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**ECONOMIC SURVEY
OF LATIN AMERICA
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INTRODUCTION

The two parts of the present *Economic Survey* differ in character, but they complement each other in presenting an up-to-date view of the salient features and trends of Latin American development.

Part One comprises a kind of balance-sheet of some of the main aspects of the Latin American economy at the end of this decade, comparing the present magnitudes with the trends they have followed in recent years. Now is the right moment to present such a balance, when there is an evident desire for a critical examination of the guide lines and objectives of development policy, not only for the sake of a deeper interpretation and understanding of the problems of under-development, but also to encourage the efforts now being made to launch the second Development Decade.

Part Two is essentially a review of developments in 1968 in the region as a whole and in each individual country. As in previous *Surveys*, its purpose is to present a systematic compilation of data and information on the short-term changes and, in general, the main characteristics of recent economic development.

Although the two parts have different aims, a study of both provides a basis for evaluating recent events in the light of longer-term prospects and, at the same time, for observing how some structural factors are becoming more important while others are changing in their effect on the course of economic development. In more direct terms, the 1968 results were in general most favourable, but, for the appraisal to be accurate, the fact that some of the determining factors were entirely fortuitous must not be overlooked. For example it is necessary to bear in mind that this is not the first time that some areas of the economy have expanded or been relatively prosperous. The last few decades have witnessed other situations of the same kind, but they seldom marked the beginning of a lasting trend. Moreover, data covering a short span should be evaluated within a broader perspective which would reveal the outstanding structural features of the period and, therefore, of the kind of situation that is characterizing, or taking shape at, the end of the decade. Naturally, the elements of flexibility that seem to emerge from recent experience must not be under-estimated in this appraisal either.

CONTENTS

Notes and explanation of symbols	<i>Page</i> ix
--------------------------------------------	-------------------

Part One

SOME ASPECTS OF THE LATIN AMERICAN ECONOMY TOWARDS THE END OF THE NINETEEN-SIXTIES

Chapter

I. POPULATION, INCOME AND EMPLOYMENT	
1. Population	3
2. Level, composition and distribution of the product and income	8
3. Employment problems	21
<i>Appendix: Criteria for the conversion into dollars of income figures expressed in terms of Latin American currency units.</i>	33
<i>Mathematical appendix.</i>	36
 II. THE REGIONAL DISTRIBUTION OF ECONOMIC ACTIVITIES	
1. Background information	37
2. Characteristics of geographical concentration	38
3. Some examples of regional development in Latin America	45
4. Regional development prospects and policies	50
 III. THE EXTERNAL SECTOR	
1. Characteristics and trends of foreign trade	57
2. The balance of payments and movement of capital	85
 IV. THE PUBLIC SECTOR	
1. Resources channelled through the public sector	101
2. The institutional organization of the public sector	105
3. The capacity for planned decision-making	108

Part Two

ECONOMIC TRENDS IN 1968

I. RECENT ECONOMIC TRENDS	
1. An over-all appraisal	113
2. Supply and demand: growth rate and changes	116
3. Major sectors of economic activity	120
4. The external sector	133

II. ECONOMIC TRENDS BY COUNTRIES

Argentina

Recent economic trends	150
Major production sectors	151
Prices, wages and employment	152
Public sector	153
The external sector	154

Barbados

Recent economic trends	155
The external sector	156

Bolivia

Recent economic trends	158
Trends in selected production sectors	159
The public sector	160
The external sector	160

Brazil

General characteristics	161
Major sectors of activity	163
Economic policy aspects	164
The external sector	166

Colombia

Over-all trends.	167
The major sectors of production	168
The external sector	168
Some features of short-term economic policy	169

Costa Rica

General features	170
Agricultural and industrial production	172

Chile

Main economic trends in 1968	173
Major sectors of production	174
Total supply and demand	175
Domestic prices	175
The external sector	176

Ecuador

General characteristics of economic trends in 1968	176
The trend of the product	178
Public revenue and expenditure	179
The external sector	179

<i>El Salvador</i>									
Recent over-all trends	.	.	.	.	.	.	.	.	180
Major sectors of production of goods	.	.	.	.	.	.	.	.	181
Staple export products	.	.	.	.	.	.	.	.	183
<i>Guatemala</i>									
Recent economic trends	.	.	.	.	.	.	.	.	183
The major goods-producing sectors	.	.	.	.	.	.	.	.	184
Export products	.	.	.	.	.	.	.	.	185
<i>Guyana</i>									
Recent economic trends	.	.	.	.	.	.	.	.	186
<i>Haiti</i>									
	.	.	.	.	.	.	.	.	188
<i>Honduras</i>									
Recent economic trends	.	.	.	.	.	.	.	.	189
Major production sectors	.	.	.	.	.	.	.	.	191
The public sector	.	.	.	.	.	.	.	.	192
<i>Jamaica</i>									
Main production sectors	.	.	.	.	.	.	.	.	193
The external sector	.	.	.	.	.	.	.	.	194
<i>Mexico</i>									
Recent economic trends	.	.	.	.	.	.	.	.	195
Foreign trade and the balance of payments	.	.	.	.	.	.	.	.	197
Major goods-producing sectors	.	.	.	.	.	.	.	.	198
<i>Nicaragua</i>									
General trends	.	.	.	.	.	.	.	.	201
Major economic sectors	.	.	.	.	.	.	.	.	202
Fiscal and credit policy	.	.	.	.	.	.	.	.	203
<i>Panama</i>									
Over-all economic trends	.	.	.	.	.	.	.	.	204
Foreign trade and the balance of payments	.	.	.	.	.	.	.	.	205
Production	.	.	.	.	.	.	.	.	206
<i>Paraguay</i>									
General trends	.	.	.	.	.	.	.	.	208
Major sectors of production	.	.	.	.	.	.	.	.	209
The external sector	.	.	.	.	.	.	.	.	210

<i>Peru</i>	
Recent economic trends	210
Evolution of the product, by sectors	211
The public sector	213
Some objectives of economic policy	214
The external sector	214
<i>Dominican Republic</i>	
Over-all trends.	216
Sectoral production trends	217
The external sector	218
<i>Trinidad and Tobago</i>	
Main production sectors	219
The external sector	221
Consumption, savings and investment	221
Population and employment	223
Wages and prices	223
Some economic policy guidelines	224
<i>Uruguay</i>	
Recent economic trends	224
Major sectors of activity	225
Principal economic policy measures	226
The external sector	227
<i>Venezuela</i>	
General features	227
Major sectors of economic activity	227
Fiscal situation	229
Composition of total demand	229
The external sector	230

NOTES AND EXPLANATION OF SYMBOLS

The following symbols have been used throughout this *Survey*:

Three dots (...) in the tables indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A space () in a table indicates that the article is not applicable.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1966/67.

Use of a hyphen (-) between dates representing years, e.g., 1960-65, normally signifies an annual average for the calendar years involved, including the beginning and the end years; growth rates refer to the cumulative annual rates for the whole period, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

Figures and percentages in tables do not necessarily add up to the totals, because of rounding.

In order to keep the English text in line with the original Spanish, countries are given in the Spanish alphabetical order throughout the text.

The initials "ECLA" refer to the Economic Commission for Latin America.

Part One

SOME ASPECTS OF THE LATIN AMERICAN
ECONOMY TOWARDS THE END OF THE
NINETEEN-SIXTIES

Chapter I

POPULATION, INCOME AND EMPLOYMENT

1. POPULATION

(a) Population size and growth

By 1970 the population of Latin America will be nearly 280 million, and its share of the world population will be close to 8 per cent.

As the population of the region was less than 90 million in 1920, this means that it has more than trebled in the last fifty years, whereas the world population has not even doubled in the same lapse of time (see table 1). Latin America is thus the region where the most rapid demographic growth has taken place, and the rate still continues to outstrip that of any other part of the world.

To make a more accurate diagnosis, a closer study is required of over-all population trends in each of the last few decades, and of trends in the individual countries, since the changing angle of observation reveals highly significant differences.

The growth rate of the population of the region as a whole was particularly rapid during the nineteen-forties and fifties, and soared so high that it has risen relatively little during the present decade. Between 1920 and 1930 the over-all increment was 20.9 per cent. This proportion dropped slightly during the thirties to 20.7 per cent, but expanded in the forties to 26 per cent

and increased equally quickly during the fifties, when it was 31.2 per cent. In the sixties the increase will have been about 32.5 per cent (see figure I).

This recent deceleration has taken place at very high levels of natural growth, but even so it is significant in itself and in relation to the world total. During the twenties and thirties, the rate of population growth in Latin America was almost twice as high as the world rate, and more than two and a half times as high as in the forties. In the last twenty years, however, it has only been about 60 per cent higher. These changes in the ratio of the growth rates have been partly due to the acceleration of population growth in other under-developed regions, which, with a time-lag of one or two decades, are repeating the process that began in Latin America thirty years ago.¹

¹In Africa and Asia the sharp acceleration took place mainly in the fifties. A comparison of the periods 1940-50 and 1950-60 shows that the ten-year rate of population growth rose from 7.9 to 16 per cent in East Asia, from 14.2 to 24.2 per cent in South Asia and from 15.7 to 23.2 per cent in Africa. The acceleration was shorter-lived than in Latin America, since the ten-year rate of increase has dropped to 14.7 per cent in East Asia during the sixties, and has risen more slowly in South Asia and Africa (to 27.9 and 26.8 per cent respectively).

Table 1. Estimates of world population by major regions, 1920-70
(Thousands of persons)

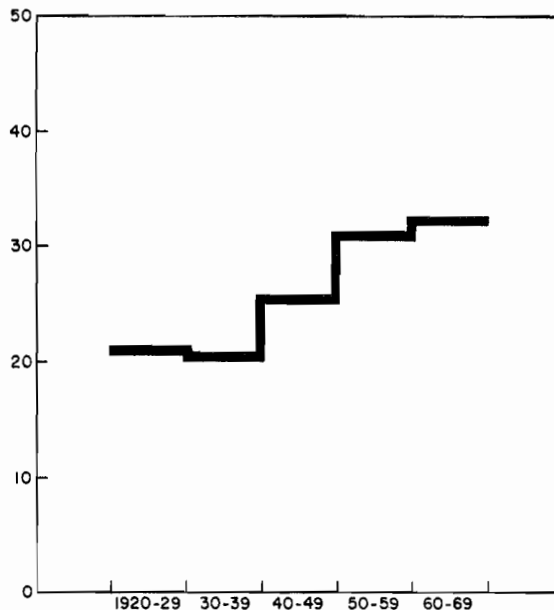
Region	1920	1930	1940	1950	1960	1970
East Asia	553,345	591,244	634,420	684,353	794,144	910,524
South Asia	469,770	528,964	609,993	696,722	865,247	1,106,905
Europe	324,800	353,947	378,920	391,717	424,657	453,918
Soviet Union	155,300	179,000	195,000	180,000	214,400	245,700
Africa	142,921	163,846	191,458	221,538	272,924	345,949
North America	115,661	134,166	144,342	166,073	198,664	226,803
Latin America ^a	88,854	107,408	129,589	163,338	214,321	283,975
Oceania	8,521	10,044	11,060	12,677	15,713	18,711
TOTAL	1,859,172	2,068,619	2,294,782	2,516,418	3,000,070	3,592,485

SOURCES: Latin America: Latin American Demographic Centre (CELADE), *Boletín Demográfico*, Year 2, vol. III (Santiago, Chile, January 1969). Other regions: *World population prospects assessed in 1963* (United Nations publications, Sales No.: 66.XIII.2), tables 3.1 and 3.2.

^aIncluding, in addition to the twenty countries which traditionally make up Latin America, the following countries and territories: Netherlands Antilles, Bahamas, Barbados,

Guadeloupe, French Guiana, Guyana, British Honduras (Belize), Cayman Islands, Leeward Islands (Antigua, Montserrat, St. Kitts-Nevis-Anguilla and the British Virgin Islands), the Falkland Islands, the Turks and Caicos Islands, the United States Virgin Islands, the Windward Islands (Dominica, Grenada, St. Lucia and St. Vincent), Jamaica, Martinique, Puerto Rico, Surinam, Trinidad and Tobago, and the Panama Canal Zone.

Figure I. Latin America: changes in the population growth rate
(Ten-year percentages)
Natural Scale



Within Latin America, population growth has varied widely from one country to another. The populations of Venezuela and Costa Rica in 1970 will be nearly four and one third times as large as in 1920, while that of Uruguay will have barely doubled. Apart from these extreme cases, there are only two countries—the Dominican Republic and Guatemala—in which the population will have increased more than three and a half times in relation to its 1920 level, and in two others—Haiti and Bolivia—it will have increased less than two and a half times. In thirteen countries² which, by 1970, will have nearly 85 per cent of the total regional population, the number of inhabitants will be two and a half to three and a half times as great as in 1920 (see table 2).

Despite these wide differences in growth, some of the long-term trends are remarkably similar. In most countries, the rate of growth of population has been steadily gathering speed since 1920, but in at least eight, relative stagnation or a decline has set in at different points in the post-war period (see table 3).

With the exception of Argentina, Brazil, Chile, Cuba, Uruguay and Venezuela, where international migration has been an important factor in population growth during certain periods at

least—the trends in other Latin American countries³ since the beginning of the century have been largely the product of the drop in the death rate and the maintenance of a high level of fertility. The information available indicates that the crude birth rate in such countries has remained more or less constant at 40 to 50 per 1,000 and the pattern of fertility seems to have changed very little. The small variations detectable in the over-all trend are unlikely to reflect real changes in fertility, and the slight rise in the rates in certain countries, especially after 1950, may be due to one or more of the following factors: better record-keeping, better health conditions, an increasingly small proportion of widows of child-bearing age, more stable marriages and changes in nuptiality. The slight downward trend in some countries' rates at certain times may be attributable to changes in the age structure of the population as a result of the drop in mortality.

The crude mortality rates at the beginning of the century probably ranged from 30 to 35 per 1,000. Since then, they have been dropping steadily at varying speeds depending on the country and period concerned, and are now at a much lower level in most countries. In Colombia, the Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay and Peru, the rates in 1960-65 (12 to 17 per 1,000) were probably less than half the rates around the turn of the century. The reduction in mortality was no doubt a good deal less in several countries; in 1960-65 the rates in Guatemala (18-20 per 1,000), Bolivia (20-22 per 1,000) and Haiti (20-24 per 1,000) were still very high. In a third group of countries there was a much greater drop; in Chile, Costa Rica, Mexico and Panama, the death rates fell to levels of 8 to 12 per 1,000 in 1960-65, that is, to about a third of their magnitude in 1900.

There are signs that the decrease in mortality was not evenly spread over the period under consideration. In general, it was slow and steady up to about 1930, but then picked up speed slightly to the end of the Second World War and has since been much faster.

In Chile, the acceleration of population growth as a result of the falling death rate was slowed down by a marked drop in fertility, which had its own special characteristics. At the beginning of the century, the birth rate was probably more than 45 per 1,000. From then

²Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru.

³Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru.

Table 2. Latin America: total population by countries, 1920-70
(Thousands of persons)

Country	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965	1970
Argentina .	8,861	10,358	11,896	13,044	14,169	15,390	17,085	18,908	20,850	22,545	24,352
Bolivia .	1,918	2,022	2,153	2,314	2,508	2,740	3,013	3,322	3,696	4,136	4,658
Brazil .	27,404	30,332	33,568	37,150	41,233	46,126	52,326	60,586	70,327	80,953	93,244
Chile .	3,783	4,084	4,424	4,778	5,147	5,556	6,058	6,823	7,683	8,708	9,780
Colombia .	6,057	6,669	7,350	8,147	9,077	10,202	11,629	13,516	15,877	18,692	22,160
Ecuador .	1,898	2,009	2,160	2,352	2,586	2,868	3,207	3,709	4,323	5,098	6,028
Paraguay .	699	785	880	988	1,111	1,213	1,337	1,526	1,740	2,041	2,419
Peru .	4,862	5,229	5,651	6,134	6,681	7,285	7,969	8,790	10,024	11,649	13,586
Uruguay .	1,391	1,538	1,704	1,836	1,947	2,060	2,198	2,366	2,542	2,718	2,889
Venezuela .	2,408	2,650	2,950	3,300	3,710	4,335	5,330	6,405	7,740	9,113	10,755
SUB-TOTAL	59,281	65,678	72,736	80,043	88,169	97,775	110,152	125,951	144,802	165,653	189,871
Costa Rica .	421	456	499	551	619	717	849	1,020	1,233	1,490	1,798
El Salvador .	1,168	1,301	1,443	1,531	1,633	1,753	1,922	2,210	2,512	2,917	3,441
Guatemala .	1,450	1,532	1,771	1,996	2,201	2,594	2,907	3,336	3,868	4,497	5,179
Honduras .	783	862	948	1,027	1,119	1,236	1,389	1,581	1,849	2,182	2,583
Nicaragua .	639	687	742	809	893	999	1,133	1,292	1,501	1,745	2,021
SUB-TOTAL	4,461	4,838	5,403	5,914	6,465	7,299	8,200	9,439	10,963	12,831	15,022
Cuba .	2,950	3,364	3,837	4,221	4,566	4,932	5,520	6,133	6,819	7,553	8,341
Dominican Republic .	1,140	1,258	1,400	1,567	1,759	2,002	2,303	2,673	3,129	3,671	4,348
Haiti .	2,124	2,260	2,422	2,610	2,825	3,085	3,380	3,727	4,138	4,633	5,229
Mexico .	14,500	15,204	16,589	18,089	19,815	22,841	26,640	30,798	36,046	42,696	50,718
Panama .	429	464	502	524	595	675	765	882	1,021	1,197	1,406
SUB-TOTAL	21,143	22,550	24,750	27,011	29,560	33,535	38,608	44,213	51,153	59,750	70,042
SUB-TOTAL 20 COUNTRIES	84,885	93,066	102,889	112,968	124,194	138,609	156,960	179,603	206,918	238,234	274,935
Other countries and terri- tories ^a .	1,694	1,770	1,882	2,052	2,245	2,447	2,684	2,948	3,240	3,598	3,996
TOTAL	86,579	94,836	104,771	115,020	126,439	141,056	159,644	182,551	210,158	241,832	278,931

SOURCE: Latin American Demographic Centre (CELADE), *Boletín Demográfico*, Year 2, vol. III (Santiago, Chile, January 1969), table 1.
^a Barbados, Guyana, Jamaica and Trinidad and Tobago.

Table 3. Latin America: average annual growth rate of population by five-year periods, 1920-70

Country	1920-25	1925-30	1930-35	1935-40	1940-45	1945-50	1950-55	1955-60	1960-65	1965-70	1967-68
Argentina .	3.17	2.81	1.86	1.67	1.67	2.11	2.05	1.97	1.58	1.55	1.55
Bolivia .	1.06	1.26	1.45	1.62	1.78	1.92	1.97	2.16	2.27	2.41	2.52
Brazil .	2.05	2.05	2.05	2.11	2.27	2.55	2.97	3.03	2.85	2.87	2.86
Chile .	1.54	1.61	1.55	1.50	1.54	1.74	2.41	2.40	2.54	2.35	2.34
Colombia .	1.94	1.96	2.08	2.18	2.36	2.65	3.05	3.27	3.32	3.46	3.46
Ecuador .	1.14	1.46	1.63	1.92	2.09	2.26	2.95	3.11	3.35	3.41	3.39
Paraguay .	2.35	2.31	2.34	2.37	1.77	1.97	2.68	2.66	3.24	3.46	3.48
Peru .	1.47	1.56	1.65	1.72	1.75	1.81	1.98	2.66	3.05	3.12	3.12
Uruguay .	2.03	2.07	1.50	1.18	1.13	1.31	1.48	1.45	1.35	1.23	1.22
Venezuela .	1.93	2.17	2.27	2.37	3.16	4.22	3.74	3.86	3.32	3.37	3.36
Costa Rica .	1.61	1.82	2.00	2.35	4.65	3.44	3.74	3.87	3.86	3.83	3.80
El Salvador .	2.18	2.09	1.19	1.30	1.43	1.86	2.83	2.59	3.04	3.36	3.37
Guatemala .	1.11	2.94	2.42	1.97	3.34	2.30	2.79	3.00	3.06	2.86	2.84
Honduras .	1.94	1.92	1.61	1.73	2.01	2.36	2.62	3.18	3.37	3.43	3.43
Nicaragua .	1.46	1.55	1.74	2.00	2.27	2.55	2.66	3.04	3.06	2.98	2.97
Cuba .	2.66	2.67	1.93	1.58	1.55	2.28	2.13	2.14	2.07	2.00	2.00
Dominican Republic .	1.99	2.16	2.28	2.34	2.62	2.84	3.02	3.20	3.25	3.44	3.44
Haiti .	1.25	1.39	1.51	1.60	1.78	1.84	1.97	2.11	2.29	2.45	2.41
Mexico .	0.95	1.76	1.75	1.84	2.88	3.12	2.94	3.20	3.44	3.50	3.50
Panama .	1.58	1.59	0.86	2.57	2.55	2.53	2.89	2.97	3.23	3.27	3.21

SOURCE: Latin American Demographic Centre (CELADE), *Boletín Demográfico*, Year 2, vol. III (Santiago, Chile, January 1969), table 1.

onwards it gradually declined, and by 1935-39 drew virtually to a standstill at 37 to 38 per 1,000. It is only very recently that the downward trend of fertility has shown signs of resuming.

In Argentina and Uruguay, population growth has been conditioned by similar factors since the beginning of the century. In both, international migration has played an important part during certain periods, and the trends of their birth and death rates have also been very much alike.

In Argentina, the birth rate, which is thought to have begun to drop before the end of the nineteenth century, continued to fall slowly until the middle of the decade 1910-20, when it was less than 40 per 1,000. Thereafter it declined much more quickly and by the second half of the thirties stood at 25 per 1,000. It oscillated around this figure until 1958, when it took a further downward turn, and is estimated to have reached 22 or 23 per 1,000 in 1960-65. Mortality also began to decline before 1900, and by then was already probably less than 25 per 1,000. The rate has since dropped slowly but surely, and by the end of the twenties it was less than 13 per 1,000. The decline was fairly slow after that because of the low level already reached and the aging of the population. The crude death rate in 1960-65 is estimated to have been 7 to 8 per 1,000. In Uruguay the birth and death rates have followed the same trends as in Argentina, but at lower levels.

Population trends in Cuba since the beginning of the century have been similar to those of Argentina and Uruguay in various aspects. International migration has played a major part in population growth. It is the third Latin American country after Argentina and Uruguay to have a birth rate of less than 30 per 1,000, and during the period under study the death rate dropped to under 10 per 1,000.

International migration has recently become an important factor in Venezuela as well. Before the Second World War, it contributed little to the growth of the population, but between 1945 and 1950 as many as 400,000 immigrants entered the country. This influx, combined with domestic factors, led to a continued increase in the average annual growth rate of the population which rose to nearly 4 per cent in 1950-55 and 1955-60. Except in this respect, population growth trends were similar to those of most Latin American countries. The birth rate has remained at a very high level close to that of natural fertility since the beginning of the century. Consequently, the dynamic factor responsible for the increasingly rapid growth of the population has been mortality. The decline in the death rate was very gradual up to about

1920, it quickened between 1920 and 1935 and slackened off again up to 1945. From then on, it dropped rapidly until it was less than 10 per 1,000 after 1960. As a result of these birth and death trends, the rate of natural population growth rose gradually from under 1.5 per cent at the start of the century to more than 2 per cent in 1925-30 and over 3 per cent in 1945-50, and has now exceeded 3.5 per cent.

After 1900, population growth in Brazil was almost entirely natural. At the beginning of the century, the rate was less than 19 per 1,000, and then increased very slowly, being still under 2 per cent in 1930-35 and in later years as well. It rose a little more rapidly afterwards, but was still less than 2.4 per cent in 1945. It subsequently gathered more speed, but now seems to have become static at a maximum of about 3 per cent annually. This trend was the outcome of the changes in the birth and death rates, which had contradictory effects. The birth rate declined slowly from about 45 per 1,000 in 1900-20 to roughly 40 per 1,000 in 1960, but the reduction in natural growth as a result of the decline counted for little against the effect produced by much sharper declines in the death rate after 1930 and, more particularly, 1945. Migration played only a minor role in the growth of the population. From 1850 to 1950 about 4.8 million persons emigrated to Brazil. About three quarters of them made their home there and, with their descendants, added approximately 6.8 million to the population, that is, about 15 per cent of the population increase during that period.⁴ The flow of immigrants increased gradually until it reached its height in 1890 to 1900, when it accounted for 25 per cent of the total population increment. From 1900 onwards, the slackening of the influx of immigrants and the ever-increasing size of the population reduced the relative contribution of the former. In 1900-40, they represented less than 10 per cent of the over-all population increment.⁵ Immigration dwindled to a trickle in 1930-40 and was negligible during the forties. After 1950 it increased again and between 1950 and 1960 nearly 600,000 immigrants are estimated to have entered the country. Although, in absolute terms, this figure is comparable to or even greater than earlier influxes, it represented less than 4 per cent of the over-all increase in the population in 1950-60.

⁴G. Mortara, "The development and structure of Brazil's population", *Population Studies*, vol. VIII, No. 2 (London, November 1954).

⁵Ministry of Planning and Economic Co-ordination, *Plano decenal de desenvolvimento econômico e social, Demografia, Diagnóstico preliminar* (August 1966), table 3, p. 39.

To sum up, the data available indicate that the role played by the factors that quicken the tempo of population growth varies widely in the different countries. In some—Argentina and Uruguay, and Cuba to a lesser extent—the birth rate has been dropping steadily for some time; in others, notably Brazil and Chile, the decline has been slower and the present rates are still quite high. Many countries show no clear-cut trends and rates have fluctuated at fairly high levels. Death rate trends have been somewhat similar; in some countries they fell most sharply several decades ago and subsequently dropped fairly slowly, while in several, the greatest reduction took place in the forties and fifties, and in others again, among which Colombia, Ecuador, Honduras, Nicaragua, Paraguay and Peru must be counted, there have been substantial decreases during the sixties.

When the data are grouped by five-year periods, it is exceptional to find an increase in the birth rate, and the prevailing trend seems to be downward. Death rates are becoming increasingly uniform throughout the region, and are already low enough for subsequent decreases to be necessarily much smaller. The net result is that the rising tempo of demographic growth has slowed down in the sixties.

(b) *Composition and distribution of the population*

It is useful to supplement this general picture of population growth by brief references to two other aspects which are typical of the demographic situation in Latin America: the age structure of the population and its distribution in urban and rural areas.

The main reason for the young age structure of the Latin American population, that is, the large proportion of persons under 15 years old, has been the maintenance of high birth rates. The rapid drop in the death rate has also helped to make the age structure slightly more youthful since the beginning of the century.

Some projections for 1970 indicate that about 42 per cent of the whole population of Latin America will be under fifteen years of age, while old people (65 years and over) will represent 4 per cent; therefore the proportion of economically active population will be close to 54 per cent (see table 4). Of course, these general proportions differ appreciably from country to country. The under-fifteen age group is smallest in countries which have the lowest birth rates (28.2 per cent in Uruguay, 29.3 per cent in Argentina, and less than 40 per cent in Chile and Cuba) and larger than average in countries which continue to record higher birth rates (about 47 per cent in

Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador and Nicaragua). The opposite is true of the proportion of old people. Compared with the low regional average (3.8 per cent), it is 4.6 per cent in Chile, 7.3 per cent in Argentina and 8.6 per cent in Uruguay, the country with the lowest birth rate in the region. Thus, the lower proportion of children in these countries is in some degree offset by the larger number of old people.

Table 4. Latin America: projected structure of the population in twenty countries by age groups, 1970

	Number of persons (thousands)	Structure (percentage)
Total population .	214,935	100.0
Up to 14 years .	116,631	42.4
15 to 64 years .	147,997	53.8
65 years and over .	10,307	3.8

SOURCE: CELADE.

In brief, outstanding differences may be noted between Latin America and other regions as regards the "dependency rates" involved in this age structure. A more accurate interpretation of the significance of these rates requires, however, that other important factors be considered. For example, in developing countries with a high fertility rate, the inhabitants usually start work at an early age and seldom retire before they are quite old. In Latin America itself, notwithstanding the serious unemployment and under-employment problems, it is estimated that more than three quarters of the 15 to 19 age group and about 70 per cent of those aged 65 years and over are economically active. Factors such as these, which are linked to the relatively low index of years of schooling and the inadequacy or inefficiency of the social security systems, partly mitigate the effects of the relatively small proportion of the population that is of working age, from the standpoint of the significance attached to the concept of the dependency rate.

The distribution of the population in Latin America is the most important demographic variable within the characteristics of development peculiar to the region. The intensive scale of rural-urban migration, combined with the type of income distribution and the general conditions of social organization and structure, has been the main cause of problems such as marginality and under-employment.

As this topic is examined more thoroughly in chapter II, it will be enough to give some of the main conclusions here. The first fact to emerge is that towards the end of the present decade the Latin American population will be mainly urban: some 55 per cent will be living in centres of more

than 2,000 inhabitants. Secondly, this is not only a general process of urbanization; there is also a definite trend towards an increasing and disproportionate concentration in specific metropolitan areas, while the smaller urban centres are growing much more slowly. If these trends continue up to 1980, at least half the population of nearly all the Latin American countries would be concentrated in cities of over 20,000 inhabitants, and, of that number, more than half would live in urban centres of over half a million inhabitants.

These changes in the distribution of the population also have an important impact on the age structure of the population when urban and rural areas are considered separately, since it is mostly the young adult population which migrates. The information available on annual rates of migration by age and sex in a number of countries shows that in both the male and the female population the highest migration rates apply to groups ranging from 10 to 35 years of age, while the rates for old people are much lower and in some cases negligible.⁶

(c) *Effect of economic and social factors on demographic parameters*

The demographic situation described above is closely bound up with other basic structural factors and economic and social changes in the region. Thus in many cases the population indexes themselves, as defined for the population as a whole, are not sufficiently representative, and some significant distinctions must therefore be made.

This is true, for example, of the mortality rates, whose reduction does not affect all sectors of the population with the same intensity. When the improvement of the rate depends on the extension of fairly low-cost public health services and methods of disease control, as a result of technological advances in this field, the effects are felt by the whole or at least the majority of the population. This does not happen, however, when the causes of death lie in the living levels of specific population groups, particularly nutrition levels and conditions of environmental hygiene. In these circumstances, high rates of infant morbidity and mortality are found among a large proportion of both the rural and the urban population. Moreover, once the critical stage for infants is past, these sectors are less able to adapt themselves biologically, physically and

intellectually, for reasons which are beyond the sphere of action of the public health services.

The same applies to the fertility rates. Generally speaking, the birth rate of urban families is much lower than that of rural families. There are marked differences in the birth rates according to employment, and there is a clear relationship between the birth rate and specific socio-economic categories or sectors of the population classified by income levels, of which the middle-income groups tend to have the lowest birth rates.

2. LEVEL, COMPOSITION AND DISTRIBUTION OF THE PRODUCT AND INCOME

(a) *The product and its growth*

Towards the end of the nineteen-sixties the over-all regional product will amount to some 130,000 million dollars, which, in per capita terms, will be an average of 510 dollars.⁷

In absolute figures, this is a considerable improvement on the situation immediately after the Second World War and in the early nineteen-sixties. In 1950, the total product was 53,700 million dollars (excluding Cuba, Barbados, Guyana, Jamaica and Trinidad and Tobago) while, by 1960, it had climbed to 88,000 million dollars, representing average per capita figures of 355 and 433 dollars respectively. However, this substantial improvement hides very modest annual rates of growth, and has not been enough to maintain Latin America's former position in the world economy.

Some world figures for 1960 and 1967 (excluding the centrally planned economies) indicate that the average per capita increase in the product was 2.8 per cent annually during that period. It was divided into an average rate of 3.7 per cent

⁶ Among other studies, see Juan C. Elizaga, "Internal migration in Latin America", *Milbank Memorial Fund Quarterly, Components of population change in Latin America*, vol. XLIII, No. 4 (October 1965), part 2, pp. 145-165.

⁷ These are dollars at 1960 prices and estimates based on different factors from those used in former *Economic Surveys* to convert Latin American currencies into dollars. In the appendix to this chapter, the reasons for the change have been set forth and an account given of the information and methods used for calculating the new ratios. Mention has also been made of the statistical and conceptual reservations that must be made if the figures are to be properly interpreted. The purchasing power equivalents of Latin American currencies in terms of dollars at 1960 values are as follows (in monetary units per dollar): Argentina, 56.03 Argentine pesos; Bolivia, 7.80 Bolivian pesos; Brazil, 105.50 cruzeiros; Chile, 0.985 escudos; Colombia, 5.08 Colombian pesos; Costa Rica, 5.01 Costa Rican colones; Dominican Republic, 0.98 Dominican pesos; Ecuador, 11.39 sucres; El Salvador, 2.04 Salvadorian colones; Guatemala, 0.91 quetzales; Haiti, 3.77 gourdes; Honduras, 1.90 lempiras; Mexico, 8.23 Mexican pesos; Nicaragua, 6.48 córdobas; Panama, 0.87 balboas; Paraguay, 78.32 guaraníes; Peru, 16.83 soles; Uruguay, 7.10 Uruguayan pesos; Venezuela, 4.60 bolívares.

for the developed regions and of only 2.5 per cent for the under-developed nations as a whole, to which Latin America's contribution was as little as 1.7 per cent (see table 5). Allowing for the difference in levels, these estimates suggest that in 1960 the per capita product of the developed areas was just under ten times as much as for the under-developed regions, and had increased to 10.7 times as much by 1967, while, in relation to Latin America, it rose from 3.7 to 4.2 times as much in the same lapse of time.

Although Latin America's relative loss of ground is partly attributable to the rising rate of population growth, it has in any case been large enough to reduce the region's share of the overall world product.

The Latin American countries themselves differ widely, both in the absolute levels of their per capita product and in recent trends.

Forecasts for the end of the sixties show wide oscillations around an average annual figure of 512 dollars for the per capita product, from the lowest extreme of 85 dollars in Haiti to the maximum of 950 dollars in Argentina. Nine countries would be above the average. In descending order, they are Argentina, Venezuela, Panama, Uruguay, Mexico, Chile, Trinidad and Tobago, Costa Rica and Jamaica. Fourteen would be below the average, namely, Peru, Brazil, Barbados, Colombia, Guatemala, El Salvador, Nicaragua, Ecuador, Guyana, Paraguay, Hon-

duras, Dominican Republic, Bolivia and Haiti (see table 6).

Table 6. Latin America: estimates of the total and per capita product towards the end of the nineteen-sixties
(Dollars at 1960 prices)

Country	Total product (millions of dollars)	Per capita product (dollars)
Argentina	22,529	950
Barbados	99	371
Bolivia	923	203
Brazil	34,398	379
Chile	6,411	671
Colombia	7,860	367
Costa Rica	990	570
Dominican Republic	974	233
Ecuador	1,901	323
El Salvador	1,161	349
Guatemala	1,842	359
Guyana	235	320
Haiti	436	85
Honduras	621	247
Jamaica	1,015	559
Mexico	33,108	677
Nicaragua	675	344
Panama	1,008	740
Paraguay	627	272
Peru	5,929	450
Trinidad and Tobago	710	648
Uruguay	2,025	710
Venezuela	8,809	878
TOTAL	134,286	512

SOURCE: ECLA estimates.

Table 5. Trends of the per capita product by economic regions,^a 1960 and 1967
(Dollars at 1960 prices and thousands of persons)

Region or country	1960			1967			Annual growth rate of per capita product
	Gross domestic product (millions)	Population	Per capita product	Gross domestic product (millions)	Population	Per capita product	
<i>Developed</i>							
Western Europe	304,102	259,560	1,172	405,246	277,302	1,461	3.2
Australia	16,357	10,275	1,592	22,935	11,751	1,952	3.0
New Zealand	3,727	2,372	1,571	5,067	2,726	1,859	2.4
United States	509,000	180,684	2,817	703,947	199,118	3,535	3.3
Canada	36,981	17,909	2,065	52,857	20,441	2,536	3.3
Japan	42,769	93,210	459	85,239	99,920	853	9.3
South Africa	7,430	15,925	467	11,360	18,733	606	3.8
SUB-TOTAL	920,366	579,935	1,587	1,286,651	629,991	2,042	3.7
<i>Under-developed</i>							
Africa	27,241	247,655	110	34,330	291,184	118	1.0
Latin America ^b	87,981	203,339	433	120,651	248,105	486	1.7
Asia	81,716	863,617	95	113,422	1,027,820	110	2.1
Southern Europe	29,015	94,539	307	49,210	104,125	473	6.4
SUB-TOTAL	225,953	1,409,150	160	317,613	1,671,234	190	2.5
TOTAL	1,146,319	1,989,085	576	1,604,264	2,301,225	697	2.8

SOURCES: *Developed countries*: United Nations, *Yearbook of National Accounts Statistics—1966 and Monthly Bulletin of Statistics*, various issues; International Monetary Fund, *International Financial Statistics*, various issues. *Under-developed countries*: Except for Latin America, Organisation for Economic Co-operation and Development—Development Centre, *National Accounts of Less Developed Countries*

1950–66 (July 1968). For Latin America, ECLA (for the product) and Latin American Demographic Centre (CELADE), *Boletín Demográfico*, Year 2, vol. III (Santiago, Chile, January 1969).

^a Excluding centrally planned economies.

^b Excluding Cuba but including Barbados, Guyana, Jamaica and Trinidad and Tobago.

This reordering represents a considerable change from the situation in 1950 and is due to wide disparities in the growth rates of the per capita product in the individual countries (see table 7). In Latin America as a whole, the rate has been relatively low; it was about 2 per cent annually during the fifties and during the sixties has been even less. The country figures show fairly wide differences ranging from stagnation to relatively rapid and sustained growth at annual rates of nearly 3 per cent for the per capita product. Within this diversity, no uniform trends can be detected for the countries in the upper and lower income categories. They changed positions in terms of the absolute per capita product within one group or the other, but there was no modification in their ranking as regards average income. This is clear from the fact that the nine countries which are now above the average income level for Latin America were also above it in 1950.

Since 1950 the country with the largest per capita product has been Argentina. But as its growth rate has been fairly slow, in fact well below the regional average, other countries have been creeping up and are now approaching the same level. This is particularly true of Venezuela and Panama, whose high growth rates have enabled them to improve their relative positions. Uruguay has lost some ground owing to the stag-

nation in its per capita product, dropping from second to fourth place since 1950. Although Mexico has maintained its relative position, its high and steadily rising growth rate has brought the per capita product up to that of Chile in absolute terms, although they were far apart in 1950. Compared with those of Mexico and Panama, Chile's position has contracted, while Costa Rica is in the same situation as in 1950.

Of the group where the per capita product is lower than the Latin American average, Ecuador's relative position has remained unchanged, as has that of three countries with a lower absolute level, i.e., the Dominican Republic, Bolivia and Haiti. Peru, Brazil, El Salvador and Nicaragua have improved their positions, the first two mainly because of the progress made in the fifties, whereas those of Colombia, Guatemala, Paraguay and Honduras have worsened.

These figures should be viewed with caution, as regards both their absolute levels and changes over time. Apart from the fact that conversion to a common monetary unit, as discussed in the appendix to this chapter, will arouse legitimate doubts, the official figures used as a basis are often revised, and substantial changes commonly have to be made as a result.

(b) Income distribution

The average per capita product of each of the countries referred to above reflects national conditions which are of somewhat limited significance unless they are supplemented by information on the way in which income is distributed among the various sectors or strata of the population.

In this connexion, some recent research work provides new data that make it easier to assess some features of income distribution in Latin America, to compare it with income distribution patterns in other regions, and to understand some of the significant differences between the Latin American countries themselves.⁸

⁸The ECLA secretariat is proceeding with a research programme on income distribution in co-operation with a number of national bodies. Two provisional notes, entitled *Estudios sobre la distribución del ingreso en América Latina* (documents E/CN.12/770 and Add.1) were submitted to the Commission at its twelfth session. Subsequently, the first volume of a series on income distribution, discussing the specific case of Argentina based on a wide range of research work undertaken in conjunction with the National Development Council of Argentina, was published (United Nations publication, Sales No.: E 68.II.G.6). A second volume, containing a general review of the topic, is shortly to be published. The data and conclusions given here are derived from these documents and are based on the data available for a number of countries comprising some 75 per cent of the population of Latin America and very fragmentary data for the remainder.

Table 7. Latin America: rate of growth of the per capita product
(Average annual rates)

Country	1950-67	1950-60	1960-67
Argentina . . .	1.1	1.2	1.1
Barbados . . .	2.2	2.7	1.6
Bolivia . . .	0.1	-1.6	2.9
Brazil . . .	2.1	2.6	1.3
Chile . . .	1.6	1.2	2.4
Colombia . . .	1.4	1.6	1.1
Costa Rica . . .	3.0	3.2	2.6
Dominican Republic . . .	1.2	2.4	0.6
Ecuador . . .	1.9	2.3	1.0
El Salvador . . .	2.1	1.5	2.9
Guatemala . . .	1.8	0.9	3.0
Guyana . . .	1.4	1.7	0.9
Haiti . . .	-1.3	-0.2	-1.7
Honduras . . .	1.1	0.6	1.8
Jamaica . . .	3.5	4.0	2.9
Mexico . . .	2.7	2.8	2.8
Nicaragua . . .	2.4	2.2	4.1
Panama . . .	3.2	1.9	5.2
Paraguay . . .	0.4	0.1	1.0
Peru . . .	2.9	2.7	3.0
Trinidad and Tobago . . .	1.5	2.3	0.4
Uruguay . . .	-0.2	0.6	-1.1
Venezuela . . .	2.9	3.6	1.7
TOTAL . . .	1.9	2.0	1.7

SOURCE: ECLA, on the basis of official statistics.

Figure II shows the results of a comparison between the estimated income distribution patterns of Latin America as a whole and of the United States. The comparison clearly shows the relatively greater inequities in Latin American income distribution and some of its basic features.

The most striking feature is the small share of total income received by the poorer half of the population—barely 14 per cent of the total (see table 8). Also noteworthy is the considerable difference between the 30 per cent of the population above the median, which receives 25 per cent of total income, and the 15 per cent in the segment above—half as many people—which receives 29 per cent. Moreover, the high concentration of income at the top level, comprising only 5 per cent of the population which receives more than 31 per cent of total income, shows that the pattern of distribution is extremely regressive.

It must be noted that the imbalances shown by this pattern of income distribution for the region as a whole tend to be greater than those existing in any single country, since, in the table, the effects of the differences in average income between countries are added to the disparities within each one. Even with this reservation, however, there is no doubt that these features make for an extremely high level of income concentration in the region.

Some measurements that show the level of concentration of income distribution as a whole illustrate the above. The relevant coefficient for Latin America is 0.56, which compares very unfavourably with the coefficient of 0.40 for the United States.⁹

Other important features are clearly evident from a more careful examination of the situation of the various income groups shown in table 8. For example, in the 50 per cent of the population at the lower end of the scale—which as a whole receives only 14 per cent of total income—the differences in per capita income levels are considerable, since the levels rise by roughly

⁹These coefficients were calculated on the basis of the following formula, which measures the ratio of the area between the Lorenz curve and the line of equal distribution to the area of the triangle in which it is situated:

$$w = 1 - \frac{\sum_{i=1}^n f_i (g_i - i + g_i)}{10,000}$$

where n = total number of income groups
 i = ordinal number of each group
 f = percentage of total population in each income group
 g = cumulative percentage of income received

Table 8. Latin America: income distribution by income groups

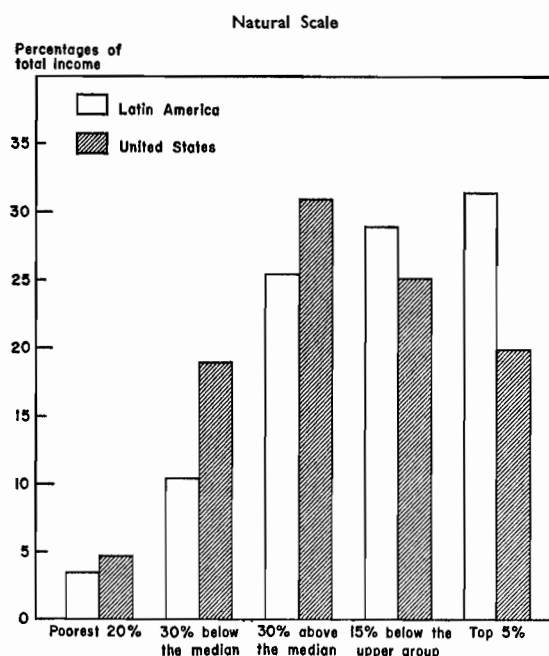
Income group	Percentage share of total income	Average income (regional average = 100)	Average per capita income* (dollars)
The poorest 20 per cent	3.5	18.0	68.0
The 30 per cent below the median	10.5	35.0	133.0
The 30 per cent above the median	25.4	85.0	322.0
The 15 per cent below the top 5 per cent	29.1	194.0	740.0
The top 5 per cent	31.5	629.0	2,400.0

SOURCE: ECLA.

* The figures, expressed in dollars at 1960 prices, are for 1965.

30 per cent from the bottom decile to the next. Moreover, the population in these groups receives extremely low incomes in absolute terms. It is estimated that in 1965 the annual per capita personal income of the poorest 25 per cent or so of the population of Latin America, expressed in dollars at 1960 prices, was less than 100 dollars. At the highest level of the poorer half of the population in the region, it was approximately 180 dollars. The income inequalities can be more clearly appreciated if it is borne in mind that the annual per capita personal income for the region

Figure II. Income distribution, by income groups, in Latin America and the United States



as a whole in 1965 was approximately 385 dollars.¹⁰

In the two upper income groups, average income is relatively very high, which means that there is a heavy concentration of total personal income in them. Taken together, their average income is almost twelve times that of the poorer half of the population, a difference which is of great significance and has far-reaching effects. For this is not a comparison between two small groups, but between the fifth of the population at the top of the income scale and the poorer half of the population. If this situation is contrasted with that of an industrialized western area with a similar population density, it will be found that the average income of the richest fifth of the population of the United States is less than five times that of the poorer half of the population; in the socialist countries the proportion appears to be a little less than three times as much.

Moreover, in the two upper income groups, income rises very rapidly and unevenly. At the lower limit of the 15 per cent of the population immediately below the top group, per capita income is under 500 dollars, while at the upper limit, it is almost three times that amount. The income of the top 5 per cent is, of course, much higher still, with a considerable concentration of income.

As has already been pointed out, these features are not only the result of the pattern of income distribution within each country but also of the differences in average per capita incomes in absolute terms. A glance at the distribution by countries of the population comprising each of these income groups makes the importance of this latter factor quite clear (see table 9).

Within each segment, the highest figures tend to be those for countries with the largest populations in absolute terms, but even so there are some significant features. For example, the fact that income is relatively more evenly distributed in Argentina and Uruguay and that average income is higher in absolute terms explains why even the lowest income group in these countries receives more income than the poorest 20 per cent of the population of Latin America as a whole. On the other hand, virtually half of the poorest 20 per cent in the region is to be found in Brazil—whose population represents one third of the total population of Latin America—

because of its relatively low level of average income. Similarly, the position of the "other countries"—those of Central America and the Caribbean (excluding Cuba), and Bolivia, Ecuador and Paraguay—is even more striking: although they account for only 14 per cent of the population of Latin America, they comprise more than a third of the poorest 20 per cent.

In the higher group there is a much closer correlation between the proportion corresponding to each country and its proportion of the total population, particularly in Chile, Colombia, Mexico and Peru. But even so, the share of the countries with higher average incomes in absolute terms (Argentina, Uruguay, Venezuela) is relatively larger, while the opposite is true for the countries with low average incomes (Brazil and others). The only segment in which the shares of both groups of countries bear a marked resemblance to each other is that of the 30 per cent of the population immediately above the median.

These observations merely confirm the fact that a picture of income distribution for the region as a whole will show very considerable disparities, partly as a result of adding together the national figures of countries with very different average per capita incomes in absolute terms.

In order to determine the extent to which the effects of these differences in average per capita income may be accentuated by higher levels of income concentration in the lowest income countries it would be necessary to make a comparative analysis of the distribution pattern in each country. The statistical value of the available estimates given in table 9 varies considerably, but they are sufficient to support at least one or two general conclusions.

The most striking fact that emerges from a comparison of the distribution patterns of a significant number of Latin American countries is their relative uniformity, despite the differences in these countries' average per capita incomes and general level of development. On this basis, it is possible to pick out some general features of income distribution in Latin America which are markedly different from those in more developed economies.

The estimates also reveal some significant differences between the Latin American countries, although these are of much less importance than the features that differentiate the region as a whole from the industrialized countries. They are due to a number of factors, including those relating to the level of concentration of property ownership, and other institutional factors. If it is wished to relate these differences to the development of each country, probably one of the most

¹⁰The difference between these figures and those for the per capita product given earlier, besides being partly due to the difference in the periods of reference, is explained by the fact that such items as depreciation, external factor income and other items which distinguish the gross domestic product from domestic personal income have been excluded.

Table 9. Selected Latin American countries: estimated income distribution

		Percentage of total income corresponding to each decile											
Recipient unit		1st 10 per cent	2nd 10 per cent	3rd 10 per cent	4th 10 per cent	5th 10 per cent	6th 10 per cent	7th 10 per cent	8th 10 per cent	9th 10 per cent	10th 10 per cent	Upper 5 per cent	Top 1 per cent
1961	Argentina	.	.	.	.	.	.	.	.	.	.	.	.
1960	Brazil	1.9	3.3	4.2	5.1	6.0	7.1	8.3	10.0	13.2	40.9	31.2	16.3
	Population receiving remunerations	.	.	.	.	.	.	.	.	.	.	.	.
1962	Colombia	1.8	2.4	3.1	4.2	5.3	6.0	8.1	10.3	13.8	45.0	33.0	18.0
	Active population	.	.	.	.	.	.	.	.	.	.	.	.
1961	El Salvador	2.5	3.4	4.1	4.9	5.3	6.1	7.5	9.5	14.0	42.7	30.4	10.0
1962	Venezuela	2.4	3.1	3.2	3.3	4.0	4.8	7.2	10.6	15.8	45.6	33.0	18.0
	Families	.	.	.	.	.	.	.	.	.	.	.	.
1962	Venezuela	1.4	1.6	3.0	3.7	4.6	6.0	8.3	13.4	17.3	40.7	26.5	9.0
1960	Panama	.	.	.	.	.	.	.	.	.	.	.	.
	Population receiving remunerations	.	.	.	.	.	.	.	.	.	.	.	.
1963	Mexico	1.9	3.0	3.7	5.9	6.0	6.5	7.0	9.4	12.6	44.0	34.5	16.5
	Families	.	.	.	.	.	.	.	.	.	.	.	.
1961	Costa Rica	1.5	2.1	3.1	3.8	4.9	6.0	8.1	12.0	17.0	41.5	29.0	12.0
	Families	2.6	3.4	3.8	4.0	4.4	5.4	7.1	9.3	14.0	46.0	35.0	16.0

Source: ECLA estimates.

fruitful approaches would be to look at the relative size of the various strata of productivity which can be clearly discerned in the Latin American economies as a whole and at their effect on income distribution.¹¹

In the initial stages of development, a very high proportion of the economically active population is engaged in activities which, in terms of their average productivity, forms of organization, production techniques, stock of capital per person, etc., can be defined as constituting a primitive sector of the economy; in contrast, a small fraction of the labour force is engaged in activities which, for similar reasons form a modern sector in which a high proportion of total production and income will probably tend to be concentrated.¹² As the modern sector expands and the primitive sector shrinks, the additional income tends to go mainly to new members of the modern sector. The influence of the primitive sector, which keeps income levels down, tends to be felt only by a progressively smaller proportion of the population at the lower end of the income scale, while a progressively larger proportion of the population gains access to relatively high income levels. The global effect of all these factors on income distribution is to give the groups close to the top of the income scale a larger share of total income, while the opposite is very probably the case with the groups at the very top and the very bottom of the scale.

A comparison of the figures for several countries will show how far these considerations really

mirror the situation in Latin America (see table 10). In countries such as El Salvador, where the primitive sector still predominates, the two median groups receive relatively small proportions of total income, while there is heavy concentration in the upper segment. In others, like Mexico and Venezuela, the modern sector has grown rapidly and has become fairly important, although a sizable proportion of the labour force is still in the primitive sector. Hence, the 30 per cent of the population that is above the median obtains a much larger share of total income, and the share of the next 15 per cent also increases to some extent but there is less concentration at the top.¹³ On the other hand, the share of the poorer half of the population fails to improve and the bottom 20 per cent even find that their relative position has worsened. This type of change can be seen from the figures for Mexico relating to different years in the post-war period.

The data on Argentina illustrate other kinds of changes which may be characteristic of the next stage. The primitive sector is very small there. As a result, the poorer half of the population receives a much larger proportion of the total income than in countries such as Mexico or Venezuela, and the 30 per cent above the median remains in a relatively favourable position. The high absolute level of average income is also partly due to the absence of a primitive sector, and, as the poorer half of the population enjoys a greater relative share of total income, it is in a much better position than in any other Latin American country.

As these remarks are intended to give a general picture of income distribution in Latin America, there is no need to dwell on aspects which will be discussed at length in the studies mentioned. Particular reference has been made to the relationship between the characteristics of distribu-

¹¹This question is discussed at greater length in the next section, where questions of employment and labour force productivity are discussed.

¹²As explained below, these references to "primitive", "modern" and "intermediate" sectors do not necessarily coincide with the usual classifications into sectors of economic activity, but relate rather to the strata of productivity and degrees of assimilation of technology which can be distinguished within each sector of activity. For example, a primitive and a modern sector can be identified within the agricultural sector, and the same is true of manufacturing and services.

¹³It is important to bear in mind, particularly in the case of Venezuela, that distribution relates to national and family income levels. Consequently, the profits of the big enterprises that are remitted abroad are not included in the figures.

Table 10. Five Latin American countries: estimated participation of different population groups in total income

	<i>The poorest 20 per cent of the population</i>	<i>The 30 per cent below the median</i>	<i>The 30 per cent above the median</i>	<i>The 15 per cent below the top group</i>	<i>The top 5 per cent</i>
Argentina	5.2	15.3	25.4	22.9	31.2
Costa Rica.	5.5	10.5	22.6	28.4	32.9
El Salvador	5.5	12.5	22.0	25.0	35.0
Mexico	3.6	11.8	26.1	29.5	29.0
Venezuela	3.0	11.3	27.7	31.5	26.5

SOURCE: See table 9.

tion and the structure of the economy in terms of productivity strata in order to bring out a facet of the problem which has tended to be overlooked in the past, but with no intention whatsoever of detracting from the importance of other basic factors that determine the pattern of income distribution. It need hardly be stressed that the differences that have been mentioned between the Latin American countries themselves are relatively unimportant compared with the differences between each one of them and an economy such as that of the United States. This reservation even applies to Argentina, where there are a number of factors that are particularly conducive to a more equitable pattern of national income distribution.

(c) *The composition of the product by sectors of activity*

The composition of the product by sectors of activity is a guide to the structure of the Latin American economy towards the end of the sixties. Some of its typical features in this respect are described below.

Table 11. Latin America: probable composition of the product towards the end of the nineteen-sixties
(Percentages of the total)

<i>Sectors producing goods.</i>	52.7
Agriculture	20.4
Mining	4.6
Manufacturing	24.1
Construction	3.6
<i>Basic services</i>	8.3
<i>Other services</i>	39.0
Commerce and finance	19.2
Miscellaneous	19.8
TOTAL	100.0

SOURCE: ECLA estimates.

First, in Latin America as a whole, a relatively small proportion of the total product is generated in the sectors producing goods. It amounts to a

little under 53 per cent, compared with 8 per cent for basic services—which are mainly the electric power supply, transport and communications—and nearly 39 per cent for the activities grouped under the head of “other services”—commerce and finance, public administration, personal services, etc. (see table 11). Given this kind of economic structure and absolute level for the per capita product, the proportion of services seems top-heavy, since it invests the economy prematurely with the structural characteristics of a more developed country. In the industrialized economies, the increase in the share of the product contributed by services is necessary for growth, but in Latin America it is more likely to indicate that the sectors producing goods are failing to respond with sufficient vigour to labour absorption requirements, which outstrip the job opportunities these sectors have to offer.¹⁴

Secondly, the economic structure of the region as a whole, taken at the same level of aggregation has changed very little since 1950 (see table 12). The figures for 1950, 1960 and 1967 show that the contribution of the sectors producing goods has remained between 52 and 53 per cent. The basic services have enlarged their share slightly, but a tiny reduction has taken place in the share of “other services”.

Thirdly, there have been some significant changes in the internal composition of the major sectors, particularly those producing

¹⁴ For purposes of comparison, it should be remembered that the relative weight of services—excluding basic services—is more than 39 per cent of the total product in Latin America, while in the Federal Republic of Germany and France in 1965 it was less than 38 and as little as 32 per cent respectively. The proportion of the product that derives from the production of goods is very much smaller in Latin America, being 52.4 per cent as against more than 60 per cent in the Federal Republic of Germany, although the relative importance of their agricultural sectors differs considerably (over 20 and only 5 per cent respectively).

