is a safeguard for the preservation of peace, especially in the context of the present East-West confrontation which now begins to loom threateningly over Latin America.

Inevitably, all this poses the question of how it is to be done. To that universal interrogative no categorical reply has been given, for the simple reason that there is no *facile nostrum* or miraculous panacea. In the present article, however, attention is drawn to possible joint measures in the fields of trade, financing, food and agriculture and energy, because these four are thought to constitute the essence of the region's economic security, indispensable for attenuating its external vulnerability.

In the framework of these reflections, the present article advocates regional co-operation and integration as a fruitful line of action which must be pursued more firmly and in greater depth in order to surmount on structural foundations the Latin American crisis of today.

II

Development and co-operation

1. *The frame of reference*

The economic crisis which in greater or lesser degree is affecting all the countries of Latin America and the Caribbean has had no precedent in depth and far-reaching extent since the time of the Great Depression. Not only the causes that have brought it about, but also policies for overcoming it, have thus become one of the burning questions of today.

Never have conceptual positions as to the economic policies to be pursued in this emergency been so sharply polarized in the region as now, when the singular and paramount point of departure is the immense burden of external debt carried by the great majority of the Latin American countries. This indebtedness and the indubitable responsibility borne by the internal policies applied, especially those with a

monetary bias that have accompanied the main economic decisions in recent times, are leading the national economies of the region into a painful and apparently inevitable process of adjustment, with the all-too-well-known consequences in the shape of a fall in the gross national product, unemployment, reduction of imports, bankruptcy of enterprises, etc.¹

A fuller appreciation of this crisis calls for a recapitulation, however brief, of the historical and structural content of the concept of development, with the object of making it the focal point of the argument.

The aim pursued here is to revert to

¹ See ECLA, *Provisional balance-sheet of the Latin American economy during 1982*, E/CEPAL/L.279, 21 December 1982.

analytical viewpoints based on *'idées-force'*, deep-rooted in Latin America's and ECLA's economic and social thinking. Unfortunately, the repercussions of the world crisis on regional development have generated a certain 'immediatist' bedazzlement, which obscures the horizon of options and makes for a dangerous separation of efforts to overcome the serious effects—indebtedness, internal deficits, unemployment, etc.—of the crisis in question. This immediatist outlook also draws sustenance from the recent vigorous upsurge—or rather the fleeting revival—of economic theories based on a quest for ahistorical equilibria and on the study of static comparative advantages, operative in a 'perfectly competitive' world where the asymmetries of power are smoothed out and the significance of the historical and structural background of current processes is attenuated. All this is completely divorced from the concrete praxis of the relationship between Latin America and the centres.

In face of these peculiar circumstances, it is not idly repetitive to recall, at least in outline, the structural foundations of the contemporary economic development process, and the place in it occupied by Latin America. Thus the economic horizon is not reduced to the single theme of the 'adjustment' that is being made through restrictions on expenditure, depression of current levels of economic activity and, in consequence, discouragement of capital accumulation and economic development. The necessity of the 'adjustment' is not disregarded, but an attempt is made to define it in the setting of a long-term historical perspective of development.

Stress should be laid, therefore, on the priority which must be accorded to the matter of development, and which imparts rationale and perspective to the set of partial measures deriving from the present conjuncture. In strictly economic terms, development implies an increase in the productivity of labour and a diversification of overall production capacity stemming from the consolidation and strengthening of manufacturing industry. Underlying this process is the systematic and permanent introduction of technical progress, linked to increasing labour skills and to reproductive capital accumulation.

2. *The peripheral position of Latin America*

It would perhaps be superfluous to dwell very much on the worldwide repercussions of the Industrial Revolution, but a brief general recapitulation may be useful as a frame for the argument put forward here. In the course of the nineteenth century an international economic order gradually took shape, made up, on the one hand, of the central economies—deeply involved with the Industrial Revolution—and, on the other hand, the peripheral economies, which, left on the sidelines of this industrialization process, did no more than purchase manufactures in exchange for their primary commodities.

The central societies succeeded in fully assimilating the fruits of economic development: they enlarged their quotas of non-agricultural product and employment; left behind the stages of downtrodden subjection in their rural and urban class structures; speeded up their urbanization processes, absorbing migrants from rural areas; did away with illiteracy and systematically raised their levels of education; placed scientific progress at the service of economic development; achieved an occupational differentiation which reflected the higher levels of education and the diversification of production; completed the process of demographic transition and stabilization; and, in the international sphere, forged spectacularly far ahead of the peripheral countries in terms of per capita productive capacity and purchasing power.

The process which was born and thrived in Western Europe then spread to North America and subsequently to Japan. The Soviet Union, in its turn, succeeded in joining the group of industrial societies and after the Second World War became the 'centre' of the international economic system of the socialist countries.

There can be no need to repeat that the starting-point for a proper understanding of many of Latin America's current economic difficulties must be its peripheral position in relation to this international economic order: a position that is not called in question by its being classed as a 'middle-income' region, according to quantitative stratifications which must blind no-one to the basic fact of its subordinate insertion in

the world economy. It is precisely this subordination which, together with the colonial heritage of the past, sets its mark on the structuration of Latin American societies.

These latter assimilated in partial and slanted fashion the technical progress transferred from the centres; maintained rural societies with a strong aftertaste of colonialism, especially in the Andean and tropical areas; generated urbanization processes characterized by hypertrophy, centralization and lack of synchronization with industrial development; failed to make a definite break with the pre-capitalist stages of their rural class structures; continued to show high rates of illiteracy and imbalances in the development of education; absorbed technology in such a way that the successive waves of modernization did not sweep along with them the whole of the productive system; and as exporters of primary commodities, witnessed a high degree of dissociation between their basic production and consumption structures; while the heterogeneity of their productive systems consolidated broad occupational strata in which productivity and income were minimal. In short, they gradually acquired the features proper to their status as peripheral societies.

The region's history seems to suggest that great structural 'leaps and bounds' in the development of the Latin American economy have always taken place in response to international crises and convulsions. This is what happened in the nineteenth century, with the beginning of its political independence; and in the twentieth century, with the first steps and further advances in its industrialization process, historically associated with the two world wars and the Great Depression of the 1930s. The intensive regional economic growth of the past three decades was achieved under the 'leadership' of the expansion of manufacturing industry, and implied an increase in the region's aggregate product which exceeded the purchasing power deriving from its exports. Nevertheless, this manifest progress in industrialization and development did not succeed in changing Latin America's peripheral position in the international economic order. In essence, the region continues to be an exporter of primary commodities, and this is the key factor determining its peripheral situation in the world economy,

reflected in the chronic asymmetry and deficits in its trade with the centres.

Since the Second World War, the share of primary commodities in world trade—even including petroleum—has declined and, in consequence, the same thing is true of the participation of the peripheral regions in the trade in question.

According to the statistical data available, the billions of people sunk in poverty in the lower-income countries are to be found in the economies with the least degree of diversification of production, whose almost exclusive support is their export trade in primary commodities. These are the countries which have most rapidly lost ground in the general ranking by per capita product and share in world exports. Their economies show a high agricultural component in the value of their total product; it reached 51% in 1960, and 20 years later had decreased to 34%. Data published by the World Bank² show that the share of manufacturing industry in their regional product rose by only 2 percentage points in the past two decades, from 11% to 13%. In 1979, the average per capita product of this group of countries amounted to US\$ 230 and the size of their population exceeded 2 billion persons.

Those of the middle-income developing countries that are not oil exporters—to use the World Bank terminology—which include many of the Latin American countries, have a per capita product six times higher than that of the first group. And in contrast to what happened in these latter economies, in which the growth of manufacturing industry slowed down in the 1970s and dropped below their aggregate product, the greater dynamism of the middle-income countries was due to the vigorous expansion of their manufacturing industry. Some of them, like the South-East Asian countries, Spain and Portugal—and more incipiently Brazil—had managed to export manufactures on a significant scale to the markets of the developed countries, especially during the second half of the 1970s.

Nevertheless, the share of Latin America

²World Bank, *World Development Report 1981*, Washington D.C., August 1981.

as a whole in world exports fell from 11% in 1950 to 5% in 1980, a contraction which was due mainly to the fact that despite the progress in industrialization recorded in the countries of the region, no substantial change was introduced into the structure of exports, a high proportion of which —about 80% in recent years— still consisted in primary commodities. Although in the 1970s the region's exports of manufactures increased their relative share in world exports of industrial goods, from 1% in 1970 to 1.4% in 1978, this was not enough to offset the deterioration in the terms of trade for the basic products that the Latin American countries sell on the world market, even taking into consideration that a sizeable proportion of these commodities consists in hydrocarbons.

Of course, the income-elasticity of demand is higher in the case of manufactures than in that of primary commodities, and, basically for that reason, trade deficits and indebtedness are chronic features of the position of the peripheries in the international order. The sole 'adjustment' capable of definitively doing away with this asymmetry can only derive from a structural change in the specialization characterizing the production and trade of Latin America —and of the periphery in general— whereby their production and exports of manufactures can be expanded. Strictly speaking, international co-operation on the part of the centres in the sphere of trade becomes coherent over the long-term only if it is directed towards the expansion of industrial production and export capacity, and is carried out on terms and in conditions which make it possible to attain these objectives. Otherwise, the trade deficits and chronic indebtedness of the peripheral countries, including those of Latin America, will remain inherent in the logic of the world economy, as long as its present structural dynamic persists.