Table 12. Latin America: changes in the composition of the product by sectors of activity

	Percentage composition in relation to the total			Cumulative annual growth rates		
	1950	1960	1967	1950-60	1960-67	1950-67
<i>Sectors producing goods</i>	52.4	52.4	52.3	4.9	4.6	4.8
Agriculture	25.2	22.1	20.5	3.5	3.5	3.5
Mining	4.1	4.6	4.4	6.1	4.1	5.3
Manufacturing	19.6	22.3	24.1	6.2	5.8	6.0
Construction	3.5	3.4	3.3	4.6	4.1	4.4
<i>Basic services</i>	7.2	7.7	8.3	5.5	5.7	5.6
<i>Other services</i>	40.4	39.9	39.4	4.8	4.4	4.6
Commerce and finance	18.0	18.4	18.8	5.1	4.9	5.0
Miscellaneous	22.4	21.5	20.6	4.5	3.9	4.2
TOTAL	100.0	100.0	100.0	4.9	4.6	4.8

SOURCE: ECLA estimates.

goods, and in the relative shares of agriculture and manufacturing above all. Towards the end of the nineteen-sixties, agriculture will be contributing about a fifth of the total product, whereas in 1950 it was providing just over a quarter and in 1960 about 22 per cent. The counterpart to these changes is supplied almost entirely by the growth in the importance of manufacturing, which increased its share of the total product from just under 20 per cent in 1950 to 24.1 per cent in 1967.¹⁸ In mining and construction the situation has remained much the same, with the share of the former increasing slightly and that of the latter contracting equally slightly. This is the result of a growth rate for the whole goods-producing sector that has almost matched that of the total product (an annual average of 4.8 per cent from 1950 to 1967), due to a yearly increase of 6 per cent in manufacturing production, 5.3 per cent in mining, 4.4 per cent in construction and only 3.5 per cent in agriculture.

As far as "other services" are concerned, commerce, finance, and miscellaneous services each represent about a fifth of the total product, and there have been no appreciable changes since 1950 in the contribution of the whole group or of its individual parts.

These general features are superimposed on widely different situations in the individual countries of the region, both in the past and in the present.

¹⁸If a relative price structure similar to that of the United States is taken as a basis, as it is for investment later in this document, the sectoral structure of the product would be quite different in some of the Latin American countries, particularly as regards the relative shares of agriculture and manufacturing.

In one group, consisting of Argentina, Brazil and Mexico, the distinguishing feature is the relative weight of the sectors producing goods, which is slightly greater than in the region as a whole, and of the "other services" sectors, which is a little less (see table 13). However, the most striking differences are in some of the components of these major sectors. For instance, the relative importance of manufacturing industry is more than 27 per cent of the product in this group of countries, while in the other four groups it is less than 20 per cent, and in three of them it oscillates round 15 per cent. Argentina is largely responsible for the high figure of manufacturing in the group, since it contributes more than a third of its total product, while in Mexico the sector's relative importance is similar to the group average, and in Brazil it is almost 22 per cent (see table 14).

A second group, composed of Chile, Colombia, Peru, Uruguay and Venezuela, is characterized by a slightly smaller share for the goods-producing sectors than in the former group, and the structure of these sectors in particular differs considerably. Although their general level of development is lower, the relative share of agriculture is smaller; however, this is offset by the much greater importance of mining and the extractive industry in general (see table 13). The share of manufacturing is a good deal smaller. There are also some differences between the members of the group, particularly as regards agriculture in Colombia, where the relative share of the agricultural sector is well above the group average.

The economic structure of the third group, which comprises the five Central American countries, and of the fourth group, made up of Bolivia, Ecuador and Paraguay, has fairly similar

Table 13. Latin America: probable composition of the product towards the end of the nineteen-sixties, by groups of countries^a
(Percentages of the total)

	Group A	Group B	Group C	Group D	Group E
<i>Sectors producing goods</i>	53.7	50.5	48.9	56.5	49.8
Agriculture	20.7	16.8	30.7	30.5	20.2
Mining	2.7	10.2	0.5	5.4	8.8
Manufacturing	27.1	19.2	15.0	15.5	14.6
Construction	3.2	4.3	2.7	5.1	6.2
<i>Basic services</i>	8.3	8.7	6.9	6.4	9.1
<i>Other services</i>	38.0	40.8	44.2	37.1	41.1
Commerce and finance	20.1	17.3	22.3	13.9	16.0
Miscellaneous	17.9	23.5	21.9	23.2	25.1
TOTAL	100.0	100.0	100.0	100.0	100.0

SOURCE: ECLA estimates.

^a The groups comprise the following countries: Group A: Argentina, Brazil and Mexico; Group B: Chile, Colombia, Peru, Uruguay and Venezuela; Group C: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; Group D: Bolivia, Ecuador and Paraguay; Group E: Barbados, Dominican Republic, Haiti, Guyana, Jamaica, Panama and Trinidad and Tobago.

Table 14. Latin America: probable composition of the product towards the end of the nineteen-sixties, by countries
(Percentages of the total)

1. GROUP A						
	Total	Argentina	Brazil	Mexico		
Sectors producing goods . . .	53.7	57.3	54.1	51.0		
Agriculture	20.7	17.0	30.1	14.6		
Mining	2.7	1.8	0.6	5.1		
Manufacturing	27.1	34.6	21.9	27.1		
Construction	3.2	3.9	1.5	4.2		
Basic services.	8.3	9.7	9.9	5.8		
Other services	38.0	33.0	36.0	43.2		
Commerce and finance	20.1	18.3	15.4	25.5		
Miscellaneous	17.9	14.7	20.6	17.7		
TOTAL	100.0	100.0	100.0	100.0		
2. GROUP B						
	Total	Chile	Colombia	Peru	Uruguay	Venezuela
Sectors producing goods . . .	50.5	52.2	56.0	48.2	44.5	47.4
Agriculture	16.8	10.5	30.7	17.6	19.2	7.6
Mining	10.2	10.5	3.1	5.3	—	22.2
Manufacturing	19.2	26.6	18.4	19.9	21.4	13.8
Construction	4.3	4.6	3.8	5.4	3.9	3.8
Basic services.	8.7	12.7	7.7	8.2	9.3	6.9
Other services	40.8	35.1	36.3	43.6	46.2	45.7
Commerce and finance	17.3	18.3	16.3	21.9	22.1	13.2
Miscellaneous	23.5	16.8	20.0	21.7	24.1	32.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
3. GROUP C						
	Total	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Sectors producing goods . . .	48.9	46.5	51.7	45.0	62.7	46.0
Agriculture	30.7	29.4	28.8	29.6	40.8	29.5
Mining	0.5	—	0.1	0.1	2.0	1.8
Manufacturing	15.0	14.7	18.4	13.6	16.0	12.9
Construction	2.7	2.4	4.4	1.7	3.9	1.8
Basic services.	6.9	7.7	6.2	6.4	7.0	8.3
Other services	44.2	45.8	42.1	48.6	30.3	45.7
Commerce and finance	22.3	12.5	21.8	30.1	15.2	22.8
Miscellaneous	21.9	33.3	20.3	18.5	15.1	22.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
4. GROUP D						
	Total	Bolivia	Ecuador	Paraguay		
Sector producing goods . . .	56.5	54.8	57.0	57.3		
Agriculture	30.5	21.7	33.1	35.5		
Mining	5.4	15.8	1.9	0.4		
Manufacturing	15.5	10.8	17.0	17.8		
Construction	5.1	6.5	5.0	3.6		
Basic services.	6.4	10.2	5.1	4.6		
Other services	37.1	35.0	37.9	38.1		
Commerce and finance	13.9	10.3	13.7	19.6		
Miscellaneous	23.2	24.7	24.2	18.5		
TOTAL	100.0	100.0	100.0	100.0		

SOURCE: ECLA estimates.

general characteristics. The agricultural sector generates more than 30 per cent of the total product, while manufacturing industry has a relative importance of only about 15 per cent. Together with the members of the last group, which are too heterogeneous for averages to have any meaning, they form what has been termed the "economically relatively less developed countries" in the region.

This grouping is very much the same as that which would be obtained by taking the absolute size of the national markets as the yardstick. Argentina, Brazil and Mexico have 62.2 per cent of the regional population and contribute 67 per cent of the product. These proportions are 21.7 and 23.2 per cent for the five countries in the second group, while they are only 16.1 per cent and 9.8 per cent for the other countries as a whole.

There has been no significant change in these structural differences for quite a long time. For example, if the last group is excluded because of its heterogeneity, the average growth rate of the agricultural sector was 3 to 3.7 per cent between 1950 and 1967 in all the others. There is an even closer resemblance between the growth rates of manufacturing production: the annual average was 6.1 for the first group, 6.2 per cent for the second and 6.8 per cent for the third, while industrial development fell even further behind in Ecuador and, above all, in Bolivia and Paraguay.

The internal composition of some of the sectors of economic activity has also changed appreciably in several cases. For instance, it is highly probable that agricultural production for export has been assuming greater relative importance than production for the home market. In 1960-66, at least, the over-all agricultural product of the region increased at an average rate of 3.4 per cent annually, while the average rate for agricultural exports was 4.4. per cent.

Manufacturing industry has no doubt undergone pronounced changes in internal composition, but it is difficult to judge their extent because of the lack of basic statistics. Some data available for 1950-63 suggest that there have been appreciable modifications in the relative importance of the industries described as traditional (food, beverages, tobacco, textiles, footwear and clothing, wood, furniture, printing and publishing, leather and leather products, etc.), the intermediate industries (paper and paper products, rubber and rubber products, chemical products, petroleum products, non-metallic minerals and basic metals), and the metal-transforming industries (metal products, con-

struction of machinery, electrical equipment and transport equipment).¹⁶

The first group expanded at a fairly slow pace (averaging 3.8 per cent annually), largely because of the very sluggish tempo of growth in Argentina. Production of intermediate goods, however, achieved a rate of over 8 per cent and metal-transforming of 10.6 per cent. As a result of these trends, the share of the traditional industries in the total gross value of industrial output in the region as a whole shrank from 69 to 55 per cent, while that of the intermediate group rose from 22 to 30 per cent and of the metal-transforming industries in particular from 8 to 15 per cent. The trend of these changes has undoubtedly been emphasized in later years as a result, among other things, of the notable progress made by the motor-vehicle industry.

These broad trends cover basic differences in the industrial development of the various countries. For instance, in many of them, and particularly those at a relatively less advanced stage of industrialization, the bulk of the growth took place in the traditional industries. This explains why Argentina, Brazil and Mexico's joint share of the regional total has dropped from 67 to 58 per cent in the case of these industries, while remaining constant or increasing in relative terms in the case of the intermediate branches (close to 70 per cent) and metal-transforming activities (about 85 per cent).

(d) *Trends and composition of total supply and demand*

Towards the end of the nineteen-sixties, total supply and demand will probably amount to about 145,000 million dollars (in terms of 1960 purchasing power). The main features of their composition will be the relatively small share of external transactions, with imports of goods and services accounting for a little more than 9 per cent of total supply and exports for a similar proportion of total demand, and a structure of demand in which less than 16 per cent would correspond to gross fixed investment and nearly three-quarters to consumption, divided, in its turn, into less than 8 per cent for public consumption and almost 67 per cent for private consumption (see table 15).

¹⁶This grouping is not entirely satisfactory. One reason is that it does not make for a more accurate division between the industries producing consumer goods and those producing capital goods, since it is dependent on the availability of the basic statistics and the way they are presented.

Table 15. Latin America:^a probable trend and composition of total supply and demand at the end of the nineteen-sixties

(Millions of dollars at 1960 prices, market prices and percentages)

	Value (millions of dollars at 1960 prices)	Percentage composition	Growth rates		
			1950-60	1960-67	1950-67
Total supply	145,400	100.0	4.8	4.5	4.7
Gross domestic product	132,000	90.7	4.9	4.6	4.8
Imports of goods and services	13,400	9.3	3.7	3.4	3.6
Total demand	145,400	100.0	4.8	4.5	4.7
Exports of goods and services	14,100	9.7	3.8	4.4	4.1
Gross fixed investment ^b	22,800	15.7	5.2	3.9	4.7
Total consumption	108,500	74.6	4.8	4.6	4.7
Government consumption	11,300	7.8	6.0	2.7	4.6
Private consumption ^b	97,200	66.8	4.7	4.9	4.8

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago.

^b Changes in stocks are included in private consumption.

This over-all structure is the outcome of trends whose main components sometimes diverge sharply.

In Latin America as a whole, the most dynamic factor of supply has been the trend of the domestic product, despite its relatively slow rate of growth, which has been discussed in earlier sections. In other words, the relative importance of imports has declined, and the import coefficient has therefore dropped¹⁷ steadily from just over 12 per cent in 1950 to under 11 per cent in 1960 and less than 10 per cent in 1967.

However, these general regional trends do not tally with the individual trends in most of the countries. In fact, the averages quoted are strongly influenced by Argentina and Brazil, which carry special weight in the Latin American totals, and where import coefficients are at their lowest and an appreciable reduction really took place in foreign purchases. Other countries where the same trend has cropped up, but at different levels, are Colombia, Haiti, Uruguay and Venezuela; in some the reason has been the relatively unfavourable trend of the external sector, and in Venezuela, the high growth rate of the domestic product (see table 16). In others, such as Guatemala and Panama, there were no significant changes, and the same is true of Mexico, where the sharp rise in exports coincided with highly dynamic growth on the part of the domestic product. In at least eleven of the Latin American countries, import coefficients are higher in 1967 than in 1950, at times by a considerable margin.

¹⁷ The imports are measured at constant prices, that is without allowing for the effect of price increases. For a more extensive analysis of external sector trends, see Part One, chapter III.

The extent of the differences between the countries in this respect is illustrated by the fact that, in 1967, five recorded import coefficients of under 10 per cent, six of 10 to 20 per cent, another six of 20 to 30 per cent and two of over 30 per cent.

Of the components of total demand, exports of goods and services account for less than 10 per cent of the regional total, and there are the same national differences as in the case of imports. Since 1950 the growth rate of exports has kept fairly close to that of the domestic product (see

Table 16. Latin America: import coefficients, by countries, 1950, 1960 and 1967

(Imports of goods and services as a percentage of the domestic product)

Country	1950	1960	1967
Argentina	8.9	8.0	6.6
Bolivia	11.9	15.7	21.2
Brazil	10.0	7.8	5.6
Chile	11.4	15.7	15.7
Colombia	14.9	12.2	8.8
Costa Rica	17.7	21.6	23.2
Dominican Republic	21.2	15.9	26.8
Ecuador	7.6	12.2	12.7
El Salvador	19.0	20.4	22.4
Guatemala	13.8	13.6	14.9
Haiti	16.7	13.8	11.2
Honduras	17.4	19.6	28.5
Mexico	8.4	7.8	7.8
Nicaragua	13.8	23.5	43.2
Panama	34.2	30.0	32.9
Paraguay	10.1	12.5	14.3
Peru	12.0	11.9	16.6
Uruguay	14.8	12.5	8.7
Venezuela	41.8	27.1	21.1
TOTAL ^a	12.1	10.8	9.9

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago.

table 15), and has been much higher than that of imports, with the trend in both cases measured in terms of volume.

Taken as a whole, the relative shares of investment and consumption in over-all demand remained constant between the end points of the period 1950-67. Both increased at an average annual rate of 4.7 per cent, but with broad disparities when the two decades are considered separately. In 1950-60, the growth rate of investment outstripped that of consumption and the position was reversed in 1960-67. The import coefficient thus ended up in 1967 at the same level as in 1950. This is again a broad trend, which encompasses a number of national differences as regards the share of investment in the total supply of goods and services. This declined in Colombia, Mexico, Uruguay and Venezuela, but took a more positive turn in others, particularly Bolivia, the Dominican Republic, Ecuador, El Salvador, Nicaragua, Panama, Paraguay and Peru (see table 17).

In 1967, Brazil, Chile, Ecuador, El Salvador, Guatemala, Haiti, Honduras and Uruguay fell short of the average ratio for the region; in the other countries it was matched or exceeded in varying proportions, but only in three cases—Nicaragua, Peru and Venezuela—did the figure reach 20 per cent or over.

As pointed out in other sections, the failure of the investment coefficient to increase vigorously enough has been one of the fundamental reasons for the relatively slow growth of the Latin American product. A word should be added here about the importance of maintaining an investment coefficient (defined as the ratio of gross fixed investment to the total product) of about 16 per cent for the Latin American economies. As per capita income levels in the region are fairly low and there is a justifiable demand for higher consumption levels, an allocation of 16 per cent for capital formation represents a considerable effort, although it should be reassessed more accurately in the light of the prevailing income distribution models and consumption capacity. Without discounting the latter, it is important to remember that the saving envisaged will not necessarily lead to an equivalent volume of real investment, as the relative prices of capital goods are high in most of the Latin American countries.

The magnitude of the phenomenon is better illustrated by a reference to 1960, for which enough data are available to express the total product and its major components in terms of dollars and at exchange rates which give a clearer picture of purchasing power parities.¹⁸

¹⁸ See the appendix to this chapter.

Table 17. Latin America: utilization of the supply of goods and services, by countries, 1950, 1960 and 1967
(Percentages)

Country	1950		1960		1967	
	Consumption ^a	Investment	Consumption ^a	Investment	Consumption ^a	Investment
Argentina . . .	84.0	16.0	78.5	21.5	81.3	18.7
Bolivia . . .	89.8	10.2	86.5	13.5	83.6	16.4
Brazil . . .	85.6	14.4	83.7	16.3	87.4	12.6
Chile . . .	86.1	15.9	85.0	15.0	84.4	15.6
Colombia . . .	81.6	18.4	81.9	18.1	83.9	16.1
Costa Rica . . .	84.2	15.8	83.4	16.6	82.9	17.1
Dominican Republic . . .	86.3	13.7	88.7	11.3	82.0	18.0
Ecuador . . .	91.4	8.6	86.6	13.4	87.3	12.7
El Salvador . . .	90.8	9.2	86.5	13.5	84.9	15.1
Guatemala . . .	89.3	10.7	90.1	9.9	88.4	11.6
Haiti . . .	93.3	6.7	94.6	5.4	96.8	3.2
Honduras . . .	87.0	13.0	87.6	12.4	86.8	13.2
Mexico . . .	79.3	20.7	85.2	14.8	82.5	17.5
Nicaragua . . .	90.3	9.7	87.5	12.5	79.9	20.1
Panama . . .	85.7	14.3	85.9	14.1	80.6	19.4
Paraguay . . .	92.0	8.0	83.6	16.4	81.9	18.1
Peru . . .	83.3	16.7	80.9	19.1	76.4	23.6
Uruguay . . .	83.0	17.0	85.5	14.5	86.9	13.1
Venezuela . . .	74.7	25.3	78.1	21.9	78.8	21.2
TOTAL ^b . . .	83.4	16.6	82.9	17.1	83.5	16.5

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago.

^b Including changes in stocks.

Table 18 presents the results of the comparison. It shows that there is a wide gap between the average regional coefficient when measured by the relative price structures in each country and the result of measuring the components of the coefficient against the structure of relative prices in the United States, that is 17.1 as against only 12.4 per cent. In other words, the same investment coefficient in Latin America and the United States, reflecting a saving effort of similar proportions, would, in Latin America, represent a smaller volume of real goods and services available for capital formation. This simply confirms the fact that the relative prices of capital goods are higher there than in the United States.

Individual countries show a variety of differences in this respect, and their position may even range from positive to negative. In a few, such as Chile, Colombia, the Dominican Republic, El Salvador and Honduras, the coefficients are slightly higher when expressed in dollars than in national currencies.¹⁹ In others, where

¹⁹ This may also reflect the effects of differences in the structure of investment, particularly in the relative shares of construction and public works. These ratios may vary considerably from one year to the next, as a result of changes in domestic relative prices (for example, a modification of the exchange rate has an immediate impact on the prices of imported capital goods).

Table 18. Latin America:^a investment coefficients calculated in national currencies and in dollars,^b 1960
(Gross fixed investment as a percentage of the total product)

Country	Calculated in national currency	Calculated in dollars
Argentina . . .	21.7	11.5
Bolivia . . .	14.3	11.3
Brazil . . .	16.5	8.2
Chile . . .	15.4	16.0
Colombia . . .	18.3	19.1
Costa Rica . . .	17.1	13.7
Dominican Republic . . .	10.4	11.5
Ecuador . . .	13.4	13.6
El Salvador . . .	13.4	14.2
Guatemala . . .	10.1	10.5
Haiti . . .	5.5	5.2
Honduras . . .	12.6	15.6
Mexico . . .	14.9	12.7
Nicaragua . . .	12.8	10.7
Panama . . .	14.8	13.8
Paraguay . . .	16.7	9.7
Peru . . .	18.7	13.8
Uruguay . . .	15.0	11.3
Venezuela . . .	18.0	21.9
TOTAL . . .	17.1	12.4

SOURCE: ECLA.

^a Excluding Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago.

^b In calculating these coefficients, different exchange rates were used for the product and for gross fixed investment so as to reflect the respective purchasing power parities (see appendix to this chapter).

the relative price structure is closer to that of the United States, the results are virtually the same. But in most cases, coefficients are much lower when calculated in dollars than in local currency. This is particularly true of Argentina, Brazil, Paraguay and Peru.

The last outstanding aspect of the composition and trends of total demand is the structure of consumption, in terms of the division between public and private consumption. Government consumption in Latin America as a whole accounted for approximately 11 per cent of the total in 1950. During the next ten years, its growth was fairly rapid (6 per cent annually), and its share therefore expanded to 12.2 per cent, but this upward trend was subsequently reversed and by 1967 its share was slightly smaller than in 1950 (10.7 per cent).

Levels and trends differ widely from country to country. In the group of countries where government consumption represents a steadily growing proportion of total consumption, Chile, Costa Rica, Honduras, Peru, Uruguay and Venezuela have raised it above the regional average; in Bolivia, Colombia and Mexico, on the other hand, the trend has been similar but at lower levels. The countries where the figures are above the average, but where the trend of government consumption is declining are Brazil, the Dominican Republic, Ecuador, Panama and Paraguay, while the opposite is the case in Argentina, El Salvador, Guatemala, Haiti and Nicaragua (see table 19).

3. EMPLOYMENT PROBLEMS

(a) *Employment structure and trends*

Among the most salient features of the Latin American economies at the close of the nineteen-sixties are employment problems. Although they have been taking shape in the course of the region's economic history, in recent years they have attained proportions such that far more importance must be attached to them in the diagnosis of over-all development problems.

The already high growth rate of the labour supply rose between 1960 and 1969, when its total volume increased by almost 30 per cent; this implies an annual rate of 2.8 per cent, which is higher even than the figure of 2.6 per cent recorded during the preceding decade (see table 20). This over-all trend reflects the differing positions of the countries; a few—for instance, Costa Rica, Mexico and Venezuela—have shown annual increments of more than 3 per cent, whereas others—Argentina and Uruguay, for example—have maintained the same rate as in previous years.

Table 19. Latin America: composition of consumption, by countries, 1950, 1960 and 1967
(Percentages)

Country	1950		1960		1967	
	Government	Private ^b	Government	Private ^b	Government	Private ^b
Argentina . . .	11.7	88.3	11.3	88.7	9.3	90.7
Bolivia . . .	7.3	92.7	9.5	80.5	10.2	89.8
Brazil . . .	14.7	85.3	18.1	81.9	12.8	87.2
Chile . . .	11.6	88.4	12.3	87.7	12.0	88.0
Colombia . . .	7.5	92.5	7.6	92.4	7.8	92.2
Costa Rica . . .	10.0	90.0	13.5	86.5	14.1	85.9
Dominican Republic . . .	12.8	87.2	15.5	84.5	12.1	87.9
Ecuador . . .	15.2	84.8	14.8	85.2	14.1	85.9
El Salvador . . .	10.1	89.9	11.2	88.8	9.9	90.1
Guatemala . . .	7.5	92.5	8.6	91.4	7.1	92.9
Haiti . . .	13.4	86.6	8.3	91.7	8.5	91.5
Honduras . . .	8.1	91.9	10.8	89.2	11.1	88.9
Mexico . . .	4.7	95.3	5.7	94.3	6.4	93.6
Nicaragua . . .	10.8	89.2	9.5	90.5	9.5	90.5
Panama . . .	15.5	84.5	12.5	87.5	14.3	85.7
Paraguay . . .	14.2	85.8	9.0	91.0	11.0	89.0
Peru . . .	8.0	92.0	11.3	88.7	15.3	84.7
Uruguay . . .	9.4	90.6	10.2	89.8	12.4	87.6
Venezuela . . .	19.4	80.6	21.6	78.4	21.5	78.5
TOTAL ^a . . .	11.0	89.0	12.2	87.8	10.7	89.3

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago.

^b Including changes in stocks.

Table 20. Latin America:^a population structure and trends
(Thousands of persons, and percentages)

	1950	1960	1965	Estimates for 1969
<i>Thousands of persons</i>				
Total population	147,736	195,528	225,560	253,373
Urban population	58,187	93,059	115,961	137,232
Rural population	89,549	102,469	109,599	116,141
Population of working age	82,092	105,784	121,177	136,168
Economically active population	50,561	65,371	74,751	83,647
<i>Percentages</i>				
Total population	100.0	100.0	100.0	100.0
Urban population	39.4	47.6	51.4	54.2
Rural population	60.6	52.4	48.6	45.8
Population of working age	55.6	54.1	53.7	53.8
Economically active population	34.2	33.4	33.1	33.0
<i>Annual growth rates</i>				
	1950-60	1960-65	1965-69	1960-69
Total population	2.8	2.9	2.9	2.9
Urban population	4.8	4.5	4.3	4.4
Rural population	1.4	1.4	1.5	1.4
Population of working age	2.6	2.8	3.0	2.9
Economically active population	2.6	2.7	2.8	2.8

SOURCE: ECLA estimates, based on official statistics.

^a Excluding Barbados, Cuba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

These labour force trends were determined by a variety of factors. In the first place, the Latin American population has kept up and indeed increased its rate of growth which has averaged 2.9 per cent per annum from 1960 onwards.

Again, from the second half of the nineteen-fifties onwards, the population of working age has increased faster than the total population, the over-all 1950-60 trend being ultimately reversed.²⁰

A break-down by urban and rural population reveals that the urban population has expanded rapidly, and will probably account for over 54 per cent of the total population in 1969. This expansion, largely attributable to the immigration of surplus agricultural workers with their families, has aggravated the urban unemployment problem, which has in any case been gaining in magnitude as a result of the relatively slow rate of over-all development and the application—at least in the more dynamic sectors—of techniques that weaken manpower absorption capacity. Hence the spread of unemployment and under-employment in the various branches of activity has been accompanied by the emergence of large marginal urban groups engaged in occupations of minimal productivity.

The distribution of the population between urban and rural areas also differs from one country to another. For example, a comparison of trends over the last two decades shows that in Argentina, Brazil and Guatemala the growth rate of the urban population has declined and that of the rural population has undergone no change, while that of the total population has slowed down in the first two countries and remained constant in the last-named. In Mexico, the rate of expansion of the rural population has continued to stand at the same level and there has been a slight acceleration of the urban population growth rate, with the result that the over-all rate has risen sharply. In Nicaragua, downward fluctuations in the demographic growth trend have been marked in the urban and slight in the rural sector, while similar movements have taken place in Ecuador, but in an upward direction; the rate of increase of the total population has been constant in Nicaragua and has risen steeply in Ecuador.

These trends have been partly responsible for considerable changes in the structure of the economically active population. One of the most striking modifications is the decrease of the proportion corresponding to agriculture which

by the end of the nineteen-sixties may represent only a little more than 42 per cent of the total working population, as against over 53 per cent in 1950, although in the meantime the rate of decline has gradually slackened off (see table 20). A second outstanding feature is the fact that the relative contraction in the share of agriculture is not reflected in significantly larger proportions of employment in the sectors producing non-agricultural goods and basic services, whose relative importance in this respect increased little in the nineteen-fifties and by barely 0.2 per cent in the nineteen-sixties.

Special mention should be made of manufacturing, which has accounted for a decreasing proportion of total employment because the share of factory industry has been virtually constant, and that of artisan-type industry has steadily declined at much the same rate in both decades. The labour force in the construction sector has gained in relative importance in the nineteen-sixties just as in the preceding decade, but the proportion absorbed by the basic services sector has expanded very much more slowly than before.

In these circumstances, the relative falling-off in agricultural employment has been offset chiefly in commerce and finance and in the "other services" sector (general government and miscellaneous services). This reflects the pressure of the labour supply on the activities in question, in face of the limited increase of employment opportunities in the sectors producing goods and basic services. A still more suggestive symptom is the sharp upswing in the share of "unspecified activities" (which in essence signify unemployment or employment in marginal services with extremely low productivity). The proportion represented by such activities in 1950 (2.3 per cent) has more than doubled by 1969 (reaching 5.6 per cent), and most of the increment can be seen to have accumulated from 1960 onwards (see table 21).

The decrease in the percentage of the total economically active population corresponding to the agricultural labour force is more marked in some countries than in others. In Venezuela, for instance, the sharp downward trend observable in the nineteen-fifties has hardly weakened at all in the following decade; in Mexico the decline, already rapid in the nineteen-fifties, has continued at a still faster rate; elsewhere, on the other hand—in Brazil and Colombia, for example—the earlier rates of decrease have been drastically reduced. The relative importance of Ecuador's agricultural labour force, which increased in the nineteen-fifties, has later declined appreciably.

²⁰ As a general rule, data for Latin America do not include Barbados, Cuba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

Table 21. Latin America:^a structure of economically active population by economic sectors
(Thousands of persons, and percentages)

	Thousands of persons			Estimates for 1969			Percentage distribution			Estimates for 1969			Proportion of total population			Estimates for 1969	
	1950	1960	1965	1950	1960	1965	1950	1960	1965	1950	1960	1965	1950	1960	1965	1950	1965
<i>Total</i>	50,561	65,371	74,751	83,647	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	34.2	33.4	33.1	33.0	33.0
Agriculture	26,990	30,855	33,221	35,320	53.4	47.2	44.5	42.2	18.3	15.8	14.7	13.9					
Production of basic non-agricultural goods and services																	
Mining	11,900	16,112	18,115	20,702	23.5	24.6	24.2	24.8	8.0	8.2	8.0	8.2					
Manufacturing	556	675	741	822	1.1	1.0	1.0	1.0	0.4	0.3	0.3	0.3					
Factory industry	7,272	9,422	10,444	11,546	14.4	14.4	14.0	13.8	4.9	4.8	4.6	4.6					
Artisan-type industry	3,469	4,999	5,678	6,462	6.9	7.6	7.6	7.7	2.3	2.5	2.5	2.6					
Construction	3,803	4,423	4,766	5,084	7.5	6.8	6.4	6.1	2.6	2.3	2.1	2.0					
Basic services	1,929	2,650	2,954	3,768	3.8	4.1	3.9	4.5	1.3	1.4	1.3	1.5					
Services	2,143	3,365	3,976	4,566	4.2	5.1	5.3	5.5	1.4	1.7	1.8	1.8					
Commerce and finance	11,671	18,404	23,415	27,625	23.1	28.2	31.3	33.0	7.9	9.4	10.4	10.9					
Miscellaneous services	3,945	5,892	7,120	8,451	7.8	9.0	9.5	10.1	2.7	3.0	3.2	3.3					
Unspecified activities	6,579	10,198	12,414	14,475	13.0	15.6	16.6	17.3	4.4	5.2	5.5	5.7					
	1,147	2,314	3,881	4,699	2.3	3.6	5.2	5.6	0.8	1.2	1.7	1.9					

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

Several countries where the proportion of manpower employed in manufacturing rose considerably in the nineteen-fifties—including Argentina, Mexico and Venezuela—have witnessed a steep downturn in this trend in the following decade. In Chile, on the other hand, the reverse has taken place.

The rates of increase of the labour force employed in the services sectors (commerce and finance, general government and miscellaneous services), which were rapid in Colombia, Mexico and Venezuela in the nineteen-fifties, have slowed down in the nineteen-sixties, whereas just the opposite has happened in Ecuador. The share of unspecified activities—which is highly significant, as has been pointed out, inasmuch as it is indicative of the scale of employment and under-employment in marginal services—has increased very fast in the nineteen-sixties in relation to the nineteen-fifties; the expansion was greatest in Chile, Colombia and Mexico, more moderate in Ecuador and Guatemala, and relatively slight in Argentina and Venezuela.

To revert to Latin America as a whole, it may be estimated that in the nineteen-sixties a little over 60 per cent of the increase in the labour force has actually been absorbed into economic activities—a lower proportion than the 62.5 per cent recorded in the preceding decade. This implies that the annual growth rate of the working population has been higher in the nineteen-sixties than in the nineteen-fifties (2.6 and 2.8

per cent, respectively), but if the employment figures for “unspecified activities” are not taken into account, the real absorption rate falls from 2.5 per cent in the first of the two decades compared to 2.3 per cent in the second (see table 22).

If attention is turned to the contribution made by the various sectors of economic activity to the absorption of the labour force increment, it can be seen that in the nineteen-sixties the trends noted in the preceding decade have continued, inasmuch as the expansion of employment in the sectors producing goods has been inadequate, and it is still the services sector that shows the greater absorption capacity. During the decade in question, agriculture has absorbed only 24.4 per cent of the total increase in the labour force. The intake in manufacturing has been barely 11.6 per cent, a proportion which compares unfavourably with the figure of 14.5 per cent for the previous decade; the decrease has been particularly significant in the case of factory industry (from 3.7 to 2.9 per cent). The absorption capacity of the mining sector slightly increased from one period to the next, while the proportion of the manpower increment tapped by basic services dropped from 8.2 to 6.6 per cent. Within the services sector, different trends have been pursued. “Commerce and finance” still constitute the group of activities that absorb one of the largest shares of the increase in the economically active population; the proportion absorbed by “other services” has decreased; and the percentage drawn into

Table 22. Latin America:^a absorption of labour force increment by sectors of the economy
(Thousands of persons, and percentages)

	1950-60			1960-69		
	Increment	Percentage distribution	Annual growth rate	Increment	Percentage distribution	Annual growth rate
Agriculture	3,865	26.1	1.3	4,465	24.4	1.5
Production of basic non-agricultural goods and services	4,212	28.4	3.1	4,590	25.1	2.8
Mining	119	0.8	2.0	147	0.8	2.2
Manufacturing	2,150	14.5	2.6	2,124	11.6	2.3
Factory industry	1,530	10.3	3.7	1,463	8.0	2.9
Artisan-type industry	620	4.2	1.5	661	3.6	1.6
Construction	721	4.9	3.2	1,118	6.1	4.0
Basic services	1,222	8.2	4.6	1,201	6.6	3.4
Services	6,733	45.5	4.7	9,221	50.5	4.6
Commerce and finance	1,947	13.2	4.1	2,559	14.0	4.1
Miscellaneous services	3,619	24.4	4.5	4,277	23.4	4.0
Unspecified activities	1,167	7.9	7.3	2,385	13.1	8.2
TOTAL	14,810	100.0	2.6	18,276	100.0	2.8
TOTAL, excluding unspecified activities	13,642	—	2.5	15,891	—	2.3

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

"unspecified activities" has followed a rising trend.

When the foregoing trends and structure of employment are compared with the over-all and sectoral evolution of the product, certain points are brought to light that relate to productivity, defined in terms of the product generated per worker. Broadly speaking, in the Latin American economy as a whole, increases in productivity have been slightly smaller in the nineteen-sixties than in the preceding decade, since the average annual rate was 2.2 per cent in 1950-59, and is unlikely to have been more than 2 per cent in 1960-69 (see table 23). These are relatively low figures in comparison with the rates at which productivity improves in more advanced countries, such as the Federal Republic of Germany, France, Japan, etc., and, in general, with the indexes for the countries with centrally planned economies.

Although the growth rate of productivity in Latin American agriculture also compares unfavourably with the rates achieved in other parts of the world, it speeded up between the two periods (from 2.1 to 2.5 per cent), since the absorption of manpower in this sector lagged considerably behind the expansion of the agricultural product. In mining, productivity increments have been far smaller in 1960-69 than in the nineteen-fifties, basically owing to a larger growth rate for the sectoral product, for which Venezuelan petroleum has been largely responsible. If Venezuelan petroleum is excluded, the rate of increase of the sector's productivity still shows a downward trend, but the

decrease is much smaller (from 3.1 per cent in 1950-59 to 2.8 per cent in 1960-69).

If the rate at which productivity in manufacturing—especially in factory industry—improved between the two periods is insignificant by non-Latin-American standards, it is fairly rapid in relation to the Latin American economy as a whole, and moreover, higher levels are reached than in any of the region's other economic activities. In this sector the growth rate of the product has been relatively high and fairly steady in both periods; the labour force, on the other hand, has expanded a good deal more slowly, especially in factory industry, where its rates of increase have dropped from 3.7 per cent in 1950-59 to 2.9 per cent in 1960-69. The position is similar, although the trends are more marked, in basic services, while in the construction sector a comparison of the respective rates at which manpower absorption and the product increased between the two decades leads to the conclusion that productivity has risen at a rate of 1 per cent in 1960-69 as against 1.4 per cent in the nineteen-fifties (see table 23).

In the "commerce and finance" sector, high rates of absorption of the labour force have been accompanied in both decades by relatively rapid growth rates of the product, with the result that the annual increase in productivity has been close to 1 per cent. It should be noted, however, that in this sector it is not strictly possible to speak of physical output trends, so that the relevant indicator must rather be taken as reflecting income and, in essence, rates of profit. The "other services" sector, formed by general

Table 23. Latin America:^a labour force productivity trends, by economic sectors
(Dollars at 1960 prices and percentages)

	1950	1960	1965	Estimates for 1969	Annual growth rates		
					1950-60	1960-69	1950-69
<i>Total</i>	961	1,197	1,321	1,432	2.2	2.0	2.1
Agriculture	450	555	633	394	2.1	2.5	2.3
Production of basic non-agricul- tural goods and services	1,403	1,843	2,144	2,344	2.8	2.7	2.7
Mining	3,617	5,504	6,103	6,484	4.1	2.0	3.1
Mining excluding Venezuela	2,642	3,584	4,141	4,598	3.1	2.8	3.0
Manufacturing	1,294	1,831	2,206	2,517	3.5	3.6	3.6
Factory industry	...	3,137	...	4,168	...	3.2	...
Artisan-type industry	...	356	...	419	...	1.8	...
Construction	899	1,017	1,058	1,116	1.4	1.0	1.2
Basic services	1,663	1,814	2,049	2,174	0.9	2.0	1.4
Services ^b	1,718	34	1,771	1,817	0.1	0.5	0.3
Commerce and finance	2,261	2,494	2,623	2,731	1.0	1.0	1.0
Miscellaneous services	1,393	1,295	1,282	1,283	-0.7	-0.1	-0.4
Other services, including un- specified activities	1,186	1,055	977	968	-1.2	-0.9	-1.1

SOURCE: ECLA, on the basis of official statistics.

^a Excluding Barbados, Cuba, Guyana, Haiti, Jamaica and

Trinidad and Tobago.

^b Excluding estimated labour force in unspecified activities.

government activities and miscellaneous services, of which the latter carry the greater weight in employment and product figures, has shown a recovery in the declining trend of productivity—here again to be interpreted in terms of income—which is mainly attributable to the fall in manpower absorption rates. If, in addition, unspecified activities—in which the population increase is substantial—are taken into account, productivity would seem to have deteriorated in the nineteen-sixties at much the same rate as in the preceding decade.

(b) Characteristics and trends of unemployment and under-employment

From the body of information that exists on the subject it is apparent that many of the Latin American economies are finding it increasingly difficult to absorb an adequate amount of manpower into productive jobs, particularly in the basic goods and services sectors.

This situation is reflected particularly clearly in urban areas, where marginality is growing in a number of broad social strata. The result is that what have been labelled “unspecified activities” are acquiring ever-increasing importance in the structure of the labour force, as was pointed out earlier in this chapter. The decline in employment opportunities is also beginning to affect the rural-urban movements, as the vast differences between the living levels of the lower strata in the country and the towns are gradually ironed out. The outcome has been that unemployment and under-employment, which used to be relatively slight, have at least become far more obvious in the nineteen-sixties.

It is impossible to gauge the extent of this phenomenon from the statistics available. However, mainly for the sake of illustration, it should be noted that any effort to quantify the under-utilization of labour resources should distinguish between its three forms, namely, open unemployment, which is fairly easy to assess; seasonal and circumstantial unemployment; and under-employment, which is very difficult to calculate for various reasons, although some orders of magnitude can be arrived at.

In general, it is taken as axiomatic that there is more under-employment than unemployment, whether voluntary or involuntary. Some truth is also attributed to over-all estimates according to which the under-utilization of human resources represents just over a third of the total labour potential: voluntary and involuntary unemployment would account for less than half the total volume of under-utilized resources, while under-employment might cover as much as two thirds.

To arrive at more precise figures, it would be necessary to make a more detailed study of these phenomena and their relation to the structure of population and of employment. Any survey of this kind must, however, bear in mind the fact that the characteristics of unemployment tend to gloss over the real scope of the problem. Hence, it would be essential to consider such aspects as the following:

(i) The census figures for the economically active population that is unemployed or seeking work for the first time are remarkably low; in fact, in some cases they are even lower than the figures for unemployment recorded in the key areas of the different Latin American countries. Most of the persons genuinely unemployed are described as belonging to the economically inactive population.

(ii) The records of persons out of work are inaccurate, either because they are incomplete or because unemployed persons who, as family workers, find occupation in such activities as agriculture, crafts, small-scale commerce and personal services, are not taken into account. They represent the direct conversion of open unemployment into under-employment.

(iii) Most of the people who fail to find employment, including those looking for their first job and those who have been unemployed for some time and may even have ceased to look for work, are classified in censuses as belonging to the economically inactive population. But it is precisely this category of unemployment that forms the bulk of open unemployment and which cannot be quantified without analysing the rate of participation of the employed economically active population and of different population groups of working age, classified by sex and age. Broadly speaking, young people of both sexes between 15 and 20 years of age, who neither go to school nor work, although they are not classified as looking for their first job, belong to this category of unemployment. So do nearly all adult men of under 65 years of age who do not work or live in institutions, and a large proportion of non-working adult women of under 65 years of age. The size of this proportion is influenced by the kind of employment opportunities open to women of 20 to 40 years of age because of child-bearing, and by the difficulty experienced by women over that age in finding work if they have never been employed before.

(iv) Voluntary unemployment, which crops up in both the economically active and the economically inactive population, but is greater in the latter. The origins of this category of unemployment are varied, but the most typical is that of persons who, for a long time, have been un-

successful in finding work that they consider compatible with their social status and who may therefore cease to look for any. Problems of a social nature may also lead certain strata in the younger age groups to vegetate. Some people are also employed in unproductive marginal occupations which can be regarded as marginal under-employment. In short, the line of demarcation between involuntary and voluntary unemployment is clearly hard to draw, especially when someone has been out of work for a long time and when there is no clear distinction between open and disguised unemployment.

(v) The population unrecorded in the censuses, which is estimated from the census omissions, probably comprises the people living in marginal areas and, to an even greater extent, people in urban centres where the shortcomings of the census machinery and the extreme marginality of some population elements, who are prevented by circumstances from having any fixed abode, lead to omissions. In both cases, a large proportion of the adults in this situation may be presumed to be unemployed.

Between open unemployment and under-employment there is an intermediate category of non-chronic, seasonal and circumstantial unemployment.

Seasonal unemployment occurs in agricultural work, especially on land owned by others or in industries that process agricultural commodities. It is equivalent to the under-employment that exists among members of the labour force who work for a large part of the year on their own land. This type of unemployment is particularly marked in Latin America, where means of using human resources during periods of unemployment have not yet been developed.

The fluctuating levels of certain activities, such as construction, are continually throwing large numbers of people out of work, especially unskilled labour, which is mainly rural in origin. This situation depresses the level of activity in allied industries, such as the building materials industry, and this reduces employment still further.

Typical under-employment, of a chronic or permanent kind, is found in occupations in which only a small part of the available time is used or the effort involved represents a mere fraction of the person's capacity for work. There is, in addition, marginal unemployment, which occurs in occupations that are totally unproductive and in fact simply mask open unemployment.

Both types of under-employment represent an enormous volume of under-utilized labour. The

former is more important but the latter is tending to grow more rapidly. In Latin America, typical under-employment exists on a massive scale in small-scale agriculture, crafts, cottage industry, small-scale commerce, small service firms and most public services. Under-employment is seldom found in the "modern" sector of the economy, but it is characteristic of the "primitive" sector.²¹ In the "intermediate" sector the situation varies: in industrial activities (manufacturing, mining, construction) under-employment is fairly limited, however low labour productivity may be. This is not so in agriculture or in service enterprises and units, which are usually small in scale.

It is very difficult to calculate unemployment, for lack of information and a suitable method of calculation. An evaluation for 1960 by the Latin American Institute for Economic and Social Planning in conjunction with the Latin American Demographic Centre²² provides data on this problem. In fact, it appears that unemployment and under-employment (with the latter expressed in terms of equivalent unemployment) may involve about 30 per cent of the total economically active population, that is, about 25 million people (see table 24). The bulk is in agriculture, followed by "other services" and "unspecified activities", but there is also considerable unemployment in manufacturing, and in commerce and finance, although on a much smaller scale.²³

(c) *Distribution of the labour force by strata of productivity*

For a study in depth of employment problems in the Latin American economies it seems useful to analyse the marked disparities in productivity levels between different strata in each sector of economic activity.

In most of the Latin American economies the incorporation of technical progress has not been a widespread process involving, to a varying but considerable degree, all sectors and branches of economic activity. The assimilation of technical

²¹ The terms "modern", "intermediate" and "primitive" are explained in the following section.

²² "Elementos para la elaboración de una política de desarrollo con integración para América Latina" (INST/5.3/L.3), chapter II.

²³ A large amount of unemployment is to be found in the economically inactive population. This has been confirmed by some preliminary studies recently prepared for the Ottawa Plan of the International Labour Organisation (see "Las disponibilidades de fuerza de trabajo en América Latina", preliminary estimates for twelve countries). The tentative figures estimate that the number of unemployed solely among women of working age engaged in household tasks amounted to 5 million in 1960.

Table 24. Rough estimates of equivalent unemployment in the labour force around 1969
(Thousands of persons, and percentages)

Sector	Economically active population	Percentage of equivalent unemployment in the sector	Number of unemployed	Percentage ratios	
				Unemployment in each sector as a proportion of total unemployment	Relative importance of unemployment by sectors
Total	83,647	30.4	25,402	30.4	100.0
Agriculture	35,320	32.6	11,514	13.8	45.4
Mining	822	19.0	156	0.2	0.6
Manufacturing	11,546	16.7	1,928	2.3	7.6
Construction ^a	3,768	6.4	241	0.3	0.9
Basic services ^b	4,566	2.0	91	0.1	0.4
Commerce and finance	8,451	19.0	1,606	1.9	6.3
Other services	14,475	35.7	5,167	6.2	20.3
Unspecified activities	4,699	100.0	4,699	5.6	18.5

SOURCE: Latin American Institute for Economic and Social Planning, "*Elementos para la elaboración de una política de desarrollo con integración para América Latina*" (INST/5.3/L.3), chapter II.

^a The figures represent visible unemployment only.

^b For lack of information, unemployment in transport and communications was not taken into account under the head of "basic services".

know-how has been concentrated in specific strata, while large segments of the economy have been completely excluded from the process. Thus economic structures have gradually become markedly heterogeneous, with clearly differentiated productivity strata. One group, which may be described as the "modern" stratum, consists of economic units with a fairly efficient form of organization, rising productivity, and fairly high technological levels and capital investment per worker employed. At the other end of the scale is the "primitive" stratum, which comprises economic units operating at extremely low levels of productivity with scarcely any mechanization and a negligible stock of capital, and using the most out-dated techniques. The "intermediate" stratum lies somewhere between the two extremes in regard to technical progress and productivity.

This marked differentiation between strata from the standpoint of productivity is observable not only in the economy as a whole but also in each of the main economic sectors. In other words, the point is not only that average productivity is noticeably lower in some sectors than in others, but that within each sector there are marked disparities between productivity strata.

This makes for a development model with an impact on income distribution and employment. Inasmuch as a large proportion of over-all economic growth is concentrated in the modern sector, the system's ability to absorb an active population which is growing fairly rapidly depends upon the attainment of high rates of growth for the total product and the maintenance of equally high rates of capital formation. Otherwise, it would not be possible to reduce employment progressively in the primitive

stratum, and the already pronounced disparities in productivity between one stratum and another would be accentuated. The economic and social repercussions of a situation of this kind might necessitate a different policy for the absorption of technical know-how which, without neglecting the absorption of advanced techniques in selected activities, would be aimed mainly at improving productivity in the intermediate and primitive strata.

There is little point in trying to force decisions on such options at the level of Latin America as a whole. Each specific situation will depend on the relative proportions of the different productivity strata, the stage of development reached, and other factors which vary considerably from one Latin American country to another.

A quantitative appraisal of this phenomenon presents serious difficulties because of the lack of basic statistics. Thus all that can be done for the time being is to make some provisional estimates, which will at least indicate the scale and varying intensity of this phenomenon in the different countries and sectors of activity.

Subject to these reservations, it is estimated that in the whole of Latin America, one eighth of the economically active population is employed and about half the product is generated in the modern stratum. On the other hand, probably about one third of the working population belongs to the primitive stratum, which accounts for considerably less than 10 per cent of the total product. Thus sharp differences in manpower productivity may be deduced, which probably reach a ratio of over 20 to 1 between the two strata.

These relationships vary widely from country to country. In Argentina, for instance, the proportion of employment in the modern stratum is much higher than the average for the region and much lower than in the primitive stratum; moreover, the modern stratum accounts for a higher proportion of the product and the primitive stratum for a lower proportion, which makes the disparities in productivity less pronounced. The opposite is true of other countries in the region, where the share of the primitive stratum is smaller, the modern stratum is less developed, and the productivity ratios reveal sharper disparities than for Latin America as a whole.

The differences noted in the economy as a whole reappear to varying extents in each of the major sectors of economic activity. For example, considering the agricultural sector for the region as a whole, the modern stratum probably represents less than 10 per cent of the total in terms of employment, while its contribution is one third to half the total product. In the same sector, the importance of the primitive stratum is relatively high as regards employment, while its contribution to the product is very low.

The situation is entirely different in mining, which is probably the sector with the highest proportion of employment in the modern stratum (one third to 40 per cent of the total) and accounts for most of the product (about 90 per cent). Another notable feature of mining is the persistence of a primitive stratum, which still absorbs about one quarter of the economically active population employed in the sector and where the differences in productivity with respect to the modern stratum are probably greater than in any other sector of activity.

In manufacturing, the situation in factory industry differs from that in artisan-type industry. In the former, the modern stratum probably represents about 30 per cent of total employment in manufacturing and accounts for some two-thirds of the product, its average productivity being about five times that of the remainder of factory industry. This remainder might be said to represent an intermediate stratum, containing practically no productive units that could be classified as primitive. In artisan-type industry, on the other hand, the primitive stratum predominates in terms of both employment and the product; only a small proportion of this segment, consisting of recently developed activities which have sprung up as satellites of some of the major industries, could be regarded as a modern stratum.

Relationships also vary widely in the services sectors. In commerce and finance, for example,

the modern stratum absorbs perhaps one sixth to one seventh of total employment in the sector and produces about half the product; the primitive stratum employs about 10 per cent of the total and its contribution to the product is very low.

(d) *Factors influencing the employment situation and prospects*

The foregoing considerations help to form an over-all picture of the kinds of factors influencing the present and future employment situation in the Latin American economies. Although it involves somewhat arbitrary classifications, it may be useful to make a distinction between structural and institutional factors.

(i) *Structural factors.* In the broad sense, the root of these employment problems—open unemployment, under-employment, and marked disparities in productivity—lies in the rate and, in particular, the pattern of Latin American development. This is characterized by a growing inability to absorb the increase in manpower, especially in activities producing basic goods and services, or to provide reasonable levels of productivity and income.

It has already been pointed out that the overall economic growth rate is weakening while the labour force is rapidly and steadily expanding. The same may be said about the rates of capital formation, to which may be added the absence of any great changes in the share of investment in directly productive activities which provide stable and lasting employment, or in the amount invested in other activities connected with the expansion of housing and the urban infrastructure (associated with temporary and sharply fluctuating employment).

As regards the productive activities themselves there is an evident tendency to invest a large proportion of the available resources in capital-intensive activities with a small labour absorption capacity. Conversely, other sectors where these ratios favour an increase in employment are not expanding nearly so much. This means not only a decline in the capital-output ratio for the economy as a whole but also, in the case of many activities, a very high level of investment per worker (see table 25).

It is precisely these activities which form the modern stratum. Although their growth is often a highly positive contribution to general economic development, if the question is considered mainly from the employment standpoint, it is impossible not to perceive the implicit contradictions, inasmuch as, at those levels of fixed investment per worker, they can absorb only a

Table 25. Latin America: fixed investment per worker employed in selected industries
(Dollars at current prices)

Industry	Annual production capacity (tons)	Fixed investment per worker	Number of shifts	Process
Bleached kraft pulp . . .	100,000	56,200	3	Bleached kraft pulp from conifers not combined with the manufacture of paper
Newsprint	100,000	50,070	3	Newsprint, partly combined with the manufacture of mechanical pulp from conifers
Sulphuric acid	36,000	40,000	3	Sulphuric acid (from sulphur)
Caustic soda and chlorine . .	35,300	100,000	3	Caustic soda (18,800 tons) and chlorine (16,500 tons) from salt by electrolysis
Sodium carbonate	200,000	65,000	3	Sodium carbonate (Solvey process)
Ammonia	66,000	135,000	3	
Polyvinyl chloride	12,000	22,000	3	From calcium carbide and chlorine
Welded steel tubes (two production lines)	19,210	53,800	1	Steel tubes, welded, ½"-2" in diameter
Cement	400,000	48,100	3	Integrated plants (damp process)
Steel	1,000,000	46,700	3	Integrated plants

SOURCE: ECLA.

Note: Ratios of capital-intensity per worker may also be found in *Profiles of Manufacturing Establishments* (United Nations publication, Sales No.: E.68.II.B.13). It shows, for example, that in a French ammonium nitrate plant with an annual production capacity of 46,000 tons (nitrogen content), the capital invested in machinery, equipment, instruments

and tools per worker amounted to about 86,000 dollars. Similarly, in a plant producing wire and wire products with an annual production capacity of 50,000 tons, the capital invested was close to 30,000 dollars per worker employed in the production process itself, and 21,000 dollars per worker if the repair, maintenance and transport personnel were included.

modest proportion of the annual increase in the active population.²⁴

Moreover, in many cases new and up-to-date units are added, not to satisfy greater demand but merely to replace previously existing activities with lower productivity levels. This not only diminishes the capacity to increase employment but may even jeopardize existing employment levels.²⁵

These considerations do not suggest that employment needs are incompatible with the introduction of technical improvements aimed at attaining peak productivity levels in particular activities. On the contrary, such technical im-

provements might even be a prerequisite for achieving over-all growth rates which would reinforce the economic systems' capacity to absorb more manpower. They do suggest, however, that the role of the modern strata might have to be redefined and their development supplemented by more active policies governing employment and productivity improvements in other sectors of the economy.

Naturally, the above relationships with respect to the heterogeneous distribution of the Latin American economies in strata with widely differing productivity levels are the result of, and in turn directly affect, other basic aspects of economic and social development. For example, the modern strata tend to receive a larger share of income in comparison with the intermediate and primitive strata.

Concentration of income in the modern stratum, at the levels described above, leads to the concentration of effective demand in this stratum—that is, a substantial part of the market—and means that this demand is mainly for consumer goods, as a result of unequal income distribution and the influence of consumption patterns in the industrialized countries. These pressures determine a structure of production in the modern sector which is mainly characterized by the production of consumer goods, particularly consumer durables of a luxury type. Even the relatively small-scale production of capital goods is designed to reinforce the production machinery that is geared to consumption, to the

²⁴Purely for illustrative purposes, take a figure equal to half the lowest figure in table 25 (for example, 10,000 dollars per worker). The annual increase in the active population—some 2.35 million persons—requires the investment of about 24,000 million dollars at those productivity levels. This would be equal to 20 per cent of Latin America's present total product, and two and a half times the present volume of investment.

²⁵An investigation carried out in Cuba some time ago revealed that certain units belonging to the modern dynamic industries—including petroleum refining, copper rolling, and the manufacture of tires, glass, fertilizers and cigarettes—during the period 1952–58 stepped up their product by about 8 per cent annually (that of the non-sugar industries rose by 5 per cent over the same period), while employment remained at the same level as at the beginning of the period. It is illuminating to examine the different measures adopted to solve the social problems involved, which in some cases—for example, in cigarette manufacture—entailed continuing to pay a proportional wage to the surplus unskilled labour force that was completely excluded from production activities.

detriment of a possible expansion of the capital goods sector which might boost the development of the rest of the economy and ensure its ultimate capacity for self-sustained development. This last consideration is all the more important because of the region's difficult external payments position, which limits imports of capital goods and makes their supply from abroad highly unreliable.

Inasmuch as the modern stratum does not sufficiently influence the rest of the economy by acting as a dynamic nucleus of development, a large proportion of the increase in the labour force must somehow be absorbed by the non-modern strata; in practice, this has led to the formation of a "reserve army" of manpower, which directly or indirectly accentuates the disparities in income distribution.

In short, part of the economy—the modern stratum—contributes most to the growth of the product, mainly through a relatively accelerated increase in productivity, while absorbing little manpower. On the other hand, the non-modern strata are growing slowly and must somehow absorb the high proportion of the increase in the economically active population which is deprived of access to the modern strata; consequently, they show little improvement in productivity. The sluggish over-all rate of growth, the effects of the relatively high concentration of income on the composition of demand, and the dependence on external technologies are other factors influencing this pattern of growth.

Although all these factors must be considered in the broader context of general development problems, they none the less form part of a structural pattern of the basic causes underlying unemployment and under-employment problems.

(ii) *Institutional factors.* The structural limitations referred to above are usually accentuated by other factors which are institutional in character. This is the case, for example, with the level of skill of the labour force and the needs arising from the assimilation of technological progress. The fact that the labour force is not homogeneous is well known: most countries of the region have large surpluses of unskilled labour side by side with a relative dearth of skilled labour. Besides indicating the need for vocational training, this usually has a limiting effect on over-all labour absorption capacity. For example, the fact that not enough skilled labour is available often means that modernization is pushed forward too fast, limiting both skilled and unskilled employment, a situation which is not at all uncommon in industry.

Other factors of particular importance come

into play in agriculture, which is exceptional in that increased modernization can help to expand rather than restrict employment opportunities. As land is used more intensively, modern fertilization techniques are applied, more rational use is made of irrigation, and the composition of agricultural production changes, productivity and employment per unit of area increase proportionally. This can be a factor of great importance in view of the very high proportion of the economically active population still employed in agriculture and the influence of rural-urban migration on the problems of urban unemployment and under-employment. However, its potential is still largely unrealized because of well-known institutional obstacles, which include the characteristics of land tenure and, although to a lesser extent, the scarcity of skilled workers in the rural labour force.

The actual way in which technological improvements are introduced has a great deal to do with the contradictions that often exist between employment and productivity targets. In general, the improvements are assimilated passively—the technologies used in industrialized economies are merely copied, access to the technical know-how depends on the availability of funds for investment in it, and there is a risk that it may be capital intensive and absorb little of the labour force. The proportion of technical progress achieved through regional technical and scientific research, which would help to ensure that the technologies used were more in line with the resources available to the Latin American economies, is much smaller.

Another set of institutional factors relates to the criteria used in selecting production techniques, particularly by private enterprises, which are derived from the relative prices of capital and labour. Since capital is scarce and labour relatively abundant the relationship of the social costs of these two factors is completely changed if they are expressed in market prices. Several methods of stimulating investment actually tend to lower the relative price of capital goods, while the effect of social policy measures is often to raise the relative price of labour. With regard to social policy, the volume of social security and the methods of financing it is of special importance; if it is fixed as a proportion of the total wage bill, then it becomes in effect a tax on the use of labour and thus encourages the use of more labour-saving technologies. This is another topic that has not been thoroughly looked into with a view to developing new methods, although attention has been drawn more than once to the probable effect of financing social security through direct taxation.

Very often, the choice between technologies with different implications for employment is made on the basis of extra-economic criteria, as, for example, when preference goes, for politico-social reasons, to production techniques that limit the number of persons employed in a particular enterprise; this hampers the formation or growth of trade unions.²⁸ At other times, profits are reinvested in the same enterprise instead of being used to open up other lines of production; this leads to unnecessary or premature replacement of machinery with more mechanized equipment which affects, directly or indirectly, the possibility of increasing employment opportunities.

As long as situations such as these continue, and markedly weaken the ability of economies to provide employment for the growing economically active population, it is quite natural for some labour circles to exert pressure and to secure agreements which increase their opportunities of employment or safeguard the positions they have attained. Hence the proliferation of posts created by statute in the public sector; the increase in the number of staff carrying out the same work, which results in under-employment;

²⁸See *The process of industrial development in Latin America* (United Nations publication, Sales No.: 66.II.G.4) for a more thorough analysis of factors of this kind.

the employment of staff without definite functions who are not organically linked to the whole; the reduction of working hours in certain activities; the creation of quasi-institutions to give marginal or semi-marginal employment; and the compulsory retention of staff hired under legal statute. The institutional repercussions of these pressures—as far as public administration and services are concerned—usually take the form of the creation of artificial jobs. In private enterprises, the most common forms are the compulsory retention of workers who have been hired; increasing the number of posts corresponding to particular functions; and resistance to modernization, either organizational or technological or both. In view of the current unemployment and the fact that it is likely to exist for some time, the trend is to set up semi-institutional and other services simply because certain sectors of the labour force are unemployed. Lastly, there are those activities and services in which employment is a monopoly, as with port workers, stevedores and the like.

This kind of pressure is only really effective, however, when it comes from those segments of the working population which are in the modern sector. It is less so when it comes from segments which are not in the modern sector, i.e., from precisely those in which unemployment and under-employment are most apparent.

Appendix

CRITERIA FOR THE CONVERSION INTO DOLLARS OF INCOME FIGURES EXPRESSED IN TERMS OF LATIN AMERICAN CURRENCY UNITS

At some point in the preparation of the Commission's various studies, in particular the annual *Economic Survey*, estimates of the most important macro-economic aggregates are usually required in terms of a common monetary unit (as a rule the United States dollar). This is necessary for three main purposes:

(a) To permit comparison of the Latin American countries' most significant economic aggregates, in absolute terms, with one another and, when appropriate, with others outside the area;

(b) To make estimates for the region as a whole or for sub-groups of countries, as a prerequisite for regional or sub-regional analyses;

(c) To integrate the external and internal sectors of the economy, especially at the regional level.

Prior to the preparation of the *Economic Survey of Latin America, 1967*, adjusted foreign exchange rates were used as conversion factors in order to estimate the gross product and similar aggregates for the region as a whole in dollars at constant 1960 prices. These rates

were for the most part calculated by adjusting those prevailing in a year considered relatively "normal", on the basis of appropriate price indexes.^a

Although the "parity" exchange rates obtained by this procedure were somewhat arbitrary and open to a great deal of criticism, for many countries they were more satisfactory as conversion factors than the official exchange rates used in foreign trade. Accordingly, while recognizing their limitations, ECLA continued to apply them, especially for the purpose of computing aggregates at the regional level.

Later secretariat studies have now made it possible to establish conversion factors which are better suited to measure the purchasing power of the various Latin American currencies and provide a valid means of

^aFor a more detailed description of the procedure adopted by ECLA, see *Economic Survey of Latin America, 1951-52* (United Nations publication, Sales No.: 52.II.G.3), and *Economic Bulletin for Latin America*, vol. I, No. 2 (September 1956), pp. 34-35.

expressing national accounts data in a common monetary denominator.

The first stage of the necessary research was completed in 1962 and its findings are set forth in a secretariat document^b and also in an article published in the *Economic Bulletin for Latin America*.^c As described in detail in those studies, a common market-basket of goods considered to be representative of the structure of expenditure in Latin American countries was selected and priced in each capital city of the countries concerned during the period 1960-62. A quantitative weighting system was also established, based on per capita expenditure for each item in 1960 in the nineteen countries studied, results being averaged for Latin America in order to evaluate the relative importance regionally of each item in the base year.

A similar procedure was adopted to obtain a per capita weighting system indicative of the pattern of expenditure in the United States.

Depending on which of these expenditure patterns was applied to prices, alternative conversion factors were obtained for relating the dollar to each Latin American currency. The geometric or arithmetic crossing of these results provided further estimates of purchasing power based on an approximate average (in quantitative terms) of the expenditure patterns in Latin America and the United States.

Enough new data related to the difficult problem of measuring Latin American income in terms of dollars were thus obtained for a start to be made on their practical application in the present *Economic Survey*.

The following are a few of the considerations which were taken into account when the background data were examined in order to select the most appropriate conversion factor or factors in relation to national accounts series.

1. In the first place, it was considered essential that the exchange rates should be those which best ensured the comparability of income levels between the Latin American countries themselves, or between the region as a whole and other countries or areas. This principle carried fundamental weight in the final decision, which was also influenced by practical circumstances, such as the availability of data, and the practical possibilities of undertaking short-term supplementary research which would provide a complete set of purchasing power equivalents with alternative groupings of goods and services.

2. The above-mentioned study on the measurement of real income in Latin America put forward various formulae for measuring the dollar equivalent of the purchasing power of each Latin American currency, depending on the weighting system adopted. The most interesting of these involved:

(a) Weightings based on an average per capita expenditure pattern in Latin America 1960 (formula (3) in the mathematical appendix);

(b) Weightings based on a per capita expenditure pattern in the United States in 1960 (formula (4) in the mathematical appendix);

(c) A geometric crossing of the foregoing results, giving an approximate average expenditure pattern for both areas (formula (5) in the mathematical appendix);

(d) An additional variant in which price relatives are weighted according to the per capita expenditure structure in each country (formula (6) in the mathematical appendix).

3. The first of these formulae ((3) in the mathematical appendix), has the drawback of combining a Latin American average for physical quantities of each of the goods and services comprised in the market-basket with United States prices. The objection can be raised that these prices, taken from a country with a high level of per capita income, result in a relative price structure that may differ widely from the average structure in Latin America. This assumes that a common currency for expressing Latin American prices on a uniform basis already exists. However, as this is not *a priori* the case, the formula in question could be accepted as a reasonable approximation.

4. Formula (b) ((4) in the mathematical appendix), was also thought to be an unsatisfactory solution of the weighting problem, as it transfers to Latin America the average per capita expenditure of the United States, reflecting consumer preference and valuations conditioned by different tastes and by an income level far higher than the Latin American average.

5. The third formula ((5) in the mathematical appendix), although also open to criticism, seemed the most satisfactory, as its results, being in the form of an average, are based on a weighting structure which deviates the least from each of the individual expenditure patterns for the different countries included in the comparison. Furthermore, it has the practical advantage of resembling formulae used in similar income comparisons for other areas, thus making the results more easily comparable with estimates already available for other parts of the world.

6. The fourth variant ((6) in the mathematical appendix), was considered an interesting possibility for binary comparisons, averaging individual country expenditure patterns with that of the United States. Clearly, however, it does not meet the requisite of maximum inter-regional and intra-regional comparability which was established earlier as a basic criterion for selecting a formula suitable for measuring the purchasing power of Latin American currencies in terms of dollars, and for calculating the income of the Latin American countries and of the region as a whole in this same currency.

7. There is yet another problem. Although a single market-basket of goods and services has been referred to here, in actual fact estimates of purchasing power equivalents were calculated by applying the formulae described to groups of goods representative of private consumption, government consumption, fixed investment and inventory changes (the official exchange rate being taken as representative in the case of the balance-of-trade position). One way of estimating the real income of a Latin American country in terms of dollars would be to apply the corresponding purchasing power equivalents

^b ECLA, "Measurement of price levels and the purchasing power of currencies in Latin America, 1960-62" (E/CN.12/652).

^c "The measurement of Latin American real income in United States dollars", *Economic Bulletin for Latin America*, vol. XII, No. 2 (October 1967), pp. 107-142.

to each of the above-mentioned sectors of the gross domestic product, measured at market prices and expressed initially in the currency of each country. The sum of these components would then give a total for the gross domestic product in dollars. This result would differ in absolute figures from the estimate obtainable when a single exchange rate, based on purchasing power parities but calculated with a single market-basket comprising both consumer and investment goods, is applied to the total gross domestic product expressed in national currency. In a similar way, differences would also exist between this exchange rate and the rate obtained by implication when the country's gross domestic product, expressed in national currency, is related to the dollar total obtained by adding up the various components of expenditure.

8. To reach a decision on this point, both conceptual factors and practical considerations relating to the use of the formulae in ECLA studies were taken into account, and the decision was made to adopt a single exchange rate for the base year, calculated on the basis of a single market-basket of goods and services. The reasons for this decision were as follows:

(a) By this means, maximum intra-regional comparability is ensured. The application of different purchasing power equivalents for each component of expenditure in each country would on the other hand have implied weighting each country's expenditure in accordance with the size of its major aggregates (in national currency terms). This would in turn distort comparability between countries or groups of countries within the region.

(b) There are no purchasing power equivalents which can be applied to a breakdown of the gross domestic product by sectors of activity. Consequently, any sectoral analysis for the Latin American countries would have to use, for the time being, a single exchange rate, and this would give rise to a number of inconsistencies between analyses of national income by type of expenditure and by sector of origin.

(c) The present application of the new exchange rates is regarded as an initial phase. Additional modifications may be made in the future, once further research is carried out to provide a means of meeting the needs alluded to in sub-paragraph (b).

(d) If purchasing power equivalents based on component sectors are used to determine an implicit exchange rate, practical difficulties arise since the resultant rate fluctuates from one year to another, according to the differing composition of the gross domestic product. This happens even if data are expressed in constant prices for each country. The country's growth rate then differs, depending on whether it is measured in constant prices for a base year in national currency units, or at constant prices converted into dollars by the aggregative method described.

(e) It is recognized, on the other hand, that analyses of expenditure components, such as fixed investment, can justifiably be made on the basis of the purchasing power equivalents calculated specifically for those components.

9. It should however be noted that there is one small exception to the general method of applying a purchasing power exchange rate based on a single market-basket representing the total gross domestic product, and therefore applicable to all its components (whether by type of expenditure or by sector of origin). As already pointed out, the balance-of-trade position is converted into dollars by applying the official exchange rate prevailing in the base year. The reason for this empirical decision is to avoid creating discrepancies in relation to existing balance-of-payments estimates in dollars, for which the official exchange rates are used. Moreover, the trade exchange rates are considered satisfactory for the objectives in mind since they reflect the actual impact of this sector within a country's economy.

The procedure described will give rise to a minor statistical discrepancy which will be implicitly incorporated in the item "Private consumption".

MATHEMATICAL APPENDIX

The formulae for the aggregative-type and fixed-weighting price relatives are as follows:

$$L.\bar{P}_{ku} = \frac{\sum_{i=1}^n P_{ik} Q_{i0}}{\sum_{i=1}^n P_{iu} Q_{i0}} \quad (1)$$

$$P.\bar{P}_{ku} = \frac{\sum_{i=1}^n P_{ik} Q_{iu}}{\sum_{i=1}^n P_{iu} Q_{iu}} \quad (2)$$

($i = 1, 2, 3, \dots, j, \dots, n$ items)
($o = a, b, c, \dots, k, \dots, m$ countries)

in which:

k is any Latin American country, and

u is the United States;

P_{ik}, P_{iu} are the prices of item i in countries k and u ;

Q_{i0} and Q_{iu} are average per capita quantities purchased of one and the same item in Latin America and the United States, respectively;

$L.\bar{P}_{ku}$ is a price index for country k relative to country u with quantitative weightings based on the Latin American consumer market-basket;

$P.\bar{P}_{ku}$ is a similar index with weightings based on United States expenditure patterns.

As purchasing power is in inverse ratio to the level of prices, it will suffice to invert the preceding formulae to measure the purchasing power of any Latin American country k in relation to the United States. Formula (3) uses the average Latin American weightings and formula (4) those of the United States.

$$LR_{ku} = \frac{\sum_{i=1}^n P_{iu} Q_{i\bar{u}}}{\sum_{i=1}^n P_{ik} Q_{i\bar{u}}} \quad (3)$$

$$PR_{ku} = \frac{\sum_{i=1}^n P_{iu} Q_{iu}}{\sum_{i=1}^n P_{ik} Q_{iu}} \quad (4)$$

LR_{ku} being the purchasing power of any Latin American country k in relation to that of the United States, using average Latin American weightings;
 PR_{ku} being the purchasing power of any Latin American country k in relation to that of the United States, using average United States weightings.

The combination of the two formulae by geometric crossing (GR_{ku}) will give the practical solution adopted in the present study, as follows:

$$GR_{ku} = \sqrt{\frac{\sum_{i=1}^n P_{iu} Q_{i\bar{u}}}{\sum_{i=1}^n P_{ik} Q_{i\bar{u}}} \cdot \frac{\sum_{i=1}^n P_{iu} Q_{iu}}{\sum_{i=1}^n P_{ik} Q_{iu}}} \quad (5)$$

If weightings differentiated by countries were applied, the following formula DR_{ku} would be obtained:

$$DR_{ku} = \frac{\sum_{i=1}^n P_{ik} Q_{ik}}{\sum_{i=1}^n P_{ik} Q_{ik} \frac{P_{ik}}{P_{iu}}} \quad (6)$$

This result could also be crossed with United States expenditure patterns. The formula obtained would be similar to (5), but with average per capita quantities for each country and for the United States, in every case.

Purchasing power equivalents of Latin American currencies in relation to the dollar, 1960^a

Argentina	56.03	pesos
Bolivia	7.80	pesos
Brazil	105.50	cruzeiros ^b
Chile	0.985	escudos
Colombia	5.08	pesos
Costa Rica	5.01	colones
Dominican Republic	0.98	pesos
Ecuador	11.39	sucres
El Salvador	2.04	colones
Guatemala	0.91	quetzales
Haiti	3.77	gourdes
Honduras	1.90	lempiras
Mexico	8.23	pesos
Nicaragua	6.48	córdobas
Panama	0.87	balboas
Paraguay	78.32	guaraníes
Peru	16.83	soles
Uruguay	7.10	pesos
Venezuela	4.61	bolívars

SOURCE: ECLA.

^a Measurements effected in June 1960. Estimates of Latin American and United States market-baskets prepared by application of the geometric-mean formula.

^b In view of the basic data available for Brazil, it seemed more appropriate to adhere to the exchange rate previously used.

Chapter II

THE REGIONAL DISTRIBUTION OF ECONOMIC ACTIVITIES

1. BACKGROUND INFORMATION

The patterns of economic growth reviewed in chapter I—characterized by the heavy concentration of advanced technology, with a pronounced effect on the structure of production capacity, income distribution and labour absorption capacity—are also clearly revealed in the regional distribution of economic activities.

The high degree of geographical concentration and the marked disparities between areas in a single country are also part and parcel of this pattern, and are distinguishing features of the economic structure of the region towards the end of the present decade. The past history of the problem suggests that circular relationships exist in which these regional features both spring from and tend to accentuate specific aspects of the development process.

The present regional division of Latin America largely emerged in the colonial era. The first Spanish settlements were established close to the natural resources which most interested the colonists and to the means of communication with the metropolis. Subsequent events did little to change this division into regions. This is shown by the fact that, towards the end of the sixteenth century, sixteen of the twenty Latin American cities which are most densely populated today had already been founded. Although subregional centres were established later, most of the principal cities continued to be those founded in the colonial era, and they gradually accumulated all kinds of administrative, trade (including port), cultural, religious and military activities.¹ In addition, the metropolitan areas gained more and more influence over the whole economic, political and cultural life of each country.

During the stage of “outward-directed growth”, the major development nodes were located in the vicinity of exportable resources. It was these resources, not the national resources as a whole, which determined the layout of the

transport network, whose essential function was to facilitate the rapid and cheap transportation of agricultural or mining products to the export centre. Thus each development node was more closely linked with other countries than with the rest of the national territory, and it had even fewer ties with other development nodes in the region. This process resulted in export-oriented regional economies which have good communications with the metropolis and the exporting port—often one and the same—but are virtually isolated from one another. Other characteristics are the development enclaves in unoccupied or sluggish economic areas, and the disconnected economies in which a growth impetus at one point seldom spreads to the whole area.²

Subsequent industrial development in the “inward-directed stage” did little to change this

²This process is described, for example, in the *Plan de Desarrollo Económico y Social del Perú, 1967-1970*, in which it is stated that the marked disparities in the use of Peru's economic space are closely bound up with the way in which the country's economy has evolved, and are one of the most significant indicators of its underdevelopment. Up to a few years ago, Peru had in general maintained a production structure typical of the primary export economies: on the one hand, an export sector devoted to the exploitation of agricultural and mining resources, with efficient techniques, high productivity and a small volume of employment; on the other, a subsistence agriculture based on the system of latifundia and feudal production relationships, which provided a livelihood for the bulk of the population. In these circumstances, the hinterland, where these two production activities had to be carried on, could neither obtain any of the benefits deriving from export activities nor generate substantial savings in that part of the economy which was not associated with international trade. It was therefore impossible to initiate a self-sustaining process of capital formation, and stagnation was the general rule in the provinces. In contrast, Lima went from strength to strength, and appropriated most of the profits accruing from production which were not remitted abroad, through the commercial, administrative and financial services it provided. This naturally led to the emergence of a dynamic centre based on export activities and with imports as its main source of supply. In other words, it became a point in geographical space which was economically separate from the rest of the country except as a port for exporting primary products and a centre for export formalities, with little or no power to radiate its own progress to other areas (National Planning Institute, vol. I, pp. 280-281).

¹See Jorge Enrique Hardoy, *El rol de la ciudad en la modernización de América Latina, Cuadernos del Centro de Estudios Urbanos y Regionales, No. 6* (Buenos Aires, 1966).

geographical pattern. In the first place, import substitution was directed mainly towards the existing market for manufactured consumer goods, in order to take advantage of the increasing demand from the cities, which was unsatisfied because of the inelasticity of the capacity to import. Accordingly, the aim was to establish the import substitution industries close to the consumer centres. The concentration of industry at these points continued to attract new capital and population. It was only when the possibilities of import substitution were nearing exhaustion that other locations were chosen, closer to certain natural resources; but even then, administration and often the final stages of processing remained in the traditional centres.

To some extent, industry proper took the place of an artisan-type industry which had a wider regional distribution. This explains the loss in relative importance suffered by many secondary urban centres over an extensive geographical area. First, the traditional artisan-type products, such as textiles, were replaced by similar imported manufactures at lower prices, and once these artisan-type activities had disappeared or been relegated to the local handicrafts level, imported products were superseded by domestic products from the modern areas.

Similarly, as local industry was strongly protected and there was no great incentive to improve efficiency and productivity, extra-economic factors, such as the convenience of living in a major urban centre, had a great influence on decisions regarding location.

Once a set pattern is established for the regional distribution of economic activities, it seems to be consolidated by a wide range of factors, whether or not the original factors underlying it still exist. Proximity to the consumer market, manpower reserves, the urban infrastructure, better supply, the financial markets and the sub-contracting markets tend to have more influence than the advantages that the more backward areas may offer or the incentives that might be provided to boost their development.

2. CHARACTERISTICS OF GEOGRAPHICAL CONCENTRATION

The background sketched in above helps to explain the present high indexes of geographical concentration and the natural tendency for the existing characteristics of the process to become more marked. For a better understanding of the situation as it is now, its results must be considered from two main angles: population distribution, and the location of production activities and regional income distribution.

(a) *Regional distribution of the population*

Maps 1 and 2 show the distribution of population in Latin America at the beginning of the nineteen-sixties. The population was concentrated in the major cities, and population density in the rural areas varied considerably.

Rapid urbanization is frequently cited as one of the main features of Latin American development, particularly because it bears no relation to the population shifts from the country to the towns which would be explained by the rate of industrialization and the opening up of new productive employment possibilities in the cities. Although the indexes vary widely from one country to another, it is estimated that by the end of the present decade the proportion of urban population—defined as the population living in centres with 2,000 inhabitants or more—will represent not less than 54 per cent of the total population of Latin America (see table 26).

By 1960 one third of the population of Latin America was already living in cities of more than 20,000 inhabitants, and nearly a quarter in cities with more than 100,000 inhabitants. Ten cities with more than 1 million inhabitants therefore accounted for about 13 per cent of the total population; in fifteen of the twenty-one countries of the region, half or more of the urban population was living in a single city. Other countries also showed very high indexes of concentration: 47 per cent in the capital of Chile; 70 and 40 per cent in the two largest cities of Ecuador and Brazil, respectively, and 40 per cent in the metropolitan area of Mexico City (see table 27).

Conversely, extremely low density indexes are recorded in some rural areas. In more than 40 per cent of Latin America the index is less than one inhabitant per square kilometre, and in nearly two thirds, it is less than five. In more than half of Bolivia, Brazil, Chile, Ecuador and Paraguay, it is less than one inhabitant per square kilometre; however the rural population density is high in Cuba, the Dominican Republic, El Salvador, Guatemala and Haiti, or in some parts of those countries (see table 28).

Bolivia is a striking example of sharp disparities in the density of its rural population. Large areas are practically uninhabited, while there is a high concentration of rural population in relatively small areas. More than half the entire rural population lives in the valleys, occupying an area of 24,000 square kilometres; of these, nearly 900,000 live on the flat land at the bottom of the valleys, with a density of nearly 38 inhabitants per square kilometre. This leads to serious erosion problems—caused by overgrazing and cutting down the vegetation for fuel—so that it has become necessary to cultivate

Table 26. Latin America: projected urban and rural population, by country, 1950-80

Country		1950	1955	1960	1965	1970	1975	1980
Argentina	Urban	11,124	13,095	15,015	16,839	18,674	20,553	22,468
	Rural	5,946	5,798	5,654	5,513	5,376	5,243	5,112
	Total	17,070	18,893	20,669	22,352	24,050	25,796	27,580
	% Urban	65.2	69.3	72.6	75.3	77.6	79.7	81.5
Bolivia	Urban	778	915	1,104	1,345	1,652	2,040	2,504
	Rural	2,235	2,407	2,592	2,791	3,006	3,237	3,471
	Total	3,013	3,322	3,696	4,136	4,658	5,277	5,975
	% Urban	25.9	27.5	29.9	32.5	35.5	38.7	41.9
Brazil	Urban	16,083	21,596	28,217	35,867	44,598	54,704	66,434
	Rural	36,095	38,900	41,924	45,183	48,694	52,479	56,558
	Total	52,178	60,496	70,141	81,050	93,292	107,183	122,992
	% Urban	30.8	35.7	40.2	44.3	47.8	51.0	54.0
Chile	Urban	3,430	4,087	4,967	5,910	7,037	8,359	9,864
	Rural	2,714	2,767	2,821	2,876	2,932	2,990	3,048
	Total	6,144	6,854	7,788	8,786	9,969	11,349	12,912
	% Urban	55.8	59.6	63.8	67.3	70.6	73.7	76.4
Colombia	Urban	4,135	5,556	7,257	9,257	11,665	14,601	18,191
	Rural	7,661	8,022	8,400	8,796	9,210	9,644	10,098
	Total	11,796	13,578	15,657	18,053	20,875	24,245	28,289
	% Urban	35.1	40.9	46.3	51.3	55.9	60.2	64.3
Costa Rica	Urban	247	310	386	483	612	789	1,040
	Rural	602	715	849	1,008	1,197	1,422	1,688
	Total	849	1,025	1,235	1,491	1,809	2,211	2,728
	% Urban	29.1	30.2	31.3	32.4	33.8	35.7	38.1
Cuba	Urban	2,700	3,216	3,802	4,432	5,113	5,844	6,621
	Rural	2,820	2,917	3,017	3,121	3,228	3,339	3,454
	Total	5,520	6,133	6,819	7,553	8,341	9,183	10,075
	% Urban	48.9	52.4	55.8	58.7	61.3	63.6	65.7
Dominican Republic	Urban	482	638	874	1,203	1,637	2,203	2,942
	Rural	1,761	1,949	2,156	2,386	2,640	2,921	3,232
	Total	2,243	2,587	3,030	3,589	4,277	5,124	6,174
	% Urban	21.5	24.7	28.8	33.5	38.3	43.0	47.7
Ecuador	Urban	924	1,133	1,572	2,192	2,944	3,836	4,909
	Rural	2,458	2,615	2,782	2,960	3,149	3,350	3,564
	Total	3,382	3,748	4,354	5,152	6,093	7,186	8,473
	% Urban	27.3	30.2	36.1	42.5	48.3	53.4	57.9
El Salvador	Urban	530	627	787	1,001	1,309	1,724	2,271
	Rural	1,391	1,548	1,722	1,916	2,132	2,372	2,639
	Total	1,921	2,175	2,509	2,917	3,441	4,096	4,910
	% Urban	27.6	28.8	31.4	34.3	38.0	42.1	46.3
Guatemala	Urban	732	917	1,095	1,305	1,587	1,981	2,527
	Rural	2,308	2,595	2,918	3,281	3,689	4,148	4,664
	Total	3,040	3,512	4,013	4,586	5,276	6,129	7,191
	% Urban	24.1	26.1	27.3	28.5	30.1	32.3	35.1
Haiti	Urban	340	401	513	683	927	1,274	1,751
	Rural	3,040	3,321	3,627	3,962	4,328	4,727	5,168
	Total	3,380	3,722	4,140	4,645	5,255	6,001	6,919
	% Urban	10.0	10.8	12.4	14.7	17.6	21.2	25.3
Honduras	Urban	241	291	386	525	724	997	1,366
	Rural	1,147	1,298	1,468	1,661	1,879	2,126	2,405
	Total	1,388	1,589	1,854	2,186	2,603	3,123	3,771
	% Urban	17.4	18.3	20.8	24.0	27.8	31.9	36.2
Mexico	Urban	12,131	15,338	19,467	24,777	31,319	39,496	49,805
	Rural	14,204	15,346	16,579	17,912	19,351	20,906	22,587
	Total	26,335	30,684	36,046	42,689	50,670	60,402	72,392
	% Urban	46.1	50.0	54.0	58.0	61.8	65.4	68.8

Table 26. Latin America: projected urban and rural population, by country, 1950-80 (continued)

Country		1950	1955	1960	1965	1970	1975	1980
Nicaragua	Urban	318	405	511	637	797	1,015	1,318
	Rural	815	903	1,000	1,108	1,227	1,359	1,506
	Total	1,133	1,308	1,511	1,745	2,024	2,374	2,824
	% Urban	28.1	31.0	33.8	36.5	39.4	42.7	46.7
Panama	Urban	271	343	433	555	710	906	1,154
	Rural	494	539	588	642	700	764	833
	Total	765	882	1,021	1,197	1,410	1,670	1,987
	% Urban	35.4	38.9	42.4	46.4	50.4	54.3	58.1
Paraguay	Urban	376	438	524	648	822	1,063	1,385
	Rural	967	1,089	1,227	1,382	1,557	1,754	1,976
	Total	1,343	1,527	1,751	2,030	2,379	2,817	3,361
	% Urban	28.0	28.7	29.9	31.9	34.6	37.7	41.2
Peru	Urban	2,490	2,986	3,877	5,137	6,687	8,561	10,786
	Rural	5,479	5,804	6,148	6,513	6,899	7,308	7,741
	Total	7,969	8,790	10,025	11,650	13,586	15,869	18,527
	% Urban	31.2	34.0	38.7	44.1	49.2	53.9	58.2
Uruguay	Urban	1,472	1,675	1,877	2,074	2,268	2,470	2,682
	Rural	721	688	659	641	618	594	573
	Total	2,193	2,363	2,536	2,715	2,886	3,064	3,255
	% Urban	67.1	70.9	74.0	76.4	78.6	80.6	82.4
Venezuela	Urban	2,423	3,415	4,611	5,913	7,499	9,439	11,756
	Rural	2,551	2,634	2,720	2,809	2,900	2,995	3,092
	Total	4,974	6,049	7,331	8,722	10,399	12,434	14,848
	% Urban	48.7	56.5	62.9	67.8	72.1	75.9	79.2
TOTAL (20 countries)	Urban	61,227	77,382	97,275	120,783	148,581	181,855	221,774
	Rural	95,409	101,855	108,851	116,461	124,712	133,678	143,409
	Total	156,636	179,237	206,126	237,244	273,293	315,533	365,183
	% Urban	39.1	43.2	47.2	50.9	54.4	57.6	60.7

SOURCE: ECLA estimates based on the national censuses of 1950 and 1960. The projections adopt the hypothesis that the rural population (i.e., population living in centres of 2,000 inhabitants or more) will increase at the same rate as in

1950-60. The figures for the urban population represent the difference between the estimates of rural population and the figures for total population.

poor land on the slopes, thereby creating minifundia, as in the Cochabamba valley, where only 0.37 hectares are cultivated per head of population, and even this small area is shrinking because of the population pressure.

(b) *Regional income distribution and location of production activities*

In addition to the characteristics described above, there is an even higher geographical concentration of economic activities, which is reflected in marked disparities in income levels between regions.

This concentration is particularly marked in industry. A few years ago, it was estimated that the metropolitan area of Buenos Aires, São Paulo and Mexico City accounted for over a third of the total value of Latin America's industrial production, and that in several countries the two

main industrial centres represented a very high proportion of the nation's industry: 66 per cent for the metropolitan area and Rosario in Argentina; 80 per cent for the triangle formed by São Paulo, Guanabara and Belo Horizonte in Brazil; 66 per cent for the cities of Santiago and Valparaíso in Chile; 45 per cent for Mexico City and Monterrey in Mexico; 56 per cent for the Lima-Callao area in Peru; and 75 per cent for the city of Montevideo in Uruguay.³ The primary industries, which must have a relatively large scale of production and therefore tend to be fairly concentrated, are situated in these centres.

The location of services in the main urban centres—public administration (even in countries with a federal organization), financial ser-

³ *The process of industrial development in Latin America* (United Nations publication, Sales No.: 66.II.G.4.) pp. 89-91.

Map 1. Latin America: towns with more than 20,000 inhabitants classified by size
(According to national censuses taken between 1960 and 1965)



Map 2. Latin America: rural population density, by major administrative division
(According to national censuses taken between 1950 and 1965)

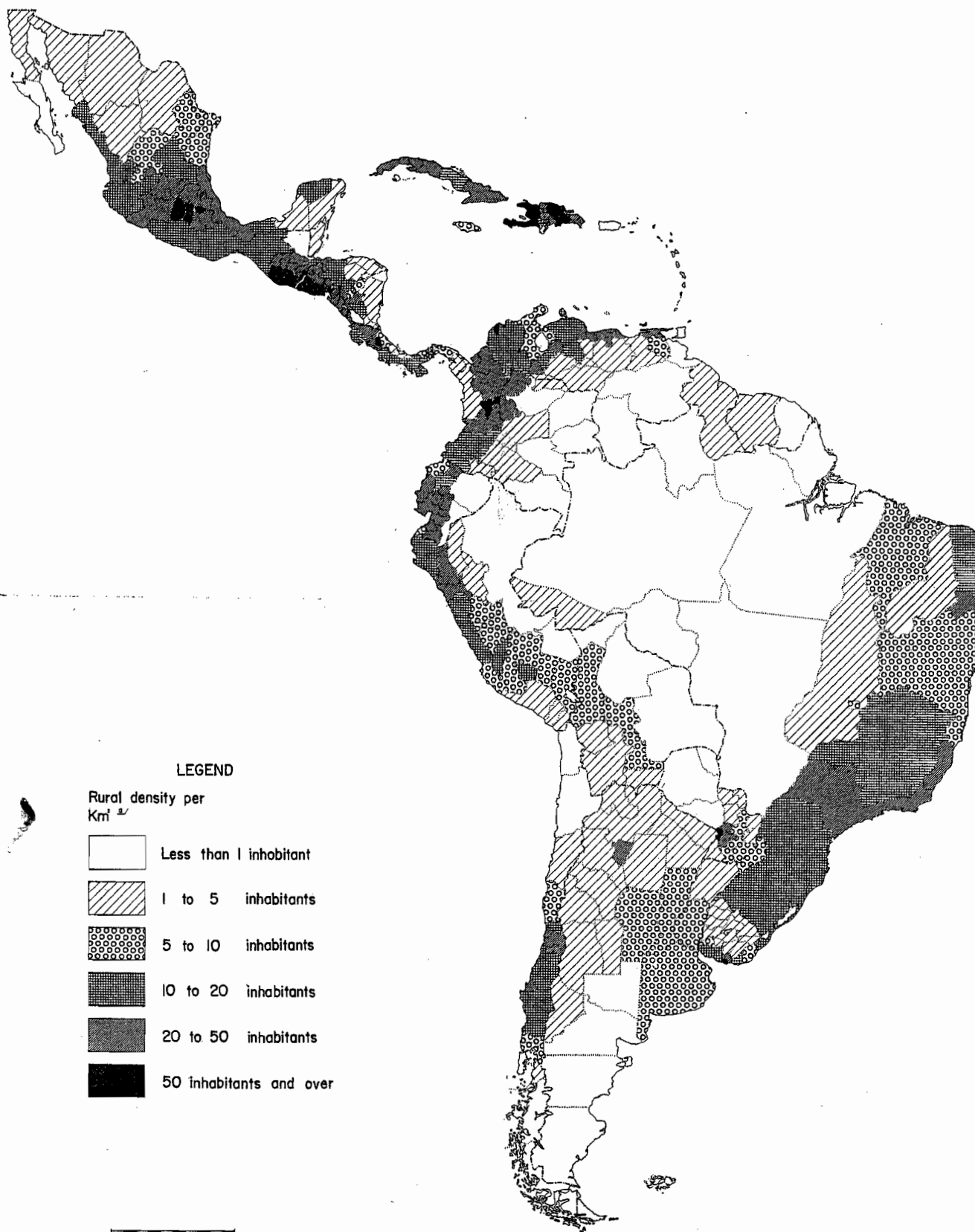


Table 27. Latin America: indexes of urbanization and urban concentration, by country, according to censuses taken since 1920

Country	Census year	Percentage of total population living in centres with a specified number of inhabitants			Percentage of urban population living in centres with a specified number of inhabitants	
		20,000 or more	100,000 or more	Most densely populated city	100,000 or more	Most densely populated city
Argentina	1914	38.0	31.5	25.8	83.0	68.0
	1947	49.3	40.0	29.7	81.2	60.3
	1960	57.7	47.5	33.7	82.3	58.4
Bolivia	1950	19.6	10.6	10.6	54.1	54.1
Brazil	1920	11.3	8.7	3.8	77.0	33.3
	1940	15.3	10.7	3.7	69.8	24.0
	1950	20.2	13.2	4.4	65.5	21.9
Chile	1960	28.1	18.8	4.5	66.8	16.2
	1920	28.0	18.4	13.6	66.2	48.6
	1930	32.5	20.7	16.2	63.9	50.0
Colombia	1940	36.4	23.1	18.9	63.5	52.0
	1952	42.8	28.5	22.7	66.5	53.2
	1960	54.7	33.3	25.9	60.8	47.3
Costa Rica	1938	13.2	7.5	4.1	56.6	31.0
	1951	23.0	15.4	6.2	66.8	26.9
	1964	36.6	27.5	9.7	75.1	26.5
Cuba	1927	19.3	—	19.3	—	100.0
	1950	22.3	22.3	22.3	100.0	100.0
	1963	24.0	24.0	24.0	100.0	100.0
Cuba	1919	24.3	14.7	14.7	60.4	60.4
	1931	27.6	18.5	16.0	67.0	57.8
	1943	30.7	19.9	17.4	64.9	56.8
Dominican Republic	1953	35.5	22.9	18.3	64.7	51.4
	1920	3.5	—	3.5	—	100.0
	1935	7.1	—	4.8	—	67.6
Ecuador	1950	11.1	8.5	8.5	76.5	76.5
	1960	18.7	12.1	12.1	65.0	65.0
	1950	17.8	14.6	8.1	82.3	45.4
El Salvador	1962	26.9	18.9	11.2	70.2	41.4
	1930	9.0	—	6.2	—	69.0
	1950	12.9	8.7	8.7	67.5	67.5
Guatemala	1961	17.7	10.2	10.2	57.6	57.6
	1950	11.2	10.2	10.2	91.0	91.0
	1964	15.5	13.4	13.4	86.2	86.2
Haiti	1950	5.1	4.3	4.3	84.8	84.8
Honduras	1940	6.1	—	4.2	—	69.1
	1950	6.9	—	5.3	—	76.6
	1961	11.6	7.1	7.1	61.5	61.5
Jamaica	1921	10.3	—	10.3	—	100.0
	1943	16.3	16.3	16.3	100.0	100.0
	1960	24.8	23.4	23.4	94.0	94.0
Mexico	1940	18.1	10.2	7.4	56.4	40.8
	1950	24.1	15.1	8.7	62.8	36.0
	1960	29.6	18.6	8.1	62.9	27.4
Nicaragua	1950	15.2	10.3	10.3	67.7	67.7
	1963	23.0	15.3	15.3	66.3	66.3
Panama	1930	22.3	—	15.8	—	71.2
	1940	26.5	19.4	19.4	73.3	73.3
	1950	28.6	22.1	22.1	77.4	77.4
Paraguay	1960	33.1	25.4	25.4	76.7	76.7
	1950	15.6	15.6	15.6	100.0	100.0
	1962	15.9	15.9	15.9	100.0	100.0
Peru	1940	14.2	8.4	8.4	59.1	59.1
	1961	28.9	18.4	14.5	63.9	50.2

Table 27. Latin America: indexes of urbanization and urban concentration, by country, according to censuses taken since 1920 (continued)

Country	Census year	Percentage of total population living in centres with a specified number of inhabitants			Percentage of urban population living in centres with a specified number of inhabitants	
		20,000 or more	100,000 or more	Most densely populated city	100,000 or more	Most densely populated city
Uruguay	1908	30.0	28.0	28.0	93.3	93.3
	1963	61.3	44.7	44.7	72.9	72.9
Venezuela	1936	17.0	11.1	7.8	65.1	45.9
	1941	18.7	12.4	9.2	66.2	49.2
	1950	32.7	20.6	13.8	63.0	42.2
	1961	47.3	30.0	17.8	63.4	37.5

SOURCE: ECLA, on the basis of national census data.

vices, foreign trade and domestic wholesale trade —also makes for the geographical concentration of economic activities. It may justifiably be said that these services are more concentrated than would seem to be required by the distribution of the population and economic activities.

The pronounced disparities in rural population density suggest that regional concentration also occurs in the agricultural sector, where some areas are worked intensively and others are not cultivated at all. In this respect, the important factor is not only the proportion of new farm land brought under cultivation and the proportion still uncultivated, but also the type of land

use. A large part of the agricultural product is generated in fairly small areas which have better irrigation and means of communication and where production is organized along more efficient lines.

The electricity systems and transport facilities reflect and reinforce these patterns of the regional distribution of economic activity. In almost all countries, more than 40 per cent of the installed capacity of the public electricity system supplies a few major cities: a few years ago in Argentina, 47 per cent of the national total supplied Greater Buenos Aires; in Brazil, 57 per cent supplied Rio de Janeiro and São Paulo; and in Mexico, 44 per

Table 28. Latin America: rural population density, as a percentage of the total rural population in each country

Country	Less than 1 inhabitant per km ²	1 to 4.9 inhabitants per km ²	5 to 9.9 inhabitants per km ²	10 to 19.9 inhabitants per km ²	20 to 49.9 inhabitants per km ²	50 and over inhabitants per km ²	Total
Argentina	30.1	43.3	25.8	—	0.8	—	100
Bolivia	59.0	8.3	32.7	—	—	—	100
Brazil	54.8	12.4	10.5	15.9	6.4	—	100
Chile	55.4	13.8	8.9	17.2	4.7	—	100
Colombia	34.1	23.9	1.8	22.3	16.5	1.4	100
Ecuador	50.5	—	5.6	6.1	37.8	—	100
Paraguay	60.8	20.9	13.6	—	4.0	0.7	100
Peru	43.3	14.7	21.5	16.0	4.5	—	100
Uruguay	—	77.0	11.2	8.9	2.6	0.3	100
Venezuela	49.8	25.7	10.1	7.8	6.5	0.1	100
SUB-TOTAL	48.1	19.5	14.5	11.8	6.0	0.1	100
Costa Rica	—	—	18.9	44.2	34.4	5.1	100
Cuba	—	—	—	23.0	77.0	—	100
Dominican Republic	—	—	2.1	3.8	50.5	43.6	100
El Salvador	—	—	—	—	—	100.0	100
Guatemala	32.9	—	—	8.3	31.5	27.3	100
Haiti	—	—	—	—	—	100.0	100
Honduras	14.8	29.7	—	29.0	25.1	1.4	100
Mexico	3.7	38.2	13.4	30.8	12.3	1.6	100
Nicaragua	—	56.3	8.3	11.2	22.9	1.3	100
Panama	—	34.0	24.8	38.0	3.2	—	100
SUB-TOTAL	4.8	33.2	11.4	27.9	17.5	5.2	100
TOTAL Latin America	42.4	21.3	14.1	13.9	7.5	0.8	100

SOURCE: ECLA, on the basis of national census data.

cent supplied the metropolitan areas.⁴ The same is true of transport facilities, both roads and railways.⁵ For example, the Amazon area of Brazil, which covers half the country's territory, has only 1,000 kilometres of railway line, while the railway network in the states of Rio de Janeiro and São Paulo is very dense; in Argentina the highly concentrated railway system in the provinces of Buenos Aires and Santa Fé contrasts with the few railway lines in the provinces of Santa Cruz and Misiones (see table 29). The regional imbalances in the distribution of roads (see table 30) are also quite striking: there are few roads in areas with little economic activity, and such areas make little headway, *inter alia*, because they lack suitable roads.

The fact that economic activity is more highly concentrated than population means that there are very marked differences between the income levels of the different regions. For example, it is estimated that 78 per cent of the gainfully employed population in the Brazilian Nordeste has an income lower than the national average; other estimates covering Brazil conclude that the average per capita income indexes, as compared with the national average, are 51 for the north-west, 60 for the north and central-west, 96 for the east and 144 for the south. In Mexico, average rural family income is slightly more than 40 per cent of its urban counterpart and, as compared with the average per capita income of the Federal

Table 30. Some examples of regional imbalances in the distribution of roads, 1960^a

	Kilometres of road per 1,000 km ²	Kilometres of road per 10,000 inhabitants
<i>Argentina: national average</i>	67.8	94.1
Buenos Aires . . .	126.7	57.9
Mendoza . . .	149.4	273.0
Santa Cruz . . .	25.7	1,188.2
San Juan . . .	31.4	76.7
<i>Brazil: national average</i>	56.0	71.9
São Paulo . . .	319.3	67.6
Espírito Santo . . .	373.4	149.0
Amazonas . . .	0.2	4.0
Acre . . .	1.6	14.6
<i>Chile: national average</i>	78.1	75.9
Valparaíso . . .	229.8	17.2
Maule . . .	408.9	246.2
Aysén . . .	9.7	252.6
Chiloé . . .	28.2	51.1
<i>Mexico:^b national average</i>	22.9	12.9
Mexico City . . .	96.4	10.9
Morelos . . .	120.4	15.4
Baja California . . .	21.2	191.3
Chihuahua . . .	7.6	15.4

SOURCE: ECLA, *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7), p. 17.

^a Including roads which are impassable at certain times of year.

^b Excluding local roads, since their distribution among federal agencies is not known.

District, the regional average income indexes are 35 for the Pacific, south and central areas, 54 for the north and the Gulf of Mexico and 93 for the north Pacific.⁶ Moreover, there is a concentration

⁴See United Nations, *Estudios sobre la electricidad en América Latina, Informe y Documentos del Seminario Latinoamericano de Energía Eléctrica* (United Nations publication, Sales No.: 63.II.G.3), vol. I, p. 111.

⁵See ECLA, *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7).

⁶The data on regional income distribution were taken from ECLA, *Estudios sobre la distribución del ingreso en América Latina* (E/CN.12.770/Add.1).

Table 29. Regional density of the three major railway systems of Latin America

	Number of inhabitants per km ²	Length of railway line (km)	Kilometres of line per 100 km ²	Kilometres of line per 1,000 inhabitants
<i>Argentina: total</i>	7.1	43,923	1.57	2.23
Province of Buenos Aires . . .	16.8	14,368	4.67	2.79
Province of Santa Fe . . .	15.1	5,193	3.90	2.59
Province of Misiones . . .	11.6	77	0.26	0.22
Province of Santa Cruz . . .	0.2	287	0.12	5.02
<i>Brazil: total</i>	8.3	38,339	0.45	0.45
State of Rio de Janeiro . . .	79.3	2,787	6.49	0.82
State of São Paulo . . .	52.3	7,664	3.09	0.59
State of Pará . . .	1.2	449	0.04	0.29
State of Goiás . . .	3.0	498	0.08	0.25
<i>Mexico: total</i>	17.8	23,369	1.19	0.67
State of Sonora . . .	4.3	1,469	0.97	2.26
State of Nuevo León . . .	16.6	939	1.44	0.87
State of Baja California . . .	7.3	185	0.26	0.36
State of Guerrero . . .	18.4	103	0.16	0.09

SOURCE: ECLA, *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7), p. 7.

of income in the metropolitan areas where the major part of modern industry is situated. It is estimated, for example, that 45 per cent of Argentina's gross product is generated in Greater Buenos Aires, 43 per cent of Chile's in the province of Santiago, 35 per cent of Mexico's in the Federal District of Mexico City and 40 per cent of Peru's in the city of Lima.⁷

In contrast to this high concentration of income in metropolitan areas, there are large population groups with very low income and productivity levels in, for example, the valleys of Bolivia and the Brazilian Nordeste. In the latter region, which has been termed the largest area of poverty in the western hemisphere, there are 25 million people with an average annual per capita income of less than 100 dollars.⁸

This kind of disparity is becoming more and more useful for an understanding of the problems of under-development. Some experts stress that the phenomenon is interdependent in character and suggest that some areas are lagging further and further behind, not so much because they are isolated from the over-all economic process as because income is transferred from them, through various channels, to the more advanced areas which to some extent base their expansion on this appropriated income.

There is no research which supports this argument; on the contrary, one of the few attempts that have been made to construct a form of inter-regional balance of payments points to the opposite conclusion. This was a study on Argentina,⁹ which shows how a large economic centre—the metropolitan area—actually absorbs resources generated in the provinces, but the transfer of income is not homogeneous, nor is it in the same direction in all cases: it involves a transfer of income from the richer agricultural areas to the metropolitan area, and a subsidy from the metropolitan area to the poorer provinces. Hence, there are two areas that benefit—the metropolitan area and the poorer provinces—and an area which subsidizes them—the highly productive agricultural provinces and two provinces producing wool and oil (see table 31). The metropolitan area, made up of the Federal

capital and Greater Buenos Aires, "exports" manufactures and "imports" agricultural products so that relative prices influence income transfers. For example, the price index of the metropolitan area's "imports" rose by 263.6 per cent while that of its "exports" rose by 342.5 per cent. Furthermore, it is in the metropolitan area that the services used by the other provinces—particularly financing, insurance and export facilities—are located.

Table 31. Argentina: per capita gross domestic product and inter-provincial trade balance, 1959

	Per capita gross domestic product (thousands of pesos at 1953 prices)	Inter-provincial trade balance on the inter-provincial balance of payments on current account (millions of pesos at 1959 prices)	
		Total ^a	Domestic ^b
Metropolitan area .	7.6	-27,175	-34,477
Remainder of the province of			
Buenos Aires .	8.1	12,750	12,322
Catamarca .	2.8	-663	-663
Chaco .	4.1	777	468
Chubut .	9.3	-210	1,284
Córdoba .	5.3	9,566	11,970
Corrientes .	3.1	293	610
Entre Ríos .	4.2	-492	-492
Formosa .	2.9	117	-32
Jujuy .	5.2	645	1,107
La Pampa .	8.2	1,818	1,956
La Rioja .	2.9	-238	-217
Mendoza .	6.5	2,654	3,479
Misiones .	2.1	-1,016	-720
Neuquén .	3.8	414	551
Río Negro .	6.2	727	860
Salta .	4.0	-1,266	56
San Juan .	5.0	679	906
San Luis .	3.8	-449	-398
Santa Cruz .	14.8	-1,832	1,790
Santa Fe .	6.4	4,085	-308
Santiago del Estero	2.3	-739	-313
Tierra del Fuego .	20.5	81	128
Tucumán .	4.2	-645	40

SOURCE: Federal Investment Council, *Bases para el desarrollo regional argentino* (Buenos Aires, 1963), pp. 56 and 98.

^a Including international trade.

^b Excluding international trade.

The poorer provinces, on the other hand, are subsidized to an extent that in absolute terms may be small, but which is significant compared with their gross internal product. These subsidies consist mostly of the allocation of resources by the national government for public works or current expenditures on education and health.

The provinces in which these resources originate are those in which modern farming is carried out on a large scale, and they generate roughly three quarters of the country's crop and live-

⁷ The sources for these percentages are as follows: Argentina, Federal Investment Council, *Bases para el desarrollo regional argentino* (Buenos Aires, 1963), p. 54; Chile, ODEPLAN, *Políticas de desarrollo regional* (Santiago, 1968), p. 76; Peru, *Plan de Desarrollo Económico y Social del Perú, 1967-1970*, vol. I, p. 285; Mexico, CIAP, *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de México* (Washington, December 1967), II-39.

⁸ Celso Furtado, "A luta pelo Nordeste e a estratégia da Sudene" (Recife, 1962), mimeographed, p. 2.

⁹ See *Bases para el desarrollo regional argentino*, op. cit.

stock production (remainder of the province of Buenos Aires, Córdoba, Santa Fe, Mendoza and La Pampa), added to which are the two provinces producing wool and oil (Santa Cruz and Neuquén). These are all thriving provinces with high per capita incomes that, with the exception of Neuquén, are above the national average and very close to incomes in the metropolitan area. Thus a situation exists in which a large industrial area—the metropolitan area—absorbs economic resources from the modern agricultural areas through payments for services and relative prices and also absorbs labour, particularly from the poorer provinces, while at the same time subsidizing the poorer provinces, but to a much lesser degree.

In contrast, the five wealthy agricultural provinces and the two wool and oil provinces subsidize the metropolitan area to a large extent. They generate 73 per cent of the national crop product and 75 per cent of the national livestock product, at a relatively high level of productivity, but they are dependent on the metropolitan area for financing, domestic marketing, exports and most of the manufactured goods that they use. The poorer provinces, on the other hand, are a source of labour—unskilled for the most part—and recover what they lose in respect of the payment of services and relative prices through government subsidies.

It is difficult to estimate the extent to which this phenomenon occurs in other Latin American countries, particularly if it is borne in mind that Argentina is, relatively speaking, not a typical case since regional differences are less pronounced than in most of the other countries, as are population pressures in its more backward areas. It is clear, however, that, even if the experience of Argentina could be applied to other countries, this would not mean that regional disparities in income and living conditions would tend to level out of their own accord. Something more than a transfer of real income in the form of social services is needed before the backward areas can achieve more dynamic economic growth.

3. SOME EXAMPLES OF REGIONAL DEVELOPMENT IN LATIN AMERICA

The fact that there has been no spontaneous force capable of achieving a better regional distribution of economic growth or at least of preventing regional disparities from becoming more pronounced had led some countries to take action and to initiate policies to promote regional development that in some cases have significance on a national scale. Some experience has been accumulated in this way and is worth describing

briefly, in particular because it covers various approaches and methods of action, depending on the country concerned.

A few examples will suffice to illustrate the type of motivation behind regional development policies. The National Planning Office of Chile has defined the reason for regional planning as the need to eliminate the huge disparities separating one area from another; regional development policy is thus "a multipurpose instrument designed to improve the conditions for regional integration".¹⁰ Three goals are sought in regional integration: at the physical level, to achieve satisfactory access to all points in the country; at the economic level, to provide similar remuneration for the factors of production and equality of opportunity irrespective of geographical location; and at the socio-political level, to establish a single institutional framework and equal levels of participation in social life and decision-making.

The Venezuelan national plan (1965–68) calls for the formulation of regional plans as instruments to promote economic integration, to make better use of potential resources and to channel internal migration. For this purpose, the Plan indicates that it is necessary to: (a) channel investment towards the exploitation of the resources of backward areas in order to integrate them with the more advanced industries, regions or areas; (b) make both the technology and the financing and information required to improve production accessible to backward areas; and (c) channel interregional population movements in order to control the urbanization process.

In Brazil, the ten-year economic and social development plan outlines the stages through which regional policy has passed, starting with assistance (primarily public works), then an attempt to alter the economic structure of the region in order to promote development, and finally a national-regional policy promoting the integration of the various areas. At this final stage the ten-year plan was prepared, basically consisting of the creation of a self-sustained development process in each region, with an appropriate growth rate being fixed for each, and the incorporation of this process into the main stream of national integration with a view to reducing the economic differences between regions and establishing an integrated national market.

On the basis of these general guidelines, specific criteria can be worked out for the allocation of resources in terms of three development op-

¹⁰ODEPLAN, "*Política de desarrollo regional*" (Santiago, 1968), mimeographed, p. 9.

tions, according to which the regional product, or regional employment or regional balance will be increased to the maximum. Chile's regional development policy, for example, focuses on the areas with the greatest potential, "in which development can get going most rapidly", in order to make the best use of investment resources. Hence, priority is given to the areas which already have an infrastructure or known resources; although account is also taken—as a conditioning factor of secondary importance—of the need to redistribute income among the regions.

The Brazilian plan stresses the need for developing countries to prevent the over-all growth rate from falling, however slightly, to the benefit of a particular region, because of the risk of slowing down the whole development process. Consequently, a different growth rate should be established for each region, in line with the national rate and the possibilities for self-sustained growth.

The Venezuelan plan points out that a backward regional economy needs a continual inflow of resources until it has passed the critical point at which it can continue on its own. The policy here is to concentrate resources on a limited number of backward regions until each of them passes the critical point, and then do the same for other regions, on the assumption that the resources would be lost if they were dispersed among a large number of regions without any single region achieving self-sustained growth.

With regard to population matters, it is argued—for example by ODEPLAN in Chile—that action should be focused on the regions with the greatest development potential, while, according to another view, it is justifiable in the short term to subsidize—through public works, for instance—certain regions which are incapable of achieving full employment on their own. Similarly, as in the Venezuelan plan, an attempt is being made to guide the urbanization process by channelling population movements among the regions and preventing excessive growth in a small number of cities.