The following sections of the present chapter re-state the advantages of regional co-operation and integration for the promotion of a development style which will enhance Latin America's autonomy in the world order, which is based on a renewal of industrial expansion and which follows the paths of its own creativity in quest of social justice. This enunciation of values, which pertains to the realm of the desir-

able, is nevertheless an essential point of reference for estimating the viability of specific measures directed towards the end in view.

3. Co-operation, autonomy and bargaining power

As regards the future outlook, the long-term relations of Latin America —and of the periphery in general— with the centres will probably be marked by a high degree of uncertainty, not only in the monetary and financial spheres and in the area of trade, but also with respect to the directions that will be taken by the future structuration of production in the developed world. From now on —and for a period which it is difficult to determine exactly, but which is quite likely to be prolonged— the international order will be passing through a hazardous interregnum. In the monetary sphere it will probably be necessary to replace the dollar by a different and less conflictive symbol that is internationally acceptable, and to strengthen the institutions which give liquidity to the system and regulate imbalances in world trade. Undoubtedly, the present operation of IMF will have to be overhauled with a view to increasing the weight it carries and reorienting the unsuitable adjustment strategies that it is currently recommending to the peripheral world. In the area of trade, the system of regulations centralized today in GATT and concurrently discussed in other world forums such as UNCTAD will have to be reconsidered. The increasing protectionism of the centres is reflected in the various forms assumed by the 'managed trade' which is gaining ground in the developed world. In the sphere of production, the deep-seated and prolonged recession not only reflects *volte faces* —and perplexities— in the economic policy of the centres, but also foreshadows profound long-term changes in technology, linked to the shift in sources of energy, to the automation and robotization of production processes, to achievements in genetic engineering and in information techniques, etc. It seems obvious that these revolutionary advances will bring about radical although as yet unidentified, alterations in the structure and regional distribution of world production capacity.

It must be emphasized that at the national level the Latin American countries will be able

to exert scant influence on the profound changes in the international order that are infallibly approaching. Not even the larger economies of the region can individually affect the trends followed by these changes in such a way as to safeguard their own national interests.

Will the Latin American countries, then, be isolated lookers-on, trusting merely in the comparative advantages inherent in the past in their peripheral position? Will they confine themselves to ritual demands for the benefits of an international co-operation which is asymmetrically dependent upon the will of the centres? Will they surrender leadership in the orientation of regional manufacturing industry to the criterion of the transnational corporations?

Questions of this type could be spun out further, but to do so would be a mere rhetorical flourish. It seems legitimate, however, to posit that the real and institutional achievements of Latin American co-operation and integration are the starting-point — both desirable and viable — from which to increase the region's capacity for defence and reaction *vis-à-vis* the disquieting changes that are looming up in the international order. This is obviously the external facet of Latin American unity, more necessary today than ever.

a) *Trends in world trade*

It seems unnecessary to recapitulate the characteristics and magnitude of the new protectionist measures which have been and still are being applied by the industrialized countries and to insist on the flagrant contradiction this implies with the postulates of trade liberalization set up as basic objectives of the international community. ECLA has devoted close attention to the subject³ and has transmitted its conclusions and recommendations to the governments.

In the crisis that is currently affecting the world economy, the protectionism of the North acts as a serious constraint on the development of the South, whose exports it reduces in various 'sophisticated' ways. This reduction, in turn,

brings down the foreign exchange income which the developing countries need to satisfy their import requirements, a key element in the maintenance of an acceptable rate of economic activity. To close the external sector gap, countries have progressively resorted to external credit, which has increased inordinately, while it is no longer possible to service the debt by using export earnings, as should be the normal procedure.

Consequently, the trade protectionism of the market-economy industrialized countries is one of the major causes of the bottleneck in the external sector of the developing countries, including those of Latin America. Apart from the fact that the protectionist measures in question imply an infringement of GATT's express provisions, they boomerang against the interests of the industrialized countries themselves, which are prevented from keeping up an export rate that would enable them to dynamize their economies and substantially reduce unemployment. For example, 40% of the United States' exports are destined for the developing countries.

Furthermore, 1981 and 1982 were years in which world trade declined, this being one of the peculiar features of the international crisis. The result has been a certain loss of confidence in the international trade system, to which testimony is borne by the decrease in the rate of investment in the industrial countries themselves and by the open conflict that has arisen among them with regard to their trade.

This last is another of the special features of the world economic crisis. The GATT Meeting at Ministerial Level, held in Geneva at the end of November 1982, was the first to be convened at that level in the past nine years, and its results were disappointing for the developing countries, since their chief aspirations were brushed aside, owing to the focusing of discussion on topics of importance to Japan, the United States and the European Economic Community (EEC). But the most interesting part of the whole business is what has happened in subsequent months, outside GATT. There is an obvious swing-round from a theoretical free trade to a 'managed' trade, as it has come to be called. For example, the agreement reached by EEC with Japan, early in February of the pres-

³See, for example, ECLA, *The external economic relations of Latin America in the 1980s*, E/CEPAL/G.1160, 1981.

ent year, is a serious step in that direction, since for the first time Japan has negotiated a voluntary restriction of its exports to the community as a whole rather than to its individual member countries. The same may be said of the agreement between the United States and Japan aimed at securing equilibrium in their reciprocal trade balance; to that end Japan has lifted some of the protectionist measures which it was applying for the benefit of its agricultural sector.

In short, despite the rhetorical utterances of the GATT Meeting at Ministerial Level, agreements restricting the expansion of trade are proliferating, to the detriment of certain dynamic comparative advantages, as well as of the consumer in developed countries, who will have to pay higher prices.

In Latin America, the international crisis and the huge external debt have imposed adjustment policies based on a drastic reduction of imports as the most direct means of saving foreign exchange and using it for debt servicing. Through the adoption of this course, traditional intra-regional trade flows have been affected and commitments assumed by countries under the region's existing integration programmes have been vulnerated. This has been turned to account as one of the most cogent arguments adduced against the validity of such programmes as suitable means of coping not only with the international crisis but with the very development of Latin America itself.

In this context, the region must view international trade prospects as a major challenge in two directions. First, to consolidate, maintain and expand to the fullest possible extent intra-Latin American trade, resorting for that purpose to all the multilateral and bilateral mechanisms. Secondly, to construct, organize and exercise a collective bargaining power which will enable it to keep up a balanced trade with all parts of the world, in line with the trends of the moment, giving preference, of course, to the interests of the region and its linkages with other developing countries.

The expansion of intra-regional trade implies, in addition to a firm political will to achieve it, the need to call into play such trade measures as novel and efficient financial mechanisms which will make it easier and more

attractive to import from Latin America than from third countries. Keeping up a balanced trade with other countries or groupings of countries requires great internal solidarity and the determination to exercise collective bargaining power in order to attain objectives of common interest to all the Latin American countries.

b) *Latin America's capacity for economic defence*

In line with the trends of the world economy, as set forth in the preceding paragraphs, much of the region's capacity for defence and reaction must come from the concerting of unified efforts in the spheres of trade, finance and production.

In the field of trade, protection of the prices of the primary commodities exported by the region necessitates the adoption of joint positions in the framework of global approaches which do not 'pigeonhole' problems to an undue extent. Weight may also be carried in negotiation forums by the unification of purchasing power *vis-à-vis* the centres, in order both to obtain better terms of sale for the products that Latin America exports and imports, and to concert measures retorting to the protectionist behaviour of the North towards Latin American commodities and manufactures. The concept of regional priority in supplies of primary commodities is closely connected with questions of regional economic security, which opens up promising areas of regional co-operation in respect of food and fuels, for example. In short, it seems obvious that in this field fuller and firmer regional co-operation is the most meaningful way of overcoming the atomization and isolation which undermine the countries' bargaining positions *vis-à-vis* the centres.

In the area of finance, indebtedness to the private international banking system will drag on with its present weight and structure for a relatively lengthy period. The primary need is a dynamic approach to the problem; the first requisite for coping with debt servicing is the ability to go on growing and exporting. In default of quantitative and qualitative changes both within the countries and in the international sphere, exercises in the rescheduling of payments are precarious and short-lived. Payments

will therefore have to be subject to the expansion advocated here. An elementary form of financial co-operation among the Latin American countries is to agree upon common norms for the renegotiation of the debt which abide by this principle and withstand the imposition of interest and surcharges that are calculated on bases completely divorced from the real potentialities of world development and trade and that exceed the costs initially envisaged when the debt was contracted. At the regional level, plenty of possibilities are opened up for progress towards the perfecting of payments clearing mechanisms, the adoption of a regional unit of account, and other measures which, by sparing the use of convertible currencies, may facilitate intra-regional trade. Similarly, steps should be taken to strengthen credit instruments for financing economic development and the expansion of export capacity. All these lines of action will help to lessen the region's economic vulnerability *vis-à-vis* the centres.