Once the over-all aims and methods of action are established, then effective national policies have to be defined for their practical application. There are two main approaches: either an attempt is made to develop backward areas with a view to improving the living conditions of large segments of the population, or the main aim is to open up new areas in order to exploit resources that are of importance for national development. In the first case, stress is laid on income transfers, mainly through public services and State action to modify or improve the bases of production of the region. In the second case, the

stress is on investment in the infrastructure and other direct State investment. In both cases, a number of direct incentives can be used, mainly tax exemptions.

The programmes for the Brazilian Nordeste and the Guayana area of Venezuela illustrate these two basic approaches. Their main features are described below.

(a) *The Nordeste of Brazil*

The Nordeste programme in Brazil is an outstanding example of action designed to raise the level of living of a large population group in Latin America. Its aim is to promote development in an area of 1.57 million square kilometres,¹¹ with 25 million inhabitants and an average per capita income of less than 100 dollars. The programme has two basic objectives: to promote industrial development and to increase the supply of food. An executing agency—the Department for the Development of the Nordeste (Superintendencia de Desenvolvimento do Nordeste—SUDENE) was established to achieve these objectives, and plans for industrial development and the expansion of agricultural supplies, and pre-investment plans in connexion with natural and human resources were launched. The main policy instrument used, and the most original of its kind, is the "fiscal credit" mechanism under article 34/18, which is described below.

In the field of industrial development, the programme is aimed at promoting private investment in industry through the creation of tax, credit and exchange incentives, and the construction of an infrastructure (particularly for energy and transport); the purpose of the agricultural plan is to bring new farm land under cultivation, and to improve productivity; and the twin aims of the pre-investment programme are to train manpower and carry out research on natural resources.

The establishment of SUDENE was basically a new way of tackling the Nordeste's problems,¹²

¹¹ Comprising the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia and part of Minas Gerais. There are four large subregions: the *mata* or humid area, the east coast, the *sertão* or arid region, and the intermediate area between this and the Amazon region.

¹² For several decades, the serious consequences of the periodic droughts in the *agreste* area (lying between the humid regions) and the *sertão*—with their repercussions on production and employment—had been focusing attention on the region's economic problems. Thus the National Drought Relief Department was established, which did what it could to deal with the problem by building dams and highways. The Companhia Hidro-elétrica do San Francisco, a semi-public corporation in which the Government had the controlling interest,

since it was considered essential to adopt an over-all development approach in order to tackle the main problems simultaneously. Some important propositions stem from this approach; one of these is that the situation is most serious in the humid area, where resources are less efficiently utilized than in the semi-arid regions, with the result that problems which are apparently unrelated to the drought, such as unsuitable farming methods and urban unemployment, are given priority attention.

The industrial development plan. The proposed development of industry is based on the processing of local raw materials for export (to the south-central area of Brazil and to other countries), since import substitution is limited by the small local market. The cornerstone of the plan is private investment, stimulated by tax, exchange and credit incentives, the construction of an adequate infrastructure and, as a supplementary measure, the establishment of public and semi-public industrial enterprises.

The strongest stimulus was provided by tax incentives, which were applied on a large scale and along original lines which facilitated the transfer of resources from the south-central area to the Nordeste. Thus, it was established that under certain conditions legal entities throughout the country could obtain a rebate of up to half the amount of their income tax if they invested that amount in the Nordeste (article 34/18); they were also entitled to a rebate equal to 75 per cent of the value of any shares purchased in the Fundo de Investimento do Nordeste (they would thus be exempt from tax if they purchased shares to a value of one and one third times the amount of the tax) and up to 50 per cent of gross taxable income if it was used to buy shares in companies which SUDENE considered of interest to the Nordeste. Companies already operating in the area would be granted a 50 per cent reduction in their income tax and additional taxes from June 1963 to 1973; and activities initiated after July 1963 would be tax free for a period of ten years,

¹²began operations in 1948 and by 1955 it had completed the construction of the Paulo Alfonso hydroelectric plant. The Banco do Nordeste do Brasil S.A., was established in 1952 after the 1951 drought. Following a further drought in 1958, the Federal Government strengthened the Nordeste working group, which had been attached to the Banco Nacional do Desenvolvimento Econômico (BNDE) since 1956, and it prepared a diagnosis and a development strategy for the Nordeste. Its report highlighted the basic causes underlying the region's unequal development, which include the shortage of land suitable for cultivation by the techniques known in the region, the scanty rainfall, the unsatisfactory distribution of income, especially in the sugar-growing area, and the predominance of subsistence farming in the semi-arid region.

which might be extended to fifteen.

The exchange privileges consist of exemption from taxes and prior deposits in respect of imports of equipment for the Nordeste to which SUDENE has assigned priority. In addition, the President of Brazil may authorize imports without prior "exchange cover", that is, regardless of the amount of foreign exchange available under that head in the exchange budget.

Credit financing is mainly the responsibility of the Banco do Nordeste do Brasil, S.A., which will lend up to 50 per cent of the total investment required for a project and 80 per cent of the fixed investment, and the Banco Nacional do Desenvolvimento Econômico, which provides up to 60 per cent of the fixed capital. The Fundo de Investimento do Nordeste, which is administered by SUDENE, can in its turn buy preference shares, without the right to vote, in Nordeste enterprises.

SUDENE used its own resources for the infrastructure projects (construction of energy and water supply systems, organization of transport and urban services, surveying of natural resources, and manpower training), but it mainly co-ordinated the action of various national and state agencies operating in the area. The task of creating such "external economies" absorbed most of the resources earmarked for industrial development, since the industrial enterprise itself generally remained in charge of the private project.

SUDENE has established public or semi-public corporations to carry out different activities and participates in them to a varying degree. The two most important enterprises, both owned mainly by the State, are the Usina Siderúrgica de Bahia—in process of installation—with a production capacity of 130,000 tons of thin steel sheet and tinplate, and the Companhia Pernambucana da Borracha Sintética, which manufactures butadiene and polybutadiene from cane alcohol. Moreover, SUDENE has shares in twelve electric power companies, and in some enterprises engaged in specific activities (Artesanato do Nordeste S.A., Companhia de Aguas e Esgotos do Nordeste, Companhia Nordestina de Sondagens e Perfurações), whose relatively small capital has nearly all been provided by SUDENE.

The agricultural plan. The main purpose of the agricultural plan is the supply of food. This is being achieved through four projects: more intensive land use in the humid areas, utilization of public land, land settlement in Maranhão, and improvement of farming methods. The first project provided for capital investment in sugar-growing in order to increase productivity by

means of irrigation and mechanization. At the same time, the cultivation of food crops was to replace the cultivation of sugar-cane in some areas. This project was abandoned, however, because of a sudden change in the conditions in which it was to be carried out; the old sharecroppers became agricultural wage-earners, and the sugar economy was able to stand this increase in costs only because more sugar was exported at preferential prices owing to Cuba's exclusion from the United States market.

The second project relates to the organization of farms for the production of foodstuffs on 25,000 hectares of public land within easy access of population centres. In addition, it was planned to bring 250,000 hectares under cultivation in Maranhão, 30,000 hectares of which would be devoted to market gardens and fruit farms. Lastly, a programme of research was initiated with a view to discovering appropriate techniques for some areas and crops giving rise to problems which had not been solved by the usual farming methods (for example, improving the soil of 3 million hectares of tableland with enough rainfall but a low level of fertility).

Administrative planning and organization. SUDENE did not prepare a real over-all development plan for the Nordeste. The three "master plans" which it has drawn up so far merely group the main investment projects within the context of an over-all strategy. It also co-ordinates the work of all the national agencies operating in the area.

SUDENE has a secretariat and a Deliberative Council;¹³ the former is responsible for ensuring the adoption of technical solutions, and the latter for co-ordination at the policy-making level. It is financed by 2 per cent of Federal tax revenue, and by whatever funds are allocated to it in the Federal budget for implementation of the Master Plan. It also uses 50 per cent of the convertible exchange earnings on foreign exports from the Nordeste to pay for its own imports.

Some results in the field of industrial development. The results of SUDENE's action reveal notable progress in industrial development programmes.

¹³ The Deliberative Council is composed of Governors of the states within the purview of SUDENE and representatives of the Ministries of Agriculture, Education and Culture, Finance, Industry and Trade, Mines and Energy, Health, Labour and Social Security, Transport and Public Works; of the Banco do Brasil S.A., the Banco Nacional do Desenvolvimento Econômico and the Banco do Nordeste do Brasil S.A.; of the Armed Forces, and of the Companhia Hidroelétrica do San Francisco; in addition, the head of SUDENE, the Director of Drought Relief Works and the Director of the San Francisco Valley Authority are *ex officio* members.

SUDENE gave considerable impetus to industrial development thanks to the influx of resources from the south-central area under the "fiscal credit" system. It was thus successful in applying policy instruments which were specially designed to further regional development and were necessarily different from those that have traditionally launched or aided the process at the national level. Tariff protection, which embraces the country as a whole without discrimination between regions, was not applicable in these cases, and the peculiar combination of inflation, over-valuation of the currency and import control,¹⁴ which resulted in high prices for Brazilian manufactures and subsidized the purchase of equipment and intermediate goods, was not operative either.

In order to promote the concentration of industries in specific locations, recourse was had to indirect methods which went beyond even the construction of infrastructure works and the granting of tax privileges for local activities. Although the execution of public works—particularly for transport services and energy supply—was a big step forward, the advantages it has brought are not necessarily big enough to compare with the external economies which already exist in more developed areas. Moreover, experience with tax exemption shows that this is not a decisive factor in choosing a location, since, although it affects costs, it does nothing to reduce the risks and possible losses involved in an unprofitable investment.¹⁵ Hence the importance of the additional advantages offered by the "fiscal credit" system used in the Nordeste of Brazil, whereby the funds for payment of up to 50 per cent of income tax, which would otherwise have constituted a direct transfer of income from entrepreneurs to the public sector, may be used to subscribe part of the capital of new Nordeste enterprises.

Twenty-five, 50 or 75 per cent of the capital investment comes from the funds provided under article 34/18, the proportion depending on the priority assigned to the project by SUDENE. Furthermore, the Banco do Nordeste do Brasil may lend up to 50 per cent of the capital, without any adjustment for inflation. Thus, in highly important projects the entrepreneur's contribution may be as little as 12.5 per cent of the necessary capital. This system has resulted in considerable industrial growth. Up to April 1967, 254 projects had been approved with a planned

¹⁴ See Albert O. Hirschman, *Desenvolvimento industrial do Nordeste Brasileiro e o mecanismo de crédito fiscal do artigo 34/18*, *Revista Brasileira de Economia* (December 1967), p. 24.

¹⁵ *Ibid.*, p. 26.

investment of 840 million new cruzeiros. The payments made under article 34/18 increased from 5.9 million new cruzeiros in 1962 to 252 million in 1966, and their share in the income tax revenue collected from limited companies rose from 9.5 per cent in 1962 to 50 per cent in 1966; nearly four fifths of those deposits came from the states of São Paulo and Guanabara.

There has been some discussion of the question of whether or not it is justifiable or desirable to transfer a significant volume of fiscal resources to private industry, which is what the "fiscal credit" mechanism in fact entails. To some extent, this is also linked to the degree to which the profits generated by the new enterprises are ploughed back and are absorbed by the economy of the Nordeste, or the extent to which they are remitted to the south-central area, particularly after the first stage, when the main flow of resources was naturally in the direction of the Nordeste. Other questions have also arisen, such as the capital intensity of the new enterprises in relation to the original employment situation, and whether the system would be in operation long enough for the process of industrial development to become self-sustaining.¹⁶

(b) *The Venezuelan Guayana area*

The work being done in the Venezuelan Guayana area is a typical example of a programme for the utilization of unexploited resources and the construction of a large industrial centre in a region rich in natural resources, particularly hydroelectric power, mining products (coal, dolomite and quartz) and forests.

This regional programme is organized on a very different basis from that of the programme for the Nordeste area of Brazil, since this is a sparsely populated region which has never really been part of the national economy, and the primary consideration is the efficient utilization of its huge natural resources potential.

The problems encountered and the instruments for their solution are also quite different. There is no question of changing existing situations or harming vested interests; in particular, the problem here is to prepare land for cultivation which has been virtually abandoned, rather than to disrupt and transform a long-established agrarian structure. On the other hand, it is necessary to mobilize human and capital resources on a considerable scale with a view both to facilitating direct production activities and to establishing an urban centre—Guayana City—at the confluence of the Orinoco and Caroní rivers, the population of which is expected

to grow from 2,000 to 250,000 between 1950 and 1980.

The programme consists mainly in constructing an industrial centre, producing hydroelectric power on a large scale, cultivating new land, establishing a city, and training manpower. Its execution has been entrusted to the Venezuelan Guayana Corporation (Corporación Venezolana de Guayana), which was established at the end of 1960 as an autonomous institute under the Office of the President of the Republic.¹⁷ The Corporation may take direct action or operate through subsidiary bodies, and it is authorized both to mobilize the government resources assigned to it and to participate in specific projects financed jointly with foreign capital and domestic private capital. Thus, through one subsidiary body it is building the Guri dam and managing the electricity supply system, and through another it is installing a steel plant. At the same time, it is associated with foreign investors in a project for the production of aluminium, and with domestic investors in the operation of a pulp mill for the manufacture of paper and paperboard. It is also laying a gas pipeline, which will enable the foreign company mining iron ore to smelt it, and in general it is providing the necessary infrastructure—including the construction of the new urban centre—for the establishment of private industry.

The guiding principle of all these new activities is that they must be effectively integrated in the over-all domestic economy, so that, even though a good deal of the region's production is to be exported, the new development node will not result in enclaves whose contribution to the rest of the domestic economy is confined to the payment of royalties and taxes.¹⁸

The proposed industrial centre comprises a steel plant, an aluminium plant and a pulp and paper mill. The steelmaking programme is administered by Siderùrgica del Orinoco C.A., which built and is now managing the Planta Siderùrgica del Orinoco, with a capital of 200 million bolívars. This company belongs to the Venezuelan Guayana Corporation and came into

¹⁷The former assets and functions of the Survey Committee for the Electrification of the Caroní and the Venezuelan Iron and Steel Institute were transferred to the Venezuelan Guayana Corporation as well. It has a President, who is responsible for all executive functions, and a Board of Directors composed of four members, all appointed by the President of the Republic, which acts in an advisory capacity.

¹⁸See Alexander Ganz, *La planificación regional, clave de la etapa actual del desarrollo económico de América Latina: el caso de Guayana, una región "frontera"*, paper presented at the Seminar on State Planning organized by ECLA and BNDE at Rio de Janeiro in July 1965, p. 9.

¹⁶ *Ibid.*, pp. 24–32.

being as the result of a change in the legal status of the Steel Division. The construction and administration of the aluminium plant is in the hands of the Compañía Alumina del Caroní S.A. (ALCASA), which is owned on a fifty-fifty basis by the Venezuelan Guayana Corporation and the Compañía Reynolds International. Construction started in February 1966 at Matanzas (Guayana City), and the aim is to build a reduction plant for ingots and billets. The Sociedad Pulpa Guayana is establishing a paper and paperboard plant which will draw its raw materials from the huge forest resources in the Guayana area. This company comprises the Venezuelan Pulp and Paper Corporation, Cartones Nacionales S.A. and Cartón de Venezuela S.A.

Besides these projects, there are others under study or in course of execution. For example, it is expected that, upon completion of the Anaco-Guayana City gas pipeline, the Orinoco Mining Company will produce briquettes with a high iron content by a process of reduction with natural gas. Other projects include the manufacture of liquid ammonia for export, a slag cement plant—which would make use of material obtained from the steel plant—wheat and maize flour mills, and food-processing plants.

The hydroelectric potential of the Caroní River is one of the main natural resources of the area. The Compañía CVG—Electrificación del Caroní C.A.—was set up as a subsidiary of the Venezuelan Guayana Corporation for the purpose of constructing the hydroelectric works and distribution network and of managing the whole system. It is at present managing the Macagua I power station and is responsible for the power transmission and distribution lines, interconnexion of the regional electrical system with those in the east and centre of Venezuela, and the construction of the Guri dam and hydroelectric plant.

The Venezuelan Guayana Corporation is engaged directly or through contractors in the building of Guayana City. The use of land and the provision of public services for both government and private activities are laid down in the plan for the town. Work has already begun on the Alta Vista centre; some areas have been set aside for industry and other sectors are being urbanized.

It is planned to develop the Orinoco delta in order to solve the problem of food supplies for the region, particularly Guayana City. This area of some 20,000 square kilometres is periodically devastated by floods. As part of the bank protection works, the first step has been to close the Mánamo channel and to build dikes. Irrigation

projects are also being carried out in areas near Guayana City, such as Culíes, and forestry and fisheries studies are being undertaken.

As regards human resources, community development programmes have been launched, with the establishment of social welfare boards which encourage the people to take part in studying and solving their common problems themselves. In the field of education, the programme for the establishment of primary schools and technical training facilities for adults has been worked out in the light of a projection of manpower needs over the next ten years; a regional centre for research, programming and educational services has also been established.

4. REGIONAL DEVELOPMENT PROSPECTS AND POLICIES

However widely the objectives, scope and patterns of the above-mentioned regional development programmes may vary, a feature common to them all is the increasing importance attached to regional questions in national development policies as a whole. In all probability, this tendency will become even more marked in the next few years, owing to situations that already exist, and to the possible repercussions of other factors—including Latin American economic integration and the prospects and demands of agricultural and industrial development—on the allocation of resources by regions.

It would therefore be appropriate to devote fuller consideration to the criteria that should be applied in defining a regional development policy, but the difficulty is that, in the end, an analysis of this kind covers the same ground as a global development strategy and an over-all policy for the allocation of resources. Without overlooking the need to envisage the subject in this broad context, the following paragraphs will touch upon a few points relating mainly to the two alternatives represented by concentration or wider regional distribution of resources, and to other factors which are coming increasingly to the fore as determinants of the location of economic activity.

(a) *Over-all development and zoning*

The first necessity seems to be to discuss the basic guidelines for a policy relating to the regional allocation of resources, in the light of its predictable effects on the over-all rate of growth, the capacity to maintain or increase that rate in the future, and the extension of the benefits of development to the majority of each country's population. In a first approximation, it might be argued that the concentration of resources in a metropolitan area would represent at

once a requisite for the expansion and diversification of the structure of the economy, and an optimum allocation from the standpoint of the over-all growth rate, since it would constitute a means of taking maximum advantage of external economies. Secondly, it might be assumed that the enlargement and consolidation of this central focus of development would make it a radiation factor that would promote the development of the rest of the economy. Were this to happen, the problem would not be strictly one of regional development requiring the adoption of appropriate policies to tackle it. The only trouble would be the lack of synchronization between the period of consolidation of the metropolitan area and the process of radiation throughout the rest of the system; and in the course of time that process would spontaneously bring about the integration and unification of the national economy.

Latin America's experience appears to suggest that the first of these premises is linked to specific stages of growth, and that there is good reason to doubt the validity of the second.

Unquestionably, throughout one entire phase, a "polarized" type of development represents an allocation of resources which is economically justifiable and implies substantial progress in terms of the possibilities of improving the population's levels of living. It is also true, however, that these merits will hold good only as long as the following two requisites are fulfilled: the productivity of the resources invested in the more advanced development nodes must be higher than it would be in newly-opened-up or backward areas; and there must be evidence of capacity to impart dynamism to the rest of the system and to absorb an increasing proportion of the national population at adequate levels of productivity and income. Hence the content of a regional policy cannot be defined without regard to the specific stage of development through which the economy is passing, and from another point of view this means that the wide variety of situations existing in the various Latin American countries may invalidate any generalization made for Latin America as a whole.

(i) *The significance of external economies.* It is common knowledge that factors relating to external economies carry a great deal of weight in the economic analysis of location options and decisively influence the regional distribution of investment. In order to study their significance in relation to the present characteristics of the Latin American economies, a distinction must be drawn between two categories of determinants of the external economies in question. The factors more directly linked to a specific production unit and to questions of supplies of inputs, access

to financing and sub-contracting markets, proximity to the decision-making centres and to technical research and manpower training services, etc., must be differentiated from those connected with the infrastructure—usually the responsibility of the public sector—required for the development of productive activity, such as transport and means of communication, and urban infrastructure with its supplementary services (housing, water supply, medical services, schools, etc.).

This distinction is important from the standpoint both of the real duration of the external economies concerned and of the incidence of each type of factor on private and public decisions as to the location of investment.

Generally speaking, it may be granted that the factors directly linked to production units go on increasing the external economies they signify for an indefinite length of time. The more a specific development node expands and the more activities are concentrated in it, the more substantial and widely varied will be the advantages it offers to new activities in this respect. But the same is not necessarily true of factors of the second type, in particular, those relating to urban infrastructure.

Theoretically, once a specific urban centre has been established on a firm footing and adequately provided with the appropriate public utilities, it will be in a position to accommodate the increased population justified by the installation of new enterprises. The general facilities already available will be more intensively utilized, and every additional person will therefore mean a decrease in costs.

This ratio cannot be of the linear type, since successive saturation points will inevitably be reached in the utilization of certain services and at each of these critical junctures relatively substantial investment in expansion will have to be effected, which will open up new possibilities of external economies until the next time a similar situation arises. For example, if, in a given city, the potable water or the electric power supply is sufficient for 100,000 inhabitants, once this limit is exceeded an aqueduct will have to be built, or new generator groups installed, which will serve the needs of a population of 300,000, and when that number is reached the problem will again recur.

Hence it is clear that the external economies linked to the establishment of new population settlements in a given region are contingent upon each individual situation and point of time. An important longer-term question is whether the cost of urban infrastructure tends to increase or to decrease in relation to the size of the popula-

tion concerned. Little empirical research has been conducted on this subject, and its findings are not always consistent even for one and the same country. For example, in a study made by SVIMEZ in Italy in 1956, the costs of fixed social investment per inhabitant of an urban centre were estimated at 123,000 lire in towns with 30,000 inhabitants, 194,000 lire in those with 30,000–200,000 inhabitants, and 357,000 lire in those with a population of over 200,000.¹⁹ In contrast, another study also carried out in Italy, assigns the highest costs of construction, installation of facilities and maintenance to towns with about 100,000 inhabitants, the figures being lower both for smaller and for larger towns.²⁰

At all events, it should be borne in mind that in many Latin American countries there are other factors currently in operation which may weaken or thwart the possibilities of utilizing the greater external economy potential of metropolitan areas. Suffice it to recall the extremely high urban concentration indexes already attained (high both in comparison with other more developed countries and in relation to the nature of the urban economy concerned), the speed of the in-migration process, and the cumulative social service deficits that are so marked in the metropolitan areas in question.

In many instances, urban development has outstripped the capacity to meet demand for public utilities. This is understandable enough in view of the fact that during the nineteen-fifties the increase in the population living in towns of more than 20,000 inhabitants was 71 per cent in Latin America²¹ (as against only 18 per cent in Europe). It often happens that in towns which have grown very fast the ability to provide such services efficiently declines, and serious inconveniences ensue, especially in respect of intra-urban transport and communications. In some metropolitan areas, tens of thousands of persons living at distances of anything from 30 to 60 kilometres from their place of work are dependent upon daily transport; the cost of this commuting has not been measured, but indirectly it undoubtedly implies an increase in working hours and a

drain on wages, in addition to the direct cost of transport facilities.

The cumulative shortfalls in social services, in their turn, reach abnormal extremes. For example, the urban housing deficit in Latin America was estimated at 14 million housing units in 1961, and, to make matters worse, shows a rising trend. About 30 per cent of the urban population has no piped water supply. As regards education, in 1960 there were 40 million illiterate adults in the region as a whole, and the adult population had not received more than 2.2 years of schooling on the average.

In these circumstances, it is doubtful whether the expansion of many of Latin America's metropolitan areas would afford opportunities for external economies. On the contrary, in some instances the per capita cost of urban infrastructure entailed in the establishment of entirely new towns would be lower than that of expanding the major urban centres already in existence. For example, in the case of the underground railways in Rio de Janeiro and São Paulo, the cost per kilometre of track is estimated at 10 million dollars.

Clearly, therefore, the significance of external economies and consequently of criteria for the regional allocation of resources differs greatly according to whether they are envisaged from the standpoint of a particular enterprise or project or from that of the national economy as a whole. In the first case, as long as foreseeable operational results are related to directly productive investment, the advantages will be on the side of unlimited agglomeration, and this is, in the last analysis, one of the chief principles on which private investment decisions are based. But such estimates of productivity or profitability fail to take into account the need for supplementary public investment (national or municipal), which sometimes has to be on a substantial scale, and in practice represents an indirect subsidy to enterprises. In other words, the national economy might derive more benefit from the location of new enterprises in second- or third-category development nodes, where they might help to further the modernization process, than from their installation in major urban centres, in so far as the latter record rising costs for the expansion of infrastructure and public utilities. Unfortunately, no data are available for testing the validity of this judgement, even in relation to some of the metropolitan areas of Latin America.

(ii) *Concentration of resources and incentives to regional development.* Despite the foregoing reservation, the possible advantages of concentrating resources in a few development nodes still hold good, in so far as these centres are capable

¹⁹See SVIMEZ, "La localizzazione industriale ed i costi sociali dell'insediamento di nuova unità lavorativa", *Informazioni SVIMEZ* (Rome, May 1957). Quoted by Alessandro Busca and Salvatore Cafiero in "Costo social del asentamiento", *Cuadernos de la Sociedad Venezolana de Planificación* (August 1966), p. 40.

²⁰See TEKNO, *Ricerca sui costi di insediamento urbani ed industriali in varie città d'Italia* (Milan, 1963). Quoted by Busca and Cafiero in "Costo social del asentamiento", op. cit., p. 41.

²¹Of this increase, about one third—in decreasing proportion in the larger countries—is due to the new towns with more than 20,000 inhabitants; the rest may be ascribed to the population growth in existing cities.

of acting as instruments for radiating progress to the rest of the economy and for promoting economic growth. A prerequisite for defining the advantages in question is to investigate the relations between the major urban centres, on the one hand, and, on the other, the secondary urban centres and the whole of the rural periphery. This is another field in which very little research has been undertaken in Latin America.

In their early stages, industrial development and the diversification of the economy call for a relatively high degree of regional concentration in the allocation of resources, and can make advantageous use of a set of external economies. In addition, the development and consolidation of the centres of economic growth implies that income is diverted to them from traditional activities, either directly, through the channelling of part of the investment capacity generated in such activities towards the centres concerned, or indirectly, through the transfer of surpluses by means of taxation (mainly taxes on primary exports at first). At a later stage, especially in the conditions attendant upon the development of Latin America, the major urban centres find other ways of appropriating surpluses from the rest of the economy; for example, in a framework of strongly protected industrial development, what happens is not that part of the benefits of technical progress are transferred through reductions in the prices of manufactured goods, but that relative prices tend to favour the urban centres, to which real income is thus transferred from the rest of the system.

A process of this kind might be regarded as a temporary necessity, required until the more advanced development nodes are firmly established and are capable of engendering on their own account sufficient surpluses to safeguard their subsequent expansion, while at the same time bringing the higher levels of productivity and better living conditions by which they are characterized within reach of an increasing proportion of the country's population, and diverting part of the surplus to the rest of the economy in order to make the system as a whole better integrated and more homogeneous.

The investment levels attained are much lower than might be expected in view of the high degrees of income concentration, largely because of the ways of living and consumption expectations of the social groups receiving those incomes; and since at the same time the production techniques in use are increasingly capital-intensive and employ relatively little manpower, the capacity to absorb the labour force is reduced. Thus, the development nodes fail to increase their potential sufficiently as instruments

for imparting dynamism to the rest of the economy; what is more, the rapid tempo of migration from the rural areas to the towns is creating within the major cities a steadily growing population sector which has to find employment in activities where productivity and income are minimal, with the result that internal disparities are created which are just as striking as the differences between the urban areas and the rest of the country. The very structure of production capacity tends to reinforce this process, inasmuch as it is geared to the consumption patterns of the upper income strata and therefore places emphasis on the expansion of more highly capital-intensive activities providing less employment per unit of product, while increasing diversification is demanded, which increases their costs because of the unduly small scales of production. The process is further consolidated by means of price mechanisms and the tapping of financial surpluses through the bank system. Accordingly, the economic system tends to accentuate the disparities in regional development.

(b) *Other factors destined to influence regional development policies*

The foregoing considerations point to the necessity of formulating a regional development policy which would fit into the framework of an over-all development policy. In the special conditions prevailing in each country, it would be necessary to alter certain traditional patterns of location of economic growth. Thus, the efforts that are already being made in several Latin American countries, as described in an earlier section, would take their place within a more general programme.

There are also other factors which enhance the need for an active regional development policy and which will in all probability influence the direction it takes.

(i) *Latin American economic integration.* Outstanding among these factors are Latin America's economic integration prospects. The traditional development centres, cut off from one another as they are, could hardly constitute the basis for a more closely integrated Latin American economy.

The difficulty lies not merely in the vast distances and topographical obstacles involved, but also in the principles which governed the establishment of the Latin American transport and communications systems. The whole of the transport network was constructed in line with the needs of the export trade, and the golden rule was to follow the easiest route from the production site to the foreign consumer centre. Generally speaking, each individual country's trans-

port system was designed to serve foreign markets, with the seaports forming its axis, and interconnexion with points in the interior was neglected. Similarly, at the international level there was no regular linkage, either by sea or by land, between different Latin American countries.

If the resulting pattern of regional distribution of economic activity did not even serve definite integration objectives within the national economies, much less could it have taken into account the possibilities of complementarity among the Latin American countries. There were even specific stages at which intra-regional connexions that had previously been established tended to disappear.

Signs of what the subsequent course of the Latin American integration movement may mean in terms of each country's regional development are already discernible. An excellent illustration is afforded by the regional agricultural policy pursued in the Central American Common Market, which, as it operates at the level of the five countries in conjunction, has permitted the restructuring and zoning of agricultural production. This has led to a form of specialization by areas which may revolutionize the structure of agricultural production in each of the countries concerned.²² In the future, moreover, the subregional integration projects of the Andean Group and the countries of the River Plate basin may imply a radical change in the structure and location of demand, which will necessarily affect the location of the activities intended to satisfy it.

A Latin American integration programme based essentially or solely on the activities and potential of the existing centres of economic activity might still further accentuate the existing disparities, unless a strategy for regional development is adopted.

(ii) *The requirements of agricultural develop-*

²²See ECLA, *Evaluación de la integración económica en Centroamérica* (United Nations publication, Sales No.: 66.II.G.9), pp. 60 *et seq.* This document, which is published only in Spanish, was partly based on a study prepared for presentation at the ninth session of the Economic Commission for Latin America (E/CN.12/CCE/327/Rev.1), from which the following passage is taken: "Greater possibilities for the zoning of production are afforded by the wide range of variations in climate, physical conditions, soil fertility and distribution of water resources in Central America as a whole, as well as by the marked extent to which one country differs from another in respect of the relations between the size of the rural population and the quantity and quality of the resources available for agricultural production. All this would enable the economic use of the less productive areas to be given a new structure, and would facilitate more intensive farming of the land best suited for various crops, which today is often technically and economically under-utilized".

ment. Whatever the requirements of Latin American integration with respect to the geographical allocation of resources, concurrent pressure will be exerted by internal needs themselves. Agricultural development prospects constitute a case in point.

The existing food shortage, population growth and the need to increase and redistribute income will necessitate a very rapid expansion of agricultural production. It may be estimated that during a fairly representative period (for example, ten or fifteen years) these demands can largely be met by increasing productivity in the areas already farmed, but even if yields are relatively high, much more land will still have to be brought under cultivation. According to the studies that are being carried out by the ECLA/FAO Joint Agriculture Division, by 1975, if reasonable agricultural consumption targets are to be attained, farm land in Latin America should have been increased by 70 million hectares, of which 35 million would have to be used for crops and 35 million for livestock production.²³ It should be recalled that in 1965 the total area under crops amounted to 80 million hectares, and grazing land—measured in terms of artificial pastures—represented 222 million hectares (65 million of artificial pastures and 157 million of natural pasture equivalent). Expansion on the scale indicated would involve the implementation of a regional policy aiming at bringing under cultivation the equivalent of one fourth of the existing agricultural area.

This implies not only the construction of infrastructure to facilitate access to the areas opened up, but also significant changes in agricultural location patterns. But the process cannot stop there; in one way or another, the incorporation of new agricultural land will bring new urban centres into being, and will afford opportunities for new regional development nodes to spring up on the basis of more diversified economies.

(iii) *Industrial development policy.* In the past, industrial development has unquestionably been one of the factors that have done most to promote the geographical concentration of development. Nevertheless, the continuance of this concentration is not necessarily inherent in

²³Per capita agricultural consumption in the lower income groups—50 per cent of the total population—will probably rise from 62 dollars per annum in 1965 (at 1960 prices) to 103 dollars in 1985; at the same time, per capita consumption in the higher income groups—the other half of the population—would increase from 145 to 158 dollars. This would mean that the agricultural consumption of the lower income groups would reach what is at present the average level for the total population.

that of the industrialization process, especially once specific stages of industrial growth have been attained.

Generally speaking, apart from the external economies already discussed, the location of industry in the major cities has been determined by certain principles of manufacturing development which are unlikely to carry the same weight in the future. As long as industry was geared to import substitution in consumer goods and to the satisfaction of the growing and increasingly diversified demand of the upper income strata, a location pattern other than agglomeration in the large urban areas was hardly conceivable. With the exhaustion of import substitution possibilities in the field of consumer manufactures, however, industrial development is compelled to seek means of utilizing and processing natural resources, with a view both to the domestic market and to exports of manufactured goods. By their very nature, many such industries are bound to be located near the resources concerned, irrespective of the markets afforded by the traditional development centres, and this implies new regional patterns of industrial distribution.

Other factors of regional location are linked to the strategy for development policy. Obviously, a policy will have to be adopted in which priority is given to raising the productivity of the non-modern economic sectors and the real income of the population living in subsistence conditions. The considerable increase in demand for intermediate, capital and consumer goods, besides the large-scale agglomeration which such a policy is likely to promote, would require the development of new centres of growth which would have to be given a deliberate impetus.

In so far as all this involves significant changes in income distribution, other factors will emerge which would also facilitate a broader regional distribution of the industries producing consumer goods. If the population of rural areas and of new urban centres obtains a larger share in real income, the structure of demand for consumer manufactures will alter in favour of wage goods, which in their turn are precisely those for which requirements in respect of scales of production and concentration in large units are less exigent, and which therefore lend themselves better to more balanced regional location.

(c) Criteria for regional allocation of resources

Taken as a whole, the considerations set forth in the two preceding sections suggest that the formulation of a regional development policy aiming at the opening-up of new areas and the establishment of new development nodes does not necessarily represent a sacrifice of resources

justifiable only in the light of income redistribution criteria or by the political expediency of closer integration of the national territory.

Strict adherence to a profit-cost criterion based on short-term prospects is not enough, since in most cases the conclusions to which it leads would be unfavourable to the broader regional distribution of resources. As a general rule when profit-cost ratios are calculated no account is taken of the indirect investment required to expand infrastructure and urban services, and there is good reason to doubt whether these would continue to afford opportunities of benefiting by external economies in several of the Latin American metropolitan areas.

Furthermore, it is essential that decisions of this type should be based on a sufficiently long-term outlook. Naturally, the yields that may derive from the establishment of development centres in potentially wealthy areas which have not, however, been settled or developed, can only be properly assessed over the medium or long term. Hydropower, irrigation or land settlement projects and road-building, for example, which permit the development of new areas, entail investment that is slow to mature, but is often more than justified by the direct and indirect benefits subsequently reaped; what is more, in many instances it is precisely such economic penetration projects that have given the Latin American economies their present structure. Cases in point are such projects as those relating to the valleys of the Rivers Negro and Papaloapan (in Argentina and Mexico), to land settlement in Paraná (Brazil), and to the areas of Tingo María Pucallpa in Peru and Putumayo in Colombia. Through these undertakings, not only have sources of wealth been created, but markets have also been established or expanded, giving rise in their turn to new investment. No less significant is the potential of other projects not yet completed, such as that of the Carretera Marginal de la Selva. Latin America abounds in undeveloped areas of great potential wealth, where the establishment of new development nodes would be justified. Thus a snowballing process similar to that which determined the concentration of economic activity in the existing centres would be reproduced in a different setting, on a different scale and with different objectives. Obviously, however, in such cases economic expediency cannot be evaluated project by project, but must be assessed from different angles and on the basis of a comprehensive comparison of various programmes under an over-all development plan.

Lastly, in relation to some regional undertakings at least, it should be recalled that the problem cannot always be stated in terms of

options for the allocation of a given quantity of aggregate resources, since regional development policies themselves may result in the mobilization of additional resources which would otherwise remain idle. In other words, a more active regional development policy may not only imply a different pattern for the allocation of resources by regions, but may also serve as an instrument whereby a larger volume of domestic resources can be mobilized for purposes of capital formation.

This involves recognition of the need to broaden the traditional concepts of investment. Hitherto, attention has been almost entirely concentrated on the mobilization of financial resources and the removal of obstacles to increases in monetary saving, while much less heed has been paid to the potential capacity of substantial unemployed or under-employed human resources to contribute to real capital formation, particularly in agricultural infrastructure expansion projects. This potential would be difficult to harness efficaciously anywhere but in the local environment, where it is easier to

mobilize relatively numerous groups of workers for the attainment of objectives capable of providing them with motivations.

Another point to bear in mind is the possible significance of a policy for regional dissemination of technical progress and economic activity in relation to the establishment or expansion of a genuine domestic market. The existing disequilibria, whose intensity and influence varies according to each country's situation, make up a heterogeneous body of conditions which militate against internal integration and the possibilities of trade within the national economy. Just as at the international level economic relations are more dynamic between diversified or industrialized producers than between the centres and the periphery, so too, at the national level, the network of trade will tend to spread wider in so far as the various parts of the territory take a real share in it, on the basis of more diversified supply. From this standpoint, it may be contended that the emergence of a true domestic market represents an external economy of vital importance for the whole of the production system.

Chapter III

THE EXTERNAL SECTOR

The strategic importance still attaching to the external sector in the present structure of the Latin American economy has already been discussed in the preceding chapters, particularly in connexion with the structure of aggregate supply and demand. The object of this chapter is to build up a fairly substantial body of data that will give an up-to-date picture of the situation and indicate the major trends of both foreign trade and external financing and external capital movements since the mid-nineteen-fifties.¹

1. CHARACTERISTICS AND TRENDS OF FOREIGN TRADE

(a) *General features*

The essential features of Latin America's foreign trade at the present time may be summed up as follows:

- (i) A relatively small and steadily dwindling share of total world trade;
- (ii) Little diversification of exports, which still largely consist of a limited number of primary commodities;
- (iii) Little momentum in export trade, owing to the instability and slow growth of external demand for export products, growing competition from other areas and the protectionist policies of the industrialized areas aimed at self-sufficiency;
- (iv) Greater dependence on imports for domestic supplies, not only of complex industrial goods but also of primary commodities, mainly raw materials with some foodstuffs;

¹With regard to foreign trade in particular, the aim of presenting as much detailed information as possible by areas and groups of products has limited the period covered to 1955-66. The data given in Part Two, which reviews events in 1968, can be used to update some of the more important series, although certain aspects will be treated in less detail than others. In view of the way in which the data are set forth in the basic sources, trade has been divided into six categories of products: three for primary commodities (food, raw materials and fuels) and three for manufactures (chemical products, machinery and equipment, and other manufactures).

- (v) A high degree of concentration in the geographical distribution of trade, a particularly large volume of transactions with the industrialized countries being set against very little trading among the Latin American countries themselves, or between them and other under-developed regions or socialist countries;
- (vi) Marked disequilibria in trade balances with the industrialized countries, which have led to a sort of three-cornered trade, in which there are appreciable export surpluses in trade with Europe and import surpluses in transactions with the United States.

These characteristics have become accentuated in recent years at a time when world trade has been growing exceptionally fast and has undergone far-reaching structural changes. The following are some of the main features of these changes and their repercussions on Latin America's foreign trade:

- (i) The relative share of industrial products in world trade flows has increased considerably at the expense of the share of primary commodities;
- (ii) The major industrialized regions have greatly reduced their deficit position in world commodity trade and in some cases have become net exporters;
- (iii) In the face of these changes, intra-Latin American trade is making insufficient progress, and trade between Latin America and other under-developed regions seems to have come to a standstill;
- (iv) Import substitution in manufactures has not prevented a rapid deterioration from taking place in the deficit position of chemical products and machinery in Latin America's foreign trade, and has merely served to stabilize the negative balance for "other manufactures", while the absolute value of imports has been rising;
- (v) Although Latin America has favourable net trade balances for the three categories

of primary commodities, the absolute value of regional imports has remained constant for fuels only, while imports of foodstuffs and raw materials have continued to increase.

Data bearing out most of these general arguments are presented in tables 32 and 33.

It will be seen that primary commodities accounted for nearly 87 per cent of the region's entire exports up to 1966, and as much as 95 per cent if semi-finished non-ferrous metal products, which appear under the heading of "other manufactures", are included. About 73 per cent of its imports consist of industrial goods. If trade within Latin America is discounted, the shares of primary commodities in exports and of manufactures in imports both increase.

These figures make it clear that there have been no appreciable changes in the structure of Latin America's foreign trade. The process of industrialization, which is based essentially on im-

port substitution, is not reflected in the composition of exports, and has had relatively little effect on the structure of imports since 1955. Where it has, it has mainly altered the relative importance of different types of manufactures, for example, the share of "other manufactures" has decreased while those of chemical products, and of machinery and equipment, including motor vehicles and spare parts, have expanded.

In this sense, intra-Latin American trade shows a different pattern, although in absolute terms it carries little weight in over-all trade. In 1955, nearly 90 per cent was primary commodity trade, while manufactures accounted for less than 11 per cent. By 1966, the latter's share had risen to over 30 per cent (70 per cent of the region's 86 million dollars' worth of exports of machinery went to the Latin American countries, as did a fifth of the miscellaneous manufactures and more than a third of the chemical products).

Generally speaking, the persistence of this

Table 32. Latin America: trade by regions
(Millions)

Categories of goods according to the SITC sections	Year	Total			Developed regions			United States		
		Ex- ports	Im- ports	Balance	Ex- ports	Im- ports	Balance	Ex- ports	Im- ports	Balance
Total ^a	1955	7,970	7,060	910	6,170	5,670	500	3,510	3,300	210
	1960	8,590	7,940	650	6,750	6,640	110	3,600	3,550	50
	1965	11,060	9,320	1,740	7,990	7,170	820	3,530	3,730	-200
	1966	11,660	10,410	1,250	8,600	8,080	520	3,870	4,170	-300
Food (0 and 1)	1955	3,760	890	2,870	3,230	510	2,720	1,920	345	1,575
	1960	3,810	880	2,930	3,260	570	2,690	1,800	390	1,410
	1965	4,870	1,090	3,780	3,580	570	3,010	1,550	350	1,200
	1966	5,090	1,250	3,840	3,850	680	3,170	1,720	425	1,295
Raw materials (2 and 4)	1955	1,540	550	990	1,300	280	1,020	500	145	355
	1960	1,590	470	1,120	1,360	275	1,085	540	155	385
	1965	2,130	660	1,470	1,760	380	1,380	540	240	300
	1966	2,320	690	1,630	1,910	360	1,550	580	225	355
Fuels (3)	1955	1,900	640	1,260	970	155	815	690	145	545
	1960	2,350	630	1,720	1,390	135	1,255	900	120	780
	1965	2,740	600	2,140	1,720	115	1,605	930	105	825
	1966	2,700	670	2,030	1,690	145	1,545	970	135	835
Chemical products (5)	1955	85	620	-535	65	600	-535	35	365	-330
	1960	110	790	-680	94	740	-646	63	410	-347
	1965	160	1,090	-930	94	970	-876	59	480	-421
	1966	200	1,260	-1,060	120	1,130	-1,010	75	540	-465
Machinery (7)	1955	12	2,220	-2,208	5	2,180	-2,175	3	1,320	-1,317
	1960	19	3,010	-2,991	13	2,930	-2,917	9	1,570	-1,561
	1965	64	3,410	-3,346	12	3,150	-3,138	6	1,680	-1,674
	1966	86	3,880	-3,794	21	3,570	-3,549	13	1,870	-1,857
Other manufactures (6 and 8)	1955	660	1,900	-1,240	600	1,730	-1,130	345	790	-445
	1960	680	1,960	-1,280	680	1,780	-1,100	265	740	-475
	1965	1,060	2,300	-1,240	820	1,840	-1,020	420	750	-330
	1966	1,240	2,490	-1,250	1,000	2,030	-1,030	505	850	-345

type of structure with primary commodities predominating in exports and manufactures in imports is matched by the geographical distribution of trade. In the last few years, about three quarters of Latin America's exports have been channelled towards the industrialized areas, and this proportion rises to 80 per cent if the socialist countries of Eastern Europe are included. On the side of imports, these areas together supplied 85 per cent of Latin America's purchases. Only a fifth of its exports go to the developing countries and mainland China. About half of this represents trade within Latin America, which, added to exports of Venezuelan petroleum to Aruba and Curaçao totals 17 per cent. Thus only 3 per cent is left for exports to Asia, Africa, the Middle East and mainland China. The geographical origin of Latin America's imports is divided in much the same way.

Some of the changes that took place in the benchmark period were largely due to Cuba,

since the shift in its trade flows raised the share of the socialist countries. Trade with the developing countries fell off slightly, but in this case the main cause seems to have been the decline in exports from Venezuela to Aruba and Curaçao.

If specific industrialized areas or countries are considered, it will be seen that fairly pronounced changes occurred. For instance, the United States' share of Latin American exports dropped considerably between 1955 and 1966, both in over-all terms and in each category of products. In 1955, the United States market took 44 per cent of Latin America's exports, whereas in 1966 it received only 33 per cent. Foodstuffs were particularly affected, as their share shrank from 51 to less than 34 per cent, and total sales declined as well. The United States' share of Latin America's imports also dwindled, except in raw materials, but less than in the case of exports. In other words, while Latin America's trade with the United States slackened off in relative terms,

and categories of goods, 1955-66
(of dollars)

Canada			EEC			EFTA			United Kingdom			Other EFTA countries		
Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance
120	165	-45	1,240	1,210	30	870	670	200	560	320	240	310	350	-40
145	195	-50	1,580	1,560	20	1,010	900	110	740	480	260	270	420	-150
320	300	20	2,220	1,630	590	1,070	870	200	680	445	235	390	425	-35
290	340	-50	2,290	1,830	460	1,120	950	170	700	445	255	420	505	-85
63	49	14	620	43	577	460	52	408	255	15	240	205	37	168
42	46	-4	790	47	743	470	57	413	300	17	283	170	40	130
43	89	-46	1,210	50	1,160	430	56	374	205	24	181	225	32	193
41	82	-41	1,230	73	1,157	445	67	378	200	32	168	245	35	210
4	13	-9	375	28	347	185	38	147	135	3	132	50	35	15
9	33	-24	420	23	397	205	27	178	170	9	161	35	18	17
22	39	-17	570	30	540	215	26	189	180	5	175	35	21	14
19	37	-18	590	28	562	240	26	214	195	4	191	45	22	23
36	—	36	105	5	100	115	3	112	78	3	75	37	—	37
87	1	86	125	6	119	240	4	236	195	4	191	45	—	45
255	—	255	145	8	137	310	2	308	220	2	218	90	—	90
225	—	225	145	8	137	275	2	273	195	2	193	80	—	80
2	20	-18	14	125	-111	9	78	-69	7	39	-32	2	39	-37
1	10	-9	19	210	-191	8	105	-97	6	48	-42	2	57	-55
1	11	-10	20	325	-305	9	125	-116	7	56	-49	2	69	-67
1	13	-12	24	385	-361	12	150	-138	4	65	-61	8	85	-77
—	29	-29	2	540	-538	—	245	-245	—	135	-135	—	110	-110
—	26	-26	2	750	-748	2	450	-448	2	285	-283	—	165	-165
—	66	-66	3	740	-737	2	425	-423	1	245	-244	1	180	-179
1	105	-104	4	820	-816	2	440	-438	1	235	-234	1	205	-204
5	52	-47	140	460	-320	100	240	-140	86	115	-29	14	125	-111
3	78	-75	230	520	-290	105	255	-150	78	115	-37	27	140	-113
4	93	-89	260	455	-195	105	235	-130	80	105	-25	25	130	-105
5	105	-100	295	495	-200	145	250	-105	105	100	5	40	150	-110

Table 32. Latin America: trade by regions
(Millions)

Categories of goods according to the SITC sections	Year	Other Western European countries			Japan			Developing regions			Latin America
		Ex- ports	Im- ports	Balance	Ex- ports	Im- ports	Balance	Ex- ports	Im- ports	Balance	
Total ^a	1955	180	120	60	230	180	50	1,620	1,250	370	760
	1960	140	130	10	240	275	-35	1,540	1,060	480	680
	1965	340	200	140	480	410	70	2,130	1,430	700	1,080
	1966	420	280	140	570	465	105	2,180	1,520	660	1,180
Food (0 and 1)	1955	110	20	90	54	2	52	435	375	60	360
	1960	80	26	54	75	5	70	350	280	70	260
	1965	240	19	221	92	2	90	500	385	115	360
	1966	295	25	270	100	3	97	530	405	125	390
Raw materials (2 and 4)	1955	50	39	11	170	1	169	155	265	-110	145
	1960	15	22	-7	160	3	157	125	180	-55	92
	1965	55	14	41	345	5	340	240	225	15	175
	1966	50	18	32	415	8	407	265	255	10	195
Fuels (3)	1955	15	1	14	—	1	-1	940	460	480	175
	1960	25	—	25	1	1	0	980	450	530	260
	1965	45	1	44	27	1	26	1,020	380	640	210
	1966	40	—	40	32	1	31	1,000	425	575	230
Chemical products (5)	1955	2	7	-5	3	5	-2	14	15	-1	14
	1960	1	5	-4	2	7	-5	15	18	-3	15
	1965	2	15	-13	2	18	-16	60	70	-10	57
	1966	3	15	-12	4	26	-22	75	76	-1	69
Machinery (7)	1955	—	15	-15	—	33	-33	6	6	0	-5
	1960	—	20	-20	—	120	-120	7	8	-1	6
	1965	—	75	-75	—	155	-155	51	52	-1	50
	1966	1	140	-139	—	190	-190	64	66	-2	61
Other manufactures (6 and 8)	1955	5	50	-45	1	140	-139	65	125	-60	63
	1960	5	55	-50	7	140	-133	60	125	-65	50
	1965	10	70	-60	22	225	-203	230	295	-65	220
	1966	25	85	-60	26	240	-214	235	285	-50	230

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968).

the balance of their transactions changed in magnitude and nature, since from being a net exporter in 1955 (with a surplus of some 200 million dollars) Latin America had an import surplus of 300 million dollars in 1966.

Latin American exports to the group of countries forming the European Economic Community (EEC) increased considerably from 15.6 per cent in 1955 to nearly 20 per cent in 1966, while its imports remained at approximately the same level (just over 17 per cent). Thus, from having a more or less even balance of trade with EEC in 1955, Latin America achieved a large export surplus by 1966.

The group of countries that make up the European Free Trade Association (EFTA) have lost ground in Latin America's exports and imports, and Latin America continues to hold an export surplus of about 200 million dollars a year with them. This deterioration in relative and absolute terms has been largely due to its trade with the United Kingdom, since Latin America

imports more from the other EFTA countries than it sells to them.

Owing to these balances, Latin America's trade with the United States and Western Europe is three-cornered and this, apart from difficulties arising from the structure of trade itself, hampers the region from developing its trade with markets that are relatively more dynamic but with which it already has sizeable export surpluses.

In Latin America's trade with other industrialized areas, Canada ranks foremost, since the region, while still a net importer, is stepping up the volume of its transactions with that country. Its deficit position is largely due to the fact that trade is still on a unilateral basis. Fuels are virtually the only item in which Latin America has increased its exports, and it remains a net importer in all other groups.

Latin America's trade with the EFTA countries, excluding the United Kingdom, shows a constant and larger deficit than with Canada. Its only important export is food, those of raw materials

and categories of goods, 1955-66 (continued)
of dollars)

Middle East			Africa			Asia			Eastern Europe			Mainland China		
Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance	Ex-ports	Im-ports	Balance
24	53	-29	41	12	58	32	180	-148	175	140	35	6	3	3
25	44	-19	61	37	24	36	140	-104	265	235	30	41	11	30
51	99	-48	91	35	56	66	125	-59	730	590	140	205	125	80
72	110	-38	51	47	4	86	110	-24	700	730	-30	185	80	105
20	—	20	21	3	18	23	8	15	90	5	85	6	—	6
22	—	22	33	6	27	22	8	14	170	33	137	34	—	34
43	—	43	72	13	59	18	7	11	610	100	510	185	27	158
62	—	62	43	9	34	32	6	26	550	140	410	175	20	155
2	—	2	2	8	-6	5	115	-110	79	10	69	5	—	5
1	1	—	3	11	-8	3	73	-70	91	16	75	8	—	8
5	—	5	1	4	-3	41	45	-4	115	48	67	9	10	-1
7	2	5	2	3	-1	36	48	-12	140	64	76	4	7	-3
2	52	-50	18	—	18	3	1	2	—	23	-23	—	—	—
2	40	-38	24	4	20	1	1	—	—	47	-47	—	—	—
—	89	-89	15	13	2	3	1	2	—	105	-105	—	1	-1
—	105	-105	4	26	-22	12	3	9	—	100	-100	—	1	-1
—	—	—	—	—	—	—	—	—	6	6	—	1	10	-9
—	—	—	—	—	—	—	—	—	3	24	-21	—	6	-6
—	2	2	—	4	-4	2	1	2	7	43	-36	—	9	-9
—	1	1	—	1	-1	3	—	3	9	49	-40	—	8	-8
—	—	—	—	—	—	—	—	—	—	34	-34	—	—	—
—	1	-1	—	—	—	—	1	-1	—	66	-66	—	3	-3
—	1	-1	—	—	—	—	1	-1	—	195	-195	—	12	-12
1	1	—	—	—	—	1	3	-2	—	240	-240	—	8	-8
—	1	-1	—	—	—	1	60	-59	—	50	-50	—	2	-2
—	1	-1	1	15	-14	9	59	-50	1	49	-48	—	6	-6
2	3	-1	1	4	-3	1	66	-65	1	100	-99	6	66	-60
2	3	-1	1	6	-5	2	48	-46	2	135	-133	6	38	-32

* Excluding section 9 "Commodities and transactions, not classified according to kind".

and fuels being marginal, whereas its purchases of manufactures are rising steadily. To offset these deficits, Latin America is compelled to maintain a surplus with the United Kingdom, which limits its possibilities of building up its trade with that country.

Japan is gaining in importance as a buyer and supplier for Latin America. Sales to Japan rose from 2.9 per cent in 1955 to 4.9 per cent in 1966, with increases in the three categories of primary commodities, raw materials in particular. Between the same two years, Latin America's imports from Japan expanded from 2.5 to 4.5 per cent, which has given it a fairly considerable credit balance.

As regards the developing countries, Latin America's trade with the Middle East is relatively very small and shows a deficit. Although the Middle East is a net importer of food and manufactures, and, to some extent, of raw materials as well, Latin America's chances of acquiring a larger share of that market are limited by its

capacity to export manufactured goods and by competition from the industrialized areas in the supply of primary commodities. Hence, trade consists almost entirely in an exchange of food for petroleum and even so is adverse for Brazil, Argentina and possibly Chile, although the first two have the biggest potential for exporting food and raw materials, and all three produce textiles, clothing and footwear and durable consumer goods. Despite the fact that the Middle East imported 810 million dollars' worth of food in 1966, Latin America's share of the supply was only 62 million dollars, and it provided virtually no consumer manufactures although the Middle East bought 1.56 million dollars' worth in that year.

The pattern is repeated in trade with Asia, now a net food importer, where Latin America's long-standing deficit is rapidly diminishing, more because of a contraction in imports—due to import substitution—than because of an increase in exports. In 1966, Asia's food imports rose to

Table 33. Latin America: composition of foreign trade, 1955-66

Categories of goods according to the SITC sections	Year	Millions of dollars						Percentage distribution					
		Total Latin America			Inter-Latin American trade			Total Latin America			Inter-Latin American trade		
		Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total ^a	1955	7,970	7,060	910	760	6,300	910	100.0	100.0	100.0	100.0	100.0	100.0
	1960	8,590	7,940	650	680	7,260	650	100.0	100.0	100.0	100.0	100.0	100.0
	1965	11,060	9,320	1,740	1,080	8,240	1,740	100.0	100.0	100.0	100.0	100.0	100.0
	1966	11,660	10,410	1,250	1,180	9,230	1,250	100.0	100.0	100.0	100.0	100.0	100.0
Food (0 and 1)	1955	3,760	890	2,870	360	530	2,870	47.2	12.6	47.2	47.2	8.4	8.4
	1960	3,810	880	2,930	260	620	2,930	44.4	11.1	38.0	44.9	8.5	8.5
	1965	4,870	1,090	3,780	360	730	3,780	44.0	11.7	33.6	45.2	8.9	8.9
	1966	5,090	1,250	3,840	390	860	3,840	43.7	12.0	33.2	44.8	9.3	9.3
Raw materials (2 and 4)	1955	1,540	550	990	145	405	990	19.3	7.8	19.0	19.3	6.4	6.4
	1960	1,590	470	1,120	92	378	1,120	18.5	5.7	13.5	18.9	5.2	5.2
	1965	2,130	660	1,470	175	485	1,470	19.3	7.1	16.3	19.6	5.9	5.9
	1966	2,320	690	1,630	195	495	1,630	19.9	6.6	16.6	20.3	5.4	5.4
Fuels (3)	1955	1,900	640	1,260	175	465	1,260	23.8	9.1	23.0	23.9	7.4	7.4
	1960	2,350	630	1,720	260	370	1,720	27.4	7.9	38.1	26.4	5.1	5.1
	1965	2,740	600	2,140	210	390	2,140	24.8	6.4	19.6	25.4	4.7	4.7
	1966	2,700	670	2,030	230	440	2,030	23.2	6.4	19.6	23.6	4.8	4.8
Chemical products (5)	1955	85	620	-535	14	608	-535	1.1	8.8	1.8	1.0	9.6	9.6
	1960	110	790	-680	15	775	-680	1.3	9.9	2.2	1.2	10.7	10.7
	1965	160	1,090	-930	57	1,033	-930	1.4	11.7	5.3	1.0	12.5	12.5
	1966	200	1,260	-1,060	69	1,191	-1,060	1.7	12.1	5.8	1.3	12.9	12.9
Machinery (7)	1955	12	2,220	-2,208	5	2,215	-2,208	0.2	31.4	0.7	0.1	35.2	35.2
	1960	19	3,010	-2,991	6	3,004	-2,991	0.1	37.9	0.9	0.2	41.4	41.4
	1965	64	3,410	-3,346	50	3,360	-3,346	0.6	36.6	4.7	0.1	40.8	40.8
	1966	86	3,880	-3,794	61	3,819	-3,794	0.7	37.3	5.2	0.2	41.4	41.4
Other manufactures (6 and 8)	1955	660	1,900	-1,240	63	1,837	-1,240	8.3	26.9	8.3	8.3	29.2	29.2
	1960	680	1,960	-1,280	50	1,910	-1,280	7.9	24.7	7.3	8.0	26.3	26.3
	1965	1,060	2,300	-1,240	220	2,080	-1,240	9.6	24.7	20.5	8.4	25.2	25.2
	1966	1,240	2,490	-1,250	230	2,260	-1,250	10.6	23.9	19.6	9.6	24.5	24.5

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968).^a Excluding section 9 "Commodities and transactions not classified according to kind".

2.6 million dollars in value, in which Latin America's share was no more than 62 million. More than half the total value came from the industrialized countries, and the bulk of this from the United States.

As Cuba's trade was reorganized and geared to Eastern Europe, and Argentina, Brazil, Colombia Mexico and Uruguay also traded with that area, though on a lesser scale, Latin America's share of the total increased. Cuba has a deficit position, while the countries generally have export surpluses, having met with some difficulty in attempting to build up their imports from Eastern Europe. Cuba has also set the pace in the expansion of trade with mainland China, while other countries' transactions have been largely circumstantial, e.g., Argentina's sales of food surpluses.

As regards the structure of Latin America's trade by types of products and geographical areas, the foregoing observations show that it has been steadily losing ground in world trade flows, owing to a number of factors connected with international trade policy and modes of internal development and, above all, with the changes in the structure of world trade after the Second World War. These have been so drastic that they should be considered at greater length, as they are an essential element for seeing Latin America's current foreign trade problems in the right perspective.

(b) *Latin America in the structure and trends of world trade*

The expansion of the industrialized economies, at least since the mid-nineteen-fifties, has been accompanied by a very high rate of growth in world trade, although trade in primary commodities and trade in manufactures have developed along very different lines. Since demand for primary commodities has not increased at the same rate as demand for manufactures, the structure of world trade has been substantially modified; relatively speaking, foodstuffs, raw materials and fuels have steadily lost ground, while chemical products, machinery and "other manufactures" have as steadily gained (see table 34).

In 1955, primary commodities and manufactures had an equal share of world trade, but the share of the three categories of primary commodities has steadily decreased since then. In 1966, primary commodities made up only 38 per cent of total world trade, while manufactures increased their share to 62 per cent. This means that the growth rate of trade in primary commodities was much lower than that of trade in manufactures—little more than half, in fact.

Among primary commodities, raw materials (hides, fibres, fertilizers, etc.) have lost the most ground. This is due to a number of factors, but

Table 34. Structure and trends of world trade, 1955-66

Categories of goods according to the SITC sections	1955	1960	1965	1966	Cumulative annual rates of growth		
					1955-60	1960-65	1966
<i>Foodstuffs (0 and 1)</i>							
Millions of dollars . . .	18,400	22,310	30,990	32,850	3.9	5.8	6.0
Percentage of total . . .	19.7	17.4	16.6	16.1			
<i>Raw materials (2 and 4)</i>							
Millions of dollars . . .	17,480	21,320	24,770	26,210	4.1	3.1	5.8
Percentage of total . . .	18.7	16.7	13.3	12.9			
<i>Fuels (3)</i>							
Millions of dollars . . .	10,270	12,640	17,920	19,050	4.3	7.2	6.3
Percentage of total . . .	11.0	9.9	9.6	9.4			
<i>Chemical products (5)</i>							
Millions of dollars . . .	4,270	7,520	12,220	13,680	9.8	10.2	11.9
Percentage of total . . .	5.0	5.9	6.6	6.7			
<i>Machinery (7)</i>							
Millions of dollars . . .	16,920	27,770	45,690	51,540	10.4	10.5	12.8
Percentage of total . . .	18.1	21.7	24.5	25.3			
<i>Other manufactures (6 and 8)</i>							
Millions of dollars . . .	24,200	34,860	51,820	56,940	7.6	8.2	9.9
Percentage of total . . .	25.9	27.3	27.8	28.0			
TOTAL ^a (millions of dollars)	93,540	127,870	186,390	203,480	7.3	7.8	9.1

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968).

^a Excluding section 9 "Commodities and transactions, not classified according to kind".

mainly to the fall in the prices of primary commodities on the world market, which has reduced the current value of imports and exports of these commodities, thus accentuating the effects of the sluggish growth in the volume of world trade and of the growing number of synthetics which have appeared as a result of technological progress. In addition, from the viewpoint of the exporting countries, some influence has been exerted by changes in the exports themselves, since some primary commodities are given more processing before being sold and are thus reclassified as manufactures.

The relative share of foodstuffs also declined appreciably, but to a lesser degree. Added to the long-term factors behind the slow growth of world trade, mainly the low income-elasticity of demand for foodstuffs, was the declining trend in prices over the period, especially for coffee, cocoa and sugar.

Fuels lost comparatively less ground than the other two categories of primary commodities, and the decline—which was moderate on the whole—affected the main supplying areas to differing degrees.

In contrast, the three categories of manufactures strengthened their position. The annual rate of growth for chemical products, and particularly for machinery, rose to 10 per cent or more, and although “other manufactures” did not expand at the same rate, they grew appreciably faster than primary commodities.

These very pronounced changes in the structure of world trade within a relatively short period are mainly responsible for the decline in the share of the under-developed countries in general, and of Latin America in particular. Other factors also exerted a specially strong influence in Latin America. In the following sections, the consequences of these changes are discussed in terms of the share of the various regions in world trade, beginning with the major geographical regions and ending with selected countries having the largest shares in world trade.

(i) *World trade by major regions.* In very general terms, a distinction can be drawn between the developed and the developing regions; this distinction coincides with a relatively high level of specialization in the exports produced and with a kind of international division of labour which is clearly reflected in the structure of their trade. The special features of the socialist countries of Eastern Europe make it advisable to place them in a separate group.

Table 35 gives an historical breakdown of world trade by regions and by categories of

goods. In 1966, exports from the developed regions totalled more than 140,000 million dollars, while exports from the developing regions were less than 39,000 million dollars, and from the socialist countries of Eastern Europe approximately 21,000 million dollars. Compared with 1955, these figures represent an increase of more than 100 per cent for the developed regions, roughly 60 per cent for the developing regions and 125 per cent for the socialist countries of Eastern Europe.

With regard to the features of the trade of each region, the trade balance of the developed regions as a whole showed a favourable trend during the decade in question, with an export surplus of 2,600 million dollars in 1960 and slightly more than 2,000 million in 1966. This surplus is the outcome of a sizeable deficit in their trade in foodstuffs, raw materials and fuels, and a large credit balance for their trade in chemical products, “other manufactures” and especially machinery. At the same time, however, beginning in the mid-nineteen-fifties, appreciable changes occurred in the relative size of the surpluses and in the volume of trade as compared with other regions.

This is particularly striking in the case of foodstuffs. The developed regions’ position as a net importer declined in both absolute and relative terms: net imports of foodstuffs decreased from some 4,200 million dollars in 1955 to slightly more than 3,600 million in 1966. In other words, while exports of foodstuffs from the developed regions more than doubled during the period, imports rose by not more than 70 per cent. The significance of these changes will be readily appreciated if it is remembered that in 1955 the developed regions exported 18 per cent more foodstuffs than the developing regions, against 80 per cent more in 1966.

There were similar trends, although less pronounced, in trade in raw materials. In absolute terms, net imports from the developed regions rose between 1955 and 1966, but their exports of raw materials climbed more steeply than those of the developing regions. The only category of commodities in which the developed regions increased their net imports was that of fuels.

The developed countries’ export surpluses rose sharply for the first two categories of manufactures—chemical products and machinery—and remained relatively constant for “other manufactures”.

A glance at the changes in the composition of the imports of the developed regions brings out the significance of these trends. In 1955, primary commodities made no more than 54 per

cent of the total, compared with less than 41 per cent in 1966. This contraction affected all three categories; foodstuffs dropped from 21.9 to 16.3 per cent, raw materials from 22.1 to 14.5 and fuels from 10.2 to 9.8 per cent.

These changes in the composition of the developed countries' total imports and the sharp increase in their exports of primary commodities were the result of such factors as technological progress in the production of synthetic substitutes for natural raw materials, domestic agricultural development policies, restrictions on imports of primary commodities from under-developed regions, and growing support for the establishment or maintenance of exportable surpluses (through price policies or special financing arrangements). Hence, the developed countries' former dependence on imports of primary commodities gradually lessened while their lead in exports of manufactures increased.

The other side of the picture can be seen in the trends and composition of trade in the developing regions. Of the three categories of commodities, it was only in fuels that they strengthened their position as net exporters in relative and absolute terms between 1955 and 1966. The slight increase in the export surplus of raw materials (less than 20 per cent over the period) was actually a decline in relative terms, since their imports increased at a considerably higher rate than their exports. There was not even an improvement, in absolute terms, in the over-all position with regard to foodstuffs; there was a slight increase in exports (less than 30 per cent) but a much more pronounced increase in imports (round 80 per cent).

Thus, in contrast to the trends in the developed regions, there were few changes in the composition of the trade of the developing regions. Primary commodities still made up more than 30 per cent of total imports, a decrease of some 35 per cent over 1955, almost entirely due to the fact that there was only a very slight increase in fuel imports. The combined share of foodstuffs, raw materials and fuels in total exports dropped from 87.1 to 80.7 per cent during the period, while the share of the three categories of manufactures, especially "other manufactures", increased slightly, to some extent as a result of increased exports of some semi-processed intermediate goods, which were still essentially primary commodities.

From the above it would seem that the traditional pattern of trade based on the division of labour is becoming increasingly one-sided in world trade. While the developing regions continue to concentrate mainly on the export of

primary commodities, the industrialized regions are tending to become self-sufficient in terms of these commodities and to generate ever larger exportable surpluses in competition with the developing countries, while at the same time retaining their position as almost the only suppliers of chemical products, machinery and, to a lesser extent, other manufactured consumer goods.

The over-all result is that the external trade problems of the developing regions are becoming more and more acute. Instead of fostering new trade flows and outlets which would increase their participation in world markets, the abandonment of the traditional pattern of trade which was not favourable to the developing countries has only meant fresh restrictions, with all that that involves for the growth of the domestic market.

(ii) *Trade in the developed countries.* The general comments above on the changes in the structure of trade in the developed regions cannot be applied equally to each of the countries concerned (see table 36).

The trade structure of one group of countries—Australia, Canada, New Zealand and South Africa—is similar to that of the developing regions: net surpluses in their trade in foodstuffs and raw materials and a net deficit in their trade in manufactures. Nevertheless, apart from other sizeable economic differences (income levels, levels of living and economic growth rates), the trade of these countries has developed in a very different way, helped in some measure by the preferential treatment which they enjoy but which is not extended to Latin America. Their exports of foodstuffs and raw materials have grown much more rapidly than their imports of these commodities, considerably strengthening their position as net exporters. Moreover, although they continue to be net importers of fuels, the amounts they need to import are becoming appreciably smaller. Also very significant are the differences in their trade in manufactures (see table 36). For example, although it had a large and growing adverse trade balance in respect of machinery, Canada exported machinery to a value of nearly 2,000 million dollars, which represents almost a seven-fold increment between 1955 and 1966. In "other manufactures", Canada also had a favourable net balance, while Australia, New Zealand and South Africa reduced their unfavourable net balances.

The rapid growth of these countries' exports of foodstuffs and raw materials necessarily affected the trade of the developing regions, which have surpluses of these commodities. However, the development of United States trade had a

Table 35. World trade by regions
(Millions)

Categories of goods according to the SITC sections			Developed regions			
			Exports	Imports	Balance	Percentage distribution
						Exports Imports
Total*		1955	60,480	60,960	-480	100.0 100.0
		1960	85,440	82,790	2,650	100.0 100.0
		1965	128,180	126,530	2,288	100.0 100.0
		1966	141,450	139,400	2,050	100.0 100.0
Foodstuffs (0 and 1)		1955	9,160	13,340	-4,180	15.1 21.9
		1960	11,820	15,370	-3,500	13.8 18.6
		1965	17,690	21,360	-3,670	13.8 16.9
		1966	19,060	22,670	-3,610	13.5 16.3
Raw materials (2 and 4)		1955	8,530	13,480	-4,950	14.1 22.1
		1960	11,250	16,220	-4,970	13.2 19.6
		1965	13,640	19,050	-5,410	10.6 15.1
		1966	14,340	20,280	-5,940	10.1 14.5
Fuels (3)		1955	3,260	6,220	-2,960	5.4 10.2
		1960	3,350	8,290	-4,940	3.9 10.0
		1965	4,320	12,710	-8,390	3.4 10.0
		1966	4,510	13,630	-9,120	3.2 9.8
Chemical products (5)		1955	4,160	2,700	1,460	6.9 4.4
		1960	6,550	4,510	2,040	7.7 5.4
		1965	10,620	7,670	2,950	8.3 6.1
		1966	11,970	8,600	3,370	8.5 6.2
Machinery (7)		1955	14,650	8,160	6,490	24.2 13.4
		1960	23,840	14,680	9,160	27.9 17.7
		1965	39,240	27,740	11,500	30.6 21.9
		1966	44,780	32,140	12,640	31.7 23.1
Other manufactures (6 and 8)		1955	19,320	15,040	4,280	31.9 24.7
		1960	27,380	21,920	5,460	32.0 26.5
		1965	40,150	36,160	3,990	31.3 28.6
		1966	44,240	40,320	3,920	31.3 28.9

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968).

far greater effect and was the major reason for the changes in the structure of world trade and the decline in the relative position of the developing regions. In 1955, the United States had a net deficit of more than 2,000 million dollars on its trade in foodstuffs and raw materials, but during the next ten years the situation changed rapidly and in 1966 it had a surplus of more than 1,000 million dollars. Between 1955 and 1966, United States exports of foodstuffs expanded much more rapidly than its exports of manufactures, increasing by two and a half times. Its imports of foodstuffs and raw materials over the same period grew by only 39 and 14 per cent respectively, while the steady increase in the United States adverse trade balance on fuels and "other manufactures" did not mean that the developing regions supplied a larger quantity of those commodities.

In contrast to these trends in United States trade, trade between the developing countries and the EEC and EFTA countries and Japan continued to be characterized by greater com-

plementarity and specialization. This situation is also tending to deteriorate, however, owing to competition from other developed regions and the establishment of common markets.

Between 1955 and 1966, EEC trade virtually tripled in value, totalling more than 50,000 million dollars in 1966. This confirmed the fact that EEC was the largest and fastest-growing market in the developed regions, and strengthened its position as a net importer of the three categories of primary commodities. The rapid growth of its imports, however, was not reflected in a corresponding growth of exports from the developing countries, since the increase was due to trade between the developed countries, which accounted for some 45 per cent of the total. Hence, in the period 1955-66 the EEC countries raised their level of self-sufficiency from 24 to 32 per cent in foodstuffs and from 13 to 21 per cent in raw materials. Only in fuels was their degree of self-sufficiency reduced (from 33 to 22 per cent), which was presumably of benefit to certain specific areas.

and by categories of goods, 1955-66
of dollars)

Developing regions					Socialist countries of Eastern Europe				
Exports	Imports	Balance	Percentage distribution		Exports	Imports	Balance	Percentage distribution	
			Exports	Imports				Exports	Imports
23,730	23,140	590	100.0	100.0	7,910	7,320	590	100.0	100.0
27,390	29,140	-1,750	100.0	100.0	12,970	12,910	60	100.0	100.0
36,490	37,580	-1,090	100.0	100.0	19,710	19,030	680	100.0	100.0
38,900	40,780	-1,880	100.0	100.0	20,910	19,650	1,260	100.0	100.0
7,720	3,570	4,150	32.5	15.4	1,060	1,370	-310	13.4	18.7
8,110	4,710	3,400	29.6	16.2	1,840	2,000	-160	14.2	15.5
10,380	5,900	4,480	28.4	15.7	2,290	3,180	-890	11.6	16.7
10,530	6,430	4,100	27.1	15.8	2,540	3,120	-580	12.1	15.9
6,970	1,880	5,090	29.4	8.1	1,350	1,880	-530	17.1	25.7
7,640	2,150	5,490	27.9	7.4	1,760	2,480	-720	13.6	19.2
8,190	2,550	5,640	22.4	6.8	2,340	2,750	-410	11.9	14.5
8,640	2,700	5,940	22.2	6.6	2,670	2,850	-180	12.8	14.5
5,990	2,720	3,270	25.2	11.8	1,100	690	410	13.9	9.4
7,650	2,900	4,750	27.9	10.0	1,620	930	690	12.5	7.2
11,310	3,250	8,060	31.0	8.6	2,260	1,320	940	11.5	6.9
12,220	3,440	8,780	31.4	8.4	2,300	1,280	1,020	11.0	6.5
240	1,630	-1,390	1.0	7.0	295	240	55	3.7	3.3
300	2,200	-1,900	1.1	7.5	620	560	60	4.8	4.3
510	3,210	-2,700	1.4	8.5	1,020	1,080	-60	5.2	5.7
580	3,660	-3,080	1.5	9.0	1,050	1,150	-100	5.0	5.9
125	5,390	-5,265	0.5	23.3	2,130	1,740	400	26.9	23.4
190	8,030	-7,840	0.7	27.6	3,730	3,150	580	28.8	24.4
395	11,460	-11,065	1.1	30.5	6,000	5,550	450	30.4	29.2
495	12,420	-11,925	1.3	30.5	6,230	5,940	290	29.8	30.2
2,700	6,720	-4,020	11.4	29.0	1,910	1,400	510	24.1	19.1
3,400	8,100	-4,700	12.4	27.8	3,280	3,700	-420	25.3	28.7
5,490	10,140	-4,650	15.0	27.0	5,410	5,050	360	27.4	26.5
6,290	10,790	-4,500	16.2	26.5	5,610	5,220	390	26.8	26.6

*Excluding section 9 "Commodities and transactions, not classified according to kind".

Other factors are at work in the EFTA countries, whose world trade is comparable in volume to that of the United States although it does not grow at the same pace. The fact that their net trade balance was persistently negative meant that increases in imports were very closely linked to trends in exports; this is clear in foodstuffs and raw materials, for which the net unfavourable balance remained virtually constant after 1960. The position of the EFTA countries as net importers of fuels strengthened appreciably, but the benefits were limited to certain developing regions.

The situation is similar under the head of "other manufactures", export surpluses of which decreased.

Within this general picture, Japan is the only developed country which still retains the traditional structure of world trade obtaining in the thirties. Its economic growth since the Second World War has transformed it into an importer of increasing quantities of foodstuffs, raw materials and fuels, mainly from the

developing countries, despite the competition from sources of supply in developed countries. On the other hand, its growing export surplus in machinery, chemical products and "other manufactures" easily offsets its heavy import needs of primary commodities. Japan's exports of machinery, for example, rose from 245 million dollars in 1955 to 3,310 million in 1966.

(iii) *Trade in the developing countries.* The drop in the developed countries' net imports of primary commodities was not matched by countervailing changes in the developing countries' imports of manufactures. Moreover, trade in primary products followed varying courses in the different developing regions (see table 37).

Between 1955 and 1966, Latin America and Africa had an over-all export surplus in foodstuffs, raw materials and fuels, with different rates of growth for each. The Asian countries, on the other hand, changed from being net exporters of foodstuffs to being net importers, and their adverse position with regard to fuels

Table 36. Trade of the
(Millions)

Categories of goods according to the SITC sections			United States			EEC countries ^a				EFTA countries ^b			
			Exports	Imports	Balance	Exports	Imports	Balance	EEC trade	Exports	Imports	Balance	EFTA trade
Total ^c		1955	15,430	11,390	4,040	18,920	19,240	-320	6,210	14,030	16,180	-2,150	2,570
		1960	20,410	14,840	5,570	29,730	28,150	1,580	10,250	18,500	21,430	-2,930	3,470
		1965	27,190	20,890	6,300	47,900	46,670	1,230	20,820	26,100	29,300	-3,200	5,770
		1966	30,000	24,580	5,420	52,630	51,020	1,610	23,230	27,990	30,930	-2,940	6,280
Foodstuffs (0 and 1)		1955	2,100	3,120	-1,020	2,410	4,030	-1,620	950	1,520	4,400	-2,880	465
		1960	3,150	3,410	-260	2,940	5,200	-2,260	1,300	1,870	4,950	-3,080	550
		1965	4,520	3,880	640	4,880	8,340	-3,460	2,620	2,640	5,700	-3,060	790
		1966	5,190	4,330	860	5,040	8,690	-3,650	2,790	2,800	5,860	-3,060	860
Raw materials (2 and 4)		1955	1,810	2,870	-1,060	1,230	4,920	-3,690	620	1,610	3,500	-1,890	455
		1960	3,080	3,070	10	1,690	6,100	-4,410	970	1,810	3,820	-2,010	500
		1965	3,330	3,140	190	2,540	7,410	-4,870	1,520	2,260	3,990	-1,730	630
		1966	3,430	3,280	150	2,740	7,870	-5,130	1,670	2,270	3,920	-1,650	610
Fuels (3)		1955	1,130	1,170	-40	1,590	2,100	-510	690	420	1,630	-1,210	160
		1960	810	1,630	-820	1,800	2,890	-1,090	870	430	2,000	-1,570	190
		1965	950	2,100	-1,150	2,210	4,770	-2,560	1,100	520	2,790	-2,270	240
		1966	980	2,230	-1,250	2,250	5,150	-2,900	1,120	540	2,970	-2,430	270
Chemical products (5)		1955	1,120	335	785	1,560	820	740	335	1,040	720	320	150
		1960	1,800	450	1,350	2,710	1,600	1,110	710	1,540	1,190	350	250
		1965	2,400	680	1,720	4,740	2,940	1,800	1,580	2,310	1,920	390	435
		1966	2,680	850	1,830	5,390	3,370	2,020	1,900	2,530	2,040	490	485
Machinery (7)		1955	5,460	510	4,950	4,400	2,160	2,240	970	4,060	1,850	2,210	570
		1960	7,010	1,660	5,350	8,940	4,220	4,720	2,060	6,160	3,630	2,530	860
		1965	10,020	3,290	6,730	15,730	9,260	6,470	3,270	8,930	6,120	2,810	1,610
		1966	11,160	5,000	6,160	17,660	10,170	7,490	3,490	9,770	6,660	3,110	1,750
Other manufactures (6 and 8)		1955	3,180	3,340	-160	7,480	4,470	3,010	2,470	4,910	3,710	1,200	710
		1960	4,080	4,530	-450	11,340	7,380	3,960	3,940	6,310	5,520	790	1,080
		1965	4,920	7,650	-2,730	17,230	13,270	3,960	7,950	8,910	8,360	550	1,990
		1966	5,430	8,690	-3,260	18,940	15,180	3,760	9,120	9,590	9,060	530	2,230

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968).

^a Belgium and Luxembourg, the Federal Republic of Germany, France, Italy and the Netherlands.

worsened, which restricted the growth of imports of other types of goods. The Middle Eastern countries' deficit in foodstuffs increased, they continued to show very small export surpluses in raw materials, while considerably increasing their exports of fuels, which actually pay for their net imports of other categories of goods.

The determining factors behind the changes in the size or the type of the trade balances vary from region to region, depending on the goods concerned. In Latin America, the increases in the export surpluses of primary commodities were the result of similar increases in exports and imports of foodstuffs and of the fact that the absolute value of imports of raw materials and fuels remained virtually constant. In other words, import substitution had relatively more influence in some cases than increased exports.

Between 1955 and 1966, the disequilibrium in the developing countries' trading manufactures became more pronounced, particularly in chemical products and machinery, in which exports from the developing countries are still small in absolute terms and for which they still depend largely on imports. There was substantial progress in exports of "other manufactures", although these were basically semi-processed primary commodities, while there was a parallel increase in imports of these manufactures. As a result, the unfavourable trade balance in respect of "other manufactures" rose considerably in the Middle East, remained constant in Latin America and Africa, and fell slightly in Asia.

The disequilibria in the trade balances on chemical products, machinery and "other manufactures" were offset by the net surplus on

industrialized countries, 1955-66
of dollars)

Japan			Canada			Australia and New Zealand			South Africa		
Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
2,010	2,170	-160	4,390	4,390	—	2,450	2,530	-80	930	1,320	-390
4,050	3,880	170	5,550	5,420	130	2,790	3,020	-230	1,120	1,490	-370
8,450	6,840	1,616	8,110	7,840	270	3,910	4,030	-120	1,480	2,380	-900
9,780	8,080	1,700	9,550	9,070	480	4,140	3,780	360	1,680	2,250	-570
135	560	-425	900	415	485	1,000	210	790	200	74	126
270	510	-240	1,020	550	470	1,110	185	925	245	75	170
345	1,320	-975	1,580	710	870	1,700	225	1,475	330	95	235
385	1,440	-1,055	1,820	770	1,050	1,650	210	1,440	330	140	190
115	1,070	-955	1,350	370	980	1,230	195	1,035	400	105	295
155	1,860	-1,705	1,860	465	1,395	1,300	255	1,045	475	115	360
250	2,500	-2,250	2,280	660	1,620	1,510	270	1,240	530	140	390
255	3,090	-2,835	2,400	650	1,750	1,650	255	1,395	510	125	385
7	205	-198	59	395	-336	13	240	-227	16	91	-75
17	530	-513	150	430	-280	65	290	-225	18	98	-80
30	1,300	-1,270	415	610	-195	98	305	-207	43	135	-92
32	1,460	-1,428	460	640	-180	115	295	-180	54	130	-76
94	100	-6	245	260	-150	24	135	-111	41	81	-40
170	240	-70	190	335	-145	38	220	-182	44	105	-61
550	355	195	290	465	-175	85	355	-270	51	170	-119
670	425	245	345	510	-165	105	360	-255	55	185	-130
245	110	135	285	1,450	-1,165	40	750	-710	43	420	-377
940	340	600	430	1,910	-1,480	62	930	-868	51	540	-489
2,640	660	1,980	1,190	3,090	-1,900	140	1,510	-1,370	66	1,060	-994
3,310	720	2,590	1,930	3,980	-2,050	155	1,490	-1,335	88	1,010	-922
1,400	76	1,324	1,540	1,190	350	130	930	-800	225	500	-275
2,510	285	2,225	1,900	1,530	370	185	1,070	-885	280	520	-240
4,590	670	3,920	2,320	2,120	200	355	1,220	-865	415	750	-335
5,070	890	4,180	2,540	2,360	180	440	1,110	-670	560	640	-80

^b Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

^c Excluding section 9 "Commodities and transactions, not classified according to kind".

primary commodities. Throughout the period, this net surplus was more than enough to cover the deficits in Latin America and the Middle East, while in Asia the deficits increased, and in Africa they were not covered until 1966, when there was a net surplus for the region as a whole. Latin America achieved this result thanks to slower growth of its imports than any other developing region—less than 50 per cent between 1955 and 1966—while Asia's imports almost doubled, Middle Eastern imports more than doubled and Africa's rose by 80 per cent.

(iv) *World export trends.* Since the mid-nineteen-fifties, the share of manufactures in world trade has increased, while that of primary commodities has declined. This is due to a number of factors, which include differing relative price trends for the two types of goods, more dynamic growth in the industrialized

economies, and the efforts of these economies to achieve a greater measure of self-sufficiency in primary commodities.

In view of its importance, the problem should be looked at from other angles, for example, in terms of the world export trends by countries and regions and by categories of goods (see tables 38 and 39).

World exports have sustained a relatively high growth rate, which has been more rapid in the sixties than in the second half of the fifties. This was the case in almost all regions, except in Eastern Europe (where the rate did not rise so much although it remained above the world average) and mainland China.

Throughout the period 1955-66 the exports of the developing regions grew at a lower rate than those of the industrialized regions and the

Table 37. Trade of the developing countries, 1955-66
(Millions of dollars)

Categories of goods according to the SITC sections		Latin America				Asia ^a				Africa ^b				Middle East ^c			
		Exports	Imports	Balance	Inter-Latin American trade	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total ^d																	
	1955	7,970	7,060	910	760	6,860	7,220	-360	4,430	5,090	-660	3,050	2,130	920			
	1960	8,590	7,940	650	680	7,660	9,590	-1,930	5,310	6,470	-1,160	4,250	3,040	1,210			
	1965	11,060	9,320	1,740	1,080	9,290	12,890	-3,600	7,750	8,170	-420	6,510	4,450	2,060			
	1966	11,660	10,410	1,250	1,180	9,750	14,220	-4,470	8,380	8,150	230	7,130	5,050	2,080			
Foodstuffs (0 and 1).	1955	3,760	890	2,870	360	1,720	1,230	490	1,750	840	910	200	395	-195			
	1960	3,810	880	2,930	260	1,910	1,830	80	1,870	1,140	730	205	560	-355			
	1965	4,870	1,090	3,780	360	2,480	2,330	150	2,290	1,320	970	325	750	-425			
	1966	5,090	1,250	3,840	390	2,370	2,600	-230	2,300	1,320	980	350	810	-460			
Raw materials (2 and 4)	1955	1,540	550	990	145	3,210	980	2,230	1,820	195	1,625	225	120	105			
	1960	1,590	470	1,120	92	3,340	1,170	2,170	2,210	265	1,945	195	180	15			
	1965	2,130	660	1,470	175	3,020	1,150	1,870	2,370	360	2,010	290	300	-10			
	1966	2,320	690	1,630	195	3,190	1,240	1,950	2,390	380	2,010	325	305	20			
Fuels (3).	1955	1,900	640	1,260	175	550	570	-20	34	395	-361	2,490	270	2,220			
	1960	2,350	630	1,720	260	550	670	-120	245	510	-265	3,630	285	3,345			
	1965	2,740	600	2,140	210	550	840	-290	1,610	470	1,140	5,480	375	5,105			
	1966	2,700	670	2,030	230	650	970	-320	1,980	485	1,495	5,960	375	5,585			
Chemical products (5)	1955	85	620	-535	14	100	520	-420	38	325	-287	7	94	-87			
	1960	110	790	-680	15	95	710	-615	58	440	-382	13	165	-152			
	1965	160	1,090	-930	57	165	1,050	-885	10	620	-610	38	280	-242			
	1966	200	1,260	-1,060	69	175	1,240	-1,065	90	650	-560	55	335	-280			
Machinery (7)	1955	12	2,220	-2,208	5	75	1,260	-1,185	25	1,290	-1,265	9	465	-456			
	1960	19	3,010	-2,991	6	125	2,090	-1,965	20	1,810	-1,790	17	780	-763			
	1965	64	3,410	-3,346	50	255	3,560	-3,305	47	2,780	-2,733	23	1,260	-1,237			
	1966	86	3,880	-3,794	61	320	3,810	-3,490	48	2,730	-2,682	31	1,470	-1,439			
Other manufactures (6 and 8)	1955	660	1,900	-1,240	63	1,150	2,110	-960	760	1,790	-1,030	100	640	-540			
	1960	680	1,960	-1,280	50	1,590	2,630	-1,040	890	2,150	-1,260	195	950	-755			
	1965	1,060	2,300	-1,240	220	2,670	3,400	-730	1,310	2,480	-1,170	340	1,370	-1,030			
	1966	1,240	2,490	-1,250	230	2,950	3,630	-680	1,530	2,430	-900	415	1,560	-1,145			

Source: United Nations, *Monthly Bulletin of Statistics* (March 1968).

^a Excluding mainland China and Japan.

^b Excluding South Africa.

^c Including Cyprus and Iran.

^d Excluding section 9 "Commodities and transactions, not classified according to kind".

countries of Eastern Europe, and—logically enough—the difference between the two was greatest when the prices of primary commodities were at their lowest. Between 1955 and 1959, when the prices of primary commodities fell steadily, the annual growth of exports from the developing countries was only 2.9 per cent while that of exports from the industrialized countries was 7.2 per cent. During the following period (1960–66), when prices for primary commodities were more stable with some even recovering lost ground, and world trade was in a more buoyant state, the exports of the developing countries did grow more rapidly. But even so, they did not grow so fast as the exports of the developed countries, the annual rate of increase being 6 per cent compared with 8.8 per cent for the developed countries. Hence, the share of the developing regions in world exports steadily declined, dropping from 25.4 per cent in 1955 to 21.4 per cent in 1960 and 19.1 per cent in 1966. Over the same period the share of the industrialized countries rose from 64.7 per cent in 1955 to 66.8 in 1960 and 69.5 in 1966.

Some industrialized countries—for example, the United States, the EFTA group, Australia and New Zealand—showed growth rates that were below the over-all average, and their relative shares only just remained constant or even declined. In contrast, Japan's exports grew very rapidly, at an annual rate of 15 per cent, as did those of the EEC countries to a lesser extent (10 per cent), and Canada. As a consequence, the EEC countries increased their share of exports—the largest for the industrialized regions—Japan more than doubled its share, and Canada recovered some of the ground it had previously lost. It is noteworthy that the growth of the EEC countries' exports was increasingly due to the expansion of trade within the Community, so that gains in intraregional trade helped to cushion the effect of the decline in their share of world exports.

Among developing regions, the Middle East slightly increased its share of exports, while Africa lost some ground. In both cases, the most positive factor was the favourable trend of the world petroleum market. During the period 1960–66 in particular, the boom in petroleum exports from Libya, Nigeria, and to a lesser degree Algeria, was the reason for the relatively rapid increase in exports from Africa; but even so, the growth rate did not equal that of world exports as a whole.

Export trends were much less favourable in Latin America and Asia, whose exports grew at a slower rate than those of any other region,

thus substantially reducing their share of world exports.

A clearer picture of other aspects of this process can be gained from a consideration of export trends by types of goods, which are closely linked to the changes in the shares of the various regions.

As noted above, manufactures (machinery, chemical products and "other manufactures") had the highest growth rate of all world exports, while exports of primary commodities (foodstuffs, raw materials and fuels) grew at a much slower pace.³ This in itself would be enough to increase the share of the developed regions; but the situation was made much worse by the fact that the exports of primary commodities from the developed regions grew faster than those of the developing regions.

The average annual growth rate of the industrialized countries' exports throughout the period 1955–66 was 2.4 times that of the developing countries for foodstuffs, and almost double for primary commodities; only in fuels did the developing regions achieve a favourable trade balance (see table 37).

If the three main food-supplying areas in 1955 are compared, it will be seen that Latin America's share of world exports (20.4 per cent) was much larger than those of the United States (11.4 per cent) and the EEC countries (13.1 per cent). In 1966, the share of the United States and the EEC countries had risen to 15.8 and 15.3 per cent respectively, while Latin America's had fallen to 15.5 per cent, i.e., a 25 per cent drop. During the same period, United States exports of foodstuffs outstripped all three categories of manufactures, while the annual growth rate for the EEC countries was some 7 per cent. In general, the formation of large exportable surpluses, combined with policies to promote self-sufficiency in the developed countries, reduced potential export markets for Latin American foodstuffs. Nor did the special financing arrangements for placing exportable United States surpluses (Public Law 480) or the protectionist tariffs applied by the EEC countries and their efforts to find other sources of supply encourage Latin America to expand its production of foodstuffs.

³ Taking 1 as the average rate of growth of world exports, the relative growth rates were as follows: machinery, 1.5; chemical products, 1.4; "other manufactures", 1.1; fuels, 0.8; foodstuffs, 0.7; and raw materials, 0.5. In other words, on the average, in relation to total exports, exports of machinery grew three times as fast as exports of raw materials and about twice as fast as foodstuffs and fuels.

Table 38. World export trends, by regions
(Cumulative annual)

Countries and regions	World exports			Foodstuffs (0 and 1)			Raw materials (2 and 4)		
	1966	1960	1966	1966	1960	1966	1966	1960	1966
	1955	1955	1960	1955	1955	1960	1955	1955	1960
<i>Total^a</i>	7.3	6.4	8.1	5.4	3.9	6.7	3.7	4.1	3.5
Developed regions	8.0	7.2	8.8	6.9	5.2	8.3	3.8	3.8	3.8
United States	6.2	5.8	6.6	8.6	8.4	8.7	6.0	11.2	1.8
European Economic Community	9.7	9.5	10.0	6.9	4.1	9.4	7.6	6.6	8.4
EEC trade	12.7	10.5	14.6	10.3	6.5	13.6	9.4	9.4	9.5
European Free Trade Area	6.5	5.7	7.1	5.7	4.2	7.0	3.2	2.4	3.9
EFTA trade	8.5	6.2	10.4	5.7	3.4	7.7	2.7	1.9	3.4
Japan	15.5	15.0	15.8	10.0	14.9	6.1	7.5	6.2	8.7
Canada	7.3	4.8	9.5	6.6	2.5	10.1	5.4	6.6	4.3
Australia and New Zealand	4.9	2.6	6.8	4.7	2.1	6.8	2.7	1.1	4.1
Developing regions	4.6	2.9	6.0	2.9	1.0	4.5	2.0	1.9	2.1
Latin America	3.5	1.5	5.2	2.8	0.3	4.9	3.8	0.6	6.5
Latin American trade	4.1	-2.2	9.6	0.7	-6.3	7.0	2.7	-8.7	13.3
Asia	3.2	2.2	4.1	3.0	2.1	3.7	-0.1	0.8	-0.8
Africa	6.0	3.7	7.9	2.5	1.3	3.5	2.5	4.0	1.3
Middle East	8.0	6.9	9.0	5.2	0.5	9.3	3.4	-2.8	8.9
Centrally-planned economies									
Eastern Europe	9.2	10.4	8.3	8.3	11.7	5.5	6.4	5.5	7.2
Mainland China	4.1	7.1	1.3	4.0	2.2	5.5	-1.1	0.9	-2.7

SOURCE: ECLA, on the basis of United Nations, *Monthly Bulletin of Statistics* (March 1968).

Table 39. Composition of world exports, by
(Per cent)

Countries and regions	World exports				Foodstuffs (0 and 1)				Raw materials (2 and 4)			
	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966
<i>Total^a</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developed regions	64.7	66.8	68.8	69.5	49.7	53.0	57.1	58.0	48.8	52.8	55.2	54.7
United States	16.5	16.0	14.6	14.7	11.4	14.1	14.6	15.8	10.4	14.4	13.5	13.1
European Economic Community	20.2	23.3	25.7	25.9	13.1	13.2	15.7	15.3	7.0	7.9	10.3	10.5
EEC trade	6.6	8.0	11.2	11.4	5.2	5.8	8.5	8.5	3.5	4.5	6.1	6.4
European Free Trade Area	15.0	16.8	14.0	13.8	8.2	8.4	8.5	8.5	9.2	8.5	9.2	8.7
EFTA trade	2.7	2.7	3.1	3.1	2.5	2.5	2.5	2.6	2.6	2.3	2.5	2.3
Japan	2.1	3.2	4.5	4.8	0.7	1.2	1.1	1.2	0.7	0.7	1.0	1.0
Canada	4.7	4.3	4.4	4.7	4.9	4.6	5.1	5.5	7.7	8.7	9.2	9.2
Australia and New Zealand	2.6	2.2	2.1	2.0	5.4	5.0	5.5	5.0	7.0	6.1	6.1	6.3
Developing regions	25.4	21.4	19.5	19.1	41.9	36.4	33.5	32.1	39.9	35.8	33.2	33.0
Latin America	8.5	6.5	5.9	5.7	20.4	17.1	14.5	15.5	8.8	7.5	8.6	8.9
Asia	7.3	6.0	5.0	4.8	9.3	8.6	8.0	7.2	18.4	15.7	12.2	12.2
Africa	4.7	4.2	4.2	4.1	9.5	8.4	7.4	7.0	10.4	10.4	9.6	9.1
Middle East	3.3	3.3	3.5	3.5	1.1	0.9	1.0	1.1	1.3	0.9	1.2	1.2
Centrally-planned economies	9.9	11.8	11.7	11.4	8.4	10.6	9.4	9.9	11.3	11.4	11.6	12.3
Eastern Europe	8.4	10.2	10.6	10.3	5.8	8.2	7.4	7.7	7.7	8.3	9.5	10.2
Mainland China	1.5	1.6	1.1	1.1	2.6	2.4	2.0	2.2	3.6	3.1	2.1	2.1

SOURCE: ECLA, on the basis of United Nations, *Monthly Bulletin of Statistics* (March 1968).

and by categories of goods, 1955-66
rates of growth)

Fuels (3)			Chemical products (5)			Machinery (7)			Other manufactures (6 and 8)		
1966	1960	1966	1966	1960	1966	1966	1960	1966	1966	1960	1966
1955	1955	1960	1955	1955	1960	1955	1955	1960	1955	1955	1960
5.8	4.3	7.1	10.1	9.8	10.5	10.7	10.4	10.9	8.1	7.6	8.5
3.0	0.6	5.1	10.1	9.5	10.6	10.7	10.2	11.1	7.8	7.2	8.3
-2.3	-6.4	3.2	8.3	5.9	6.8	6.7	5.1	8.1	5.0	5.1	4.9
3.2	2.5	3.8	11.9	11.7	12.1	13.5	15.3	12.0	8.8	8.7	8.9
4.5	4.7	4.3	17.1	16.2	17.8	12.3	16.3	9.2	12.6	9.8	15.0
2.3	0.5	3.9	8.4	8.2	8.6	8.3	8.7	8.0	6.3	5.1	7.2
4.9	3.5	6.0	11.3	10.8	11.7	10.7	8.6	12.6	11.0	8.8	12.9
14.8	19.4	11.1	19.5	12.6	25.9	26.5	30.9	23.2	12.4	12.4	12.4
20.5	20.5	20.5	3.2	-4.9	10.5	19.0	8.6	28.4	4.7	4.3	5.0
21.8	38.0	10.0	14.4	9.6	18.5	13.0	9.2	16.5	11.7	7.3	15.5
6.7	5.0	8.1	8.4	4.6	11.6	13.3	8.7	12.3	8.0	4.7	10.8
3.2	4.3	2.3	8.1	5.3	10.5	19.6	9.6	28.9	5.9	0.6	10.5
2.5	8.2	-2.0	15.6	1.4	29.0	25.8	3.7	47.0	12.5	-4.5	29.0
1.5	0.0	2.8	5.2	-1.0	10.7	14.1	10.8	17.0	8.9	6.7	10.9
45.0	48.5	41.4	8.2	8.8	7.6	6.1	-4.4	15.7	6.6	3.2	9.4
8.3	7.8	8.6	20.6	13.2	27.0	11.9	13.6	10.5	13.8	14.3	13.4
6.9	8.0	6.0	12.2	16.0	9.2	10.2	11.9	8.9	10.3	11.4	9.4
9.2	5.0	12.9	10.2	10.9	9.6	8.2	1.5	14.2	10.4	24.3	0.0

* Excluding section 9 "Commodities and transactions, not classified according to kind".

regions and by categories of goods, 1955-66
rates)

Fuels (3)				Chemical products (5)				Machinery (7)				Other manufactures (6 and 8)			
1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
31.5	26.5	24.1	23.7	88.1	87.1	86.9	87.5	86.6	85.8	85.9	86.9	79.8	78.5	77.5	77.7
10.9	6.4	5.3	5.1	23.7	23.9	19.6	19.6	32.3	25.2	21.9	21.7	13.1	11.7	9.5	9.5
15.3	14.2	12.3	11.8	33.1	36.0	38.8	39.4	26.0	32.2	34.4	34.3	30.9	32.5	33.2	33.3
6.7	6.9	6.1	5.9	7.1	9.4	12.9	13.9	5.7	7.4	7.2	6.8	10.2	11.3	15.3	16.0
4.1	3.4	2.9	2.8	22.0	20.5	18.9	18.5	24.0	22.2	19.5	19.0	20.3	18.1	16.1	16.8
1.6	1.5	1.3	1.4	3.2	3.3	3.6	4.9	3.4	3.1	3.5	3.4	2.9	3.1	3.8	3.9
0.1	0.1	0.2	0.2	2.0	2.3	4.5	4.9	1.4	3.4	5.8	6.4	5.8	7.2	8.9	8.9
0.6	1.2	2.3	2.4	5.2	2.5	2.4	2.5	1.7	1.5	2.6	3.7	6.4	5.5	4.5	4.5
0.1	0.5	0.5	0.6	0.5	0.5	0.7	0.8	0.2	0.2	0.3	0.3	0.5	0.5	0.7	0.8
57.8	60.5	63.1	64.1	5.1	4.0	4.2	4.2	0.7	0.7	0.9	1.0	11.2	9.8	10.6	11.0
18.3	18.6	15.3	14.2	1.8	1.5	1.3	1.5	0.1	0.1	0.1	0.2	2.7	2.0	2.0	2.2
5.3	4.4	3.1	3.4	2.1	1.3	1.4	1.3	0.4	0.5	0.6	0.6	4.8	4.6	5.2	5.2
0.3	1.9	9.0	10.4	0.8	0.8	0.1	0.7	0.1	0.1	0.1	0.1	3.1	2.6	2.5	2.7
24.0	28.7	30.6	31.3	0.1	0.2	0.3	0.4	—	—	0.1	0.1	0.4	0.6	0.7	0.7
10.7	13.0	12.8	12.3	6.8	8.9	8.9	8.2	12.7	13.5	13.2	12.1	9.0	11.7	11.9	11.3
10.6	12.8	12.6	12.1	6.3	8.3	8.4	7.7	12.6	13.4	13.1	12.1	7.9	9.4	10.4	9.9
0.1	0.2	0.2	0.2	0.5	0.6	0.5	0.5	0.1	0.1	0.1	—	1.1	2.3	1.5	1.4

* Excluding section 9 "Commodities and transactions not classified according to kind".

Exports of foodstuffs from the EFTA countries and from Australia and New Zealand also increased appreciably, particularly in the nineteen-sixties. The annual growth rates of Japan's exports were higher than those of any other industrialized country, particularly in the latter half of the fifties; however, since its imports grew at almost the same rate, its net deficit increased in absolute terms.

World exports of raw materials developed along much the same lines as exports of foodstuffs, although there were significant differences between one developing country and another. Between 1955 and 1966, the share of the industrialized regions as a whole in the world total increased from 48.8 to 54.7 per cent, while the share of the centrally planned economies rose slightly and that of the developing countries declined. Most of this decline was attributable to Asia, whose share fell from 18.4 to 12.2 per cent, since those of Africa and the Middle East fell only slightly, while Latin America's remained practically unchanged. In the case of Asia, whose exports did not increase even in absolute terms, the drop was to some extent due to a policy of exporting raw materials with a higher degree of processing, and even in the form of final consumer goods applied by India, Hong Kong and China (Taiwan), for example, to their exports of textile and leather goods and ready-made clothing, and also to increased exports of metals from other Asian countries.

Looking at the situation as a whole, however, the major cause of the deterioration in the position of the developing countries on the world raw materials markets was growing competition from the synthetic substitutes manufactured by the industrialized countries and the exportable surpluses of the United States. During the nineteen-sixties, United States exports of raw materials slackened compared with the second half of the fifties, while the opposite was true for the EEC countries.

In brief, the only one of the three categories of primary commodities in which the developing countries strengthened their lead in world trade was that of fuels (their share rose from 57.8 per cent to 64.1 per cent between 1955 and 1966). The three industrialized regions lost ground, especially the United States, as a result of the policy of stockpiling strategic materials. Australia and New Zealand increased their exports of fuels substantially, but their share of world trade is still small. There was also a considerable expansion of Canada's fuel exports, based on increased purchases of Latin American petroleum for refining and re-export to the United States in the form of petroleum products.

These changes mainly benefited the Middle East, whose share in world fuel exports rose from 24 to 31.3 per cent, and Africa, which increased its share significantly (from 0.3 per cent in 1955 to 10.4 per cent in 1966). Latin America and Asia, however, lost ground; Latin America's share fell from 18.3 to 14.2 per cent and Asia's from 5.3 to 3.4 per cent.

As to world trade in manufactures, the industrialized countries maintained their strong lead with a few variations (approximately 88 per cent of world exports of chemical products, 87 per cent of machinery exports and 70 per cent of exports of other manufactures). The relatively favourable trend of exports from the developing regions—particularly in machinery and "other manufactures", exports of which grew at a faster rate than in the industrialized regions—can be considered as positive, but the quantities involved are too small and their share of world trade too modest for this to mean any real change in view of other much more adverse trends. In particular, Latin America and Africa lost ground in chemical products and "other manufactures" and Asia in chemical products. The Middle East, however, gained ground in the three categories of manufactures, although still at very low levels. Also worthy of note is Asia's increased share in exports of machinery and particularly of other manufactures, mainly as a result of its rising sales of textile and leather goods and clothing.

(v) *Origin of imports of the main markets.* The over-all picture sketched in above clearly shows the decline in Latin America's share of world trade, compared not only with the developed regions but also with the other developing regions. This is undoubtedly due to a number of different factors, of both internal and external origin, many of which are outside the scope of this chapter. It is relevant here, however, to examine the extent to which these factors were influenced by the degree to which they were linked to the different characteristics and dissimilar trends of individual markets. The following paragraphs, therefore, examine the origin of imports to each of the main markets—the United States, EEC, EFTA and Japan—which absorb almost 70 per cent of Latin America's exports.

United States imports. Between 1955 and 1966 the value of total United States imports more than doubled, totalling some 24,000 million dollars in 1966. Over the same period its imports from Latin America rose by only 10 per cent, with Latin America's share in the United States market declining from 30.8 to 15.7 per cent (see tables 40 and 41).

Table 40. United States: imports, by regions of origin and by categories of goods, 1955-66
(Millions of dollars)

Year	Total	Developed regions ^a	Canada	Western Europe	EEU	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions ^a	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	11,390	5,790	2,650	2,380	1,160	1,020	580	455	170	5,540	3,510	1,070	240	445	59	—
1960	14,840	8,800	3,140	4,130	2,240	1,610	1,000	1,110	245	5,960	3,600	1,190	320	420	78	3
1965	20,890	13,990	4,670	6,190	3,420	2,340	1,400	2,510	440	6,760	3,530	1,660	380	560	140	3
1966	24,580	17,040	5,790	7,490	4,100	2,880	1,750	3,010	570	7,360	3,870	1,750	385	620	175	4
1955	3,120	750	300	385	135	160	87	46	19	2,350	1,920	215	12	185	17	—
1960	3,410	1,060	340	510	165	205	125	79	125	2,330	1,800	270	8	210	28	—
1965	3,880	1,480	450	700	205	315	190	98	210	2,360	1,550	385	8	340	40	—
1966	4,330	1,770	465	850	250	390	220	135	305	2,510	1,720	355	11	340	47	—
1955	2,870	1,480	910	280	100	125	46	46	120	1,370	500	630	20	165	23	—
1960	3,070	1,710	1,150	270	105	115	38	43	94	1,340	540	530	19	155	18	2
1965	3,140	1,910	1,260	310	130	135	40	59	175	1,200	540	365	20	155	23	2
1966	3,280	1,970	1,350	325	135	135	35	51	180	1,270	580	380	20	150	26	3
1955	1,170	60	56	5	4	—	—	—	—	1,110	690	20	1,851	—	—	—
1960	1,630	155	145	8	6	—	—	5	—	1,470	900	28	255	2	—	—
1965	2,100	415	400	12	11	1	1	3	—	1,670	930	46	290	43	1	—
1966	2,230	480	450	26	19	4	4	3	—	1,750	970	40	270	76	1	—
1955	335	285	140	130	88	39	21	7	3	46	35	8	—	2	8	—
1960	450	360	125	210	145	58	30	17	7	78	63	9	—	5	12	—
1965	680	580	185	335	205	105	52	46	14	91	59	15	1	6	4	—
1966	850	720	225	400	250	125	64	73	19	125	75	17	2	6	10	—
1955	510	500	150	325	170	165	120	19	—	4	3	1	—	—	1	—
1960	1,660	1,640	255	1,230	700	515	395	160	2	14	9	3	1	—	6	—
1965	3,290	3,230	810	1,840	1,140	680	470	575	6	55	6	46	1	—	8	—
1966	5,000	4,880	1,530	2,530	1,540	960	690	820	9	100	13	83	2	1	15	—
1955	3,340	2,670	1,090	1,210	650	500	285	325	25	660	345	195	20	99	9	—
1960	4,530	3,810	1,120	1,850	1,100	670	370	800	17	700	265	345	33	53	16	—
1965	7,650	6,240	1,530	2,910	1,700	1,050	600	1,710	38	1,350	420	800	62	30	60	1
1966	8,690	7,050	1,720	3,270	1,870	1,220	690	1,910	53	1,570	505	870	77	45	74	—

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968). Categories ^a Excluding section 9 "Commodities and transactions, not classified according to kind".

Table 41. United States: share of imports, by region of origin of each category of goods, 1955-66
(Percentages)

Year	Developed regions	Canada	Western Europe	EBC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	.	23.3	20.9	10.2	9.0	5.0	4.0	1.5	48.6	30.8	9.4	2.1	3.9	0.5	—
1960	.	21.2	27.8	15.1	10.8	6.7	7.5	1.7	40.2	24.3	8.0	2.2	2.8	0.5	—
1965	.	22.4	29.6	16.4	11.2	6.7	12.0	2.1	32.4	16.9	7.9	1.8	2.7	0.7	—
1966	.	23.6	30.5	16.7	11.7	7.1	12.2	2.3	29.9	15.7	7.1	1.6	2.5	0.7	—
1955	.	9.6	12.3	4.3	5.1	2.8	1.5	0.6	75.3	61.5	6.9	0.4	5.9	0.5	—
1960	.	10.0	15.0	4.8	6.0	3.7	2.3	3.7	68.3	52.8	7.9	0.2	6.2	0.8	—
1965	.	11.6	18.0	5.3	8.1	4.9	2.5	5.4	60.8	39.9	9.9	0.2	8.8	1.0	—
1966	.	10.7	19.6	5.8	9.0	5.1	3.1	7.0	58.0	39.7	8.2	0.3	7.9	1.1	—
1955	.	31.7	10.1	3.5	4.3	1.6	2.0	4.2	47.7	17.4	22.0	0.7	5.7	0.8	—
1960	.	37.5	8.9	3.4	3.7	1.2	1.4	3.1	43.6	17.6	17.3	0.6	5.0	0.6	0.1
1965	.	40.1	9.9	4.1	4.3	1.3	1.9	5.6	38.2	17.2	11.6	0.6	4.9	0.7	0.1
1966	.	41.2	9.9	4.1	4.1	1.1	1.6	5.5	38.7	17.7	11.6	0.6	4.6	0.8	0.1
1955	.	4.8	0.4	0.3	—	—	—	—	94.9	59.0	1.7	15.8	—	—	—
1960	.	8.9	0.5	0.4	—	—	0.9	—	90.2	55.2	1.7	15.6	0.1	—	—
1965	.	19.0	0.5	0.5	—	—	0.1	—	79.5	44.3	2.2	13.8	2.0	—	—
1966	.	20.2	1.2	0.9	0.2	0.2	0.1	—	78.5	43.5	1.8	12.1	3.4	—	—
1955	.	41.8	38.8	26.3	11.6	6.3	2.1	0.9	13.7	10.4	2.4	—	0.6	2.4	—
1960	.	27.8	46.7	32.2	12.9	6.7	3.8	1.6	17.3	14.0	2.0	—	1.1	2.7	—
1965	.	27.2	49.3	30.1	15.4	7.6	6.8	2.1	13.4	8.7	2.2	0.1	0.9	0.6	—
1966	.	26.4	47.1	29.4	14.7	7.5	8.6	2.2	14.7	8.8	2.0	0.2	0.7	1.2*	—
1955	.	29.4	63.7	33.3	32.4	23.5	3.7	—	0.8	0.6	0.2	—	—	0.2	—
1960	.	15.4	74.1	42.2	31.0	23.8	9.6	0.1	0.8	0.5	0.2	0.1	—	0.4	—
1965	.	24.6	55.9	34.7	20.7	14.3	17.5	0.2	1.7	0.2	1.4	—	—	0.2	—
1966	.	30.6	50.6	30.8	19.2	13.8	16.4	0.2	2.0	0.3	1.7	—	—	0.3	—
1955	.	32.6	36.2	19.5	15.0	8.5	9.7	0.7	19.8	10.3	5.8	0.6	3.0	0.3	—
1960	.	24.7	40.8	24.3	14.8	8.2	17.7	0.4	15.4	5.8	7.6	0.7	1.2	0.4	—
1965	.	20.0	38.0	22.2	13.7	7.8	22.4	0.5	17.6	5.5	10.5	0.8	0.4	0.8	—
1966	.	19.7	37.6	21.5	14.0	7.9	22.0	0.6	18.1	5.8	10.0	0.9	0.5	0.9	—

* Excluding section 9 "Commodities and transactions, not classified according to kind".