In the sphere of production, too, regional co-operation has an 'external facet' which increases Latin America's power of defence and bargaining in its relations with the centres. Thus, one of the few conceivable ways of securing a permanent 'symmetrical' linkage with the said centres is the development of productive and technological capacities of the region's own, which will meet some of the following requisites: a) that they be diversified, i.e., that they comprise both traditional and modern branches of production; b) that they develop in depth, i.e., that their coverage shall extend from basic inputs to final goods, using as far as possible capital goods of regional origin; c) that they be harmonious, in that there should be no marked disequilibria in productivity and growth between the various sectors and branches of the economy; and d) that they be self-supporting, so that, primarily on the basis of each country's domestic demand, supplemented with regional and world demand, they can meet basic national needs, and can steadily grow and improve.

It can safely be asserted that no country in the region, however large, can attain such an objective on its own account. Accordingly, co-operation and integration among the Latin American countries are undoubtedly efficacious instruments for bringing this goal within reach.

In each of the fields mentioned, examples could be cited in greater depth and detail, but for the time being it will suffice to ratify the central message in this connection. The international order has entered upon a period of uncertainty which is likely to be prolonged, and in which the bases of international co-operation have been and will be severely tried. In view of these circumstances, the Latin American societies can find a twofold and interdependent argument for co-operation and integration. Internally, their task is to strengthen a dynamic and equitable regional development; externally, it is to increase their autonomy and bargaining power in the world order.

4. *The linkage between industrialization and integration*

a) *Conditions for integration*

Economic integration is a political and instrumental response to the development requirements of countries where industrialization is accorded high priority. In other words, it is economic development that opens the way for economic integration, not the reverse: i.e., formal integration cannot suffice by itself to sustain economic development in depth. It should be made clear from the outset that the assumption on which the present argument is based is that industrialization is the dynamic nucleus of economic development, as has been shown by the experience of the centres itself, and, more recently, by that of the so-called 'newly industrialized countries'. It is worth while to state explicitly that the priority of industrial development by no means implies a voluntary and still less a strategic neglect of the other sectors of the economy, in particular that of food and agriculture.

The foregoing assertion is based on the relatively short but enlightening history of the efforts made in Latin America to establish free-trade areas and common markets, as in the case of European integration.

The classic tariff instruments on the basis of which Latin American integration has been promoted are oriented in two complementary directions. On the one hand, their long-term aim is a common external tariff, and on the

other, they tend to eliminate the tariff barriers which convert the domestic markets into 'water-tight compartments'. Integration, in various degrees and patterns, makes for the formation of a regional market which is not only enlarged but also protected. This protection may indubitably reach levels which are favourable to import substitution and therefore give impetus to industrialization. That is, industrialization and integration interact and stimulate each other.

Past experience of integration programmes, however, bears witness to the fact that they represent a higher and later phase of industrialization processes previously carried out at the national level. In particular, among the large and middle-sized countries of Latin America integration began with the Latin American Free Trade Association (ALALC), which had behind it a considerable prior degree of industrial diversification.

The course of events in the region has shown that in periods when industrial development has proceeded more rapidly and in greater depth, the economic and in particular the trade links between the countries members of integration schemes have notably increased. The Central American Common Market (CACM); the Latin American Free Trade Association (ALALC), today the Latin American Integration Association (ALADI); the Andean Group and the Caribbean Community (CARICOM), are good illustrations of what has just been said, in the sense that while industrialization was a central and top-priority objective of their member countries, integration at the same time reached the acme of its vigour, and, as its most visible expression, intra-subregional trade rapidly expanded.

The reason for this lies not only in the specific changes undergone by the manufacturing and other economic sectors when the industrialization process is launched and makes headway, but also in the resulting diversification and expansion of the exportable supply. Hence industrial complementarity and specialization among countries with similar or not very different degrees of development are seen to be viable and worth while. In contrast, when industrial development is sluggish or the impulse to promote it is lost, at the same time expectations built on the fruits of integration vanish into thin

air. Thus, an extreme case of the impracticability of integrationist prospects occurs in economies that are simply and solely exporters of primary commodities.

In the Central American Common Market, for example, the 1960s undoubtedly witnessed the greatest advances in integration, in respect both of instrumental improvements and of expanding intra-subregional trade, which climbed steadily from 6.7% of total exports in 1960 to 26.1% in 1970. This dynamism of trade within CACM coincided with a vigorous industrial development drive, since the manufacturing industry of the five member countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) increased their output at a cumulative average annual rate of 8.6% between 1960 and 1970, whereas the gross domestic product rose at a rate of 5.9%. In the 1970s, however, a marked decline in the industrial development coefficient took place correlatively with the drop in the percentage of reciprocal trade.

In its turn, the Cartagena Agreement, the ruling instrument of the Andean Group, accorded the industrial development of its member countries a leading role in the Andean integration process. Of the region's integration schemes this is undoubtedly the one that has attempted to go farthest in joint industrial programming, with the aim of securing economies of scale, more efficient utilization of the subregion's resource endowment, and greater specialization and bigger volumes of production. In fact, in 1969, the year in which the Cartagena Agreement was signed, out of an intra-subregional trade of US\$ 96 million, 50% was represented by traditional products, whereas in 1980, when subregional trade amounted to US\$ 1 113 million (excluding petroleum), non-traditional exports —mainly manufactures— accounted for as much as 88%.

It is worth while to point out that for the purposes of the present study what is meant by industrialization is the development and transformation of the manufacturing sector and its linkage with the modifications brought about in the rest of the economic activities by the action and influence of the change in industry itself. This sector draws labour out of the agricultural sector and in return gives it inputs and equip-

ment for its modernization; generates activities producing the services required for the production, marketing and financing of manufactures, a process which in turn feeds back into industrial expansion; urbanizes and alters the transport and communications infrastructure; and influences, directly or indirectly, the orientation and growth of the public sector. Directly, through the requirements it creates in respect of physical and educational infrastructure, *inter alia*; and indirectly, through the social change induced by growth. This latter is reflected in the spheres of trade-union, party, regional, consumer-organization and other forms of social groupings which help to stimulate and channel the expansion of the public sector.⁴

It is the development and diversification of the economy caused by industrial development that provide the motive power behind more extensive and more varied trade among the countries members of an economic integration scheme. Of course this does not exclude the further possibility that integration, in attempting to create wider economic spaces than the domestic markets, may permit fuller and more efficient utilization of the existing installed capacity, through complementarity and specialization in industrial production and, in some cases, the creation of new productive capacities. It is unlikely, however, that this can take the place of industrialization as an essential spur to greater dynamism in the integration process.

It should be recalled, moreover, that since a start was made on the recycling of the financial resources deriving from the increased income of the petroleum-exporting countries, changes of singular importance have been brought about in the economic policies of many Latin American countries. One of the salient features of these was the tendency to overvaluation of national currencies and liberalization of imports, which was largely due to the copious inflow of financial resources stemming from the aforesaid recycling, and undermined the validity of the most classic integration instruments, such as tariff preferences and the financing of intra-subregional trade.

Overvalued currencies and tariff reductions implied, in practice, a lowering of consumer prices for merchandise from any source, which detracted from the efficacy of the tariff preferences established in favour of other countries members of the corresponding integration agreements. Similarly, the ease with which financing could be obtained for imports from industrialized countries tended to minimize the region's efforts to build up the equivalent of these credit facilities. The figures for the Latin American countries' external debt —about US\$ 300 billion at the end of 1982— speak for themselves as to the influence that must have been exerted by these financial resources on the orientation of the policies and instruments which animate reciprocal trade. There can be no doubt that the flow of external financial resources has done much to deprive the regional integration programmes of vigour and support.

The return to tighter conditions in respect of the international availability of new financial resources and the high level of indebtedness of the great majority of the countries of the region may perhaps restore the political will to revert to development patterns where industrialization and integration regain their priority. Otherwise, the critical phase through which most of the Latin American integration programmes are passing will continue, and no improvement or change in their instrumental structure will suffice in itself to counteract the standstills or setbacks that they are suffering.

Thus, for example, the outcome of the transformation of ALALC into ALADI has been an agreement for whose objectives no explicit time horizon has been established, whose Secretariat is relatively weak, and whose terms largely correspond to the limited scope attributed to integration in the present conjuncture by several of the countries members of the scheme in question. The problem of infusing new energy into the process will therefore be resolved only in so far as there is a vigorous resurgence, in all spheres, of concern for economic development in its long-term integrated projection and industrialization is accorded a preponderant place therein. An attempt to rescue integration from its present state of languor by reconstituting its instrumental mechanisms may represent an immense ef-

⁴In this connection, see F. Fajnzylber, *La industrialización trunca de América Latina*, Mexico, Editorial Nueva Imagen, 1983, chapters III and V.

fort, and one that is not even very viable, unless international events compel the member countries to redefine development priorities and strategies.

To all this must be added the need for certain countries of the region which have shown that they are in the van of industrial development to express their political will in favour of integration and co-operation measures which will revive the potential of the corresponding programmes existing in Latin America today.

The foregoing observations on the new operational and development conditions in the world economy, the need for Latin America to embark upon innovative development strategies, and the unquestionable interaction between industrialization and integration, suggest that a qualitative change may be expected in the guiding principles and practices of integration in Latin America.