Source: ECLA, on the basis of table 40.

These figures put most of Latin America's external trade problems in a nutshell. They are also the most dramatic illustration of the intensity and nature of the changes that have been taking place in world trade.

One of the most decisive factors is the fact that while primary commodities made up approximately 63 per cent of United States imports in 1955, the proportion had fallen to 40 per cent by 1966. United States purchases of machinery increased almost ten-fold over the same period, and purchases of chemical products and "other manufactures" increased two and a half times; but purchases of foodstuffs rose by less than 40 per cent, raw materials by only 14 per cent and fuels by 90 per cent.

Since there were no correspondingly significant changes in the capacity to export of the developing regions, these modifications in the composition of United States imports necessarily involved substantial changes in their geographical origin. Between 1955 and 1966, the proportion of United States imports from the developed regions rose from 51 per cent to more than 69 per cent. What is most significant, however, is that this increase was not due solely to the change in the composition of imports—in which, as has been seen, manufactures predominated—but also to the fact that the developed countries rapidly increased their share of United States imports of primary commodities from 24 to 41 per cent for foodstuffs, from 52 to 60 per cent for raw materials and from 5 per cent to almost 22 per cent for fuels.

The decline in Latin America's share in the United States market was especially marked in the case of foodstuffs, since Latin America's share of United States imports of foodstuffs dropped from 61.5 per cent in 1955 to less than 40 per cent in 1966, and even declined in value in absolute terms. This is only partly attributable to the diversion of Cuba's trade to other markets, since its sugar quota in the United States market was used by other Latin American countries, and it cannot be regarded as the result of the drop in coffee and cocoa prices either. In fact the United States' imports underwent a sharp change in origin, to the benefit of other regions, partly because of health restrictions and partly as a result of changes in consumption patterns. Over the period in question, its imports from Asia and Africa rose by 65 and 83 per cent respectively, those from Australia and New Zealand increased sixteen-fold, those from Japan tripled and those from Eastern Europe more than doubled.

With regard to raw materials, United States

imports from other industrialized regions increased considerably to the detriment of the developing countries. Although Latin America was able to maintain its relative share—while the shares of Asia, Africa and the Middle East declined—total United States imports of raw materials increased very slowly, the inelasticity of the demand for raw materials being due to growing competition from synthetic substitutes.

With respect to fuels, too, the developing countries lost ground, as a result of the increase in United States imports of fuels from industrialized regions, especially Canada. The developing regions were affected to different degrees: Asia managed to maintain its small share and Africa increased its own, while Latin America's share declined (from 59 to 43.5 per cent), as did that of the Middle East (15.8 to 12.1 per cent). Canadian exports of fuels to the United States rose from 4.8 per cent to 20.2 per cent, mainly as a result of increased re-exports of refined Latin American petroleum and sales of its surpluses of natural gas, coal and electricity.

United States imports of chemical products, machinery and other manufactures increased, with the developed regions still maintaining their strong lead and no significant change occurred in the small share of the developing regions. As was noted above, Latin America's share of imports of "other manufactures" fell substantially while Asia's grew.

EEC imports. There were also changes in the composition of EEC imports which reinforced the trend towards increased trade between the industrialized regions and the relegation of the developing countries to a peripheral position in relation to world trade as a whole.

Between 1955 and 1966, EEC imports of machinery quintupled, chemical products quadrupled and "other manufactures" more than tripled; these increases are far higher than any increase in imports of primary commodities (see tables 42 and 43). Moreover the proportion of raw materials and foodstuffs imported from other developed regions increased considerably, the developing regions being able to improve their position only with regard to fuel imports.

Unlike the United States, EEC imported more foodstuffs and raw materials from Latin America than from other developing regions. Latin America succeeded in retaining almost the same share of the market, which meant that it doubled its exports of foodstuffs and increased its exports of raw materials by 57 per cent.

EEC imports of fuels mainly came from the developing regions, which as a group increased

Table 42. European Economic Community: imports, by regions of origin and by categories of goods, 1955-66
(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	19,240	13,550	2,590	270	9,920	6,210	3,070	1,160	81	490	5,190	1,240	880	990	1,900	435	66
1960	28,150	20,850	3,930	455	15,610	10,250	4,450	1,580	175	485	6,230	1,580	840	1,280	2,320	930	135
1965	46,670	36,130	5,200	590	29,000	20,820	6,780	2,530	485	580	8,880	2,220	1,030	1,880	3,490	1,480	180
1966	51,020	39,460	5,460	600	31,870	23,230	7,060	2,670	600	620	9,580	2,290	1,140	2,040	3,880	1,750	230
<i>Foodstuffs (0 and 1)</i>																	
1955	4,030	2,180	405	95	1,580	950	380	46	9	46	1,720	620	125	46	870	110	18
1960	5,200	2,980	540	130	2,200	1,300	560	81	29	53	1,950	790	135	40	910	245	21
1965	8,340	5,430	1,050	170	4,020	2,620	830	190	56	78	2,470	1,210	180	62	930	420	19
1966	8,690	5,630	1,120	160	4,170	2,790	800	185	67	62	2,540	1,230	225	60	930	480	37
<i>Raw materials (2 and 4)</i>																	
1955	4,920	2,850	560	96	1,610	620	690	82	25	440	1,900	375	660	110	740	125	41
1960	6,100	3,830	950	155	2,140	970	810	94	37	425	1,930	420	570	56	840	255	81
1965	7,410	4,630	830	245	2,920	1,520	1,020	125	40	455	2,290	570	570	70	1,040	380	105
1966	7,870	4,960	890	260	3,120	1,670	1,030	130	32	500	2,320	590	560	80	1,060	460	130
<i>Fuels (3)</i>																	
1955	2,100	1,000	215	1	790	690	97	83	—	—	1,040	105	33	810	6	64	—
1960	2,890	1,180	190	—	990	870	110	82	—	2	1,530	125	12	1,140	185	180	—
1965	4,770	1,550	260	—	1,280	1,100	160	110	1	—	2,980	145	25	1,660	1,050	240	5
1966	5,150	1,550	255	—	1,290	1,120	145	80	1	—	3,320	145	44	1,780	1,270	285	3
<i>Chemical products (5)</i>																	
1955	820	750	170	26	550	355	190	89	4	2	38	14	6	1	16	31	5
1960	1,600	1,490	395	9	1,070	710	345	155	17	3	51	19	5	4	24	51	4
1965	2,940	2,780	550	15	2,150	1,580	520	240	55	11	60	20	10	4	19	82	12
1966	3,370	3,190	600	22	2,500	1,900	550	245	59	13	71	24	13	11	16	92	17
<i>Machinery (7)</i>																	
1955	2,160	2,120	365	13	1,740	1,100	640	360	2	1	13	2	1	—	11	22	—
1960	4,220	4,170	770	27	3,360	2,340	1,010	530	11	1	15	2	1	1	9	37	—
1965	9,260	9,170	1,410	63	7,610	5,800	1,760	890	85	2	24	3	8	5	6	69	—
1966	10,170	10,050	1,510	55	8,340	6,410	1,880	980	140	3	29	4	13	4	7	83	1
<i>Other manufactures (6 and 8)</i>																	
1955	4,470	3,910	305	40	3,690	2,470	950	415	41	3	490	140	50	13	265	63	3
1960	7,380	6,450	540	130	5,640	3,940	1,520	560	81	3	750	230	110	35	350	160	29
1965	13,270	11,920	790	92	10,700	7,950	2,390	900	245	33	1,030	260	220	76	440	280	38
1966	15,180	13,540	920	95	12,120	9,120	2,550	980	275	34	1,280	295	280	97	580	315	44

Source: United Nations, *Monthly Bulletin of Statistics* (March 1968). Categories ^a Excluding section 9 "Commodities and transactions, not classified according to kind".

Table 43. European Economic Community: share of imports, by region of origin of each category of goods, 1955-66
(Percentages)

Year	Developing regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	.	70.5	13.5	1.4	51.6	32.3	16.0	0.4	2.5	27.0	6.4	4.6	5.1	9.9	2.3	0.3
1960	.	74.1	14.0	1.6	55.5	36.4	15.8	0.6	1.7	22.1	5.6	3.0	4.5	8.2	3.3	0.5
1965	.	77.4	11.1	1.3	62.1	44.6	14.5	1.0	1.2	19.0	4.8	2.2	4.0	7.5	3.2	0.4
1966	.	77.3	10.7	1.1	62.5	45.5	13.8	1.2	1.2	18.8	4.5	2.2	4.0	7.6	3.4	0.5
<i>Total^a</i>																
<i>Foodstuffs (0 and 1)</i>																
1955	.	54.1	10.0	2.4	39.2	23.6	9.8	1.1	1.1	42.7	15.4	3.1	1.1	21.6	2.7	0.4
1960	.	57.3	10.4	2.5	42.3	25.0	10.8	1.6	1.0	37.5	15.2	2.6	0.8	17.5	4.7	0.4
1965	.	65.1	12.6	2.0	48.2	31.4	10.0	2.3	0.9	29.6	14.5	2.2	0.7	11.2	5.0	0.2
1966	.	64.8	12.8	1.8	48.0	32.1	9.2	2.1	0.8	29.2	14.2	2.6	0.7	10.7	5.5	0.4
<i>Raw materials (2 and 4)</i>																
1955	.	57.9	11.4	2.0	32.7	12.6	14.0	1.7	0.5	38.6	7.6	13.4	2.2	15.0	2.5	0.8
1960	.	62.8	15.6	2.5	35.1	15.9	13.3	1.5	0.6	31.6	6.9	9.3	0.9	13.8	4.1	1.3
1965	.	62.5	11.2	3.3	39.4	20.5	13.8	1.7	0.5	30.9	7.7	7.7	0.9	14.0	5.1	1.4
1966	.	63.0	11.3	3.3	39.6	21.2	13.1	1.7	0.4	29.5	7.5	7.1	1.0	13.5	5.8	1.7
<i>Fuels (3)</i>																
1955	.	47.6	10.2	0.1	37.6	32.9	4.6	4.0	—	49.5	5.0	1.6	38.6	0.3	3.0	—
1960	.	40.8	6.5	—	34.3	30.1	3.8	2.8	—	52.9	4.3	0.4	39.4	6.4	6.2	—
1965	.	32.5	5.5	—	26.8	23.1	3.4	2.3	—	62.5	3.0	0.5	34.8	22.0	5.0	0.1
1966	.	30.1	5.0	—	25.0	21.7	2.8	1.6	—	64.5	2.8	0.9	34.6	24.6	5.5	0.1
<i>Chemical products (5)</i>																
1955	.	91.5	20.7	3.2	67.1	43.3	23.2	10.9	0.5	4.6	1.7	0.7	0.1	2.0	3.8	0.6
1960	.	93.1	24.7	0.6	66.9	44.4	21.6	9.7	1.0	3.2	1.2	0.3	0.3	1.5	3.2	0.3
1965	.	94.6	18.7	0.5	73.1	53.7	17.7	8.2	1.9	2.0	0.7	0.3	0.1	0.6	2.8	0.4
1966	.	94.7	17.8	0.7	74.1	56.4	16.3	7.3	1.8	2.1	0.7	0.4	0.3	0.5	2.7	0.5
<i>Machinery (7)</i>																
1955	.	98.1	16.9	0.6	80.6	50.9	29.6	16.7	0.1	0.6	0.1	0.1	—	0.5	1.0	—
1960	.	98.8	18.2	0.6	79.6	55.4	23.9	12.6	0.3	0.4	0.1	—	—	0.2	0.9	—
1965	.	99.0	15.2	0.7	82.2	62.6	19.0	9.6	0.9	0.3	—	0.1	0.1	0.1	0.7	—
1966	.	98.8	14.8	0.5	82.0	63.0	18.5	9.6	1.4	0.3	—	0.1	—	0.1	0.8	—
<i>Other manufactures (6 and 8)</i>																
1955	.	87.5	6.8	0.9	82.5	55.3	21.3	9.3	0.9	11.0	3.1	1.1	0.3	5.9	1.4	0.1
1960	.	87.4	7.3	1.8	76.4	53.3	20.5	7.6	1.1	10.2	3.1	1.5	0.5	4.7	2.2	0.4
1965	.	89.8	6.0	0.7	80.6	59.9	18.0	6.8	1.8	7.8	2.0	1.7	0.6	3.3	2.1	0.3
1966	.	89.2	6.1	0.6	79.8	60.1	16.8	6.5	1.8	8.4	1.9	1.8	0.6	3.8	2.1	0.3

SOURCE: ECLA, on the basis of table 42. Categories classified according to the kind.^a Excluding section 9 "Commodities and transactions, not classified according to SITC sections."

their share of the market from 49.5 per cent in 1955 to 64.5 per cent in 1966. The improvement, however, was confined to the African countries, since the position of the Middle East—the major supplier—deteriorated somewhat and there was a marked decline in the shares of Latin America and Asia.

The dynamic growth of EEC imports of chemical products, machinery and “other manufactures” benefited suppliers in industrialized regions, which continued to improve their already strong lead, more than the developing countries. The most significant feature of the latter’s trade with EEC was the increase in imports of “other manufactures” from Asia, which went so far as to expand its share of that market.

In short, despite the fact that its share of the EEC market declined, the growth of Latin America’s exports of foodstuffs and raw materials to EEC countries partly offset the decline in its share of the United States market; on the other hand, unlike other developing regions, it had no share in the increase of EEC imports of fuels and manufactures.

EFTA imports. As in other industrialized regions, EFTA imports were also characterized by an increase in manufactures and a decrease in primary commodities, and by increased purchases of primary commodities from other developed regions. When the sluggish growth rate of total EFTA imports (compared with EEC, Japan and the United States) is taken into account as well, it is understandable that the position of the developing countries should have been so seriously weakened that exports of foodstuffs remained constant, exports of raw materials fell, and only exports of fuels and, to some extent, “other manufactures” rose (see tables 44 and 45).

The increased EFTA imports of foodstuffs all came from Eastern Europe and the industrialized countries, including the EFTA countries themselves, the EEC countries and other countries of Western Europe. EFTA imports of raw materials from the developing regions declined in value, even in absolute terms, principally because of the sharp fall in purchases from Asia and, to a lesser extent, from Africa and the Middle East, while purchases from Latin America increased. On the other hand, the developing regions increased their sales of fuels to EFTA and improved their share of the market (from 44.3 per cent in 1955 to 58.9 per cent in 1966) as a result of increases in the share of Africa, and to a lesser extent, those of the Middle East and Latin America.

For other types of goods, “other manu-

factures” were the only category in which the share of the developing regions attained significant proportions. The increase was mainly attributable to the Middle East and Asia, and in some degree to Africa, while Latin America’s share declined.

In other words, EFTA imports of foodstuffs from Latin America remained stationary while there was only a slight improvement in its imports of other goods; hence Latin America lost ground, to the benefit of the industrialized countries.

Japanese imports. Of the regions referred to above, Japan is the only import market in which primary commodities have the major share, thus facilitating specialized trade with the developing countries. While the proportion of primary commodities in total imports declined between 1955 and 1966 (from 84.6 to 74.1 per cent), this occurred in circumstances which led Japan to step up its total imports to an extraordinarily high pitch: the total value of its purchases grew at an annual rate of close to 13 per cent, with imports of foodstuffs increasing two and a half times, imports of raw materials almost tripling, and imports of fuels increasing more than seven-fold (see tables 46 and 47).

There is also another important difference in relation to other regions: the proportion of Japan’s imports from the developed regions, after rising in the second half of the fifties, began to fall in 1960, and by 1966 had returned to their 1955 level (slightly less than 53 per cent). The share of the developing countries thus remained at approximately 40 per cent, with Eastern Europe and mainland China making up the remainder.

The various developing regions evolved differently, but because of the high rate of growth of Japan’s total imports, even those regions whose share declined considerably increased the value of their total sales. For example, Latin America’s share declined from 10.6 to 7 per cent, but the value of its sales increased two and a half times. Roughly the same happened with Asia. The deterioration in the position of these two regions was offset, however, by increases in the shares of the Middle East and Africa.

An outstanding feature of the composition of Japan’s imports was the developing regions’ marked loss of ground with respect to foodstuffs, although the value of their sales doubled, while the share of the industrialized regions (mainly the United States) and mainland China increased. The share of the United States—the main supplier of the industrialized regions—in imports of raw materials began to decline in

Table 44. European Free Trade Area: imports, by region of origin and by categories of goods, 1955-66
(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	16,180	11,600	1,680	880	7,530	4,210	2,570	850	90	1,120	3,900	870	1,050	500	1,120	640	51
1960	21,430	16,030	2,430	1,080	11,000	6,500	3,470	1,080	230	940	4,430	1,010	1,120	760	1,150	880	95
1965	29,300	22,840	2,770	1,250	16,780	9,600	5,770	1,670	460	1,040	5,050	1,070	1,030	1,000	1,550	1,290	120
1966	30,930	24,140	2,970	1,240	17,850	10,000	6,280	1,860	530	970	5,210	1,120	990	1,140	1,560	1,430	135
1955	4,400	2,940	440	300	1,420	600	465	21	19	650	1,300	460	340	43	340	150	8
1960	4,950	3,310	570	290	1,650	640	550	32	66	610	1,370	470	385	56	325	255	15
1965	5,700	4,040	520	300	2,310	940	790	61	74	690	1,380	430	340	81	365	260	14
1966	5,860	4,210	660	290	2,410	910	860	76	56	640	1,330	445	310	82	330	300	21
1955	3,500	1,990	255	255	970	280	455	32	16	395	1,310	185	530	36	510	180	32
1960	3,820	2,250	370	370	1,120	330	500	43	26	275	1,290	205	460	25	530	240	52
1965	3,990	2,530	300	460	1,390	455	630	59	21	240	1,050	215	295	29	425	315	59
1966	3,920	2,490	265	435	1,390	485	610	55	17	240	1,010	240	265	27	400	350	64
1955	1,630	780	115	3	660	500	160	155	—	—	720	115	17	400	1	125	—
1960	2,000	780	61	—	720	510	190	175	—	2	1,080	240	9	650	12	140	—
1965	2,790	1,010	61	1	940	670	240	165	—	1	1,600	310	5	820	325	185	—
1966	2,970	1,020	58	1	960	670	270	195	1	1	1,750	275	26	950	370	200	—
1955	720	650	96	35	500	345	150	52	3	5	24	9	7	—	3	39	5
1960	1,190	1,110	190	27	880	620	250	88	6	5	22	8	6	2	4	49	2
1965	1,920	1,800	265	36	1,450	980	435	150	25	11	37	9	6	3	13	79	7
1966	2,040	1,900	265	39	1,540	1,020	485	170	30	10	47	12	5	10	13	80	10
1955	1,850	1,820	255	9	1,540	970	570	290	5	9	4	—	2	2	—	27	—
1960	3,630	3,580	540	28	2,960	2,060	860	370	45	4	14	2	7	3	—	35	—
1965	6,120	6,040	870	55	4,940	3,270	1,610	610	165	6	18	2	10	4	1	61	1
1966	6,660	6,560	920	59	5,340	3,490	1,750	700	230	8	30	2	13	11	2	70	—
1955	3,710	3,080	295	275	2,320	1,480	710	255	46	51	530	100	150	12	265	100	6
1960	5,520	4,690	510	375	3,580	2,280	1,080	330	85	40	650	105	245	28	270	150	26
1965	8,360	7,000	650	400	5,550	3,180	1,990	560	175	77	940	105	340	56	425	370	40
1966	9,060	7,590	700	410	5,990	3,320	2,230	610	190	76	1,020	145	365	58	440	405	41

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968). Categories classified according to the SITC sections. ^a Excluding section 9 "Commodities and transactions, not classified according to kind".

Table 45. European Free Trade Area: share of imports by region of origin of each category of goods
(Percentages)

Year	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	.	71.7	10.4	5.4	46.5	26.0	15.9	5.3	6.9	24.1	5.4	6.5	3.1	6.9	3.9	0.3
1960	.	74.8	11.3	5.0	51.3	30.3	16.2	5.0	1.1	4.4	4.7	5.2	3.5	5.4	4.1	0.4
1965	.	78.0	9.5	4.3	57.3	32.8	19.7	5.7	1.6	3.5	3.7	3.5	3.4	5.3	4.4	0.4
1966	.	78.1	9.6	4.0	57.7	32.3	20.3	6.0	1.7	3.1	3.6	3.2	3.7	5.0	4.6	0.4
1955	.	66.8	10.0	6.8	32.3	13.6	10.6	0.5	0.4	14.8	10.5	7.7	1.0	7.7	3.4	0.2
1960	.	66.9	11.5	5.9	33.3	12.9	11.1	0.6	1.3	12.3	9.5	7.8	1.1	6.6	5.1	0.3
1965	.	70.9	9.1	5.3	40.5	16.5	13.9	1.1	1.3	12.1	7.5	6.0	1.4	6.4	4.6	0.3
1966	.	71.8	11.3	4.9	41.1	15.5	14.7	1.3	1.0	10.9	7.6	5.3	1.4	5.6	5.1	0.4
1955	.	56.7	7.3	7.3	27.6	8.0	13.0	0.9	0.5	11.2	5.3	15.1	1.0	14.6	5.1	0.9
1960	.	58.7	9.7	9.7	29.2	8.6	13.0	1.1	0.7	7.2	5.3	12.0	0.7	13.8	6.3	1.3
1965	.	64.0	7.6	11.6	35.1	11.5	15.9	1.5	0.5	6.1	5.4	7.5	0.7	10.7	8.0	1.5
1966	.	63.6	6.8	11.1	35.5	12.4	15.6	1.4	0.4	6.1	6.1	6.8	0.7	10.2	9.0	1.6
1955	.	48.0	7.1	0.2	40.6	30.8	9.8	9.5	—	44.3	7.1	1.0	24.6	0.1	7.7	—
1960	.	39.0	3.1	—	36.0	25.5	9.5	8.8	—	54.0	12.0	0.4	32.5	0.6	7.0	—
1965	.	36.1	2.2	—	33.6	24.0	8.6	5.9	—	57.3	11.1	0.2	29.3	11.6	6.6	—
1966	.	34.4	2.0	—	32.3	22.6	9.1	6.6	—	58.9	9.3	0.9	32.0	12.5	6.7	—
1955	.	90.5	13.4	4.9	69.6	48.0	20.9	7.2	0.4	0.3	1.3	0.8	—	0.4	5.4	0.7
1960	.	93.7	16.0	2.3	74.3	52.3	21.1	7.4	0.4	0.3	0.7	0.4	0.2	0.4	4.1	0.3
1965	.	93.6	13.7	1.9	75.4	51.0	22.6	7.8	1.3	0.6	0.5	0.3	0.2	0.7	4.1	0.4
1966	.	93.3	13.0	1.9	75.6	50.1	23.8	8.3	1.5	0.5	0.6	0.2	0.5	0.6	3.9	0.5
1955	.	98.4	13.8	0.5	83.2	52.4	30.8	15.7	0.3	0.5	—	0.1	0.1	—	1.4	—
1960	.	98.6	14.9	0.8	81.5	56.7	23.7	10.2	1.2	0.1	0.1	0.2	0.1	—	1.0	—
1965	.	98.7	14.2	0.9	80.7	53.4	26.3	10.0	2.7	0.1	0.0	0.2	0.1	0.0	1.0	—
1966	.	98.5	13.8	0.9	80.2	52.4	26.3	10.5	3.5	0.1	0.0	0.2	0.2	0.0	1.1	—
1955	.	82.9	7.9	7.4	62.4	39.8	19.1	6.9	1.2	1.4	2.7	4.0	0.3	4.4	2.7	0.2
1960	.	85.0	9.2	6.8	64.9	41.3	19.6	6.0	1.5	0.7	1.9	4.4	0.5	4.9	2.7	0.5
1965	.	83.8	7.8	4.8	66.5	38.1	23.8	6.7	2.1	2.1	1.3	4.1	0.7	5.1	4.4	0.5
1966	.	83.8	7.7	4.5	66.1	36.6	24.6	6.7	2.1	0.8	1.6	4.0	0.6	4.8	4.5	0.4

SOURCE: ECLA, on the basis of table 44. Categories classified according to the kind.^a Excluding section 9 "Commodities and transactions, not classified according to SITC sections.

Table 46. Japan: imports, by region of origin and by categories of goods, 1955-66
(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
1955	2,170	1,120	680	92	160	91	59	38	170	970	230	570	125	35	5	78
1960	3,880	2,370	1,440	185	360	210	135	80	340	1,400	240	760	300	77	83	28
1965	6,840	3,640	2,070	295	620	340	250	140	550	2,760	480	1,180	890	165	215	220
1966	8,080	4,270	2,350	365	760	410	315	180	680	3,220	570	1,340	1,030	225	290	300
1955	560	295	170	64	24	15	3	2	30	240	54	185	2	1	—	24
1960	510	270	110	91	21	12	6	5	35	225	75	140	1	8	7	7
1965	1,320	780	510	105	49	22	11	7	92	450	92	330	1	26	12	73
1966	1,440	840	530	120	56	30	17	10	125	475	100	330	2	38	13	115
1955	1,070	470	280	23	22	9	8	6	135	550	170	325	12	33	4	48
1960	1,860	1,050	660	68	32	12	15	11	275	770	160	530	8	57	26	11
1965	2,500	1,250	670	145	36	16	15	7	355	1,090	345	640	7	65	65	83
1966	3,090	1,550	810	190	47	19	21	9	430	1,320	415	790	16	81	105	110
1955	205	54	53	—	—	—	—	—	—	145	—	35	110	—	1	5
1960	530	150	130	5	2	1	2	2	13	350	1	52	290	—	21	8
1965	1,300	220	140	10	3	2	1	1	68	1,000	27	87	870	1	63	14
1966	1,460	230	145	11	4	4	1	1	72	1,130	32	86	990	—	74	20
1955	100	92	41	2	45	35	9	4	2	8	3	5	—	1	—	—
1960	240	225	130	1	91	70	21	9	4	6	2	4	—	—	7	—
1965	355	320	150	10	150	96	47	16	10	18	2	14	2	—	11	5
1966	425	395	180	13	180	115	63	26	19	17	4	12	1	1	6	7
1955	110	110	70	1	37	17	20	13	—	—	—	—	—	—	—	—
1960	340	340	200	5	130	81	51	25	1	1	—	1	—	—	1	—
1965	660	650	415	5	230	130	100	58	1	4	—	3	—	1	6	—
1966	720	700	440	9	250	140	110	65	1	8	—	4	—	4	6	—
1955	76	59	24	3	32	14	18	13	—	17	1	16	—	—	—	—
1960	285	210	93	15	82	32	38	27	11	55	7	36	—	13	18	2
1965	670	370	155	18	150	73	75	51	16	205	22	91	13	75	59	64
1966	890	500	210	21	211	100	100	69	30	260	26	115	19	99	78	50

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March 1968). Categories ^a Excluding section 9 "Commodities and transactions, not classified according to kind".

Table 47. Japan: share of imports by region of origin of each category of goods, 1955-66
(Percentages)

Year	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China	
1955	.	51.5	31.2	4.2	7.4	4.2	2.7	1.7	7.8	44.7	10.6	26.2	5.8	1.6	0.2	3.6
1960	.	61.1	37.1	4.8	9.3	5.4	3.5	2.1	8.8	36.1	6.2	19.6	7.7	2.0	2.1	0.7
1965	.	53.3	30.3	4.3	9.1	5.0	3.7	2.0	8.0	40.4	7.0	17.3	13.0	2.4	3.1	3.2
1966	.	52.8	29.1	4.5	9.4	5.1	3.9	2.2	8.4	39.9	7.0	16.6	12.7	2.8	3.6	3.7
Total ^a																
1955	.	52.8	30.4	11.4	4.3	2.7	0.5	0.4	5.4	42.9	9.7	33.1	0.3	0.2	—	4.3
1960	.	53.0	21.6	17.9	4.1	2.4	1.2	1.0	6.9	44.2	14.7	27.5	0.2	1.6	1.4	1.4
1965	.	59.3	38.8	8.0	3.7	1.7	0.8	0.5	7.0	34.2	7.0	25.1	0.1	2.0	0.9	5.6
1966	.	58.2	36.7	8.3	3.9	2.1	1.2	0.7	8.7	32.9	6.9	22.9	0.1	2.6	0.9	8.0
Foodstuffs (0 and 1)																
1955	.	43.8	26.1	2.1	2.1	0.8	0.7	0.6	12.6	51.3	15.9	30.3	1.1	3.1	0.4	4.5
1960	.	56.5	35.5	3.7	1.7	0.6	0.8	0.6	14.8	41.5	8.6	28.5	0.4	3.1	1.4	0.6
1965	.	50.2	26.9	5.8	1.4	0.6	0.6	0.3	14.3	43.8	13.9	25.7	0.3	2.6	2.6	3.4
1966	.	50.2	26.3	6.2	1.5	0.6	0.7	0.3	13.9	42.8	13.5	25.6	0.5	2.6	3.4	3.6
Raw materials (2 and 4)																
1955	.	26.4	25.9	—	—	—	—	—	—	70.7	—	17.1	53.7	—	0.5	2.4
1960	.	28.3	24.6	0.9	0.4	0.2	0.4	0.4	2.4	66.2	0.2	9.8	54.8	—	4.0	1.5
1965	.	17.0	10.8	0.8	0.2	0.1	0.1	0.1	5.2	77.1	2.1	6.7	67.1	0.1	4.8	1.1
1966	.	15.8	10.0	0.8	0.3	0.3	0.1	0.4	4.9	77.7	2.2	5.9	68.1	—	5.1	1.4
Fuels (3)																
1955	.	92.0	41.0	2.0	45.0	35.0	9.0	4.0	2.0	8.0	3.0	5.0	—	1.0	—	—
1960	.	94.5	54.6	0.4	38.2	29.4	8.8	3.8	1.7	2.5	0.8	1.7	—	—	3.0	—
1965	.	90.4	42.4	2.8	42.4	27.1	13.3	4.5	2.8	5.1	0.6	4.0	0.6	—	3.1	1.4
1966	.	92.9	42.4	3.1	42.4	27.1	14.8	6.1	4.5	4.0	0.9	2.8	0.2	0.2	1.4	1.7
Chemical products (5)																
1955	.	100.0	63.6	0.9	33.6	15.5	18.2	11.8	—	—	—	—	—	—	—	—
1960	.	99.4	58.5	1.5	38.0	23.7	14.9	7.3	0.3	0.3	—	0.3	—	0.3	—	—
1965	.	98.5	62.9	0.8	34.8	19.7	15.2	8.8	0.2	0.6	—	0.5	—	0.1	0.9	—
1966	.	98.0	61.6	1.3	35.0	19.6	15.4	9.1	0.1	1.1	—	0.6	—	0.5	0.9	—
Machinery (7)																
1955	.	77.6	31.6	3.9	42.1	18.4	23.7	17.1	1.3	22.4	1.3	21.1	—	—	—	—
1960	.	73.7	32.6	5.3	28.8	11.2	13.3	9.5	3.9	19.3	2.4	12.6	—	4.6	6.3	0.7
1965	.	53.0	22.2	2.6	21.5	10.5	10.7	7.3	2.3	29.4	3.2	13.0	1.9	10.7	8.4	9.2
1966	.	56.3	23.6	2.4	23.8	11.3	11.3	7.8	3.4	29.3	2.9	13.0	2.1	11.1	8.8	5.6
Other manufactures (6 and 8)																

SOURCE: ECLA, on the basis of table 46. Categories classified according to the kind.^a Excluding section 9 "Commodities and transactions, not classified according to SITC sections."

1960, while that of Eastern Europe increased, mainland China recovered lost ground and the developing countries maintained their shares at around 43 per cent, within which Asia's share shrank while Latin America's recovered from its decline in 1960. The developing countries increased their over-all share of fuel imports; Latin America's proportion remained small, while that of the Middle East increased and Asia's declined.

In the sphere of manufactures, imports from the developing regions gained some ground, although the relative positions of the regions changed somewhat: Asia's share declined, and Africa's increased significantly, as did those of the Middle East and Latin America to a lesser extent.

Looking at the situation from the viewpoint of Latin America, it may be concluded that although Latin America's share of the Japanese market is still relatively small, the rapid growth of Japan's imports and the use of a greater number of countries as suppliers hold out hopes of an increasingly rapid expansion of trade between Latin America and Japan.

2. THE BALANCE OF PAYMENTS AND MOVEMENT OF CAPITAL

The characteristics of Latin America's foreign trade and its relative position in world trade, discussed in the preceding paragraphs, are basic factors whose operation has had the net result of placing the region in a special situation where its balance of payments is concerned.

The sluggishness of external demand for the products traditionally exported by Latin America, in combination with unfavourable price trends, has in many cases prevented the capacity to import from keeping pace with demand for imports. The use of monetary reserves could do little to cover the resulting gap, and that only for a short time, so that in the main it has been bridged by intensive and increasing recourse to autonomous and compensatory external financing. In turn, the commitments deriving from such financing are looming steadily larger in the external transactions picture, and have given rise to an "indebtedness spiral" (as it is commonly called), and to great instability in most countries' balance of payments, by making the capacity to import inordinately dependent upon the inflow of new capital.

The figures for the region as a whole bear eloquent witness to the sharpness of these trends. Between 1955 and 1966, the average annual growth rate of the volume of exports was 4.6 per cent; that of their value was 3.9 per cent,

owing to price declines; and that of their purchasing power was only 3.3 per cent, because of the rising trend of import prices. The current value of imports increased in the meantime at an average annual rate of 3.8 per cent.

The pressure exerted by the slow growth of the purchasing power of exports was reinforced by the speed of the upswing in service payments on foreign capital (profits, interest and loan amortization), which increased at an annual rate of 8.9 per cent. To give a better idea of what this implies, it should be recalled that the ratio between service payments and current income from exports of goods and services rose from 20.7 per cent in 1955 to nearly 35 per cent in 1966.

The rise in service payments was accompanied by a decrease in the net foreign capital contribution to the financing of Latin America's imports. In 1955-59, the net annual inflow averaged 195 million dollars; this figure was slightly reduced in the period 1960-64, for which the average was 185 million dollars, and subsequently plunged downward as the rate of increase of service payments speeded up. In 1965 and 1966 there were actually net transfers of resources abroad, amounting to 830 and 360 million dollars, respectively. Although the balance became positive again in 1967 and improved still further in 1968, these trends show how far the capacity to import is influenced by unduly rigid commitments in respect of remittances abroad for capital servicing purposes, and by the marked instability of the inflow of new capital.

International reserves—including the International Monetary Fund position—helped to cushion the impact of these variations on the level of imports. The reserves in question totalled 2,870 million dollars in 1955, but by 1962 they had dropped to 2,135 million, which was the lowest level recorded in the period under review; later they had to be reconstituted, at the cost of a reduction of imports, so that by 1966 they exceeded 3,000 million dollars.

Hence a characteristic feature of Latin America's balance of payments has come to be the considerable relative importance of capital transactions in comparison with movements of merchandise proper. A clearer idea of what this means can be formed from the provisional figures for 1968, which are analysed in detail in Part Two of the present *Survey*. In that year, a capacity for external payments totalling more than 18,000 million dollars had to be obtained from exports of goods and services and gross inflows of foreign capital in order to finance imports whose f.o.b. value was approximately

10,000 million dollars. The difference between these two figures was absorbed by non-financial import services, payments of amortization, interest and profits on foreign capital, and moderate additions to international reserves.

With a view to more comprehensive evaluation of the structure and trends of the balance of payments, the development of each of its components will next be considered, still with reference to the period 1955–66. At the same time, from the data presented it will be possible to see how far the situation in individual countries diverges from the general pattern outlined.

(a) *Balance-of-payments transactions on current account*

(i) *Merchandise transactions.* From 1955 to 1959, the merchandise account in the balance of payments for the region as a whole showed that exports exceeded imports by approximately 1,000 million dollars (see table 48). Subsequently, the effect of the increase in outflows other than import payments was to boost this surplus to such an extent that by 1965 it had doubled; from the peak then attained (about 2,100 million dollars), it declined in more recent years as a result of the reactivation of capital inflows from 1966 onwards. The servicing of these will have fresh implications in the near future and will very probably originate a new upward trend in the export surplus.

With the exception of the exports of Venezuela, Colombia and Haiti, which remained stationary or turned downward, and those of Brazil, Uruguay and the Dominican Republic, which expanded relatively little, the other countries' sales of goods greatly increased in value in relation to 1955–59. This applies particularly to Chile, Peru, Panama, Guatemala, Honduras and Nicaragua.

In Argentina, Chile, Peru and Uruguay the export surplus was considerably strengthened, after the deficit shown on the merchandise account in earlier years. But whereas Argentina, despite the expansion of its exports, practically kept its imports down to a certain approximate level throughout the period in order to improve its external payments position, Uruguay was compelled to reduce its imports for the same motive, in face of the slow growth of its external sales. Exports from Chile and Peru expanded fast enough—especially in Peru's case—to permit of a considerable increase in imports (with slight restrictions to generate surpluses on the merchandise account), supported by the inflow of capital.

Outstanding among the countries with a tradition of merchandise-account surpluses is Venezuela. The decline in petroleum prices and the limits set to demand for Venezuelan oil by

competition and by the preferential treatment accorded to other geographical areas as suppliers of the leading world markets caused a relative stagnation of exports throughout the period under review. In addition, Venezuela's external payments position was difficult at the beginning of the nineteen-sixties, and outgoings under the head of direct foreign investment income remained high. Consequently, a substantial surplus on the merchandise account had to be maintained on the basis of restriction and reduction of imports. The situation was much the same in Brazil. The fall in coffee prices and the rigidity of international coffee demand made for slow and fluctuating export growth rates, which determined a similar behaviour pattern for imports. The surplus was heavily depleted by import requirements in 1960–64, but owing to the persistence of the balance-of-payments deficit it had to be increased again, on a very large scale, towards the end of the period under consideration. Ecuador and Honduras also achieved a surplus on the merchandise account every year, but in contrast to the situation in the foregoing countries, their export trade forged ahead and their imports increased. This was especially true of Honduras.

Among the countries whose trade balance deteriorated, El Salvador and Nicaragua showed surpluses on the merchandise account based on the steady strengthening of their export trade, which likewise enabled them to expand their imports; but in 1966, with the stagnation of exports and the continued growth of imports, the surpluses were transformed into deficits, financed by means of bigger capital inflows. In the case of the Dominican Republic, the political events by which it was affected in 1965 marked the close of a period in which exports had exceeded imports. The recovery of the export trade in 1966 was slight and the value of external purchases high, with the result that there was a fairly large deficit on the merchandise account, financed by the inflow of capital. In Colombia, external rigidities and the downward trend of coffee prices were reflected in more or less constant export levels. This, in combination with the fluctuations of capital flows, meant that the evolution of both imports and merchandise-account balances was very uneven.

Lastly, there were some countries that showed a chronic deficit on the merchandise account. Among these, Mexico, Bolivia, Paraguay, Haiti, Panama and Costa Rica were also characterized—except for Haiti—by a dynamic export and import trade and a substantial inflow of capital. In the case of Mexico and Panama, deficits on the merchandise account were offset by favour-

Table 48. Latin America: external transactions of goods
(Annual averages in millions of dollars)

Country	Exports			Imports			Balance of goods		
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1966
Venezuela . . .	2,344.9	2,465.0	2,436.0	2,342.0	1,392.1	1,116.5	1,341.0	1,297.0	1,045.0
Mexico . . .	786.7	911.8	1,146.0	1,228.0	1,018.0	1,204.0	1,522.0	1,563.0	-335.0
Argentina . . .	970.0	1,207.0	1,493.0	1,593.0	998.1	1,068.1	1,043.0	978.0	615.0
Brazil . . .	1,364.0	1,345.2	1,596.0	1,741.0	1,163.8	1,253.8	941.0	1,303.3	438.0
Chile . . .	439.3	498.2	688.0	866.3	381.1	543.3	568.9	712.9	153.4
Peru . . .	310.0	550.1	684.6	786.5	320.9	444.4	659.7	746.2	40.3
Colombia . . .	585.8	513.8	591.0	533.9	491.1	528.7	430.4	625.4	-91.5
Uruguay . . .	159.6	161.3	196.3	188.6	182.0	179.7	123.1	145.0	43.6
Ecuador . . .	130.7	148.1	180.7	187.2	97.5	117.9	155.2	152.7	34.5
Bolivia . . .	71.6	70.8	115.5	133.1	75.8	88.1	126.6	138.8	-5.7
Paraguay . . .	36.4	41.5	60.8	53.6	38.4	44.2	53.0	58.3	-4.7
Haiti . . .	36.5	38.1	37.8	34.7	43.1	43.9	42.6	42.3	-7.6
Dominican Republic . . .	127.9	163.9	125.9	138.0	114.7	132.3	120.7	160.5	-22.5
Panama . . .	42.5	58.9	92.6	103.2	89.2	141.8	192.5	217.7	-114.5
Costa Rica . . .	79.4	93.8	111.9	136.7	86.7	107.1	160.5	161.2	-24.5
El Salvador . . .	117.3	137.2	190.0	189.8	96.3	129.6	186.2	201.5	-11.7
Guatemala . . .	111.0	135.3	192.1	228.7	124.5	139.8	206.1	201.8	26.9
Honduras . . .	67.4	80.1	128.8	146.7	63.3	77.8	113.2	138.3	8.4
Nicaragua . . .	72.3	91.2	149.2	141.9	60.7	78.9	132.8	150.6	-8.7
TOTAL . . .	7,853.3	8,711.4	10,216.2	10,772.9	6,837.3	7,439.9	8,118.5	8,994.2	1,778.7

SOURCE: IMF, *Balance of Payments Yearbook*, various issues.

able balances on non-financial service transactions, in particular travel and miscellaneous services. Elsewhere, deficits on aggregate service transactions and on external factor payments were superimposed on the imbalance on the merchandise account, thus widening the gap and augmenting external financing requirements. In due course this would mean that increasing capital servicing commitments would lead to the restriction of imports, if the growth rate of exports were not speeded up to a greater extent. Bolivia and, in a lesser measure, Paraguay, were able to alleviate their payments position by virtue of the transfer payments received. Although similar resources were available to Haiti, imports were restricted because of the limited expansion of exports, largely imputable to internal supply problems. In Costa Rica, the growth of exports and a considerable inflow of capital allowed the high rate of increase of imports to be maintained.

The sluggish development of Latin America's export sector was partly due to the deterioration of prices and the rigidity of demand for coffee and petroleum. These factors particularly affected the countries which are among the leading world suppliers of the products in question: Venezuela and Colombia, and, in a lesser degree, Brazil. In other countries (Haiti and Uruguay, for example), unfavourable external factors were combined with internal supply difficulties.

Import restrictions were also applied in the group of countries where exports remained stationary or increased very little, as well as in Argentina. In almost all of them (the exception being Haiti) the predominant need was to increase and maintain or create merchandise-account surpluses by curtailing imports, in order to improve the external payments position or prevent it from deteriorating still further. In the other countries, the growth of imports outstripped or kept pace with that of export earnings, which were supplemented by increasing inflows of capital.

(ii) *Freight, insurance and other transport transactions, travel and miscellaneous services.* Latin America's position as a net importer in relation to these services as a whole is determined by deficits on transport and miscellaneous services, partly offset by surpluses on the travel account. With the exclusion of Mexico and Panama, and, in recent years, Uruguay, the countries of the region show a negative balance on total transactions under these heads, which tended to decrease up to 1965, as a result of the import restriction policy pursued by some countries. In 1966, however, further increases in the deficit are observable (see table 49).

The aggregate net deficit on these services absorbed an appreciable proportion of the surplus on the merchandise account, although their share dropped from 77.2 per cent in 1955-59 to 46.6 per cent in 1966, with the corresponding reduction of their relative importance in the external deficit on current account.

Freight, insurance and other transport transactions, in respect of which all the countries are net importers, are the most important items in the body of services under discussion, and determine the trend followed. Freight charges are closely linked to import values, and in so far as imports were restricted by some countries, expenditure on freight did not increase. Influence was exerted in the same direction by the progress of the Latin American countries' own merchant fleets and the degree to which they gradually gained control of external freight traffic in countries such as Argentina, Brazil, Chile and Colombia where certain levels of development had been attained.

Latin America is also a net importer of miscellaneous services (general government and other services), notwithstanding the surpluses obtained under those heads by Mexico, the Dominican Republic, Panama, Costa Rica and Guatemala. These only partly offset the deficits shown by the other countries.

In contrast, surpluses were achieved on the travel account which partly counteracted the negative balances recorded for the two preceding items. The decisive influence, however, was that of Mexico's net earnings under the heads of tourism and border trade, although smaller contributions were made by the travel surpluses shown in Uruguay, Haiti, Panama, Costa Rica and Guatemala. In recent years, Guatemala and Haiti have become net importers where travel is concerned, whereas Chile, Ecuador and Paraguay obtained net income from this source which they had not previously enjoyed.

In the last analysis, net positions were affected by different factors in each country. In Venezuela, Argentina, Brazil and Colombia, the fluctuations of the aggregate deficit on the services accounts in question have their explanation in import trends and the restriction of expenditure on travel and miscellaneous services. In Mexico and Panama, the surpluses on these services offset the deficits on the merchandise account, and in Uruguay surpluses under both heads jointly provided means of meeting external commitments. Despite the expansion of Chile's imports, its net expenditure on non-financial services was kept down by virtue of the increase in tourism or travel earnings, and the same was true of Ecuador and Paraguay. In Haiti, on the other hand, with the reduction of its income from

Table 49. Latin America: freight, insurance and other transport transactions, travel and miscellaneous services
(Annual averages in millions of dollars)

Country	Credit			Debit			Balance		
	1955-59	1960-64	1965	1955-59	1960-64	1965	1955-59	1960-64	1965
Venezuela	93.7	86.5	96.0	483.3	363.9	423.0	-389.6	-277.4	-327.0
Mexico	480.6	660.8	826.0	262.6	392.3	502.0	218.0	268.5	324.0
Argentina	124.8	151.8	163.0	254.5	364.8	336.0	-129.7	-213.0	-173.0
Brazil	154.6	122.2	151.0	404.2	326.6	339.0	-249.6	-204.4	-188.0
Chile	41.8	78.5	99.4	83.1	158.2	148.8	-41.3	-79.7	-49.4
Peru	43.9	64.9	87.3	90.3	132.0	192.4	-46.4	-67.1	-105.1
Colombia	70.0	101.6	117.5	120.7	164.9	222.9	-50.7	-63.3	-105.4
Uruguay	27.8	44.0	56.2	41.8	52.6	45.2	-14.0	-8.6	11.0
Ecuador	8.9	11.8	19.5	35.2	41.3	45.8	-26.3	-29.5	-26.3
Bolivia	1.5	6.6	10.3	23.8	25.8	35.1	-22.3	-19.2	-24.8
Paraguay	4.5	5.5	5.6	9.8	12.5	19.4	-5.3	-7.0	-13.8
Haiti	11.1	12.3	7.1	10.5	15.2	19.6	0.6	-2.9	-12.5
Dominican Republic	17.5	19.0	22.7	27.9	45.9	46.4	-10.4	-26.9	-23.7
Panama	65.3	107.1	133.1	26.8	40.7	47.8	38.5	66.4	85.3
Costa Rica	15.7	20.5	28.1	19.2	25.8	39.1	-3.5	-5.3	-11.0
El Salvador	10.5	13.7	22.8	26.2	32.7	43.6	-15.7	-19.0	-20.8
Guatemala	11.3	19.6	34.0	27.2	35.6	50.6	-15.9	-16.0	-16.6
Honduras	4.8	6.3	9.5	12.0	13.0	21.7	-7.2	-6.7	-12.2
Nicaragua	14.8	17.3	22.6	28.0	37.3	54.8	-13.2	-20.0	-32.2
TOTAL	1,203.1	1,550.0	1,911.7	1,987.1	2,281.1	2,633.2	-784.0	-731.1	-828.5
			2,079.0			2,907.5			

SOURCE: IMF, *Balance of Payments Yearbook*, various issues.

travel, the services deficit increased, and the same thing happened in the Central American countries, with the exception of Costa Rica.

(iii) *Foreign capital servicing.* Over and above the external pressures on the balance of payments deriving from adverse trade situations, foreign capital servicing and the international reserves position came to aggravate the existing rigidities. The chief effect of such servicing was the rapid increase in payments related to the use of foreign capital: profits, dividends and interest (see table 50). Since these payments expanded faster than exports, countries where the pressures they generated were severe had to strengthen their surplus on the merchandise account, usually by restricting imports.

Latin America receives some income from its assets in the rest of the world, but the amount is insignificant in comparison with the sums it has to pay out to meet its external liabilities deriving from direct investment and from foreign loans. These service payments rose from 1,226 million dollars in 1955-59 to 2,124 million in 1966—i.e., by 73 per cent, or twice as fast as exports of goods during the same period—even though in Venezuela foreign capital servicing remained virtually constant, fluctuating around 600 to 700 million dollars. Its relative importance within total service payments decreased from 57 per cent in 1955-59 to 33 per cent in 1966.

Thus, the rapid growth of service payments on foreign capital was concentrated, apart from Venezuela, in Mexico, Argentina, Brazil, Chile, Peru and Colombia, in particular where the figures were significant in absolute terms. Elsewhere, although the sums concerned were much smaller than in the foregoing group of countries, the increases recorded were bigger in relative terms, except in Ecuador, Bolivia, Haiti and Panama.

A breakdown of the service payments shows that profits on direct investment lost some of their relative importance, in declining from 86.6 to 71.5 per cent between 1955-59 and 1966; the proportion represented by interest on loans, on the other hand, rose from 13.4 to 28.5 per cent during the same period, owing to the more important role which loans were gradually assuming in the financing of the external deficit on current account. Even so, the relative position of profits was still the determinant of the level attained by servicing, mainly because of Venezuela's situation. With the exclusion of Venezuela, the share of profits in the total would fall from 69.4 to 58.5 per cent between 1955-59 and 1966, and that of interest would increase from 30.6 to 41.5 per cent in the same lapse of time.

If foreign capital service payments are related to income from exports of goods and services, it can be deduced that the ratio between them climbed from 13.4 to 16.2 per cent between 1955-59 and 1966, while if amortization and other service payments are included, the corresponding proportions work out at 25.2 and 34.7 per cent.

Up to 1962, net external investment income payments amounted to more than the surplus on the merchandise account. From 1963 to 1965 the latter increased sufficiently to offset the payments in question and reduce the gap, but in 1966, when the surplus once again diminished, it fell below the level of net external investment income.

(iv) *Private transfer payments.* The negative balance shown for this item by the region as a whole, under the influence of the large transfer payments effected by Venezuela, became favourable in 1966 as a result of the more rapid increase in transfer payments received. These increased from 43 to 150 million dollars between 1955-59 and 1966, while outward transfers rose from 118 million dollars to 148 million during the same period (see table 51).

The private transfer payments received were strongly concentrated in Brazil and Haiti; their value followed an upward trend, but at a lower level, in Mexico, the Dominican Republic, El Salvador and Guatemala; and they decreased in Chile, Peru and Colombia. In the other countries, with the exception of Uruguay, they showed relatively significant increases, but here again the figures were smaller in absolute terms.

The largest proportion of outward private transfer corresponded to Venezuela (immigrants' remittances), and next, in order, but a long way below, came Mexico and Panama. These three countries and Uruguay were the only ones with net deficits in the region as a whole, since Argentina, which also traditionally recorded negative balances, transformed them into surpluses by drastically reducing its debts. In the other countries, the deficits on current account were lessened by surpluses deriving from private transfer payments received.

(v) *Balance-of-payments position on current account.* The goods and services transactions to which reference has been made resulted in different kinds of pressures on Latin America's aggregate balance on current account. As long as the surplus on the merchandise account increased to a greater extent than the deficit on services (financial and non-financial), the external imbalance on current account dwindled steadily. These trends, consequent upon the policy pursued by the monetary authorities in certain countries with a view to improving the balance-of-

Table 50. Latin America: receipts and disbursements under the head of investment income
(Annual averages in millions of dollars)

Country	Credit			Debit			Balance		
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1966
Venezuela . . .	14.4	16.9	32.0	36.0	698.2	619.9	738.0	718.0	-682.0
Mexico . . .	—	—	—	—	136.5	244.3	339.0	373.0	-373.0
Argentina . . .	10.4	23.4	6.0	11.0	34.7	103.8	59.0	163.0	-152.0
Brazil . . .	3.6	3.0	10.0	7.0	136.4	185.2	269.0	291.0	-284.0
Chile . . .	0.4	—	—	—	68.9	87.1	118.0	184.8	-184.8
Peru . . .	0.1	1.4	4.3	4.0	34.4	66.6	90.5	121.7	-117.7
Colombia . . .	0.3	0.6	—	—	32.9	60.8	79.2	86.1	-86.1
Uruguay . . .	1.6	0.1	0.3	—	6.7	9.3	15.7	20.0	-20.0
Ecuador . . .	0.3	0.1	—	—	21.4	20.5	25.0	28.5	-28.5
Bolivia . . .	—	0.2	0.8	3.7	3.0	1.7	4.4	4.5	-0.8
Paraguay . . .	—	—	0.1	0.3	1.0	1.9	3.1	4.4	-4.1
Haiti . . .	—	—	—	—	2.5	4.9	5.2	3.7	-3.7
Dominican Republic . . .	0.7	0.4	1.0	1.0	9.0	18.0	18.0	21.0	-20.0
Panama . . .	1.9	2.7	2.5	2.5	17.9	10.4	17.7	20.6	-18.1
Costa Rica . . .	0.4	0.3	0.5	0.8	6.0	6.5	14.2	16.4	-15.6
El Salvador . . .	0.5	0.6	1.6	2.1	3.5	5.7	9.4	9.6	-7.5
Guatemala . . .	0.9	1.0	2.7	2.6	3.5	8.4	13.9	21.2	-18.6
Honduras . . .	0.7	0.8	1.4	2.0	5.3	2.6	14.2	17.5	-15.5
Nicaragua . . .	0.2	0.7	2.3	2.9	4.2	4.1	15.1	18.6	-15.7
TOTAL . . .	36.4	52.2	65.5	75.9	1,226.0	1,461.7	1,848.6	2,123.6	-2,047.7

SOURCE: IMF, *Balance of Payments Yearbook*, various issues.

Table 51. Latin America: receipts and disbursements under the head of private transfer payments
(Annual averages in millions of dollars)

Country	Credit			Debit			Balance		
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1966
Venezuela	—	2.0	5.0	5.0	66.4	83.9	96.0	94.0	-89.0
Mexico	3.6	6.3	10.0	10.0	5.4	18.9	16.0	15.0	-5.0
Argentina	0.9	6.7	2.0	3.0	3.6	12.2	6.0	2.0	1.0
Brazil	11.0	20.2	41.0	55.0	23.8	14.8	2.0	10.0	45.0
Chile	5.9	7.0	9.8	5.1	1.1	—	—	—	5.1
Peru	10.1	5.1	5.4	7.1	—	—	—	—	7.1
Colombia	2.5	6.6	7.2	3.8	1.3	2.5	3.0	4.0	-0.2
Uruguay	0.1	0.5	0.1	0.1	2.3	0.6	0.7	0.8	-0.7
Ecuador	0.6	2.0	2.3	3.4	0.1	—	—	—	3.4
Bolivia	0.7	1.3	1.1	1.3	—	—	—	—	1.3
Paraguay	0.4	2.1	1.6	1.9	0.3	0.4	0.5	0.5	1.4
Haiti	1.6	7.5	10.9	18.9	0.7	4.7	6.2	6.0	12.9
Dominican Republic	1.3	6.7	10.8	7.5	3.9	3.4	2.4	—	7.5
Panama	1.7	3.5	3.9	4.7	7.2	10.5	9.7	10.8	-6.1
Costa Rica	1.1	2.4	2.5	2.3	0.2	0.2	0.1	0.2	2.1
El Salvador	0.3	3.6	11.6	9.1	0.5	1.4	1.9	2.5	6.6
Guatemala	0.4	2.9	5.0	7.8	0.1	1.3	1.5	1.6	6.2
Honduras	0.5	0.6	1.4	1.4	1.1	1.0	1.0	1.0	0.4
Nicaragua	0.2	1.1	2.3	2.4	—	—	—	—	2.4
TOTAL	42.9	88.1	133.9	149.8	118.0	155.8	147.0	148.4	-13.1

SOURCE: IMF, *Balance of Payments Yearbook*, various issues.

payments situation, were particularly marked between the years 1963 and 1965. Hence the deficit on current account was reduced from 1,030 million dollars in 1955-59 to 420 million in 1965. In 1966, when some countries relaxed their restrictions, largely because of the improvement in exports and the increase in the net inflow of capital, external purchases once again expanded faster than sales, with the result that the surplus on the merchandise account decreased. This circumstance, in combination with the larger negative balance on the services account, raised the deficit on current account to about 1,100 million dollars, and sparked off a new trend towards the expansion of net external financing (see table 52).

The decrease in the deficit on current account was at first attributable to Venezuela's surplus (1960-64), to which those of Argentina, Brazil and Uruguay were then added, together with substantial reductions of the deficits shown by Chile and Colombia (1965), where payments difficulties arose and the monetary authorities were compelled to take steps to improve the net position. Generally speaking, the improvements achieved were due to import restrictions except in Chile, and to the expansion of exports in Argentina, Brazil and Chile, which boosted the surplus on the merchandise account. In another group of countries (Bolivia, Haiti, Paraguay, Panama and Guatemala), pressures were counteracted by assistance received in the form of grants and donations.

In Ecuador the deficit on current account stood at a constant proportion of export earnings, but at a fairly low level.

The other countries (Mexico, Peru, the Dominican Republic, Costa Rica, El Salvador, Honduras and Nicaragua) show a tendency to make increasing use of external financing, supported by the expansion of their exports of goods and services—except in the case of the Dominican Republic—and the inflow of non-compensatory capital. In 1966, when the external deficit on current account once again increased, pressure in that direction continued in the last-named group of countries, as well as in Brazil and Colombia and to a lesser extent in Venezuela and Chile.

(b) *The balance of payments on capital account*

(i) *Financing of the current deficit.* As mentioned above, the balance-of-payments deficit on current account which Latin America maintained from 1955 to 1966—the equivalent from a different standpoint of net external financing—followed an uneven course during that period: it remained at a relatively high level up to 1962, dropped sharply in 1963-65 and increased again in 1966.

Naturally, this trend was largely determined by balance-of-payments difficulties in several countries. Notwithstanding the differing situations in the various countries, a feature common to them all was the intensive use they made of external financing in order to stabilize the current account; this measure was all the more necessary inasmuch as export earnings were increasing at a slower pace than the servicing of foreign capital itself. At certain times, great efforts were made to lessen the disequilibrium by means of import restriction policies, but these were kept within limits and were necessarily of a temporary nature because of the requirements of the domestic economies.

External financing was used with varying intensity according to country or period. Therefore, the over-all picture is best reflected in the cumulative figures for the movements of capital which helped to cover the deficit on current account over a certain number of years (see table 53). It is thus concluded that Latin America's cumulative net external financing in the years 1955-66 amounted to 11,365 million dollars. Excluding Venezuela, which showed a net external dissaving during that period, the total for Latin America was 12,287 million dollars; 78 per cent of this sum was concentrated in Mexico, Brazil, Chile, Argentina, Colombia and Peru, the first two of these countries absorbing 54 per cent; the rest of Latin America accounted for 22 per cent, two thirds of which went to Bolivia, Panama, Guatemala, Costa Rica and Uruguay.

Since the distribution of net external financing is influenced by the absolute size of each of the national economies, it would be as well to consider it also in relation to the countries' respective current foreign exchange earnings (credit for exports of goods and services and private transfer payments). This ratio for the region as a whole over the entire period was 9.2 per cent. Only El Salvador, Argentina, the Dominican Republic and Honduras recorded lower percentages, while Venezuela showed a negative ratio on account of its net external dissaving, and the rest showed higher ratios. Some countries considerably exceeded the over-all average for Latin America, reaching very high coefficients. This is true of Bolivia, with 38.3 per cent, followed by Costa Rica with 22.4 per cent, and Panama, Chile, Paraguay, Haiti and Guatemala with ratios ranging from 18 to 20 per cent. In Mexico the average was 15.9 per cent, and in Peru, Uruguay, Brazil, Nicaragua, Colombia and Ecuador it ranged from 10 to 13 per cent. With the exception of Chile, the highest coefficients for the use of net external financing were recorded by the relatively less developed countries; but

Table 52. Latin America: totals for goods, services and private transfer payments, and balance-of-payments position on current account
(Annual averages in millions of dollars)

Country	Credit				Debit				Balance			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	2,453.0	2,570.3	2,569.0	2,482.0	2,639.9	2,184.2	2,598.0	2,527.0	-186.9	386.1	-29.0	-45.0
Mexico	1,270.9	1,578.9	1,982.0	2,142.0	1,422.4	1,859.6	2,379.0	2,509.0	-151.5	-280.7	-397.0	-367.0
Argentina	1,106.1	1,388.8	1,664.0	1,798.0	1,290.9	1,548.8	1,444.0	1,541.0	-184.8	-160.0	220.0	257.0
Brazil	1,533.2	1,490.6	1,798.0	1,937.0	1,728.2	1,780.4	1,551.0	2,004.0	-195.0	-289.8	247.0	-67.0
Chile	487.5	583.8	797.2	992.6	534.3	788.7	835.7	1,075.7	-46.8	-204.9	-38.5	-83.1
Peru	364.1	621.5	781.6	902.7	445.6	643.0	942.6	1,085.9	-81.5	-21.5	-161.0	-183.2
Colombia	658.5	622.6	715.7	665.8	646.0	757.0	735.5	942.7	12.5	-134.4	-19.8	-276.9
Uruguay	189.1	205.9	252.9	246.2	232.8	242.2	184.7	210.8	-43.7	-36.3	68.2	35.4
Ecuador	140.4	161.9	202.5	208.2	154.1	179.6	226.0	228.9	-13.7	-17.7	-23.5	-20.7
Bolivia	73.8	78.8	127.7	147.0	102.6	115.6	166.1	178.7	-28.8	-36.8	-38.4	-31.7
Paraguay	41.3	49.0	68.1	65.6	49.4	59.1	76.0	79.4	-8.1	-10.1	-7.9	-13.8
Haiti	49.1	57.9	55.8	61.3	56.8	68.7	73.6	70.2	-7.7	-10.8	-17.8	-8.9
Dominican Republic	147.3	190.1	160.4	168.9	155.4	199.7	187.5	237.1	-8.1	-9.6	-27.1	-68.2
Panama	111.4	172.3	232.1	263.7	141.2	203.4	267.7	303.3	-29.8	-31.1	-35.6	-39.6
Costa Rica	96.6	117.1	143.0	169.0	112.1	139.6	213.9	216.8	-15.5	-22.5	-70.9	-47.8
El Salvador	128.6	155.1	226.0	220.9	126.4	169.4	241.0	264.7	2.2	-14.3	-15.0	-43.8
Guatemala	123.5	158.9	233.8	268.3	155.2	185.1	272.1	285.4	-31.7	-26.2	-38.3	-17.1
Honduras	73.5	87.8	141.1	162.2	81.7	94.4	150.2	183.1	-8.2	-6.6	-9.1	-20.9
Nicaragua	87.5	110.4	176.4	176.2	92.9	120.4	202.7	230.0	-5.4	-10.0	-26.3	-53.8
TOTAL	9,135.4	10,401.7	12,327.3	13,077.6	10,167.9	11,338.9	12,747.3	14,173.7	-1,032.5	-937.2	-420.0	-1,096.1

SOURCE: IMF, *Balance of Payments Yearbook*, various issues.

this did not result in external payments pressures, partly because of the larger volume of official transfer payments received and of easier terms for the loans granted. Those recording the lowest ratios, however, were also—except for Argentina and Venezuela—the relatively less developed countries, which relied more on their export capacity to finance the increases in imports. This was the position of El Salvador, Honduras, Ecuador and Nicaragua, although the trend was to increase the volume of net external financing towards the end of the period. The remaining countries came somewhere between these two extremes, but they also had to face external payments pressures owing to the existing conditions of their financing, generally short- and medium-term, with repayments growing faster than both exports and gross capital inflows. The situation became particularly critical when exports and capital inflows remained stationary or declined. Despite the coefficients achieved by Venezuela, Argentina and Chile, their external payments pressures were similar to those affecting the last group of countries, although Venezuela's position has been somewhat alleviated by the accelerated amortization of its external obligations and an increase in its gross international reserves.

The level of net external financing was 11,300 million dollars in 1955–66 although Latin America maintained a net exporting position of about 15,300 million dollars during that period. This cumulative surplus of goods was, however, outweighed by the total sum of other current expenditure (net imports of non-financial services for 9,100 million dollars and payments of profit and interest on external capital for 16,800 million). The capital resources that went to make up the net external financing were represented by non-compensatory and compensatory foreign capital, public and private domestic capital or assets and the international reserves of central banks. Without passing judgement on the importance of the errors and omissions in the balance of payments which may change the recorded value of net external financing and of the capital resources on which it is based, it may be remarked in table 53 that the net inflow of external funds amounted to roughly 18,100 million dollars. On the other hand there was a net outflow of domestic capital or assets, and an increase of 697 million in gross international reserves. In spite of this there was no improvement in the net position of the monetary authorities, since the increment of 1,558 million dollars in its liabilities, a figure which is included in the over-all amount of external capital, led to a decrease of 861 million dollars in the net position of the central banks during the period under consideration.

From an even more general standpoint, if amortization and service payments, which totalled to 20 thousand million dollars, are added to the net inflow of external capital, it will be noted that the gross inflow of compensatory and non-compensatory capital during the period amounted to nearly 38,300 million dollars, 52.6 per cent of which had to be used for amortization payments.

Venezuela, Brazil and Argentina, in particular, had to effect amortization and service payments amounting to about 65 per cent of the gross inflow of capital. In Colombia and Chile the proportion was over 50 per cent, and in Mexico 45 per cent. Except for Panama, in the remaining countries it ranged from 30 to 45 per cent. In general, the gap between gross and net inflows of capital in these countries and the size of this gap in some of them help to explain why accelerated payments had to be made to alleviate balance-of-payments pressures.

Of Latin America's total net inflow of capital, 91 per cent were movements of autonomous capital and 9 per cent of compensatory capital. A major proportion of net external non-compensatory capital (78 per cent) was in the form of direct investment (40 per cent) and medium- and long-term loans (38 per cent), and the remaining 22 per cent comprised short-term liabilities and official transfer payments. Net inflows of compensatory capital consisted mainly of resources deriving from trade arrears and their refinancing—balance-of-payments loans and deferred import payments—and, in a lesser proportion, IMF contingency loans, whose repayment terms—generally short-term—determined the position with regard to compensatory financing.

Mexico and Brazil together absorbed 38.4 per cent of total external autonomous and compensatory capital; Argentina and Chile received 19.8 per cent; Venezuela, Peru and Colombia, 21.4 per cent; Uruguay, Bolivia, Guatemala and Panama, 10.7 per cent; Costa Rica, the Dominican Republic, Ecuador, Nicaragua and El Salvador, 7.6 per cent; and Paraguay, Honduras and Haiti, 2.1 per cent.

If the net inflow of funds is broken down into autonomous and compensatory capital, other characteristics are revealed. In Uruguay, for example, the high proportion of compensatory capital is one of the causes of its present external payments difficulties. In Chile, Argentina, Colombia and Brazil, the share of compensatory capital was also fairly substantial, and it combined with medium-term non-compensatory loans to create external payments pressures. This happened also in Venezuela, whose accelerated payments are noticeable only if the gross capital in-

Table 53. Latin America: balance-of-
(Millions)

	Mexico	Brazil	Argentina	Chile	Venezuela	Peru	Colombia	Uruguay
Net external financing	2,924.8	2,440.0	1,247.5	1,380.1	-922.0	858.9	905.8	296.5
Net foreign capital	3,595.3	3,354.0	1,914.6	1,669.4	1,347.2	1,266.9	1,257.4	540.4
Foreign non-compensatory capital	3,613.7	2,993.0	1,664.4	1,360.6	1,317.6	1,264.6	1,107.4	293.9
Direct investment	1,431.8	1,590.0	1,064.1	222.2	1,175.1	301.5	170.0	22.1
Long- and medium-term loans	1,531.9	925.0	696.2	805.7	-40.9	648.0	592.1	111.7
Short-term liabilities	644.9	260.0	-103.0	186.2	183.6	238.0	279.5	123.2
Official transfer payments	5.1	218.0	7.1	146.5	-0.2	77.1	65.8	36.9
Net foreign compensatory capital	-18.4	361.0	250.2	308.8	29.6	2.3	150.0	246.5
Balance-of-payments loans and deferred import payments	—	434.0	295.0	235.5	29.0	0.3	87.7	131.0
IMF loans	-41.4	56.0	118.0	97.6	—	—	63.7	14.0
Other liabilities of the monetary authorities	23.0	-129.0	162.8	-24.3	0.6	2.0	-1.4	101.5
Net domestic non-compensatory capital or assets	-397.3	-273.0	-124.1	-256.9	-962.9	-194.8	-144.1	-0.4
Gross movements of international reserves (increase —)	-279.2	-123.0	200.3	-128.6	-290.4	-93.1	128.1	66.7
Errors and omissions	6.0	-714.0	-743.3	96.2	-1,015.9	-120.1	-335.6	-310.2
Gross inflow of compensatory and non-compensatory capital	6,474.9	9,089.0	5,120.4	3,486.8	3,973.5	1,867.8	2,825.9	860.9
Gross inflow of capital as a percentage of current foreign exchange income	35.2	48.2	32.1	48.8	13.2	28.2	36.3	34.8
Net inflow of capital as a percentage of current foreign exchange income	19.6	17.8	12.0	23.4	4.5	19.2	16.1	21.8
Net external financing as a percentage of current foreign exchange income	15.9	11.9	7.8	19.3	-3.1	13.0	11.6	12.0

SOURCE: ECLA, on the basis of data in IMF, *Balance of Payments Yearbook*, various issues.

flow is contrasted with the net movements. Besides these countries, the Dominican Republic, Costa Rica and El Salvador also record a relatively high proportion of compensatory financing.

As stated above, external autonomous or non-compensatory capital was mainly in the form of direct investment. According to the balance-of-payments entries, these flows were concentrated strongly in Brazil and Mexico (45.2 per cent), to a lesser extent in Venezuela and Argentina (33.5 per cent) and still less in Peru, Chile and Colombia (10.4 per cent), that is, nearly 90 per cent was absorbed by these seven countries. Direct investment is at present channelled towards the more industrialized countries like Brazil, Mexico and Argentina, since that received by Venezuela constituted the last of the major oil investments for the period 1955-59. Among the relatively less developed countries, those recording a sizable volume of direct investment were Panama, Guatemala, Bolivia, Ecuador and Costa Rica, where it accounted for a fairly high proportion of total external non-compensatory capital, as occurred also in Nicaragua, El Salvador and Paraguay, but at lower absolute levels.

The net inflow of medium- and long-term non-compensatory loans mainly benefited Mexico, which absorbed 24.8 per cent of the total owing

to somewhat longer repayment periods than those extended to Argentina and Brazil, where accelerated amortization aimed at easing payments pressures reduced the net inflow of such loans. In Venezuela, a rise in the already high rate of debt amortization led to a net disinvestment. This was not the case in Chile, Peru and Colombia, which received one third of the net non-compensatory loans to Latin America, although in recent years they have been facing the same payments pressures as Brazil, Argentina and Venezuela. Net disbursements of loans to the economically relatively less developed countries amounted to 16 per cent of the regional total, with Bolivia, Costa Rica, Guatemala, Uruguay, Ecuador, the Dominican Republic and Panama receiving the largest net flows. Among this group of countries, net non-compensatory loans are coming to form a significant part of total external financing in Honduras, Ecuador, the Dominican Republic, Costa Rica, Uruguay, El Salvador and Paraguay. The same is true of Chile, Peru and Colombia.

The flow of short-term non-compensatory capital (residents' net foreign liabilities) was also mainly to Mexico (28.4 per cent of the total), possibly because of the stability of its currency and the dynamism of its domestic growth and

payments position on capital account, 1955-66
of dollars)

Bolivia	Guatemala	Panama	Costa Rica	Dominican Republic	Ecuador	Nicaragua	El Salvador	Paraguay	Honduras	Haiti	Latin America
397.7	345.0	379.7	308.9	184.3	201.1	157.5	119.4	112.5	104.5	119.3	11,365.5
530.6	452.3	425.9	347.4	309.3	263.4	253.9	213.6	137.4	123.7	112.7	18,115.4
520.3	427.6	423.2	292.8	237.9	248.3	241.4	188.1	142.2	115.5	104.3	16,556.8
104.4	131.7	143.3	74.9	25.6	80.2	58.0	47.8	25.9	4.4	5.4	6,678.4
118.6	111.9	93.9	117.9	96.9	105.2	66.2	70.8	53.0	54.8	28.1	6,187.0
41.2	65.0	101.3	50.1	7.1	7.7	80.5	47.1	31.4	17.8	10.5	2,272.1
256.1	119.0	84.7	49.9	108.3	55.2	36.7	22.4	31.9	38.5	60.3	1,419.3
10.3	24.7	2.7	54.6	71.4	15.1	12.5	25.5	-4.8	8.2	8.4	1,558.6
—	9.7	—	34.6	44.8	—	0.8	-1.8	-2.0	0.1	—	1,298.7
-2.0	11.6	2.7	21.7	26.6	17.2	11.2	20.0	-0.6	7.6	8.2	432.1
12.3	3.4	—	-1.7	—	-2.1	0.5	7.3	-2.2	0.5	0.2	-172.2
-12.0	-7.5	-47.3	-35.7	-30.0	-38.9	-23.1	-19.6	-6.9	-20.3	-48.7	-2,643.5
-27.6	-29.4	-2.7	-6.3	8.7	-28.4	-49.1	-18.7	-8.8	-5.9	7.4	-697.3
-93.3	-70.4	3.8	3.5	-103.7	5.0	-24.2	-55.9	-9.2	7.0	47.9	-3,409.1
715.5	630.1	477.8	489.2	583.6	411.3	350.6	326.5	205.4	203.8	164.3	38,257.3
68.9	32.9	25.0	35.4	28.9	21.4	26.1	17.5	35.1	18.4	25.2	31.1
51.1	23.6	22.2	25.2	15.3	13.7	18.9	11.5	23.5	11.1	17.3	14.7
38.3	18.0	19.8	22.4	9.1	10.5	11.7	6.5	19.2	9.4	18.3	9.2

exports, particularly tourism. This was not the case in other countries and Argentina recorded net outflows, while in Uruguay, Colombia, Brazil, Chile and Venezuela payments pressures combined with other pressures resulting from the compensatory external financing. Short-term liabilities in Peru, especially those deriving from trade arrears, had to be refinanced at the end of 1967 when Peru devalued its currency, and are still exerting pressure on payments. Among the other countries of the region, Panama, Nicaragua and Guatemala, and, to a lesser extent, Costa Rica, El Salvador, Bolivia and Paraguay, also had some recourse to this kind of financing; Panama was the only one of these countries which was not subject to any pressure, owing to the nature of its monetary system.

Under the head of foreign compensatory capital, official transfer payments used to complement the external financing of all countries attained high absolute or relative levels in some of them, with the exception of Venezuela and to a lesser extent Argentina. In some cases they helped to prevent payments pressures (Bolivia, Guatemala, the Dominican Republic, Haiti, Panama and Costa Rica) while in others (Brazil, Chile, Peru and Colombia) they reduced the pressure, and in others again (Ecuador, Honduras,

Nicaragua and Paraguay) they filled gaps in other forms of financing.

If these capital flows are compared with current foreign exchange receipts, it is found that, of all the countries of the region, Bolivia relied most heavily on external financing, in both gross and net terms (the figures were 68.9 and 51.1 per cent respectively of its current foreign exchange income), without experiencing serious payments pressures owing to the volume of the official transfer payments it received over the period 1955-66. At the opposite end of the scale, Venezuela relied least on external financing, which represented 13.2 per cent (gross) and 4.5 per cent (net) of its foreign exchange receipts. Nevertheless, it encountered payments pressures arising out of accelerated debt repayments and the need of the monetary authorities to improve their net position. The corresponding gross figures were approximately 48 per cent for Chile and Brazil; 36.3 per cent for Colombia; around 35 per cent for Costa Rica, Mexico, Paraguay and Uruguay; some 33 per cent for Guatemala and Argentina; 28 per cent for the Dominican Republic and Peru; approximately 25 per cent for Nicaragua, Haiti and Panama; and between 21 and 18 per cent for Ecuador, Honduras and El Salvador.

The different levels of amortization and other

Table 54. Latin America:
(Millions)

	Gross inflow of foreign compensatory and non-compensatory capital			Amortization and other capital payments		
	1965	1966	1967	1965	1966	1967
Argentina	322.0	379.0	383.0	-588.0	-484.0	-357.0
Bolivia	63.5	60.0	60.7	-11.2	-28.0	-20.2
Brazil	934.0	778.0	728.0	-920.0	-663.0	-638.0
Chile	374.0	382.0	398.0	-284.0	-258.0	-219.0
Colombia	184.5	435.8	359.6	-216.9	-143.8	-224.9
Ecuador	52.4	56.3	59.0	-12.5	-12.0	-13.7
Mexico	613.0	970.0	1,177.0	-384.0	-499.0	-479.0
Paraguay	21.8	30.8	38.5	-7.3	-7.5	-9.6
Peru	311.0	328.0	282.2	-58.0	-101.0	-63.0
Uruguay	81.2	98.5	18.9	-72.2	-101.9	-46.7
Venezuela	193.0	232.0	212.0	-42.0	-76.0	-62.0
Haiti	11.6	10.8	7.0	-3.2	-6.7	-1.1
Panama	64.0	90.4	52.7	-7.1	-7.6	-30.0
Dominican Republic	96.1	72.1	63.6	-49.7	-24.5	-19.6
Costa Rica	111.2	105.8	85.2	-45.8	-51.2	-31.6
El Salvador	39.7	71.4	37.2	-13.2	-22.4	-6.8
Guatemala	101.8	73.1	100.9	-28.2	-62.6	-42.7
Honduras	26.4	28.2	39.3	-6.3	-6.0	-10.3
Nicaragua	56.7	64.3	46.9	-6.4	-7.4	-21.3
Latin America, excluding Cuba.	3,657.9	4,266.5	4,149.7	-2,756.0	-2,562.6	-2,296.5
Latin America, excluding Cuba and Venezuela	3,464.9	4,034.5	3,937.7	-2,714.0	-2,486.6	-2,234.5

SOURCE: ECLA, on the basis of data in IMF, *Balance of Payments Yearbook*, vols. 19 and 20.

Table 55. Latin America: foreign capital flows and
(Millions)

	Exports of goods and services and private transfer payments			Profits on direct investment and interest payments on loans		
	1965	1966	1967	1965	1966	1967
Venezuela	2,569.0	2,482.0	2,623.0	738.0	718.0	736.0
Mexico	1,982.0	2,142.0	2,192.0	339.0	373.0	493.0
Argentina	1,664.0	1,798.0	1,709.0	59.0	163.0	133.0
Brazil	1,798.0	1,937.0	1,915.0	269.0	291.0	313.0
Chile	798.0	987.0	998.0	121.0	172.0	214.0
Peru	781.0	906.0	900.0	95.0	122.0	149.0
Colombia	715.7	665.8	718.1	79.2	86.1	106.4
Uruguay	252.9	248.8	223.5	15.7	19.6	22.0
Ecuador	201.0	208.4	223.5	25.0	28.5	26.3
Bolivia	127.7	147.0	171.4	4.4	4.5	18.1
Paraguay	68.1	66.2	64.8	3.1	4.4	6.0
Haiti	55.8	61.3	59.4	5.2	3.7	2.9
Dominican Republic	158.9	170.9	191.6	13.0	21.0	23.2
Panama	232.5	261.0	281.5	20.4	24.2	15.5
Costa Rica	143.0	169.8	182.9	14.2	16.0	18.9
El Salvador	226.0	220.6	240.7	9.4	9.6	10.7
Guatemala	233.8	268.3	243.8	13.9	21.2	22.6
Honduras	140.5	160.0	174.4	14.5	17.5	23.0
Nicaragua	176.4	177.3	187.4	15.1	18.6	20.9
Latin America, excl. Cuba	12,324.9	13,077.4	13,300.0	1,854.1	2,113.9	2,354.5

SOURCE: As for table 54.

Net inflow of foreign capital
(in millions of dollars)

Net inflow of foreign compensatory and non-compensatory capital			Profits on direct foreign investment and interest payments on foreign loans			Net inflow of foreign capital		
1965	1966	1967	1965	1966	1967	1965	1966	1967
-266.0	-105.0	26.0	-59.0	-163.0	-133.0	-325.0	-268.0	-107.0
52.3	32.0	40.5	-4.4	-4.5	-18.1	47.9	27.5	22.4
14.0	115.0	90.0	-269.0	-291.0	-313.0	-255.0	-176.0	-223.0
90.0	124.0	179.0	-121.0	-172.0	-214.0	-31.0	-48.0	-35.0
-32.4	292.0	134.7	-79.2	-86.1	-106.4	-111.6	205.9	28.3
39.9	44.3	45.3	-25.0	-28.5	-26.3	14.9	15.8	19.0
229.0	471.0	698.0	-339.0	-373.0	-493.0	-110.0	98.0	205.0
14.5	23.3	28.9	-3.1	-4.4	-6.0	11.4	18.9	22.9
253.0	227.0	219.2	-95.0	-122.0	-149.0	158.0	105.0	70.2
9.0	-3.4	-27.8	-15.7	-19.6	-22.0	-6.7	-23.0	-49.8
151.0	156.0	150.0	-738.0	-718.0	-736.0	-587.0	-562.0	-586.0
8.4	4.1	5.9	-5.2	-3.7	-2.9	3.2	0.4	3.0
56.9	82.8	22.7	-20.4	-24.2	-15.5	36.5	58.6	7.2
46.4	47.6	44.0	-13.0	-21.0	-23.2	33.4	26.6	20.8
65.4	54.6	53.6	-14.2	-16.0	-18.9	51.2	38.6	34.7
26.5	49.0	30.4	-9.4	-9.6	-10.7	17.1	39.4	19.7
73.6	10.5	58.2	-13.9	-21.2	-22.6	59.7	-10.7	35.6
20.1	22.2	29.0	-14.5	-17.5	-23.0	5.6	4.7	6.0
50.3	56.9	25.6	-15.1	-18.6	-20.9	35.2	38.3	4.7
901.9	1,703.9	1,853.2	-1,854.1	-2,113.9	-2,354.5	-952.2	-410.0	-501.3
750.9	1,547.9	1,703.2	-1,116.1	-1,395.9	-1,618.5	-365.2	152.0	84.7

Servicing in relation to the value of exports
(in millions of dollars)

Amortization and other capital payments			Total servicing and its relation to the value of exports					
1965	1966	1967	1965	Percentage	1966	Percentage	1967	Percentage
42.0	76.0	62.0	780.0	90.4	794.0	32.0	798.0	30.4
384.0	499.0	479.0	723.0	36.5	872.0	40.7	972.0	44.3
588.0	484.0	357.0	647.0	38.9	647.0	36.0	490.0	28.7
920.0	663.0	638.0	1,189.0	66.1	954.0	49.2	951.0	49.7
284.0	258.0	219.0	405.0	50.7	430.0	43.6	433.0	43.4
58.0	101.0	63.0	153.0	19.6	223.0	24.6	212.0	23.6
216.9	143.8	224.9	296.1	41.4	229.9	34.5	331.3	46.1
72.2	101.9	46.7	87.9	34.8	121.5	48.8	68.7	30.7
12.5	12.0	13.7	37.5	18.7	40.5	19.4	40.0	17.9
11.2	28.0	20.2	15.6	12.2	32.5	22.1	38.3	22.3
7.3	7.5	9.6	10.4	15.3	11.9	18.0	15.6	24.1
3.2	6.7	1.1	8.4	15.0	10.4	17.0	4.0	6.7
49.7	24.5	19.6	62.7	39.5	45.5	26.6	42.8	22.3
7.1	7.6	30.0	27.5	11.8	31.8	12.2	45.5	16.1
45.8	51.2	31.6	60.0	42.0	67.2	39.6	50.5	27.6
13.2	22.4	6.8	22.6	10.0	32.0	14.5	17.5	7.3
28.2	62.6	42.7	42.1	18.0	83.8	31.2	65.3	26.8
6.3	6.0	10.3	20.8	14.8	23.5	14.7	33.3	19.1
6.4	7.4	21.3	21.5	12.2	26.0	14.7	42.2	22.5
2,756.0	2,562.6	2,296.5	4,610.1	37.4	4,676.5	35.0	4,651.0	35.0

capital payments and the different terms of external financing must be set against these gross figures in each country, when it will be seen that the countries are ranked in a different order according to the net figures. Besides Bolivia, the countries that came highest were Costa Rica, Guatemala, Paraguay and Chile, with close to 25 per cent; for Panama and Uruguay the figure is approximately 22 per cent; for Mexico, Peru and Nicaragua, 19 per cent; for Brazil and Haiti, 17 per cent; for Colombia and the Dominican Republic, 16 and 15 per cent respectively; and for Ecuador, Argentina, El Salvador and Honduras, between 14 and 11 per cent.

In general, payments pressures were most acute in the countries which relied most on short- and medium-term compensatory and non-compensatory external financing to cover their current deficit on the balance of payments. The deficit was mostly due to the decline in prices and the contraction of demand, which reduced the value of exports. Without going into all the reasons, it should be noted that international financing was on the whole somewhat inflexible and costly. This was due to short repayment periods and high interest rates for loans, and to heavy remittances of profits on direct investment, all of which are factors that weigh heavily in the present structure of the region's balance of payments.

(ii) *The net inflow of foreign capital and the volume of capital servicing.* A clear view of this topic will be gained by comparing the volume and sign of the net inflow of foreign capital and the incidence of capital servicing with the value of exports of goods and services (see tables 54 and 55).

The inflow of foreign capital has generated a counterflow of services payments—amortization and interest on debts, and profits and depreciation in respect of direct investment—which has grown so rapidly and steadily that the net result has become an outflow rather than an inflow. This was the case in 1965, owing to the debts incurred in earlier years; as the inflow of new capital declined in volume, servicing commitments actually led to an outflow of capital amounting to nearly 1,000 million dollars. The increase in the gross inflow in subsequent years helped to lower this figure, although the net inflow remained a negative amount (410 million

dollars in 1966 and 500 million in 1967). Unless there is a very steady and rapid increase in the inflow of new capital, there will inevitably be great ups and downs in the net inflow of external funds; the net figure will be high when the inflow increases sharply, and low when it declines and the servicing commitments in respect of earlier inflows consume a larger share.

The problem becomes more acute if the increase in the service payments on foreign capital is not accompanied by a similar increase in exports, since such servicing is absorbing a growing share of current income from exports of goods and services. There has been a very marked trend in this direction in Latin America since the mid-nineteen-fifties.

During the period 1955–59, remittances of profits and interest and amortization and other payments on foreign capital represented approximately 25 per cent of the current value of export of goods and services. This proportion rose to an average of around 33 per cent during the period 1960–64 and climbed to above 37 per cent in 1965, falling slightly in 1966 and 1967.

Despite the more favourable trends of these last two years, these proportions are very high and have appreciable repercussions on the structure and stability of the regional balance of payments. The proportions vary from country to country within the region. Compared with the average of 35 per cent in 1967 for the region as a whole, in at least four countries (Brazil, Colombia, Chile and Mexico) the proportion was above 40 per cent; in three (Argentina, Uruguay and Venezuela) it was close to or slightly above 30 per cent; in seven (Peru, Bolivia, Paraguay, the Dominican Republic, Costa Rica, Guatemala and Nicaragua) it was between 20 and 30 per cent; in three (Ecuador, Honduras and Panama) it fluctuated between 15 and 20 per cent; and only in Haiti was it below 10 per cent.

In 1968 these proportions may have dropped again to some extent because of the rise in exports of goods and services. At the same time, the gross inflow of foreign capital increased; this implies greater liabilities in the future, and did nothing to modify the structure of the regional balance of payments, which will probably remain one of the basic problems of the external sector in the coming decade.

Chapter IV

THE PUBLIC SECTOR

The general lines followed by development policy since the beginning of the current decade have laid a heavy burden of responsibility on the public sector, in respect of both its direct action and its sphere of indirect influence. The objectives pursued—the acceleration of economic growth, the introduction of reforms in several basic aspects of the economic and social structure, the expansion of social services on a considerable scale and the promotion of more equitable income distribution, the establishment of bases for an integrated Latin American economy, etc.—presuppose action on the part of the public sector, in its role as an agent of development, which extends beyond the scope of the restricted functions traditionally assigned to it. Accordingly, in drawing up a balance of some of the characteristics of the region's economy at the close of the nineteen-sixties, it seems appropriate to take into account the extent to which the public sector is equipped to formulate and apply development policies.

In the following pages an attempt is made at organized presentation of some of the relevant data available, with reference to three aspects of the question which seem especially important: first, the resources channelled through the public sector, the size and sources of its income and the composition of its expenditure; secondly, the institutional organization of the public sector, and guiding principles and procedures for reforms in its administrative structure; and, thirdly, its capacity to adopt planning decisions, either through planning machinery and instruments proper, or through the traditional media of economic policy.

The background data and evaluations that can be presented in this connexion are fragmentary and often conjectural. Notwithstanding the obvious importance of the topic, relatively little progress has been made in systematizing a continuous and comprehensive flow of data on the public sector. In many cases, difficulties are encountered even in evaluating its size in terms of the resources it uses, since the orderly presentation of data is confined to the central Government, and nothing of the kind is done in relation

to the regional and local authorities, autonomous agencies and public enterprises. In other instances, data deriving from the public sector accounts are classified by institutions and are not broken down to a low enough level of aggregation for their economic or social significance to be apparent. Such factors as these suggest the need for a more energetic drive to improve reporting systems in the fields under discussion, so that the requisite statistical data can be obtained with punctual regularity, and a periodic balance can thus be drawn up, suitable for the purposes of economic analysis, and comparable to those which are now systematically prepared for other aspects of the operation of economic systems (for example, the recording of external transactions in balance-of-payments accounts).

1. RESOURCES CHANNELLED THROUGH THE PUBLIC SECTOR

The ratio between public expenditure¹ and the total domestic product varies widely from one Latin American country to another (see table 56). In three countries—Brazil, Chile and Uruguay—it reached or exceeded 30 per cent in 1966; it fell between 25 and 30 per cent in Argentina, Bolivia, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru; and in El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Paraguay it was less than 20 per cent.

For illustrative purposes, it is worth mentioning that the ratios in the first two groups are comparable to those generally shown by the industrialized economies—between 30 and 40 per cent in the countries of Western Europe and about 30 per cent in Canada and the United States—while the corresponding figures for the third group are far lower.

The public sector's percentage shares in the product are the result of heavy and increasing

¹For the purposes of the present comparison, the concept of "public expenditure" includes general government expenditure on current account (excluding that of public enterprises) and capital outlays of the consolidated public sector. Data on a sufficient number of countries are not available for any year later than 1966.

Table 56. Latin America: percentage share of public sector^a in gross domestic product

Country	1955	1966
Argentina	27	28
Bolivia . . . . .	...	23
Brazil	24	33
Chile	23	35
Colombia	20	21
Costa Rica	17	21
Dominican Republic . . . . .	...	25
Ecuador	21	23
El Salvador . . . . .	...	18
Guatemala	13	14
Haiti . . . . .	...	10
Honduras	12	16
Mexico	15	22
Nicaragua . . . . .	...	17
Panama	21	22
Paraguay . . . . .	...	18
Peru	19	21
Uruguay	26	30
Venezuela	28	26

SOURCE: ECLA, on the basis of official statistics.

^a Comprising total general government expenditure (including that of autonomous agencies) and capital outlays of public enterprises.

pressures for expansion of expenditure and of the no less formidable rigidities and obstacles that stand in the way of a corresponding improvement in income. Hence it is that in many countries—including Argentina, Bolivia, Colombia, Ecuador, Guatemala, Panama, Peru and Venezuela—the ratios in question underwent no very marked changes between 1955 and 1966; on the other hand, they increased significantly elsewhere, for example, in Brazil, Chile, Costa Rica, Honduras and Mexico.

(a) *Rigidity of public sector income*

In addition to the fact that tax machinery is not equal to the task of keeping tax yield abreast of the increases in the total product, various other determinants have been responsible for the somewhat restrictive trends of public sector income.

One of these factors, to which great significance attaches in several countries of the region, derives from the steady decline of the external sector's relative importance in the economy as a whole, and from the changes in the composition of foreign trade in general and of imports in particular. As long as the external sector accounted for a relatively high proportion of the product, the amount of resources provided by export taxes was also relatively large, especially as the transactions concerned are easy to keep under supervision; but the significance of these resources has decreased in the same proportion as the over-all coefficient of exports, and also in so far as efforts

to diversify the composition of exports have had to be accompanied by tax incentives applicable at least to the new lines of production. Much the same thing has happened in the case of import duties, the incidence of which has weakened as the over-all import coefficient has declined and the substitution process has gradually confined the composition of imports to essential consumer goods, intermediate products and capital goods, which lend themselves less readily to the application of high duties than consumer goods of a non-essential or definitely luxury type.

In some cases, not only has the relative importance of external-sector taxation decreased, but in addition instruments such as multiple exchange rates, which at certain times have represented a valuable source of funds, have been eliminated.

Elsewhere, and particularly in the Central American countries, the expansion of intra-regional trade, based on procedures for reducing or abolishing duties on imports from within the area, has likewise weakened the significance of taxation on external transactions.

A better idea of the scale of the process can be obtained from the following figures: between 1960 and 1966 the proportion of total tax revenue corresponding to taxes on the external sector contracted from 37 to 25 per cent in Argentina, from 12 to 9 per cent in Brazil, from 34 to 33 per cent in Chile, from 46 to 32 per cent in Guatemala, from 27 to 16 per cent in Mexico, and from 82 to 77 per cent in Venezuela.

Owing to these and other similar factors, the partial loss of such sources of public sector income has had to be offset by increased internal taxation, which in its turn has necessitated more complex machinery for the application of tax provisions and controls, especially in the case of direct taxes. Thus, "tax reform" has become one of the salient objectives of economic policy, especially during the nineteen-sixties. In practice, there have been continual modifications of the tax system, which in such countries as Brazil, Chile and Mexico—precisely those in which public expenditure has gained most in relative importance—have signified appreciable changes; but even so, generally speaking, no radical metamorphosis of the existing systems has taken place.²

In several instances, the relative decline in taxation on foreign trade has been counter-balanced by a relative increase in the proportion

² See *Economic Survey of Latin America, 1967* (United Nations publication, Sales No.: E.69.II.G.1), where experience in this respect in Argentina, Brazil, Chile, Guatemala, Mexico and Venezuela is analysed in fuller detail, with reference to the period 1960-66.

of indirect taxes, and in a very few cases by a real expansion of the share of direct taxes. In 1966, current income from sources other than taxation represented relatively small proportions of total current income—less than 10 per cent in Chile, Guatemala, Mexico and Venezuela, although the corresponding figures for Brazil and, above all, Argentina were higher.

Tax revenue in the aggregate has been prone to lag behind public expenditure requirements, and current savings have not sufficed to finance capital outlays. Hence there has been a growing tendency to resort to financing by means of internal and external credits. Although the figures usually vary a good deal from one year to the next, the situation in 1966 may be considered fairly representative. In that year, the proportion of capital expenditure financed out of current savings amounted to approximately 60 per cent in Brazil, Chile, Colombia and Venezuela, and to about 40 per cent in Ecuador, Mexico, Paraguay and Uruguay, while in other countries (Argentina, Costa Rica, the Dominican Republic, Peru) it was much smaller. Of the credits which bridged the gaps in the same year, the percentages that came from internal and from external sources varied widely. For instance, whereas in Argentina the proportion of internal credits was very high, in the Dominican Republic, Paraguay and Peru one third or more of the deficit was covered by external loans.

(b) *Composition of public expenditure*

In face of the relative inelasticity of income, pressures for the expansion of public expenditure affected its different components in widely

differing degrees, according to the economic structure, institutional organization and over-all economic policy of the various countries. Hence it is hardly possible to generalize on the composition of public expenditure by purposes in relation to Latin America as a whole.

A very broad picture of the situation in 1966 is afforded by the figures for thirteen Latin American countries appearing in table 57. As can be seen, the share of current expenditure ranged from a little over 50 per cent (Colombia) to about 80 per cent (Dominican Republic), standing at approximately 70 per cent in most cases. As a counterpart capital outlays accounted for significant proportions of total public expenditure—some 30 per cent as a rule, although in individual countries figures as low as 20 per cent or as high as about 50 per cent may be noted.

Great differences are also observable in breakdowns of current expenditure by consumption items—primarily for the administrative, economic and social services supplied directly by the public sector—and transfer payments, in which the major weight is carried by official contributions to social security systems (Argentina, Chile, Mexico, Uruguay), and other forms of current subsidies (Brazil), together with interest payments on the public debt. In the course of the nineteen-sixties, pressure for the expansion of each of these types of expenditure has become stronger. Social betterment objectives, reflected in some instances in specific targets for the expansion of particular services (health and educational services, for example), have presented a greater drain on national budgets, a development which, in the last analysis, implies that a serious

Table 57. Selected Latin American countries: composition of public expenditure, 1966
(Percentages)^a

Country	Current expenditure			Capital expenditure			
	Total	Consumption	Trans- fer pay- ments	Total	Real invest- ment	Financial invest- ment	Debt servic- ing
Argentina . . .	70.8	40.4	28.9	29.2	25.2	1.4	2.6
Brazil . . .	69.6	41.3	28.3	30.4	← 29.2 →		1.2
Chile . . .	66.8	39.5	21.6	33.2	22.1	7.8	3.3
Colombia . . .	52.8	40.6	9.0	47.2	← 34.8 →		12.4
Costa Rica . . .	70.2	47.5	17.0	29.8	19.6	4.3	5.9
Dominican Republic . . .	78.7	69.6	8.8	21.3	15.2	2.4	3.7
Ecuador . . .	70.8	53.9	16.9	29.2	← 22.4 →		6.8
Guatemala . . .	69.1	56.3	12.8	30.9	← 18.7 →		12.2
Mexico . . .	60.9	31.1	29.8	39.1	← 27.7 →		11.4
Paraguay . . .	57.1			42.9	25.6	9.0	8.3
Peru . . .	68.3	60.6	7.7	31.7	13.7	11.8	6.2
Uruguay . . .	65.0	31.5	33.2	35.0	19.4	9.8	4.6
Venezuela . . .	57.2	49.8	4.7	42.8	25.9	2.6	5.5

SOURCE: ECLA, on the basis of official statistics.

^a The percentages given do not add up to 100 in all cases because some minor items have not been taken into account. The capital expenditure of Venezuela does not include (non-consolidated) transfers of capital to public agencies and enterprises which represent from 8 to 9 per cent of the total.

responsibility is incumbent on this public sector function as a mechanism for the more equitable distribution of real income. The shortage of employment opportunities, especially in the case of population sectors which have had access to some form of secondary education, has exerted another kind of pressure on the volume of expenditure on general administrative services; although total manpower absorption in the public sector has not greatly outstripped the growth of the product and of the economically active population, it has constituted, in relative terms, an obstacle to the transfer of resources from administrative services to others of higher priority. In many countries, the social security systems still benefit comparatively small segments of the labour force, and the authorities are consequently faced with persistent demands for their extension to the groups not yet covered. In others, where the systems are more comprehensive and have been in operation longer, the absolute level of the resources required for their maintenance is high while at the same time the possibilities of temporarily using them as sources of funds for investment purposes are steadily decreasing, with the transition—*de jure* or *de facto*—from capital formation systems to distribution systems. Lastly the incidence of interest payments on the public debt is also becoming heavier, in so far as governments have had increasingly intensive recourse to borrowing.

Demands for the expansion of capital expenditure derive both from the fact that over-all investment coefficients are relatively low in general, and from the public sector's responsibility for augmenting specific components of the national stock of capital, primarily infrastructure. In addition, demand for the provision of housing facilities and allied services has been considerably stepped up in recent years, especially where low-cost housing is concerned.

Clearly, in 1960–66 the growth rates of public investment in most of the Latin American countries exceeded those of private investment, whatever the levels and trends of the over-all investment coefficient. Thus, in some countries (Argentina, Brazil, Chile, Colombia, Uruguay) the more dynamic evolution of public investment made up for the sluggish growth or decline of private investment, while in others (Bolivia, Costa Rica, El Salvador, Mexico, Paraguay, Peru) the expansion of public investment was accompanied by equally significant increases in private investment, and both helped to speed up the rate of capital formation. There were also some countries—including the Dominican Republic, Ecuador, Guatemala, Nicaragua, Panama and Venezuela—in which these trends were

reversed, and public investment increased slightly less than private investment over the same period.

The outcome of all these trends was that in most countries public investment came to represent much larger proportions both of the product and of total investment. In other words, the allocation of a considerable share of the resources mobilized for capital formation fell within the province of direct official decisions, although in many cases appreciable inroads were made upon these funds by the servicing of the public debt (see table 57). Most of the resources in question were used for real investment, while a smaller proportion—which, however, acquired significance in 1966 in certain countries, including Chile, Paraguay, Peru, Uruguay and Venezuela—represented financial investment, i.e., funds for capital formation which were transferred through various channels to other institutional sectors.

The lack of a systematic flow of data makes it difficult to give a fairly accurate account of the destination of public investment by purposes and by sectors of economic activity. Broadly speaking, the biggest proportion goes to investment in infrastructure, including generation of electric power and, principally, transport and communications. In some countries, and in certain years, the public investment channelled into the fuels sector has attained relatively high levels. Again as a general rule, only modest shares fall to agriculture and manufacturing, although in some cases, in addition to the funds allocated to agriculture, considerable amounts are invested in the construction of dams and irrigation works (Mexico) and in specific regional development programmes (Peru). The proportion of social investment varies substantially from one country to another and from one year to the next, especially in the case of housing programmes, since investment in the expansion of basic facilities for the provision of educational and public health services is usually more steadily maintained.

This over-all picture shows how little reliance can be placed on any generalization as to either the aggregate relative importance or the composition of public sector income and expenditure. Even so, from the particular angle that is of interest here—that is, the ability of the public sector to formulate and apply specific development policies—a few general conclusions can be drawn. One of these relates to the all too well known difficulties of reconciling the steadily increasing demand for expansion of public expenditure with the structural and institutional rigidities which hamper the public sector's efforts to raise its income. In some countries, this in-

compatibility has been keeping the relative importance of total public expenditure stationary during the nineteen-sixties, while in others the obstacles have been overcome and the ratio between public expenditure and the aggregate domestic product has risen to a remarkable extent. In the latter group in particular, appreciable changes have been introduced in tax systems; but even there no substantive tax reform can be said to have taken place, especially if other questions, such as the impact of taxation on income redistribution, are taken into account. Within total public expenditure, relatively more dynamic trends have been shown by capital outlays, of which in some cases considerable proportions have been financed out of non-tax resources that imply increasing indebtedness. In several countries these trends in public investment have offset a relative decline in private investment or have combined with the latter to raise the over-all investment coefficient. As a result of the trends in question and of the ratios formerly prevailing, the proportions of resources channelled through the public sector vary widely at present from one country to another. In general terms, however, it may be concluded that public institutions have broadened their sphere of direct action and, therefore, their possibilities of significantly influencing the use of resources to promote some of the basic objectives of development policy.

2. THE INSTITUTIONAL ORGANIZATION OF THE PUBLIC SECTOR

The proportion of resources channelled through the public sector is one of the factors

which determines how effective the State is in promoting and directing development. It is not the only factor, however, since its effectiveness also depends on the way in which such resources are used. It may be appropriate here to consider a particular aspect of this question and to look at the background of the institutional organization of the public sector in terms of the nature of the organs responsible for distributing resources.

Some of the fragmentary information available covering a number of countries in the region is summarized for purposes of illustration in table 58, which shows the proportions of public spending attributable to the Central Government, state or provincial governments, municipalities, autonomous bodies and public enterprises.

Logically enough, the proportion of resources channelled through the Central Government as such is greatly dependent upon the political and administrative structure of each country, and is much higher in countries with unitary systems than in those with federal systems. In 1966, for example, the proportion of current expenditure attributable to the Central Government was relatively low in Argentina and Colombia (34 and 42 per cent respectively) and very high in Costa Rica and the Dominican Republic (56 and 77 per cent respectively). In Argentina and Colombia, the proportion attributable to provincial and state governments is quite large—over one quarter of total current expenditure for Argentina and almost one sixth for Colombia—while in all four countries the proportion attributable to municipalities is relatively small. With the exception of

Table 58. Selected Latin American countries: channelling of public expenditure by type of public entity, 1966
(Percentages)

Country	Central Government	State or provincial government	Municipalities	Autonomous bodies	Public enterprises
<i>Current expenditures^a</i>					
Argentina . . .	33.9	26.0	4.2	35.9	
Chile . . .	41.7	...	...	58.3	
Colombia . . .	41.9	14.9	8.2	35.0	
Costa Rica . . .	55.9	...	4.5	39.6	
Dominican Republic . . .	76.8	...	8.4	14.8	
<i>Investment</i>					
Brazil . . .	12.0 ^b	8.8	10.1	33.8	35.3
Chile . . .	28.6	...	...	46.3	25.1
Colombia . . .	20.5	3.3	24.2	← 52.0 →	
Costa Rica . . .	15.6	...	2.7	← 81.7 →	
Dominican Republic . . .	46.1	← 11.3 →		← 42.6 →	
Mexico . . .	34.0 ^b	← 10.8 →		← 55.2 →	
Peru . . .	40.3	...	...	29.3	30.4

SOURCE: ECLA, on the basis of official statistics.

^a The current expenditures of public enterprises were not analysed.

^b Federal Government.

the Dominican Republic, however, in all the countries listed the proportion of current expenditure attributable to autonomous bodies represents more than one third of total expenditure; in Chile it is close to 60 per cent, which explains the small proportion for the Central Government despite the fact that Chile is a country with a unitary system.

Under capital expenditure, however, the proportion attributable to the Central Government—or to the state or provincial governments in federal systems—is relatively much smaller, while that of the autonomous bodies and public enterprises is greater.

The way in which resources are channelled through the various components of the public sector is particularly important for assessing the efficacy of planning machinery in redirecting public spending to conform with specific development policy objectives. Since this question will be discussed more fully in the following section, the components of the public sector will be described in some detail here.

The number of decentralized or autonomous bodies has increased rapidly since the Second World War in most Latin American countries, as has their sphere of action. In many cases new responsibilities have led to the establishment of special organs to fulfil the new functions required, and this trend has been strengthened by efforts to eliminate the rigidities (in procedures, recruitment methods, wage and salary systems, etc.) of the traditional public administration. The result has often been a multitude of autonomous or semi-autonomous bodies which have been grafted on to an administration without enough effort being made to modernize it and equip it to meet its new responsibilities.

These decentralized bodies are sometimes regional and sometimes sectoral in scope and their aims are very diverse, ranging from the provision of specific services to the execution of public works, and even the management of credit funds. Such bodies have made it easier to give special attention to particular problems and their efforts have enjoyed some degree of continuity, since they are relatively untouched by the political vicissitudes to which the central administration is usually subject. On the other hand, they have probably made it more difficult to co-ordinate and revise priorities at the national level because of their large degree of independence of the Central Government and their natural wish to retain control over their own activities.

In contrast, local governments, especially municipalities, have probably tended to lose some of their importance as agencies responsible for the disbursement of public funds. Changes in

the structure of the economy, and most of all, the trend towards the geographical concentration of economic activity, combined with the fact that many components of the infrastructure are becoming increasingly larger in scale, are all factors which have led to a gradual reduction in the sphere of action and responsibilities of local governments. The fact that local governments have little real opportunity of making investments on their own, and their declining ability—because of their political status—to influence the decisions of the Central Government bodies or public enterprises in any significant respect, have meant that their functions have been restricted to representing a region in a very broad political sense and to administering strictly municipal public services (street-lighting, sanitation, maintenance of rural roads and sometimes the administration of urban or suburban transport services). So far the link between local governments and the new planning bodies has been flimsy, or even non-existent, and hence the resources received have not been sufficient to promote development. In the case of municipalities, progress is usually confined to the preparation of what are termed “indicative plans” for a few cities which aim at rationalizing the location of certain urban activities, improving the provision of local services and defining the function of the city and its sphere of influence within a wider regional context—all this, however, confined to physical planning. Only the few municipalities in the largest cities are able to plan action on a bigger scale and mobilize a significant amount of resources.

Given the increased stress laid on improved regional distribution of economic activity in national development policy in recent years, conditions are ripe for a revival of the role of local governments. However, as occurred with the traditional administrative structure on to which new bodies were grafted, this concern has led to the establishment of new machinery for promoting regional development, with wide-ranging regional responsibilities. In some cases this machinery acts in more than an advisory capacity and is specially responsible for the co-ordination and even the direct execution of the principal development projects in a region. This is the case, for example, with the Department for the Development of the Nordeste (Superintendencia de Desenvolvimento do Nordeste—SUDENE) in Brazil, the Venezuelan Corporation for the Guayana area (Corporación Venezolana de Guayana), the Cauca Valley Corporation (Corporación del Valle del Cauca) in Colombia, the Centre for the Rehabilitation of the South (Centro de Reconversión del Austro) in Ecuador,

etc. These are generally more or less technical bodies and are relatively independent of local governments, which act mainly in an advisory capacity in relation to these bodies; in addition, the technical bodies may often have direct decision-making powers in economic matters regarding infrastructure or agricultural or industrial production.

Because of their nature, public enterprises require a delegation of authority and flexibility of operation which are difficult to reconcile with the usual procedures of the traditional forms of administration; so much so, in fact, that they often have to operate in accordance with private rather than public law. The extent and nature of their functions vary according to the special features of each country, with the provision of public services, especially transport and electricity, accounting for the major share. In many cases, public enterprises have had a significant part to play in particular branches of manufacturing, as part of a deliberate policy to promote development, or have sometimes been formed as a result of quite fortuitous circumstances.³

A recent study on the thirty largest enterprises in each of six Latin American countries gives some idea of the relative importance of public enterprises and of the range of activities that they now cover.⁴ It appears from the study that the assets of public enterprises are equivalent to approximately one third of the total capital of the thirty largest enterprises in each country. Of the seventy-one public or semi-public State-controlled enterprises on the list, eighteen have financial or banking activities, thirteen produce and distribute electric energy, seven run railways, six are producers of iron and steel, four of petroleum, four provide telephone services and carry out municipal works, and a smaller number are concerned with sugar production, preparation of chemical products, distribution of goods, ports and shipping fleets, tourism, airlines, gas supply and mining.

To some extent, the growth of public enterprises is a consequence of technological progress,

³This was the case, for example, with some public enterprises in Argentina, which were formed as a result of the nationalization of German enterprises towards the end of the Second World War, and also with some in the Dominican Republic, which were formed when certain industrial concerns were taken over by the State after the political changes of 1961.

⁴Frank R. Brandenburg, *The development of Latin American private enterprise* (Washington, National Planning Association, May 1964). The countries covered by the study are Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. Excluded from the study are enterprises holding petroleum contracts in Argentina and all the petroleum enterprises of Colombia and Venezuela.

which necessitates large-scale production units and substantial investment. Since private entrepreneurs in Latin America do not have enough capital, in practice new development projects can be financed only with the help of public funds or foreign investment. This is illustrated by a recent compilation of data on fifty of the largest enterprises in Argentina (enterprises with sales totalling more than 7,000 million pesos annually), from which it appears that one third of the total value of their sales is attributable to State enterprises, approximately half to foreign enterprises and one sixth to Argentine private companies.⁵

In short, the traditional administrative apparatus of the Central Government, and in some cases that of state or provincial governments and local governments, on to which a whole complex of autonomous bodies with specific functions or with sectoral or regional responsibilities and a growing number of public enterprises have been grafted, now forms an extremely complex public sector in most Latin American countries. Inasmuch as this has not been the outcome of an over-all plan but rather of the necessity of meeting needs as they arise, it is inevitable that there should be quite a high degree of overlapping of functions, duplication of responsibilities, lack of communication between bodies influencing certain aspects of the economy, and difficulty in co-ordinating action and allocating resources in line with a common approach to a clearly defined development policy.

All this experience does not seem to have been analysed in sufficient depth with a view to developing an approach on the basis of which the institutional structure could be reorganized in line with current development needs. Hence, although there has been widespread acceptance in recent years of the need for administrative reform, there has been little actual progress towards it. Because no approach of this kind exists, efforts have tended to focus in the main on auxiliary functions relating to the internal methods and procedures of the public administration and much less on equipping the administration to deal with the substantive tasks it must undertake.

Great progress has already been made in such matters as personnel administration, procurement of supplies, accounting systems, systems for settling internal disputes, and improvement of organization and methods, and steps must be taken to continue improving them. In other words, some advance has been made in rationalizing the administration by improving the way

⁵Julián Delgado, "Industria: el desafío a la Argentina", *Primera Plana* (Buenos Aires, issue of 3-9 September 1968), pp. 69 and 71.

in which auxiliary tasks are performed, but there has been no similar advance in equipping the whole administrative structure to carry out its substantive functions more effectively, and thus there are still obstacles in the way of the decision-making process, objectives are ambiguous, the powers and functions of each body are not clearly defined, and there is still a shortage of information and a lack of communication between those responsible for implementing decisions.

Hence, it would appear that a more thorough analysis still needs to be undertaken of the way in which resources are allocated and decisions taken, and of their effects on the public sector as a whole, and also on the private sector; but this is probably a problem of political science far more than of administrative reorganization in the strict sense of the word.

3. THE CAPACITY FOR PLANNED DECISION-MAKING

This is one of the important questions underlying Latin America's difficulties in consolidating effective planning machinery to facilitate the definition and application of consistent development policies, which constitutes the most fundamental of the efforts to rationalize the substantive action of the public administration.