It should be recognized that the so-called 'crisis of integration' is nothing more or less than a 'crisis of development' and of development policies. The loss of a long-term perspective and therefore of a minimum of guidance for reproductive investment, as well as the apparent boom conjured up by the copious inflow of external financial resources in the recent past, have confronted integration programmes in Latin America with a number of successive tests of viability. Their very survival is a phenomenon worthy of note, notwithstanding that some programmes have emerged in a considerably enfeebled state from this veritable 'intensive treatment' and will probably take a long time to recover their strength sufficiently to assist in steering a new integration strategy, more in keeping with the prospects of the international economy and with the real national circumstances of the Latin American countries.

At the same time, there is indubitably ample scope for co-operation among the sub-regional schemes and within each individual programme. Some of these fields of co-operation have already been described in a recent ECLA document.⁵ It should be repeated, how-

ever, that the launching of a great collective integration effort largely depends upon the measures adopted to give back their leading role to development and industrialization, in their true and complex political, social and economic dimensions.

It seems advisable, therefore, to seek indicators in the orientation and content of the Latin American countries' overall development policies of how far the integration enterprise upon which Latin America embarked two decades ago is viable, and what are the bounds of possibility. While no doubt is cast on the idea that integration increases the feasibility of achieving a more efficient type of development, which certainly improves the prospects of a better-balanced insertion in a world of economic and political blocs, the question that arises is how far these evident advantages can outweigh the fact that certain domestic policies take a dubious view of mutual co-operation or the attitude of certain governments whose short-sighted outlook is almost always baffled by the speed of events.

On no account is it the intention of these comments to strike a note of pessimism as to the future of the linkages between the countries of the region. On the contrary, they aim at clarifying certain causal relations, useful for delimiting the frontier within which co-operation and integration can be expected to function, and thus averting unnecessary frustrations and futile illusions.

Identifying not only the genuine political will that is concerned for the progress and consolidation of integration —i.e., the real existence of a 'vocation' for development and industrialization—, but also those top-priority areas of co-operation where joint and solidary action should be taken, ought to be a task of paramount urgency in Latin America. Simultaneously, this study may lead to the conclusion that a regrouping of the countries participating in each integration scheme or the establishment of closer links between the most industrially developed Latin American countries and the existing subregional agreements, might impart

⁵See ECLA, *Integración y cooperación regionales en los años ochenta*, in *Estudios e Informes de la CEPAL* N° 8, Santiago, Chile, 1982. (English version only in mimeographed text,

under the title "Regional integration and co-operation in the 1980s", E/CEPAL/G.1151.)

greater homogeneity and vigour to the regional integration process.

Furthermore, the countries that have displayed most dynamism in their industrial development are those best fitted to assume leadership in the consolidation and expansion of regional markets; it will also be incumbent upon them to help to create opportunities and options for the less developed countries or those whose development potential is limited.

From another angle, the truncation of industrial development in Latin America by its relative backwardness in production of certain intermediate inputs and of capital goods allows plenty of room for its acceleration and for increasing the autonomy of the industrial structure. Joint action in this field among various countries of the region confers their true dimension on such concepts as complementarity, specialization and programming, which otherwise appear *ex post* as unrealistic; while at the same time it can bring to life an authentic integration deeply rooted in the national and regional development potential.

An additional conditioning factor, to which history bears witness, consists in that as long as industrial development is exclusive and tied to the consumer demand of certain limited sectors of the population, this state of affairs will tend to reproduce itself, thus reducing still

further the participation of the various social actors in the different negotiating and operational organs of integration. All this would mean that both processes — industrialization and integration — would rapidly peter out.

Lastly, it should be noted that industrial development, like every evolutionary process, passes through its indispensable 'learning' phases in an ordered sequence, starting with its establishment on a firm footing in the domestic market and then reaching out to markets presenting increasing difficulty in respect of access and 'sophistication' of demand. In this context, the Latin American integration agreements have shown that they are an appropriate means of effecting a gradual and natural transition towards fulfilment of the aspirations focused upon increasing the manufactures component in the region's exports. The figures speak for themselves in this respect, since about half the intra-zonal exports of the ALADI countries consists of manufactures, whereas these products represent only one-fourth of exports to the developed countries. In addition to this important qualitative fact, a point that will have to be borne in mind is the potential dynamism of the Latin American countries' reciprocal trade, which at present amounts to only one-sixth of the total trade of the region.

III

International and regional co-operation potential

1. *Latin America's responses to the crisis*

a) *Trade and development*

The role of regional co-operation and integration can be approached either in the light of the present international conjuncture or in the framework of the structural conditions of regional and world development.

From the first angle, any spur to international demand which may afford support to Latin American exports will obviously be desirable in face of the severity of the depression.

The Latin American market can to some extent compensate the contraction in demand on the part of the centres, if part of its trade is diverted towards regional suppliers. This diversion of trade is, first and foremost, a defence mechanism which at the regional level should be complementary to the equally necessary import substitution process at the national level. As long as the restrictive trade and financial conditions originating in the developed countries are maintained, these defence mechanisms seem economically needful and ethically legitimate.

The long-term role of integration in world

economic development should be regarded as necessary and fitting. Strictly speaking, there should be no incompatibility of opinion between the centre and the periphery as regards the mutual advantages that would derive from a strengthening of regional integration. But obviously, too, any assertion to that effect reflects a specific conception of the most desirable form of international system, and of the best way to deal with the deep-rooted structural crisis in the international order.

If the developed countries acknowledge the need to do away with the present centre-periphery dichotomy, they should show their willingness to agree in future upon a more homogeneous and equitable distribution of world production capacity and to collaborate in the promotion of a system made up of a number of economic regions capable of achieving a diversification of production and exports in keeping with the requirements of an expansion of world trade. Accordingly, they should accept integration among the developing countries as a positive step towards the attainment of a more dynamic, more balanced and more equitable world economy. More dynamic, because what is at issue is not a static optimization of the level of trade as it is structured today, but its expansion in consonance with the requirements of world development. More balanced, because stable participation in an expanding trade calls for the elimination of the structural constraints inherent in the peripheral countries' position in the world economy; otherwise, the economies that find rigidities obstructing the progressive diversification of their production and exports would relapse into the familiar pattern of deficits and indebtedness. More equitable, because an advance would be made towards definitively overcoming the international vulnerability and subordination peculiar to countries like those of Latin America.

In so far as economic integration has proved decisively beneficial, over the long term, to Latin America's exports of manufactures, it has also contributed to the attainment of these goals.

In the long run it is to everybody's interest that the growth of international trade should be dynamic and that all countries should be able to enjoy a stable share in this expansion. It should

be recalled that a substantial proportion of the existing problems stem from the trade deficits which affect the economies of most of the developing countries. To the equally permanent surpluses recorded by the central economies in that trade with the periphery, were of course added, in the 1970s, those originating in the petroleum-exporting countries. Setting aside the historically specific question of petroleum, trade between the industrial centres—from the post-war period to the beginning of the petroleum crisis—increased faster than world trade, since—as is worth repeating—trade in manufactures grows at a higher speed than trade in basic products at the international level, by virtue of the respective income-elasticities of demand for each of these groups of goods.⁶

The diversification of production and export structures is a prerequisite for dynamic participation in the world market. By failing to expand sufficiently its sales of manufactures to the centres, Latin America has lost one-half of its share in world trade during the last 30 years. Except during the 'open and permissive' period which generated much of the present regional indebtedness in the second half of the 1970s, the Latin American market has been the main motive force behind Latin America's exports of manufactures.

In short, if they are not to continue losing ground in the world market, the countries of the region must increase their efficiency and competitiveness in the production and export of manufactures. The regional market itself is the economic space in which exports of manufactures can be kept up in the present critical circumstances, and consolidated in the longer run, thus acquiring increasing viability in the world market.

b) *The debt problem*

It has been remarked that the unity of Latin America has two facets. On the one hand,

⁶This is an argument of key importance, the validity of which has been amply confirmed by postwar trends in world trade. Among the more recent contributions to the study of structural disparities between centres and peripheries, see Raúl Prebisch, *Capitalismo periférico: Crisis y transformación*, Part Four; Mexico, Fondo de Cultura Económica, 1981.

the growth of regional co-operation fosters and multiplies the development potentialities of each individual country; on the other hand, joint and concerted international action increases the region's capacity for defence and riposte in the thrust and parry of world power relations.

The present international financial conjuncture affords a perfect illustration of this second facet of Latin American unity. The external debt problem ought not to be tackled separately by our countries, at least in two of its major aspects. In the first place, its renegotiation should not be dealt with piecemeal, country by country, either *vis-à-vis* private international creditors, or in the case of the International Monetary Fund. Secondly, the debt problem cannot be dissociated from the critical conditions at present besetting Latin American and world development.

In relation to the renegotiation of the debt, and in face of the high degree of accord reached by the international private banks, there is a virtually obvious need for joint exploration, discovery, organization and application of specific multilateral renegotiation mechanisms—or, at least, certain common basic criteria—which will enable the Latin American countries to increase their capacity for defence and reaction in their individual renegotiation of their external debt.

The common criteria for rescheduling external debt payments should avoid falling into the trap of treating the financial problem as divorced from world and regional development prospects. Nor is the application of the conditionality of the Fund acceptable, designed as it was precisely for the purpose for dealing with specific cases, not to cope with the manifold economic, social and political repercussions of the world financial crisis. The economic philosophy on which this conditionality is based, which has always been theoretically open to question, in present circumstances is inadmissible. A passive acceptance not only of the rates of interest applied without regard to the Latin American countries' growth and export possibilities, but also of the recessive adjustment policies imposed by the Fund—which, paradoxically, prevent the expansion in question—, will signify, firstly, mortgaging the development process and, secondly, seriously jeopardizing the

economic and political systems of the Latin American societies, particularly of those countries that are endeavouring to establish democratic systems on a firm footing.

The recessive adjustment policies that our countries are being compelled to adopt not only imply an intolerably burdensome share in the costs of the world crisis, but shape a mistaken and counterproductive strategy for the recovery of the Latin American economy.

Accordingly, this is no mere matter of a 'financial problem' which is the responsibility of the debtor country. It is the very foundations of the international order—in its productive, trade, financial and political facets—that are at stake. Joint and high-level political solutions, therefore, must be urgently sought.

2. Possibilities of action in the sphere of trade

a) Background data

Intra-Latin American exports currently account for about 16% of the total exports of the countries of the region as a whole. Exports of manufactures to the region itself amount to about 50% of total intra-regional exports. Thus, there are obvious possibilities of much more thoroughgoing integration in the field of trade. It should be noted, for example, that the intra-regional trade of the European Economic Community countries represents approximately 50% of their total exports. Although Latin America has not the same reciprocal trade potential as the EEC countries are afforded by their great diversification of production, the region is obviously in a position to intensify its integration through a reorganization of its existing trade flows. For instance, notwithstanding its very high degree of capacity to produce primary commodities, only one-fifth of the value of total imports of such goods—excluding petroleum—came from the region itself in 1980, which means that here too a vast potential is opened up for the expansion of reciprocal trade.

Co-operation in the sphere of trade can also be used to take advantage of a unified regional purchasing power, through joint imports.

This is where the other aspect of Latin American co-operation comes definitely to the

fore: the increase in bargaining power *vis-à-vis* the developed countries. In this domain, Latin America's potential in relation to the centres is not impressive, from the standpoint of the relative importance of its market and their sales. But the absolute figures involved are very high, and the significance of the regional market for some of the industrialized countries must be considerable in the case of certain specific products which it is necessary and possible to identify.

It is with the United States that Latin America's chief trade links have been forged. Out of North America's total exports to the world—the data used here include Canada—approximately 15% is absorbed by Latin America, or, more precisely, by Central and South America. The importance of the Latin American market, in percentage terms, for the other industrial regions is as follows: Japan, 6%; Western Europe, 3%.

Thus, Latin America's market carries more relative weight in the United States' total exports than in those of other industrialized regions. From the point of view of dynamism, an increase is also observable in Latin America's importance as a customer of the United States.⁷ As a buyer, its share in the expansion of the United States' total exports was as indicated below for the corresponding years: 1968-1973: 10%; 1973-1977: 14%; 1977-1978: 16%; 1978-1979: 15%; 1979-1980: 21%; 1980-1981: 20%.

Furthermore, the North American market—including Canada—absorbs 35% of Latin America's total exports. The significance of the markets of the other developed countries in relation to these exports is 4% in the case of Japan, 22% for the countries of Western Europe in the aggregate, and 8% for the countries of the East.⁸

Furthermore, it must be realized that any measure aimed at a reorganization of Latin American trade—both in its intra-regional and in its extra-regional effects—will depend deci-

sively upon the behaviour of certain large and medium-sized countries of the region. Recognition of this fact is indispensable for a proper appraisal of the regional market potentialities that do effectively exist, and of the most appropriate strategies for turning them to account.

In Latin America's purchases from the rest of the world, the share of the three leading importers—Brazil, Mexico and Venezuela—was 57% in 1981. If Argentina, Chile and Colombia are added to the group of countries carrying most weight, the conclusion is reached that only six countries account for 76.4% of Latin America's total imports. Incidentally, it is in these same countries—with the exception of Colombia—that the biggest percentage of Latin America's external debt to the international private banking system is concentrated. Consideration of Latin America's trade and financial problems in combination might be productive of favourable results in the corresponding negotiations, given the political will and active co-operation of these countries, because of their importance in the region's external relations.

The same thing happens in intra-Latin American trade within ALADI. Of the latter's total intra-zonal exports those of Argentina, Brazil, Mexico and Venezuela represented 73% in 1981; and the same countries absorbed 53% of intra-ALADI imports. Taken in the above order, their trade surpluses in that same year, expressed in terms of dollars at current prices (FOB), amounted to US\$ 796, US\$ 965, US\$ 79 and US\$ 534 million, respectively. Colombia and Chile, for their part, showed deficits. The surpluses of Argentina, Brazil and Venezuela in the aggregate were equivalent to 19% of total intra-ALADI exports. Consequently, any significant effort to divert trade into ALADI will depend decisively upon the behaviour of the large and medium-sized countries, as regards both stepping up the percentage of their transactions and stabilizing their balances with the Area.

b) Possible lines of action

Among multilateral measures to preserve and expand intra-regional trade, the regional tariff preference to which the Montevideo Treaty of 1980 refers is an instrument that might exemplify, firstly the will to intensify the inte-

⁷Throughout the 1970s the *de facto* devaluation of the dollar as against the European and Japanese currencies made for a shift of Latin American imports from those markets of origin to the United States suppliers.

⁸See GATT *International trade in 1981/1982*, Geneva, 1982.

gration of the countries members of ALADI and, secondly, the determination to adopt joint and solidary Latin American positions in negotiations with the rest of the world. To ensure that the agreements reached are not merely symbolical, it will be necessary to attain, even if only gradually, substantial margins of preference, capable of producing significant effects on the creation or diversion of trade, in keeping with the international difficulties of today.

This mechanism has an eminently multilateral character and should be promoted as a means of complementing the recent bilateral agreements concluded in ALADI. It is desirable, in this connection, that the success of partial agreements should not attenuate the need for active convergence towards more advanced stages of regional integration, which can only emerge from global commitments and agreements of a multilateral character.

The utilization of mechanisms of this type, however, may not suffice to sustain and promote trade in the present world conjuncture. It must not be forgotten that in recessive situations like that of today the Latin American countries may harden their positions in respect of trade reciprocity, in an attempt to reduce and increase, respectively, their extra-regional imports and exports. This increases the risk that in face of the existing difficulties administrative mechanisms and other non-tariff instruments may be more intensively applied, and may counteract or annul the trade concessions deriving from integration programmes. In order that full use may be made of the capacity for defence against adverse external circumstances implicit in regional integration potential, such measures should be selective and discriminatory. Selective, because preference needs to be given to capital goods and intermediate inputs; discriminatory, because they should not be applied to the countries of the region.

In addition to the efforts already made in the field of trade through various integration schemes, new measures can be tried out in respect of the diversion and creation of trade for the benefit of the region itself.

The diversion and creation of trade in favour of Latin American suppliers would help to palliate the chronic deficits in the balance of merchandise trade *vis-à-vis* the industrial

centres, to save foreign exchange through the machinery for clearing payments and to reanimate regional production, by encouraging, as a first step, full utilization of existing installed capacity. But, in addition to these results, the option of diverting trade into the region—especially in strategic items of great importance in regional demand—would be an instrument that would strengthen the region's bargaining power *vis-à-vis* the rest of the world in general and the developed countries in particular.

This instrument, which consists in Latin America's collective ability to restrict or suspend its purchases of certain lines of manufactures exported by the centres, can be turned to account both in keeping up the volumes and prices of Latin American commodity exports and in promoting the penetration of the region's manufactures into the developed countries' markets, where today they are subject to a variety of 'sophisticated' restrictions.

This type of regional concerting of policy has close precedents in decision 44 of the Council of the Latin American Economic System (SELA), adopted in 1979 and referring to the relations between Latin America and the European Economic Community. This decision lays it down that if measures adopted by the EEC—including the establishment or extension of self-regulation agreements—should have unfavourable effects on exports of Latin American products, the Latin American country or countries directly concerned shall, if they think it desirable, and irrespective of any bilateral measures they may deem fitting, consult with the other interested Latin American States, in order to determine the possibility of defining and, where appropriate, undertaking suitable joint action. This may include, among other economic, financial or trade measures, application of which would be voluntary, the following: a) symmetrical treatment applicable to exports from EEC or from one or several of its regions; b) directives for restricting or encouraging Latin American imports from those same markets of origin.

The intensification of protectionism and of 'balanced and managed' trade currently observable among the industrialized countries suggests the possibility that Latin America might put into effect measures such as those established in decision 44 of SELA, but of more

generalized scope. Mechanisms of this type can be made operative at the regional level only on the basis of full solidarity among the Latin American countries, with the support of a centralized and up-to-date information system, which will enable them to adopt decisions and take action in conjunction. The individual countries should make a careful and systematic survey of the markets of origin of their imports, which should be carried out for every product representing a significant proportion of the value of Latin America's global imports. In this way it would be possible to ascertain what repercussions would be felt in the centres if concerted measures were adopted to restrict or suspend imports of products from specific markets of origin, as has been done in their own reciprocal trade by Japan, the EEC and the United States, cases in point having been analysed in a wealth of detail in the European and American press in recent months.

This centralized, updated and permanent record of trade information should operate on the basis of official data furnished by the countries themselves, or through additional agreements with multilateral agencies. Irrespective of the options as to the specific location of this information service, what does seem unquestionable is the need to create it, if it is hoped to set the joint machinery in motion.

Another point to consider in the sphere of trade is the necessity of closely following trends in trade balances between the region and the main world industrial centres. This would make it possible to take timely decisions as to the opening of negotiations with countries maintaining excessively large trade surpluses with Latin America. In face of an aggravation of imbalances of this type, the Latin American countries could exercise their joint purchasing power, to which reference has been made, or apply discriminatory prohibitions or restrictions designed to restore the balance of trade, as is being done with increasing frequency by the industrialized countries.

The diversion of trade towards Latin American suppliers might gain significant and rapid impetus if government entities took part in it, according preference to regional sources for their imports of inputs and other requirements, irrespective of a possible increase in their

purchases from their own national suppliers.⁹ An intergovernmental agreement on this subject might be a decisive factor in giving a vigorous initial impulse to the diversion of trade from the industrial centres to Latin America, on the basis of purchases by the public sector.

In this connection, it is worth while to note certain orders of magnitude. State purchases constitute approximately 40% of the total imports of the ALADI countries; in 1981, these imports amounted to about US\$ 95 billion, of which roughly US\$ 38 billion were therefore government imports. The magnitude of this figure can be better assessed if it is further recalled that intra-ALADI exports in that year amounted to about US\$ 12 billion. It must be borne in mind that of those US\$ 38 billion only 4%, i.e., US\$ 1.5 billion, came from the region itself.¹⁰ If this proportion were raised to 30%, which does not seem unusually high over the medium term, the share of intra-ALADI trade in the member countries' total imports would be doubled.

Only 11% of the Latin American government imports correspond to 'tied' loans, and the remainder is subject to international standards of competition; of that remainder, almost one-third is financed by IDB and the World Bank. In the area of capital goods, these two official banks finance three-quarters of non-tied and State imports. This implies the existence of a great potential for diversion of government trade in capital goods which deserves careful exploration. Here three possible lines of action are combined which in present circumstances should be encouraged: i.e., diverting trade *en masse*, providing incentives to Latin American production of capital goods, and obtaining financing for that purpose from the major official development banks.

Here it is worth noting that the main beneficiaries of a reorientation of public-sector imports towards Latin American suppliers would be private entrepreneurs in activities producing

⁹ Approximately 75% of State purchases favour their own national suppliers; this average obviously leaves room for substantial discrepancies from one country to another.

¹⁰ See Guillermo Ondarts and Carlos Correa, *Compras estatales e integración económica*, Buenos Aires, IDB-INTAL, Colección Cooperación Empresaria II, p. 49.

tradeable goods, and the services which support and complement these. In this case there is obviously a perfect complementarity, reciprocally fruitful, between the public sector and the private sector, in which the former can contribute its immense purchasing power to bolster up the low levels of activity and the export potential of Latin American private entrepreneurs.

This section should not be concluded without express mention of two instruments of a partial character. The first consists in bilateral agreements on trade co-operation between pairs of countries; these agreements generally establish schedules of products subject to total or partial elimination of tariff duties and to periodic negotiations to bring them up to date. Measures of this type, falling legally within the definition of the agreements of partial scope for which provision is made in the 1980 Montevideo Treaty, are adversely affected by the occurrence of drastic modifications in exchange rates which abruptly alter the terms of trade. In such circumstances, tariff reductions lose their efficacy as means of promoting and diverting trade, and it becomes necessary to explore other possibilities. Long-term bilateral agreements may prove a suitable instrument for maintaining and expanding intra-Latin American trade, granting credit facilities and alleviating the existing payments problems by saving foreign exchange, inasmuch as the parties can buy and sell in the regional market, where merchandise can be cleared against merchandise. There is a vast field of application for mechanisms of this type, not only in relation to manufactures, but also in respect of primary commodities, and even the exchange of the one type of product for the other. Of course, measures of this sort are justifiable only in the framework of a set of mechanisms and agreements—both multilateral and partial—which will ensure the smaller countries similar opportunities to diversify their own production systems and increase their intra-regional exports of manufactures.

As regards these relatively less developed countries, the fields might be identified in which the collaboration of the more developed countries of the region could be of assistance in surmounting obstacles proper to underdevelopment or to special situations such as an imbalance in fuel and/or power supplies, landlocked

conditions, small domestic markets, lack of natural resources or shortage of skilled personnel.

What is needed, therefore, is to explore, from a practical point of view, new production and export possibilities for the countries in question, particularly in the sphere of primary commodities and of manufacturing industries connected with their processing. Collaboration with the smaller countries of the region must be oriented not only towards remedying their weaknesses or deficiencies, but also towards more systematic and exhaustive utilization of their own potentialities. The results obtained at the last ALADI Conference with respect to a total opening-up of markets to lists of products of special interest to Bolivia, Ecuador and Paraguay, while not fully satisfying the aspirations of those countries, represent a wise step in this direction.

3. *Possibilities for action in the financial sphere*

Of unquestionable priority in this field are the monetary and financial mechanisms that are aimed at facilitating the expansion of intra-regional trade and strengthening Latin America's financial autonomy and security at the international level, albeit mention will also be made of those financial mechanisms that are intended to encourage economic development.

In the first of these connections, the payments clearance mechanisms currently in operation have made it possible to save convertible currencies in the settling of reciprocal balances in intra-Latin American trade. At the end of each period the balances outstanding between pairs of central banks are determined, and the net balances of each participant *vis-à-vis* the others as a whole. Obviously, the smaller each one's balances with the group as a whole, the smaller too will be the amounts of international currency effectively involved in the clearance operations. Similarly, the more liberal the credit lines reciprocally granted and the longer the repayment period, the smaller will be the quantity of foreign exchange effectively brought into play.

The clearing system of ALADI (which includes the Dominican Republic) is now almost complete, since of the 66 possible agreements between pairs of Central Banks, 62 have been

signed. In 1981 the total amount of credit granted under the system exceeded US\$ 9.3 billion, i.e., virtually financed three-quarters of that year's trade.

As stated in a recent report, through this system, from the time of its entry into operation up to the year 1982 inclusive, operations have been channelled amounting to more than US\$ 50 billion, only about 25% being required on an average for the settlement of net debtor balances in the corresponding repayment periods.

It is also pointed out in the report referred to that the difficulties encountered as the years went by have generally been of little importance, and the amount of annual operations has been steadily growing from the outset up to the present decade, reaching the above-mentioned figure in 1981. In 1982, however, the upward trend in the channelling of operations was reversed, and their volume decreased on account of the international crisis, its effects on the economies of the countries members of the system and the adjustment measures adopted, the consequences of which it is hoped will be only temporary. The corresponding figure is approximately US\$ 7 billion.¹¹

A special aspect of this mechanism, which should be developed in greater depth, relates to the exchange of services, including tourism, on the basis of the use of a special means of payment. This might be, for example, a Latin American travellers' cheque. A saving of foreign exchange could thus be effected, since only payments for the services in question would have to be covered, and such balances could perfectly well be incorporated into the existing clearing mechanisms, together with those of intra-Latin American merchandise trade, should the countries so decide.

It is in trade in goods, however, that the principal benefits of this mechanism can be reaped. A dynamic expansion of each Latin American country's trade with the other members of the corresponding integration area, combined with a substantial increase in the amounts and maturities of reciprocal credits, would be a

relief in face of the impoverishment of reserves and the growing indebtedness of the Latin American economies. Furthermore, if the repayment period in the ALADI system were extended, for example, to six months, it could be interconnected with that operating in the Central American Common Market, provided that an agreement were reached on the rates of interest in force in each case.

In short, given the political will and the determination necessary for rapid and effective action, a combination of the mechanisms for encouraging reciprocal intra-regional trade and financing may generate an ever-widening 'virtuous circle'. A balanced expansion of intra-regional trade would make it possible to increase the advantages already implicit in the payments clearance mechanisms, and, reciprocally, an extension of the maturities and enlargement of the amounts of financing, together with the interconnection of payments systems, would enable reciprocal trade flows to expand and gain in flexibility. The result would be a steady decrease in the vulnerability of the trade and financial positions of the Latin American countries *vis-à-vis* the rest of the world.

Another pertinent mechanism is the Santo Domingo Agreement on Support of the Balance of Payments, which has worked satisfactorily on several occasions, and affords financing for countries with balance-of-payments problems on the basis of maturities and amounts that are still very limited, but are potentially susceptible of increase. It differs from the payments clearance mechanism, however, in that the present generalized situation of depleted reserves and acute indebtedness obstructs, in the short run, any device that implies additional transfers of internationally convertible currencies.

Much the same thing happens in the case of another interesting proposal formulated by ECLA, for the establishment of a financial safety net in Latin America, consisting of a commitment on the part of the official financial institutions of the region to act as 'last-resource lenders' for a member country in financial straits that had exhausted the possibilities open to it in other extra-regional sources of financing. This, like the preceding proposal, is designed to provide financial assistance to separate countries, but not to cope with a crisis like that of today, which affects almost all the countries

¹¹ See *Evaluación del funcionamiento del convenio de pagos y créditos recíprocos, y eventuales medidas destinadas a su perfeccionamiento*, ALADI/CAFM/III/Doc.2, 21 January 1983.

of the region simultaneously and in conjunction.

It seems better worth while, in the existing circumstances, to explore Latin America's possibilities of participating more actively in inter-regional financial institutions —such as Arabank today, established on the basis of Arab and Latin American capital— which operate by tapping resources not only in Latin America but in other international financial markets.

While encouragement should be given to these and any other initiatives capable of improving the foreign exchange position of Latin America without subjecting it to terms that are incompatible with its necessary economic reactivation and growth, the most viable measures in the present situation are those which help to save the use of foreign exchange in reciprocal payments and those which permit the granting of reciprocal credits in the sphere of trade, on a longer-term basis than under the existing payments clearance systems, but organically linked with them.

In particular, while some Latin American countries have at their disposal banks of international standing, the region as such has no institution in the field of commercial banking which is represented outside Latin America.¹²

This is a serious lack. A regional multinational bank, based on capital contributed by public and private banks in Latin America and even by the Inter-American Development Bank, and operating in the big financial centres both in the area of trade and in that of the sale of securities, would decisively reinforce the external economic security of the region, by serving as a bridge for co-operation among various regional and subregional financial institutions and supplementing the work done by IDB as a development bank. A bank of this type would facilitate the identification of areas in which regional co-operation could be pursued in greater depth; it would improve access to more diversified sources of funds; it would reduce the so-called 'country risk' for foreign suppliers of resources; and would provide support to public

and private financial institutions at both the technical and the financial level. But it could also be of major assistance in future renegotiation or refinancing processes.

If a specified proportion of the Latin American countries' reserves were deposited for administration in this bank, it would be provided with a solid basis of operations, which would shortly make it an outstanding institution in the banking field in relation to trade and the sale of securities, thus facilitating the removal of constraints which today hamper Latin America's access to certain capital markets.¹³ A bank of this kind could play a decisive part in the promotion of intra-Latin American trade. In particular, it could serve as a clearing-house for long-term financial documents, arising out of reciprocal merchandise trade and expressed in a unit of account of the region's own, so as to make the greatest possible use of national currencies.

It would not take too much effort, in terms of time or resources, to formulate a specific proposal which could be subjected to the consideration of governments; but this would require the necessary political impulse.

In the present conjuncture, consideration should also be given to the possibility of establishing a regional unit of account which would facilitate the settlement of balances in services trade, including tourism, and of financial documents deriving from intra-regional merchandise trade. As regards services, a system is conceivable under which each individual country would issue documents expressed in a common unit of account, with its guarantee, convertible into each country's currency in accordance with the exchange provisions and rates in force in the country concerned. The same thing could be done in the case of documents underwriting long-term payments for intra-regional exports of goods, so as to facilitate this form of financing.

A bank such as that proposed, as well as

¹²A considerable proportion of the following statements and proposals are based on notes prepared by Carlos Massad, Director, Joint UNDP/ECLA Project on Implications for Latin America of the Situation of the International Monetary and Financial System.

¹³There is a very close precedent for this proposal in the ambit of the countries members of the Cartagena Agreement: i.e., the Andean Reserve Fund, which has played a salient role in the present conjuncture, by providing resources to some of the member countries, without subjection to 'conditionalities' of any kind.

the common unit of account, may have dynamic effects on regional integration.¹⁴

In the field of financial co-operation to promote development, the loss of importance of the international public banks in the present structure of international financing is a very serious matter. Latin America must strive to reinforce the Inter-American Development Bank financially, so that in its turn it can strengthen its role as promoter of regional investment.

There is an obvious need for long-term capital contributions, such as those made by IDB, to promote co-operation in areas where production must be vigorously encouraged. Cases in point are the capital goods, energy and food security sectors.

At the Annual Meeting of the Board of Governors of the Bank, held in Panama early in 1973, the Sixth Replenishment of Resources was approved, in a resolution adopted by the Committee of the Board of Governors. The increase provided for is US\$ 15 billion in the authorized capital and 703 million in the resources of the Fund for Special Operations. Another subject of discussion was the creation of a mechanism—the Inter-American Investment Corporation—directed towards financing Latin American enterprises, with particular emphasis on the private area.

There is another special aspect of IDB's action which would also repay overhauling. The Bank's technical co-operation programme, which is generally run by consultants from the non-borrowing countries, could make more room for the participation of consultant firms from the Latin American countries, at least in respect of that part of financing which does not correspond to trust funds. This idea is prompted by the increase that has taken place in the proportion of the goods and services purchased with the Bank's convertible currency resources

represented by those of extra-regional origin—a trend clearly at variance with co-operation and integration efforts at the regional level. In 1973, purchases from extra-regional markets of origin amounted to 40% of those effected with funds lent by the Bank, and in 1981 this proportion rose to almost 60%.¹⁵ It would be advisable to reverse this trend, above all if the purchasing power of the Latin American governments is to be used to divert trade towards regional suppliers.

A common strategy needs to be concerted, which would make it possible to enlarge the institution's regular funds, and at the same time permit increased participation of regional firms of consultants in the formulation of new investment projects.

By way of corollary, it may be asserted that financial co-operation at the Latin American level has become an imperative need. Since capital resources have to serve as the means to attainment of specific economic and social development objectives, it is urgently necessary to initiate at the earliest possible moment, a preparatory phase of consultations at the political and technical level, which would be the prelude to an eventual meeting of the regions' Ministers of Finance where specific proposals like those mentioned could be put forward, so as to permit the adoption of decisions appropriate to present circumstances and to world and regional economic prospects.

4. *Possibilities of action in the sphere of regional development and economic security*

There are measures associated with regional co-operation which are of great importance for buttressing the economic and social structuration of the Latin American countries, and which affect, in the long run, the autonomy, the dynamism and even the equity of Latin American development. The aim of this section is to set forth a group of areas of particular significance for the economic security and the development of Latin America as a whole.

¹⁴What would be needed would be the political decision on the part of the governments to tackle such a proposal, and they would have to take into account that this is no mere matter of creating a new Latin American institution, but a question of filling an existing gap. They may even take a gradual succession of steps in this direction, should it not be possible or viable to assign such a bank all its functions simultaneously.

¹⁵See G. Ondarts and C. Correa, *Compras estatales e integración económica*, op. cit., p. 45.

a) *Regional co-operation in the field of capital goods*¹⁶

The region as a whole constitutes an important market for capital goods. In the first nine years of the 1970s, investment in machinery and equipment on the part of 8 countries (Argentina, Brazil, Mexico, and the five members of the Andean Group) averaged an annual sum of US\$ 40 billion (at 1980 prices), and in 1978 exceeded 50 billion. Not more than 50% of aggregate demand is met from within the region itself, which points to the existence of a considerable field for the application of concerted measures.

A substantial proportion of purchases of goods of this type is effected by State or State-controlled entities, which, in view of the small number of actors involved, would facilitate a possible co-ordination of measures, given the existence of the necessary political will.

These measures might be directed towards the following ends:

i) Obtaining better terms for external supplies, by demonstrating the magnitude of regional demand through *joint purchasing* programmes, a step which, furthermore, would permit the real exercise of a purchasing power with modalities and purposes already commented upon in earlier pages;

ii) Partly reorienting this demand towards the region itself, by raising —qualitatively and quantitatively— the level of activity of the local metalworking industry.

In both respects, more significant results will be obtained in so far as very specific information is available on equipment requirements and local capacity to meet them.

Some countries promote local production of capital goods through organizations grouping the public and private entities that are interested in the progress of the sector. The encouragement of such promotional entities and their

systematic interrelationship will conduce to a more lively perception of the opportunities opened up by joint activity, as regards both bargaining with third parties and forming combinations of production capacity; it will also facilitate removal of the obstacles which prevent these opportunities from being turned to account. Outstanding among such difficulties is the lack of financing mechanisms for internal sales, and the consequent hindrance of Latin American industry from participating in the construction and sale of whatever equipment it is capable of offering in conditions comparable, in terms of quality and price, with the external supply.

In the unfavourable conjuncture through which Latin America is passing today, not only is it harder for the capital goods industry to make headway, but the very survival of the manufacturing capacity that has by now been achieved in some countries is being jeopardized. A joint survey of the region's requirements as compared with its own capacities might help to avert the loss, in consequence of the present recession, of assets which it would be difficult to recover, such as specialized teams whose education training and maturation entail more time and effort than are necessary to ensure the availability of physical production equipment.

All this should be regarded as a problem of regional interest. A weakening of the industrial base would reduce the region's capacity for self-determination and would signify a general impoverishment; but it is also obvious that a collective effort to forestall such harm entails a certain measure of shared sacrifice, which could only be secured if compensatory mechanisms existed in favour of countries where manufacturing industry does not exist or is still embryonic.

In the case of certain sectors of demand linked with large-scale projects, clearly located in time and space, consideration might be given to mechanisms deriving precisely from the execution of works that help to distribute the benefits of collective action.

An outstanding case in point is that of hydroelectricity, since in the first place, it involves less likelihood of over-investment and, secondly, the repercussions of the corresponding civil engineering works may have a positive impact on various important sectors that also need activation —steel-making, cement and construc-

¹⁶A substantial part of the following material is based on notes prepared by Salvador Lluch, Co-ordinator of the ECLA Project on Capital Goods. For a more complete analysis of the subject, see Jorge Beckel and Salvador Lluch, "Capital Goods. Size of markets, sectoral structure and demand prospects in Latin America", *CEPAL Review* No. 17, August 1982.

tion: equipment, *inter alia*—, with the consequent increase in employment.

For co-operation in the field of capital goods to become more deeply and firmly rooted in the economic life of the Latin American countries, its promotion will have to be continued on the basis of active participation by the entities grouping private enterprises set up with Latin American capital. These, in turn, could unify their purchasing power in the world market and participate in it on preferential terms as Latin American sellers of the same goods. In particular, regional private enterprises supplying capital goods could join up with one another in entrepreneurial associations of a regional character. There they could unify positions, concert common strategies in their bargaining with the transnational corporations and identify manifold forms of co-operation which would enable them to increase their competitiveness at the regional and international level.

b) *Co-operation in the field of food security*¹⁷

In Latin America the production and marketing of food products—at the regional level—betray features that are clearly unsatisfactory and susceptible of improvement through co-operation.

It is easy to see how important the subject is, not only for regional economic security as a whole, but also with respect to combating the critical poverty which is still deplorably prevalent in Latin America.

Although the growth of production outstrips that of the population, it does not suffice to meet the increase in the effective demand for food and, still less that of potential demand, represented by over 50 million victims of malnutrition who lack the necessary purchasing power to carry any weight in the market, because of the vices apparent in income distribution. Actual output falls far short of production capacity, of which only one-third is utilized. Peasant farmers have lacked adequate access to appropriate forms of land tenure, as well as to technical advisory assistance in the spheres of

production, marketing and financing, in contradistinction to entrepreneurs in the modern sector of regional agriculture. This has aggravated the polarization of agricultural producers.

There are some Latin American countries suffering from food shortages which import from the world market the very same products that, concurrently, other Latin American countries with surpluses are exporting. Recognition of this fact is essential for the formulation of guidelines in the sphere of co-operation in production and trade. On the one hand, the region's capacity for food production is underutilized, and on the other, the contribution of imports to regional food supply rose from 9% to 13% in the past seven years. Intra-regional trade in food—which accounts for 30% of total Latin American imports of such products—is therefore susceptible of a vigorous forward thrust.

Almost two-thirds of these imports come from the developed countries and are concentrated in a few types of food—cereals, oilseeds and milk products—, which shapes the form of food dependence faced by the region as a whole. This dependence is aggravated by the concentration of such supplies in a small group of transnational corporations—especially in the case of cereals—and by subsidies to production and exports in the countries of origin, circumstances which distort competition and discourage the corresponding national lines of production.

In short, Latin America needs to step up, at the regional level, its quantum of food production and self-sufficiency, both in order to meet its own unsatisfied demand and with a view to reducing vulnerabilities which might, in certain situations, affect regional economic security and the attributes of national sovereignty. The expansion of food production should lie at the basis of every social nutrition policy aimed at overcoming the serious regional dearths in this field. The diversion and creation of trade flows in food among the Latin American countries may thus give considerable impetus to Latin American co-operation and integration.

The main causes of food insecurity—insufficient production, aggravated by cumulative annual shortages, inadequate or non-existent reserves and emergency imports at relatively

¹⁷Much of the following material is based on notes prepared by Luis López Cordovez, Director, Joint ECLA/FAO Division, on the subject of food security.

high costs—are common to most of the countries of the region, a fact which unquestionably facilitates concerted measures in this field. Information and alerting systems are necessary which will enable deficit countries to obtain imports more rapidly from other Latin American countries with surpluses. Here too comes into play the possibility of improving bargaining conditions in the world market through joint purchases. Last but not least, concerted efforts must be made to increase food production through the exchange of experience, technologies and specialists, as well as through common programmes to induce the utilization of idle production capacity. Perhaps in the short run regional co-operation with emphasis on pre-production aspects—regionalization, credit, productivity, etc.—may have more beneficial effects on regional food security.

c) *Co-operation in the field of energy*

It would be hard to overlook the supreme significance of the energy question in the study of the dynamics and orientation of Latin America's economic development. The importance of hydrocarbons in fuel supplies and their rising costs on the world market have involved, for many countries, familiar problems in the shape of trade deficits, inflationary pressures and inadequate supplies of fuel.

The inescapable need to diversify sources of energy has a variety of repercussions on the patterns of Latin America's future development. The lengthy period during which the world enjoyed mass supplies of petroleum at unjustifiably low prices whipped up a wave of products deriving from the petrochemical industry—or containing various inputs of petrochemical origin—, such as plastics, detergents, fertilizers and various types of man-made fibres. The greater part of overland, air and maritime transport was based on fuels obtained from petroleum, and many of the technologies applied in the construction of housing and in the production of durable goods made abundant use of materials of petrochemical origin. The preference for private cars, and the types of material used as inputs in their production, are of course among the consequences of the past era of cheap petroleum.

Coal, natural gas and various organic compounds of agricultural origin are competing with petroleum in the generation of fuels for internal-combustion engines and in the processing of materials which used to be the exclusive domain of the petrochemical industry. Similarly, solar, aeolian and nuclear energy are gaining ground in the energy panorama of today.

In the case of Latin America, a separate paragraph is deserved by the generation of hydroelectric energy, in view of the immense potential available.

Impressive progress has been made on some of these fronts during the past decade; cases in point are the Itaipú, Yacyretá and Salto Grande projects, and others envisaged in the field of joint utilization of hydro resources.

Great strides have also been made in respect of petroleum. The PETROLATIN project sponsored by the petroleum enterprises of Brazil, Mexico and Venezuela, as well as the association between Mexico and Venezuela is an aid programme for supplying petroleum to Central America and the Caribbean (San José Agreement), are examples of what Latin America can do in the sphere of energy, given the necessary political will on the part of its governments.

The development of energy resources on bilateral, multinational or regional bases is not easy to concert, but may have beneficial repercussions on the profitability of investment and security of supplies.

In the area of hydroelectric energy, Latin America was utilizing, at the end of the 1970s, less than 10% of its available potential. There is an obvious need to advance along this path by establishing co-operation systems for the evaluation and planning of hydroelectric resources; for the more efficient utilization, management and conservation of hydrographic basins pertaining to two or more countries; for the interconnection of hydroelectric systems; for the development of the engineering and of the firms of consultants that these purposes require; for the improvement of bargaining capacity in respect of the purchase of equipment not available in Latin America; for the training of personnel in the hydropower area, etc.

For many of these objects of concern provision is made in a Latin American programme

on co-operation in the field of energy (Programa Latinoamericano de Cooperación Energética - PLACE), adopted at a meeting at ministerial level of the Latin American Energy Organization (Organización Latinoamericana de Energía - OLADE) held in Santo Domingo in 1981. It should be mentioned that OLADE—which co-ordinates the activities of PLACE—was founded in 1973, before the outbreak of the petroleum crisis, thus giving proof of early regional concern with the energy problem. Today, in the era of the quest for new sources of energy, the role of OLADE is revitalized in everything relating to regional co-operation in this field.

d) *Final considerations*

Unquestionably, the areas of co-operation described above are only some of the spheres in which concerted regional action can be taken to the benefit of the economic security of the Latin American countries and of the fuller and more diversified development of their production systems. At all events, the areas selected—trade, financing, food and energy—are the cornerstones of any programme aimed at reducing the region's external vulnerability. The capital goods industry, too, is one of the least advanced branches of production in the Latin American manufacturing sector, so that its development should be made one of the key objectives of regional co-operation.

It would seem inappropriate to bring this essay to an end without first stressing an aspect which has traditionally hindered the multilateral undertakings upon which Latin America has embarked: i.e., the well-known heterogeneity of the countries forming the region. The inequalities in the extent of their territories and in the size of their populations, as well as the differences in their degrees of development and their institutional and political structures make it essential to take a realistic view of the effective capacity for concerted action of this part of the developing world. At all events, as these characteristics not only exist but have been gradually aggravated in the course of Latin America's history, it is possible that the force of circumstances created by the crisis may induce governments and peoples to adopt a more 'Latin-Americanist' position, which will enable the region to surmount the obstacles raised by heterogeneity and make unhampered use of its joint potentialities.

This will mean that in programming to find a way out of the economic and social emergency priority will have to be given to considering the situation of the economically less developed Latin American countries, so that they may not be so much harder hit by the crisis than the rest, and proof may be afforded that the solidarity asked from the developed world also 'begins at home'.