In the course of the present decade, practically all the Latin American countries have established special planning mechanisms and have prepared development plans of differing nature and scope. The experience gained, in terms of the positive results they have achieved and the identification of factors which limit their efficacy and prevent them from becoming fully effective, has been carefully evaluated at different times.⁶ For example, the United Nations Committee for Development Planning, composed of experts from different parts of the world, has highlighted, as some of the positive results achieved so far, the preparation of technical bases and the training of larger numbers of skilled planning personnel; the contribution to the definition of over-all development policies and the adoption of more rational criteria in the

allocation of resources, especially in the public sector; and the fact that planning has become a widely accepted principle. The Committee identified what in its view were the main deficiencies and obstacles, distinguishing between "the weaknesses of planning itself" and "external obstacles to plan implementation". Under these two heads, as well as in the final recommendations, attention is drawn to questions relating to the administrative organization of the public sector and the procedures for adopting and implementing decisions, the general sense of which is given briefly below.

First, it is recognized that some of the shortcomings derive from the difficulty of incorporating planning in the administrative structure, which is partly due to the inertia of the structures themselves and the sluggishness of the efforts to modernize them. According to the Committee, "even planning itself has neglected this essential aspect of change, and plans that have explicitly outlined a policy of administrative reform are few and far between. Such steps as have been taken to reorganize the administration have very seldom made allowance for the specific requisites of organization for planned development policy".⁷

Another question brought into focus in this connexion is the lack of basic mechanisms to complete the planning system, both from the standpoint of the plans formulated—in particular the need for annual operational plans—and from that of the establishment and operation of effective machinery for the periodic review, control and evaluation of the practical implementation of plans.

Thirdly, the Committee states that the isolated position of planning agencies with respect to the whole national administrative system is due to "the superimposition of modern institutions on machinery that is, as a rule, unsuitable for the implementation of development policy". It is therefore necessary to make greater efforts to modernize the whole administration, and to redefine the functions of planning machinery and consider in the light of each country's circumstances what place should be given to planning in the administrative structure.

The progress and limitations of planning have a basic influence on the public sector's ability to rationalize its action, not only the allocation of resources for which it assumes direct responsibility, but also its indirect action through the various instruments of economic policy.

⁶ The *Economic Bulletin for Latin America*, vol. XII, No. 2 (October 1967) contains three supplementary articles on this subject: a study by the ECLA secretariat on the present state of planning in Latin America, the pertinent part of the report of the second session of the United Nations Committee for Development Planning (held at Santiago, Chile, in April 1967), and a brief account of the discussion on planning in Latin America at ECLA's twelfth session, together with the resolution on this subject adopted at the time. Other considerations on the subject are set forth in ILPES, *Discusiones sobre planificación* (Mexico, Editorial Siglo Veintiuno, S.A., 1966).

⁷ ECLA, "Planning and plan implementation in Latin America", *Economic Bulletin for Latin America*, op. cit., p. 24.

As noted previously, public investment has come to represent a high proportion—which varies from country to country—of total capital formation. It might therefore be assumed that the public sector today has a fairly broad sphere of responsibility in channelling investment, since the allocation of such resources is fully compatible with development plans. In practice, however, the real scope of that responsibility is confined, in most cases, to the Central Government proper, mainly as a result of the fairly widespread introduction of performance budgeting; but thus far it has not extended equally effectively to decentralized agencies and public enterprises, through which a substantial part of public capital expenditure is channelled. A somewhat similar situation arises, although on a lesser scale, in relation to current consumption expenditure.

In any event, the decisions regarding the bulk of the resources are taken by the private sector, and the effectiveness of the guidelines of national development policy depends on whether or not planning efforts are faithfully reflected in the handling of various economic policy instruments. In this connexion, the lack or inadequacy of short-term operational plans is one of the main limitations still observable in the planning process in Latin America. Hence, the development patterns deriving from longer-term plans are not translated into specific monetary, exchange, financial, credit and other measures; and ultimately there is little or no relation between medium- and long-term guidelines and the economic policy measures which the ministries, central banks and other administrative bodies

are constantly having to adopt. This cleavage means a loss of consistency and efficiency in both types of action; on the one hand, the potential feasibility of over-all policies is reduced by the lack of specific measures for the attainment of their objectives; on the other, short-term policies remain outside their over-all context and tend to respond to pressures of the moment rather than contribute to overcoming the basic development problems.

All this not only weakens the public sector's ability to influence the allocation of resources channelled by the private sectors, but also makes for the overlapping of functions in various public bodies or prevents them from effectively pooling their efforts to deal with specific problems. Thus there are striking inconsistencies or frank contradictions in the effects of the provisions adopted by different government bodies responsible for handling economic policy. In other cases where a given objective is sought in a particular field, the difficulty is to bring to bear on that objective the activities and measures of a great many relatively independent decision-making centres, which are not operating normally under a sufficiently clear-cut system of common guidelines.

The persistence of such limitations must be noted, however, without losing sight of the outstanding improvements that have been achieved during the comparatively short time that planning has been in effect. Subsequent improvements in planning will represent further progress in the public sector's ability to define and apply effective development policies such as those that seem to be required for the next decade.

Part Two

ECONOMIC TRENDS IN 1968¹

¹ In the totals for the region, and also in the chapter on countries, the Cuban economy is not included for want of statistical information.

Chapter I

RECENT ECONOMIC TRENDS

1. AN OVER-ALL APPRAISAL

In 1968, the economic development of Latin America was much more satisfactory than in 1967. The gross domestic product of the region as a whole grew at a rate of 5.7 per cent, compared with 4.4 per cent in 1967 and an average of 4.7 per cent over the period 1960-66. Including the past year's results, the average annual increase in the total product for the period 1960-68 is 4.8 per cent, and that of the per capita product is 1.9 per cent.

The general trend in 1968 is attributable in particular to Brazil and Mexico, which, together with Costa Rica and Honduras, raised their economic growth rates above the regional average, and to the faster rates of growth—although lower than the regional average—recorded by Argentina, Colombia, Guatemala, Nicaragua and Uruguay. Chile, El Salvador and Haiti maintained their rates, which were also below the regional average, at levels similar to those of 1967. The relatively high growth rates of Bolivia and Venezuela declined slightly and, at somewhat lower levels, the Dominican Republic, Ecuador, Panama, Paraguay and Peru recorded smaller increments in the gross product than in 1967 (see table 59).

This progress was achieved despite the fact that in many countries the performance of the agricultural sector was relatively poor owing to adverse climatic conditions in large areas of Latin America, particularly Argentina, Brazil, Chile, Ecuador and Uruguay. In contrast, manufacturing industry grew very rapidly, increasing by over 9 per cent in the region as a whole. There was a marked recovery in this sector in Brazil, which increased its volume of production by 15 per cent, and fairly high rates of growth were recorded in Argentina, Bolivia, Colombia, Mexico, Peru, Venezuela and the Central American countries as a whole. In several countries—especially Argentina, Bolivia, Brazil, Colombia, the Dominican Republic, Honduras, Mexico and Venezuela—there was a very pronounced upturn in construction and public works activities. Thus the trends in 1968

Table 59. Latin America: annual growth rate of the total product, 1960-66, 1967 and 1968

Country	1960-66	1967	1968*
Argentina . . .	3.0	1.8	4.8
Bolivia . . .	5.1	5.6	5.3
Brazil . . .	4.1	4.9	6.8
Chile . . .	5.4	2.0	2.5
Colombia . . .	4.6	3.9	5.3
Costa Rica . . .	6.4	7.7	8.1
Dominican Republic . . .	2.8	3.5	2.3
Ecuador . . .	4.6	5.6	4.3
El Salvador . . .	6.5	3.9	3.7
Guatemala . . .	5.2	4.0	5.1
Haiti . . .	1.3	1.4	1.3
Honduras . . .	5.5	5.3	6.4
Mexico . . .	6.3	6.5	7.0
Nicaragua . . .	7.6	4.1	4.5
Panama . . .	8.4	8.1	4.5
Paraguay . . .	4.2	5.4	4.2
Peru . . .	6.4	4.6	3.5
Uruguay . . .	1.0	-6.3	0.3
Venezuela . . .	5.1	6.0	5.5
TOTAL Latin America	4.7	4.4	5.7

SOURCE: ECLA, on the basis of official statistics.
* Provisional estimates.

were the exact opposite of what they had been in 1967, when agricultural growth far outpaced industrial growth.

Another outstanding feature of economic development in 1968 was the growth of exports and, in particular, the marked rise in the value of imports. Exports, measured in terms of the current value of external sales of goods and services, reached the unprecedented figure of 13,790 million dollars, an increase of 6 per cent over 1967, while imports of goods and services totalled 13,500 million dollars, an increase of 8.1 per cent.

These trends meant that in 1968 several countries recorded higher trade figures than ever before. Particularly striking in this respect were imports by Brazil (nearly 2,350 million dollars), Chile (1,050 million), Mexico (2,640 million), Colombia, Costa Rica, Ecuador, Guatemala, Honduras and Panama. There were some important exceptions, however: the current value in imports of goods and services declined sharply of

Peru and to a lesser extent in El Salvador, Haiti, Nicaragua and Uruguay.

The changes in the evolution of imports and exports meant that in the region as a whole there was an increase in the supply of goods and services for internal use which exceeded the growth of the product. This favoured the expansion of consumption and, in particular, of investment; the former rose by 5.8 per cent over 1967 and the latter by 6 per cent (or 10 per cent if changes in stocks are excluded and only gross fixed investment is considered). Brazil, Chile and Colombia followed this general trend, while quite the opposite occurred in countries like El Salvador, Nicaragua, Peru and Uruguay, because of a slower growth of the capacity to import or of measures to restrict imports.

Thanks to the higher levels of internal production and the additional contribution of imports, the efforts to curb inflationary pressures were more effective, the progress made in this respect being another important feature of the economic trends in 1968. This conclusion emerges clearly from a rapid review of the situation in the individual countries, particularly those where prices have risen appreciably in the last few years.

In Argentina, prices rose much less: wholesale prices rose 20.6 per cent from 1966 to 1967 and only 4 per cent from December 1967 to December 1968, while the rates for the cost-of-living index were 27.4 and 9.6 per cent, respectively. In Bolivia, the consumer price index rose 6.7 per cent during 1968, which meant that prices increased less than in 1966 and 1967, when the figures were 7 per cent and 7.4 per cent respectively. In Brazil, despite the vigorous expansion of the money supply and of credit to the private sector—40 and 60 per cent respectively—the rise in prices was much the same as the previous year (about 24 per cent). The same is true of Colombia; the increases in consumer prices during 1968 were 7.6 per cent for employees and 7.4 per cent for workers, compared with 9 and 8 per cent respectively for the same period in 1967 and increases of some 17 per cent in 1966. In Mexico where heavier pressures on prices had been anticipated, wholesale prices went up only 2 per cent in the first ten months of the year. Even more striking is the progress made in Peru, where the consumer price index had soared in the last few months of 1967 as a result of devaluation; the rate of increase, which was 20.7 per cent from December 1966 to December 1967, fell to 9.8 per cent in the following year. In Uruguay, acute inflation continued in the first half of 1968, domestic prices rising on the average more than 60 per cent; but the process

was curbed in the second half of the year, and by the end of 1968 the increase was 66 per cent over December 1967, compared with 135 per cent the previous year. In Chile, contrary to the trend in other countries, there was a new burst of inflation in 1968, despite the efforts made to control it; at the end of the year the consumer price index was 27.9 per cent higher than in December 1967, compared with an increase of 21.9 per cent the year before.

There were other significant developments in the external sector, besides the above-mentioned increases in exports and particularly in imports. The difference in the scale of the changes in exports and imports resulted in a substantial reduction of the trade surplus, which, added to the higher payments of interest on foreign loans and remittances of profits on direct external investment, produced a larger balance-of-payments deficit on current account. Even so, the region as a whole, and most of the individual countries, showed an improvement in the net position of the monetary authorities' international reserves. All this entailed a considerable increase in gross—and also in net—capital inflows, accentuating the change noted in 1967 and reversing the trend of previous years, when the contribution of net external financing was declining.

The recent external sector trends bring into focus several important issues which call for careful appraisal. First, the importance of foreign trade transactions may be evaluated differently according to whether they are viewed from the angle of Latin America's position in world trade or simply from that of the relationship between the absolute increase in its trade and internal growth.

In the first case, it should be borne in mind that the recent advances have taken place in the context of an exceptional world trade boom and that in spite of the higher absolute value of its sales abroad, Latin America has been unable to reverse the trend towards a declining share in total world exports. Especially worthy of note among the data given in earlier sections is the fact that in 1968 total world exports grew by approximately 10 per cent, and at a higher rate in the industrialized countries, while Latin America's exports grew by only 5 per cent.

In the second case, there is no doubt that in many countries of the region there is now a much more comfortable relationship between the external sector and the growth of the domestic product. In other words, the traditional obstacles to growth put up by the highly inflexible nature of the external sector have in several instances had little or no influence on

recent development. Even looking at the situation over a longer time-span, by comparing for example, imports in 1960 and 1968 at constant prices, increases of over 100 per cent are found in Bolivia, the Dominican Republic, Honduras and Nicaragua, and of over 50 per cent in Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama and Peru; only Haiti and Uruguay recorded a decline in the volume of imports between these two years.

Even so, there is concern still about the possibility that this process may continue, since Latin America's foreign trade has traditionally been highly unstable and there have been no radical changes either in the policy of the industrialized countries or in Latin America's ability to change the structure of its exports which might be considered sufficient to safeguard it from this instability and ensure that the recent upward trends will continue.

Another aspect relating to the external sector that would seem to justify further examination is the question of capital flows. As indicated above, the larger increases in the last few years are attributable to imports, while the evolution of exports has been much less favourable, leading to a considerable rise in the gross inflow of external capital. Although this has certainly had some beneficial results, they must be considered in relation to the future effects of this increase in respect of both loans and direct foreign investment, in view of the fact that foreign capital servicing—including amortization, interest, and remittances of profits on direct investment—has come to represent a very high proportion of the total value of exports of goods and services: not less than 35 per cent for the region as a whole, and well over 40 per cent in several countries, including Brazil, Chile and Mexico.

Compared with the recent increase in both commercial and financial external transactions, the promotion of Latin America's economic integration made relatively little progress in 1968. In the case of LAFTA, this is partly due to the fact that efforts focused in the main on problems relating to the items to be included in the Common Schedule and to the body of regulations for trade in agricultural products after 1973.

The results of the work done and meetings held during the first half of 1968 with a view to finding solutions to these problems were submitted to a special session of the LAFTA Conference which began in July 1968. However, after lengthy and difficult negotiations, the session closed in November without having reached unanimous agreement on the Common

Schedule or on regulations for the marketing of agricultural products.

In addition, the fact that virtually all its time was taken up with these questions was the main reason why the Standing Executive Committee was unable to continue the work assigned to it by the Council of Ministers of Foreign Affairs regarding measures to accelerate the process of the conversion of LAFTA into a common market, in accordance with the decisions adopted in the Declaration of the Presidents of America.

The difficulties encountered in fulfilling the minimum provisions of the Montevideo Treaty, in endeavouring to implement the decisions adopted by the Presidents, led to a proposal that in May 1969 the organs of LAFTA should undertake an evaluation of the integration process and decide upon future action to promote it.

The LAFTA/CACM Co-ordinating Committee held its first meeting in 1968 to consider matters relating to the convergence of LAFTA and the Central American Common Market to form a Latin American common market. At that meeting, the Committee adopted its rules of procedure and a programme for the economic and legal studies which were considered necessary before it could come to any further decisions. The complexity of the problems implicit in the process of convergence, and the current situation within LAFTA, were substantial obstacles to progress.

The Joint Commission of the signatories of the Declaration of Bogotá held several meetings and progress was made towards the formulation of a subregional agreement. However, political circumstances and some differences of opinion on economic and institutional matters delayed the final conclusion of the agreement to May 1969, when it was signed by the Governments of Bolivia, Chile, Colombia, Ecuador and Peru. It is to be submitted for the consideration of the LAFTA Standing Executive Committee, which must decide if it is compatible with the Montevideo Treaty before it can enter into force.

A new round of negotiations was held during the eighth regular session of the LAFTA Conference, at which new concessions were granted for 526 products on the respective National Schedules, and further reductions were granted on 206 products which already formed part of the liberalization programme. Most of the concessions were accorded by Argentina, Brazil and Mexico (70.8 per cent); with the addition of those granted by Peru and Uruguay, they covered 93.1 per cent of the total. The six remaining countries together negotiated only 6.9 per cent. The lion's share of the concessions

(90.3 per cent) were in three groups of products: capital goods for industry (36.6 per cent); durable consumer goods (29.2 per cent) and raw materials and intermediate goods for industry (24.5 per cent). The remainder (9.7 per cent) was divided between capital goods and intermediate goods for agriculture; transport equipment; building materials and raw materials. Difficulties of various kinds made it impossible to gauge the prospects of the new trade flows that these concessions might create. Margins of preference, which had been modified as a result of unilateral action by several countries, were restored for 100 products, while further concessions not open to third parties were granted on 107 products, the majority benefiting Uruguay. Eighteen reductions were also made in relation to products already on the special schedules. These benefits were concentrated (96 per cent) in three groups of products: durable and non-durable consumer goods (47.2 per cent); raw materials and intermediate goods for industry (32.8 per cent) and building materials (16 per cent).

The existing machinery for the formulation of complementarity agreements was used more intensively and four new protocols were signed, bringing the total to eight. The new protocols covered chemical products (the first protocol to be signed by all of the Contracting Parties); petrochemical products, signed by Bolivia, Chile, Colombia and Peru; household goods, signed by Argentina and Uruguay, and glass products, signed by Argentina and Mexico.

The organs of LAFTA continued with their work programmes on the harmonization of policies and economic instruments. Some joint instruments and arrangements were approved for trade policy and customs legislation, and progress was made in the consideration of others. The operation of the financial and monetary system was improved and expanded, and Bolivia and Venezuela became participants. With regard to the industrial sector, studies were undertaken with a view to developing the basis for an international agreement on trade marks and patents and adopting a centralized system of records and data. In the field of transport, a draft convention on road transport was prepared and progress was made in formulating regulations for the existing water transport agreement, and in studies to simplify and standardize shipping documents and consular formalities.

2. SUPPLY AND DEMAND: GROWTH RATE AND CHANGES

(a) Regional trends

In Latin America as a whole, the most noteworthy

change that took place in aggregate supply in 1968 was the fact that imports of goods and services grew more rapidly than the product, at the rate of 8.4 per cent compared with 5.7 per cent² (see table 60). Although the difference in tempo had little effect on the over-all growth rate of supply, which was 5.9 per cent, it changed the proportion of imports in the total considerably. For the first time in the past six years, the regional import coefficient was over 10 per cent; it thus regained the level it had achieved in the early nineteen-sixties, despite the slackening off in Argentina's and Venezuela's imports. If these countries, which strongly influence the regional total, are excluded, it will be seen that the import coefficient made a really vigorous comeback from only 8.9 per cent in 1965 to 10 per cent in 1968.

Table 60. Latin America: recent trends of aggregate supply and demand, 1967-68
(Millions of dollars at 1960 prices)

	1967	1968
<i>Aggregate supply</i>	130,115	137,816
Gross domestic product	118,443	125,178
Imports of goods and services	11,662	12,638
<i>Aggregate demand</i>	130,115	137,816
Exports of goods and services	12,652	13,316
Total investment	20,671	22,077
Fixed investment	18,920	20,814
Construction	8,540	9,458
Machinery and equipment	10,380	11,356
Total consumption	96,792	102,423
General government	10,515	10,998
Private	86,277	91,425

SOURCE: ECLA, on the basis of official statistics.

Important changes also took place in the structure of aggregate demand. The decline in the share of exports of goods and services explains why the growth of consumption outstripped that of the product (5.8 per cent) and why investment increased yet more rapidly (10 per cent in the case of gross fixed investment).

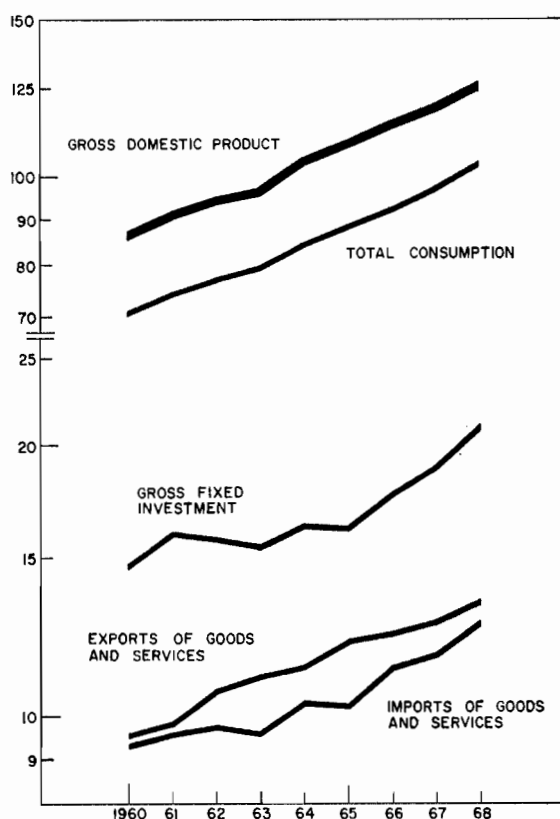
The upswing of investment represents the consolidation of a slow but persistent upward trend in the coefficient, which has crept back to much the same level as at the beginning of the decade. In 1960-61, gross fixed investment constituted about 17 per cent of the total domestic product, but thereafter dwindled each year until by 1965 it had reached its nadir at 14.8 per cent. From then on, it improved and by 1968 it accounted for

² The magnitudes and ratios given in this section have been measured in terms of dollars at constant 1960 prices, and therefore differ from the corresponding figures in other chapters, where some items have been calculated in terms of current value.

16.6 per cent. Although these changes in over-all ratios may seem insignificant, they are important because the coefficients are relatively small and a large and virtually constant proportion has to be earmarked for capital depreciation. Consequently, they cover sharp variations in the net investment coefficients^a (see figure III).

Figure III. Latin America: evolution of the principal components of aggregate supply and demand
(Thousands of millions of dollars at 1960 prices)

SEMI-LOGARITHMIC SCALE



The recovery of investment is marked by two important developments. First, public investment expanded more than private investment, and, secondly, investment in construction made brisker progress than investment in machinery and equipment. The outcome of these changes is that in 1968 public investment and construction accounted for more than 35 and over 45 per cent

^a To give a simple example, if the product-capital ratio is assumed to be 0.4 and the average life of existing capital is taken to be thirty years, a gross investment coefficient of 14.8 per cent would imply a net investment coefficient of 6.5 per cent, while a gross coefficient of 16.6 per cent would give a net coefficient of 8.2 per cent.

of total gross capital formation respectively, although, of course, with variations between individual countries that were occasionally very pronounced.

The trend of consumption in 1968 was unlike that of investment in that the private component increased most rapidly (5.6 as against 4.6 per cent). It appears therefore that the contribution of the public sector to the over-all economy changed very little, since the increase in its share of the expansion in investment was offset by a reduction in its share of the consumption increment.

(b) Country trends

Without prejudice to the country sections that form part of the following chapter, it has been thought useful at this juncture to give the major data on the growth rates and trends of aggregate supply and demand in each country in order to round off the picture and point up the extent to which some of them depart from the broad trends outlined.

In Argentina, the growth rate of the product was about 4.8 per cent. This was the outcome of a 4.8 per cent reduction in agricultural production and an appreciable increase in urban activities (7.9 per cent for manufacturing and 23.6 per cent for construction). Total consumption climbed by 4.7 per cent, and fixed investment by 14.8 per cent, under the stimulus of the funds obtained and utilized by the public sector. The over-all investment coefficient rose from 17.9 per cent in 1967 to 19.6 per cent in 1968, but the import coefficient dropped slightly, as imports remained at almost the same level as in the previous year (9.7 per cent as against 9.4 per cent in 1967).

In Bolivia, the product expanded at the rate of 5.3 per cent, thus continuing the trend of the last few years. Manufacturing and construction were particularly positive, while agriculture recovered somewhat from its decline in 1967 by expanding 3.5 per cent. Mining increased by 2.6 per cent and petroleum output by 5.3 per cent, after an extraordinary leap of 73 per cent the year before. Exports and imports grew relatively little, thus slowing down the upward thrust of the last few years, and there was no appreciable change in the investment coefficient (about 17 per cent) or in the relatively high level of the import coefficient (32 per cent).

The economy of Brazil expanded by 6.8 per cent, agricultural stagnation being offset by an increase of 15 per cent in industrial activities. The external sector played a highly dynamic part, with imports showing a particularly marked increase (over 25 per cent at constant prices). This

raised consumption appreciably (7.1 per cent) and had an even more powerful effect on investment, which climbed nearly 20 per cent. Hence the significant increases recorded for the investment and import coefficients: the former rose from 12.7 per cent in 1967 to 14.2 per cent in 1968, and the latter from 5.8 to 6.8 per cent over the same two-year period.

The over-all growth rate in Colombia was 5.3 per cent, with matching increases in agriculture, industry and services. As in Brazil, a sharp rise in imports in real terms (16.4 per cent) outweighed the expansion of exports (8.2 per cent), with the result that the domestic supply of goods and services increased more than the over-all product. Both total consumption and total investment enjoyed high growth rates of 6.5 and 8 per cent respectively, with the accent on private consumption and construction, and the investment and import coefficients rose from 15.9 to 16.3 per cent and from 11.5 to 12.7 per cent respectively between 1967 and 1968.

In 1968, the economy of Costa Rica kept up its rapid rate of growth (almost 8 per cent), and made particularly good progress in agriculture and manufacturing although the level of construction tended to remain stationary owing to a cut in public investment. Private investment rose by 10 per cent but public investment fell by 14 per cent, so there was no significant change in the over-all coefficient. This also applies to the import coefficient, since purchases of goods and services expanded by a little under 8 per cent, on a par with the total product.

In Chile, the extensive drought dealt a severe blow to the economy, and was reflected in an increase of only 2.5 per cent for the total product. However, an unprecedented rise of 17 per cent in the value of imports at constant prices paved the way for a rise of 5 per cent in private consumption and a substantial expansion of almost 10 per cent in investment. Greater facilities for importing capital goods and the continuation of the programmes for the development of the copper industry were also favourable to investment. The investment coefficient accordingly climbed from 5.1 to 16.2 per cent between 1967 and 1968, while the import coefficient rose from 15.9 to 18.1 per cent.

The economy of Ecuador grew at a moderate pace of just over 4 per cent. It was affected by a drought which damaged agricultural production, the devitalization of industrial growth and the increasing difficulty of keeping up the rate of public investment. The result of the latter was a slight reduction in the investment coefficient, which had already dropped to the relatively low level of about 11 per cent. Thus, the appreciable

increase of over 17 per cent in imports, which raised the import coefficient from 19.1 to 21.5 per cent in the last two years, was largely used to keep consumption growing at a fairly high rate (nearly 8 per cent in 1968).

The economy of El Salvador showed a modest rate of growth for the second year running, a 3.7 per cent increase in the gross domestic product being combined with a decrease in the volume of imports. Consequently investment had to be cut to keep the growth rate of consumption on a par with that of the over-all product. Private investment dropped nearly 2 per cent in real terms for the first time in many years, and public investment was further reduced (9 per cent) although less severely than in 1967. In keeping with these changes, there were decreases in both the investment coefficient (from 14.8 to 13.8 per cent) and the import coefficient (from 26 to 24.3 per cent).

Guatemala's economic product increased by 5.1 per cent, which represents a higher rate than in 1967 (4 per cent). Its acceleration was partly due to the recovery of export agriculture, since the growth rate of the industrial sector was a good deal slower than in the previous year. The sharp upswing of exports (more than 16 per cent) was matched, on a smaller scale, by an increase in imports, with the result that the different components of domestic demand made less progress than in 1967. Consumption rose just over 4 per cent while over-all investment remained at the previous year's level. This implies a further decrease in the relatively low coefficient of investment (from 12.2 to 11.6 per cent).

In Haiti the gross product expanded by 1.3 per cent and exports by 7.2 per cent, while imports fell nearly 4 per cent. Aggregate demand thus remained stationary, and its structure also remained the same with no increases in over-all consumption or investment, although private consumption expanded moderately to some extent and government consumption was cut by more than 20 per cent.

The economy of Honduras expanded at the rate of 6.4 per cent in 1968. This was higher than the average for 1963-66 and also than the 1967 rate. The rise in exports amounted to 18.5 per cent and in imports to 9.3 per cent. There was thus an increase of 4 per cent in the domestic supply of goods and services, which favoured investment more than consumption. In both, however, the public sector accounted for the largest share; public investment went up by 34 per cent and private investment by 4.4 per cent, while the increase in private consumption was close to 3 per cent but in government consumption more than 7 per cent.

In Mexico, the increase in the domestic product amounted to 7 per cent and the aggregate supply of goods and services rose by 7.7 per cent under the stimulus of a 13 per cent addition to imports. Within aggregate demand, exports expanded by 12.2 per cent, gross fixed investment by 7.9 per cent (with public investment setting the pace) and total consumption by 7.1 per cent. This signified the maintenance of the investment coefficient at roughly 17.6 per cent and a slight increase in the import coefficient (from 11.6 to 12.3 per cent).

The growth rate for Nicaragua's domestic product was 4.5 per cent. This is a higher rate than in the two preceding years but is still well below that of 1963-65, which was over 8 per cent. The value of imports of goods and services measured at constant prices diminished about 6 per cent while that of exports rose by 7.4 per cent. As the external sector has a powerful influence on the economy as a whole, these changes led to a turn for the worse in the components of domestic demand. Over-all investment remained virtually static, while public investment was slashed, and both private and general government consumption fell off. The investment and import coefficients, both of which were among the highest in the region, dropped too, the former from 22.3 to 21.4 per cent and the latter from 49.2 to 44.3 per cent between 1967 and 1968.

The economy of Panama which, during 1960-67, had expanded at an average annual rate of 8.2 per cent, slowed down to about 4.5 per cent in 1968. There were also sharp reductions in the growth rates of exports and imports. The weakening in the growth rate of the domestic supply of goods and services mainly affected investment, which declined in absolute terms, since total consumption—and public consumption in particular—increased more than the product. Consequently, the investment and import coefficients fell, also from relatively high levels: the former from 19.5 to 18.3 per cent and the latter slightly less from 38 to 37.3 per cent.

The economy of Paraguay expanded by 4.2 per cent, but in contrast to 1967 its main impulse in 1968 came from the agricultural sector where production rose by 6 per cent, while industrial output remained at the same level. The aggregate supply grew less than the product owing to the relative stabilization of imports. On the side of demand, the most substantial increment was in consumption, particularly by the Central Government, but the high rate of investment achieved in 1967 slowed down.

In Peru, the signs of flagging development, which were already noticeable in 1967, showed

even more clearly in 1968. The domestic product expanded about 3.5 per cent, and the strong policy measures taken to stave off greater budget and balance-of-payments deficits inevitably had repercussions on domestic demand. This explains why, although exports rose appreciably (by nearly 12 per cent in real terms), the volume of imports contracted by more than 20 per cent, cutting down the domestic supply of goods and services and thus reducing investment and consumption by more than 10 and nearly 4 per cent respectively. As a result, between 1967 and 1968, the investment coefficient decreased from 22.1 to 18.9 per cent and the import coefficient dropped from 35.3 to 27.1 per cent.

The 2.3 per cent growth in the economy of the Dominican Republic was due to a 20 per cent rise in construction, and a lesser increase in agriculture, since manufacturing declined. Imports expanded more than exports in real terms, thus adding to the domestic supply of goods and services and consequently producing an appreciable increase in capital formation, particularly in construction, and a smaller increment in consumption. As a result, both investment and import coefficients improved somewhat between 1967 and 1968: the first from 19.2 to 21.1 per cent and the second from 27.1 to 28.5 per cent.

In 1968, the economy of Uruguay recovered to some extent after the previous year's recession, with a fractional increase of about 0.3 per cent in the gross domestic product. Exports and imports followed separate trends; measured in constant prices, exports increased by 10 per cent in value whereas imports decreased by about 5 per cent. Consequently, the economic recovery did not extend to the domestic supply of goods and services, and its failure to do so particularly affected investment. The investment coefficients remained at the low level of about 12.7 per cent while the import coefficient dropped from 14.8 to 14 per cent between 1967 and 1968.

Venezuela maintained a growth rate of 5.5 per cent, despite flagging exports. Its economic expansion was inspired by advances in agricultural and industrial production (6 and 6.5 per cent respectively), and by increases in building activities and the supply of energy and services. The petroleum sector on the other hand, grew at the rate of 2 per cent, which is less than in previous years. A moderate increase in imports combined with stagnation in export trade led to an increase in the supply of goods and services for domestic consumption which outweighed that of the total gross product. Within the overall increment, consumption rose 6.8 per cent and investment 7.6 per cent. The changes were, however, too slight for any appreciable modi-

fication to take place in the investment and import coefficients, which remained at over 16 and 14 per cent respectively.

3. MAJOR SECTORS OF ECONOMIC ACTIVITY

(a) General trends

As noted earlier, manufacturing and construction were the two sectors which contributed most to economic growth in 1968, increasing their respective products by 9.1 and 10.8 per cent. The volume of agricultural production, on the other hand, grew by only 1.5 per cent, while the services sectors kept pace with the increase in the total product (see table 61).

The marked rise in the level of industrial activity is partly attributable to a recovery from less favourable trends in earlier years. This is particularly true of Brazilian industry, whose increase of 14.9 per cent carries considerable weight in the regional average, and to a lesser extent of Argentina where, after its setback in 1967, manufacturing production grew by 7.9 per cent. Even so, however, many countries recorded relatively high industrial growth rates, following the upward trend that has been in evidence for some years.

The low average growth rate of agriculture in the region is less representative, owing to a greater diversity in the position of agriculture from one part to another. The results achieved

by some countries, mainly those affected by bad weather, were highly unfavourable. For example, the level of production fell in Argentina while in Brazil it remained virtually stationary. In contrast, substantial increases in production (close to 6 per cent or even more) were attained in Colombia, Costa Rica, Guatemala, Panama, Paraguay and Venezuela.

There was a similar variety of trends in construction activities, which expanded exceptionally rapidly in a number of countries; so rapidly in fact that in Argentina and the Dominican Republic the increase was over 20 per cent more than in 1967, and in Brazil it was 17.3 per cent more. On the other hand, three countries—Chile, El Salvador and Peru—recorded substantial decreases, partly attributable in the last two to the need to restrain public spending in certain sectors in order to reduce budget deficits.

The sections that follow give a brief description of some of the most important events in 1968 in the major sectors of economic activity, which will help towards a broader understanding of the significance of these changes.

(b) The agricultural sector

The very small increase in agricultural production in the region during 1968 was partly due—apart from long-term structural factors—to bad weather, which had different effects in different countries.

Table 61. Latin America: trends of the major economic sectors, 1968
(Percentage variations over 1967)

Country	Agriculture ^a	Mining ^b	Manufacturing	Construction	Basic services	Other services
Argentina . . .	-4.8	9.9	7.9	23.6	6.7	4.4
Bolivia . . .	3.5	3.0	7.3	14.7	4.4	5.4
Brazil . . .	—	12.6	14.9	17.4	8.4	6.2
Chile . . .	1.9	0.6	3.0	-1.0	2.2	3.2
Colombia . . .	5.5	-5.0	6.5	9.0	3.9	5.4
Costa Rica . . .	14.0	... ^c	11.3	—	2.9	4.5
Dominican Republic . . .	3.1	3.1	-2.1	20.6	1.3	0.8
Ecuador . . .	1.5	-1.5	3.3	...	6.9	7.0
El Salvador . . .	3.1	—	6.8	-74.0	5.4	4.4
Guatemala . . .	5.5	—	5.4	0.8	7.8	4.7
Haiti . . .	1.2	... ^c	1.2	2.6	1.0	1.3
Honduras . . .	4.2	2.1	10.7	10.5	9.4	4.9
Mexico . . .	3.9	5.1	9.0	9.2	6.3	7.3
Nicaragua . . .	4.5	—	6.0	1.9	5.9	4.1
Panama . . .	5.5	—	6.0	5.2	6.3	3.3
Paraguay . . .	6.0	-65.0	0.3	4.7	5.9	4.3
Peru . . .	2.6	6.0	6.0	-7.9	4.6	3.3
Uruguay . . .	1.6	... ^d	1.6	2.5	0.4	-0.9
Venezuela . . .	6.0	1.6	6.5	10.0	7.6	6.4
TOTAL . . .	1.5	3.3	9.1	10.8	6.4	5.4

SOURCE: ECLA, on the basis of official statistics.

^a Comprising agriculture, animal husbandry, forestry and fishing.

^b Including extraction of crude petroleum.

^c Included in construction.

^d Included in manufacturing.

In Chile, where the drought affected a large area of the country extending from the central area to the north, crop and livestock losses are estimated at some 87 million dollars. Moreover, it is anticipated that, owing to the drop in the water level of lakes and reservoirs, agricultural production will still be suffering from the effects of the drought in 1969. As a result of the emergency, the Government allocated funds for the tapping of water resources—especially by drilling deep wells—and for importing more foodstuffs.

In the north of Peru, 120,000 hectares were affected by the drought, which caused substantial losses in cotton, sugar (162,000 tons), maize (10,000 tons), rice (122,000 tons) and beans (18,000 tons), and reduced the output of Peru's main agricultural products for both export and domestic consumption. In view of the situation, an emergency law was passed which made funds available for irrigation and road works in the afflicted areas.

In Ecuador, some coastal and inter-Andean provinces suffered substantial losses, estimated at 1,000 million sucres, the equivalent of 12 per cent of the value added in the agricultural sector, as a result of losses in maize, coffee and cotton crops and cattle slaughtering.

The picture was different in the countries on the eastern seaboard of South America (Brazil, Uruguay and Argentina). The bad weather of 1967 continued into the early months of 1968, but was followed by exceptionally good weather, with mild temperatures and timely rains. This meant that spring crops, or those harvested in late 1967 and the summer of 1968, were affected by the sharp cutback in the area sown and in yields, while winter crops were favoured by the rains. In Brazil, the main export crops affected by the drought were coffee and cocoa, production of which dropped by 20 per cent compared with the 1967 level. As to crops for domestic consumption, bean production fell sharply, and there was a slight decrease in that of rice and maize. In Argentina and Uruguay, the drought affected cereals—except wheat—oilseeds and industrial products. In Argentina, the production of maize fell by 23 per cent, flax by 33 per cent, oilseeds by 16 per cent and industrial crops by 15 per cent. In contrast, wheat harvests in both countries benefited from the rain and, owing to an increase in the area sown to wheat, were almost four times the size of the 1967 harvest in Uruguay and 17 per cent higher in Argentina. In both countries, there was an increase in the number of beef cattle slaughtered, owing to a recovery in production as a result of a change in the weather in June 1968. The drought at the end of 1967 had obliged farmers, at the beginning

of 1968, to sell stock which they had been holding back in the hope that prices would rise.

In Colombia, on the other hand, agricultural production was favoured by good weather, which, together with the increase in agricultural credit, led to appreciable increases in rice, cotton, coffee, banana and sugar production and a rise of 6 per cent in the slaughtering rate for livestock. Venezuela also had good weather and the agricultural sector grew by 6 per cent over the year.

Agriculture in Central America expanded at a satisfactory rate, particularly in Costa Rica, where production increased at the exceptional rate of 14 per cent. Coffee production reached high levels, especially in El Salvador, Costa Rica and Honduras; cotton production increased appreciably, especially in Guatemala; and banana production climbed steeply in Guatemala and Costa Rica, and also in Honduras where it grew by 8.7 per cent. In all these countries the improvement was attributable to an increase in the area under cultivation, and to public financing, particularly in Costa Rica. All the Central American countries substantially increased their output for domestic consumption.

In some countries, the accumulation of stocks of certain agricultural commodities whose production has been stimulated by support prices, development credits and, above all, imports of fertilizer with the help of external loans, is posing an increasingly acute problem. The root of the difficulty is the high prices at which such products are offered, owing to the heavy cost of inputs and the relative inefficiency of farming methods, which make it impossible for exportable surplus to find a market abroad. In 1968, Colombia, the Central American countries and Panama had the same problem with rice.

(c) Mining production

Mining output—excluding petroleum, which is dealt with in a separate section—grew at a moderate pace in 1968.

This was attributable, among other things, to the relative stagnation of mining in Chile, which accounts for nearly a quarter of regional output, excluding petroleum from Bolivia, Mexico and Venezuela. The reason was a shortage of water, which curtailed activities at El Teniente, one of the major copper mines, although the other mines managed to raise their output. Iron output in Chile rose by 10 per cent and coal by 7 per cent, while nitrate output dropped by 20 per cent.

While mining production remained at a standstill in Chile, it fell in Venezuela and increased by 2.6 per cent in Bolivia, although tin pro-

duction itself is estimated to have gone up by some 10 per cent. Tin continued to be affected by the low prices prevailing on the market, and the International Tin Council found it necessary to fix production quotas.

In Mexico, another country with a substantial share of regional mining production, the sharp increase in the output of iron, and of quarry products—which were in great demand because of a construction boom—was largely cancelled out by the decline in the output of sulphur, of which Mexico accounts for 90 per cent of the regional total.

In Brazil, mining production grew exceptionally quickly by about 13 per cent. This was mainly due to an increase of over 20 per cent in manganese output, but also partly to petroleum, and to iron of which Brazil is the leading Latin American producer. Peru, which accounts for nearly 15 per cent of mining production in the region, stepped up its output by 6 per cent, including a substantial rise in petroleum production.

Together with these production trends, it is worth looking at a number of events which relate mainly to the expansion of productive capacity and efforts to give exportable mining products more processing.

With regard to tin and zinc, the Bolivian Mining Corporation (Corporación Minera de Bolivia) and National Smelting Company (Empresa Nacional de Fundiciones) are attempting to increase tin ore processing; a processing plant for low-grade ore has therefore begun to be built together with a refinery at Oruro with an initial capacity of 7,500 tons of electrolytic tin and 800 tons of alloy, to be raised subsequently to 20,000 tons. Work continues on the exploration and development of the Kellguan mine, which has estimated reserves of 2.5 million tons of cassiterite, to discover whether it can be exploited economically. Work is also continuing at the Matilde mine, as a result of which zinc production should increase by 55,000 tons (more than triple the figure for the country in 1967). In addition, the preliminary studies have been completed for the installation at an estimated cost of 20 million dollars, of a zinc smelter with an annual capacity of 40,000 tons.

In Peru, in addition to the plans to raise zinc output to 380,000 tons by 1970 and 580,000 tons by 1975, it is planned to construct an electrolytic zinc refinery with a capacity of 40,000 tons, to be complemented by a sulphuric acid and superphosphates plant.

With regard to copper, plans are going ahead in Chile to double copper production by 1972.

By the end of 1968 some 225 million dollars had been invested for this purpose; a plant was opened at Chuquicamata which will increase annual electrolytic copper capacity by 180,000 tons (85 per cent); work continued at the Río Blanco mine, which will produce 60,000 tons of copper concentrates; and the installation of a new smelter at Antofagasta, with a capacity of 30,000 to 36,000 tons, to smelt copper from the medium-sized and small mines in the area is being studied. A copper products industry has been established at Antofagasta, mainly producing various types of electrical and telephone conductors for the home and export markets; it is scheduled to come into full production in 1970. In Peru, it is planned to raise copper production to some 400,000 tons by working a number of ore deposits (Cuajone, Cerro Verde, Michiquillay, Cobriza and Quellaveco). Moreover, copper ore deposits offering good prospects have been found in Argentina, the Dominican Republic and Panama.

Venezuela has begun construction of a plant to produce a million tons of briquettes with a high iron content (86.5 per cent), and is completing studies on the installation of a plant to process a million tons of iron pellets. A study is also under way on the feasibility of profitably mining the Cerro San Isidro deposits, which have reserves estimated at 350 million tons with an iron content of some 64 per cent; annual production is expected to amount to 4.5 million tons, 2.5 million of which would be pelletized. Chile is planning to build an iron ore concentration plant to process ore from Algarrobo and El Romeral, and studies have begun on the expansion of the capacity of the Santa Clara mine to 2.5 million tons; this mine has estimated reserves of 50 million tons of ore with an iron content of more than 60 per cent, and an equal amount with an iron content of 40 per cent. Brazil is installing a pelletizing plant with an annual capacity of 2 million tons, and output from the Marcona mine in Peru was raised to 10.5 million tons.

Another important development in mining relates to alumina production in Jamaica. In 1969 an alumina plant with a capacity of 950,000 tons will enter into operation at Port Kaiser, while construction work will begin on a new plant at Clarendon for processing a lower grade of bauxite than is used now; its initial capacity will be 440,000 tons and this could later be doubled. Brazil is soon to start up a plant which will produce 25,000 tons of aluminium ingot. Venezuela has built an aluminium plant with an annual capacity of 10,000 tons, and Argentina is to establish an electrolytic plant

with annual capacity of 50,000 tons. This will cost 68 million dollars, plus 25 million for the electric power supply system that will be required. The plant is scheduled to enter into operation in 1970 on the basis of processed raw materials.

(d) *Petroleum*

At the end of 1968, world output of crude petroleum amounted to over 38 million barrels daily, or about 10 per cent more than in 1967. Latin America's share in this total was just over 13 per cent, a proportion which, in comparison with the 1958 figure of 18.3 per cent, shows that the region is losing ground as a producer of crude. In fact, during the past ten years, while its traditional competitors trebled their production and the relative importance of Africa increased year by year, Latin America did not even succeed in doubling its output, which between 1958 and 1968 expanded at an average annual rate of 4.3 per cent, whereas the world average was 7.8 per cent over the same period.

In 1968, Latin America's production of crude petroleum rose by 3.3 per cent, which was a much smaller increase than had been shown in 1967 (6.9 per cent). However, with the exclusion of Venezuela, whose output was 1.8 per cent bigger than in 1967, after an exceptional upswing of 5.1 per cent as a result of the critical situation in the Middle East, the net production increment achieved by the other countries was about 7 per cent. According to incomplete data, the region's largest increase (28 per cent) was recorded in Peru, mainly because the Belco Petroleum Corporation stepped up the development of its new offshore oilfields, which yielded more than 20,000 barrels daily. In Chile, production was expanded by 10.7 per cent (after slight setbacks during the previous three years), mainly by virtue of more intensive development and exploration of the Magallanes deposits, and the resulting discovery of larger reserves than those formerly proven. Over the past two years Argentina, Bolivia, Brazil, Mexico and Trinidad and Tobago have managed to keep up production growing steadily.

For the second year in succession, production in Colombia and Ecuador declined, owing to the reduction of the flow potential in their oilfields. But the new deposits found in the Putumayo-Napó basin, covering part of the south of Colombia and the north of Ecuador, open up new short- and medium-term prospects for both countries. Twenty-five wells have been drilled already in the Colombian part of the oilfield and six in the part belonging to Ecuador, with respective potentials of 50,000 and 10,000 barrels a day, i.e., yields per well of 2,000 and 1,677

barrels daily. An oil pipeline 327 kilometres long and 20 inches in diameter is being carried from Campo de Orito to the Pacific port of Tumaco, and is scheduled for completion early in 1969. When it is ready, Colombia's Putumayo wells will go into production at an estimated initial rate of 70,000 barrels daily, thus increasing the country's output of petroleum by about 50 per cent. Ecuador, on the other hand, will not be able to bring its part of the oilfield into operation until the TEXACO and Gulf companies have carried out their decision to construct a pipeline from the oilfields in the north-east of the country to the port of San Lorenzo on the Pacific.

Drilling operations are one of the determinants of the levels of production and reserves. Except in Bolivia, Brazil and Peru, they declined almost everywhere in 1962-67, at an average annual rate of 9 per cent. For a variety of reasons—including legal proceedings relating to contracts for the development of production (Argentina), and the suspension of new concessions to private companies (Venezuela)—the rates of decrease were as high as 16 per cent in Argentina and Colombia, and reached 8 per cent in Chile and 7 per cent in Venezuela.

Complete data on the wells drilled during 1968 are available for only a few countries. Among these, Chile deserves mention for its appreciable efforts to improve upon the level of activities in the two preceding years.

Between 1958 and 1968, the average annual growth rate of refining capacity in the Latin American countries was 6.1 per cent, while over the same period the volume of crude refined expanded at an average annual rate of 6.6 per cent. By 1968, refining capacity had reached approximately 3.8 million barrels daily, or a little over one tenth of total world capacity, and the volume of crude refined was about 192.2 million cubic metres—an increase of 5 per cent in relation to 1967.

Within this over-all picture, Brazil, Chile, Colombia, Mexico and Peru made noteworthy progress in the refining of crude through the expansion of existing plants and the installation of new ones. In the case of Brazil, an additional 90,000 barrels of crude were processed daily, thanks to the entry into operation of the Gabriel Passos and Alberto Pasqualini refineries, in April 1968 and August 1968 respectively.

A few countries—for example, Argentina, Brazil, Chile, Jamaica and some of the Central American countries—which used to satisfy their requirements largely with imports, are now almost entirely self-sufficient in petroleum products. There are a few exceptions to the rule

—aviation spirit and liquid gas in Brazil, liquid gas in Argentina and fuel oil in Chile—but the quantities involved are relatively small.

During the first nine months of 1968, the Latin American countries' purchases of crude and petroleum products from Venezuela, Aruba and Curaçao—the region's leading suppliers—rose by 14.1 per cent (9.2 per cent in the case of crude and 27.8 per cent in that of derivatives).

Certain measures adopted by the municipal authorities in some United States cities to prevent air pollution related to fuel oil, whose sulphur content, under regulations established in July 1968, was not to exceed 1.5 per cent. This affected exports of petroleum products (in particular, fuel oil itself) from Venezuela, Aruba and Curaçao to the United States market, and the figure for the first nine months of 1968 showed a decrease of 0.4 per cent, whereas sales of crude rose by 5.3 per cent.

Other significant developments which took place in various countries in the course of 1968 are briefly reviewed below.

In Argentina, work began on the expansion of the La Plata refinery, with the addition of a new fresh stock atmospheric distillation unit with a daily capacity of 75,000 barrels, and a vacuum unit with a capacity of 38,000 barrels daily. The contract for enlarging the capacity of the Luján de Cuyo refinery in Mendoza from 41,000 to 85,000 barrels daily, at a cost of 30 million dollars, was awarded to the firm of Lummus Española. A start was also made on the construction of a multipurpose pipeline from Luján de Cuyo to Montecristo, 664 kilometres long and 356 millimetres in diameter. This stretch constitutes the first stage of the projected 1,250-kilometre multipurpose pipeline from Mendoza to Buenos Aires. In addition, over a period of eight years a sum total of 30.4 million dollars is to be spent on exploratory operations in the Gulf of San Jorge by four companies (Sinclair, TENECO, Phillips and ENI of Italy) which have obtained permission to prospect on the continental shelf.

At Porto Alegre, in Brazil, the construction of the Alberto Pasqualini refinery was completed. Although it has a daily capacity of 45,000 barrels, susceptible of expansion to 100,000 barrels per day, for the time being this refinery will process between 20,000 and 25,000 barrels daily. In the month of March, PETROBRAS opened a fourth refinery (Gabriel Passos) at Belo Horizonte, with a daily capacity of 45,000 barrels, and upon completion of the relevant studies it decided to construct a refinery with a capacity of 120,000 barrels per day, at a cost of

78.5 million dollars, in the neighbourhood of Campinas, near São Paulo.

In Bolivia, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and the Bolivian Gulf Oil Company signed an agreement with representatives of an Argentine public enterprise (Gas del Estado), under the terms of which Argentina will purchase the following quantities of gas with a calorific value of not less than 9,300 calories, at the price of 8 dollars per thousand cubic metres: 4 million cubic metres of natural gas per day during the first seven years to which the agreement relates, and 4.5 million during the following thirteen years.

The twenty-year period covered by the agreement will be reckoned from the date of completion of a gas pipeline 600 kilometres in length and 24 inches in diameter, with a daily capacity of 200 million cubic feet, which is to be constructed in Bolivian territory, at a cost of 40 million dollars, and connected at the frontier with the Argentine pipeline. Furthermore, YPFB successfully continued its work on the development of the Monteagudo (Chuquisaca) oilfield, which holds out good prospects.

In Chile, the State enterprise (Empresa Nacional del Petróleo—ENAP) has a project for expanding the present capacity of the Concepción refinery from 36,000 barrels to 63,000 barrels daily.

By a decree passed in January 1968, the Government of Ecuador set up the Ecuadorian State Petroleum Corporation (Corporación Estatal Petrolera Ecuatoriana), an autonomous agency which will be responsible for the exploration, development, refining and marketing of the country's petroleum resources, either directly or in association with private companies. As the Ecuadorian Government objected to the proposal that the initial output of the three oilfields recently discovered in north-east Ecuador (Lago Agrio, Bermejo and Charapa) should be transported via the Colombian pipeline from Orito to Tumaco, the TEXACO and Gulf companies decided to construct, at an estimated cost of just over 50 million dollars, an oil pipeline from the River Aguarico area to the port of San Lorenzo, scaling the Andes to a height of over 4,000 metres. A contract for exploring 2.4 million hectares of dense tropical jungle in the north-east of Ecuador, 200 kilometres from the oilfields discovered by the TEXACO-Gulf consortium, was awarded to five foreign companies which may invest a total sum of 60 million dollars, and another for exploring the continental shelf in the Gulf of Guayaquil has been given to seven other companies, headed by Ada Oil of Houston.

On the continental shelf in the Gulf of Mexico, near Tuxpán, the Mexican State enterprise *Petróleos Mexicanos* (PEMEX) found a new oil field (Atún), whose potential is estimated to exceed that of any other deposit so far discovered.

The Panama refinery at Colón is pursuing its aim of expanding its daily capacity from 55,000 to 70,000 barrels of crude.

In the course of the protracted dispute between Peru and the International Petroleum Company, Ltd., the Government of Peru took possession, on 9 October 1968, of the Brea and Pariñas oilfields and the Talara refinery. A project is also afoot for constructing a refinery with an initial capacity of 25,000 barrels per day at the port of Mollendo, 1,200 kilometres south of Lima. Its design will be such that it can refine crudes with different characteristics. On the Providencia concession, in the north of Peru, an undersea deposit has been discovered, with a well flow of 480 barrels per day, and on the Humboldt concession, off the coast to the north-east of Talara, another well with good commercial production prospects is in process of evaluation.

The Dominican Republic's first refinery, which will have a capacity of 15,000 barrels per day, and is being constructed by Midland Co-operatives, will go into operation at the end of 1969. In addition, the Antilles Petroleum company, formed by private capital in Puerto Rico, is seeking permission from the Dominican Government to build a refinery with a capacity of 25,000 barrels per day near Azua, 80 kilometres from Santo Domingo.

Off the coast to the south-east of Trinidad, the Pan-American Oil Company (a subsidiary of Standard Oil of Indiana) has discovered a large natural gas deposit, where the only exploration wells drilled so far show an initial production of over 8,400 million cubic metres daily.

The Government of Uruguay invited tenders for petroleum prospecting and development on the continental shelf and substratum in waters within Uruguay's jurisdiction, on the basis of contracts with the State agency known as the Administración Nacional de Combustibles, Alcoholes y Portland (ANCAP).

In Venezuela, the Creole Petroleum Company constructed a new propane and butane plant at its Amuay refinery. The capacity of the Morán refinery, belonging to the State petroleum agency (Corporación Venezolana de Petróleo—CVP), was enlarged from 2,300 to 16,000 barrels per day, at a cost of 40 million dollars; work on this project was completed in January 1968, but the first service contracts could not be awarded

until March 1969, after approval by the National Congress. The Creole Petroleum Company and the Shell Company of Venezuela each decided to construct a desulphurizing unit, the former at the Amuay and the latter at the Cazdón refinery, at respective costs of 60 and 37.5 million dollars. A gas pipeline scheduled for construction early in 1969 will be 240 kilometres long and 40 centimetres in diameter, and is designed to supply the desulphurizing plant at Amuay with 1.4 million cubic metres of natural gas from Tía Juana.

New deposits were discovered by CVP and the Creole Petroleum Company in the Mata-Auma area under the jurisdiction of Maturín and at the Elías Yopoles, Caro and Mata oilfields in the eastern sedimentary basin. In addition, CVP is planning to construct a refinery with a daily capacity of 100,000 barrels of crude in the Lake Maracaibo area, and the Creole Petroleum Company has a project for a 240-kilometre gas pipeline from the middle of the Lake to the island of Aruba, to carry the gas that would be used for desulphurizing (at a rate of 75,000 barrels per day) the Creole crude refined by Lago Oil and Transport at the Aruba plant.

(e) *Manufacturing industry*

The trend of industry was particularly favourable in 1968 and raised the gross industrial product to 8 per cent over the previous year's level.

The data available are not complete enough to indicate the extent to which each branch of industry contributed to the over-all progress. According to general information on Argentina, Brazil and Mexico, which together account for more than 75 per cent of the region's industrial output, production of most current consumer goods grew relatively little, while other lines, responding to a different kind of demand, made much faster progress. As construction and public works made particularly good headway, there was such a boom in demand for building materials that some countries even had to import cement. Industries producing certain intermediate goods and consumer durables also achieved fairly high growth rates.

Some data are given below on the three branches of industry which have developed with special vigour in recent years.

(i) *The steel industry.* Output of ingot steel in Latin America rose about 12.5 per cent in 1968, thus more than doubling its 1967 growth rate. The biggest contributions to this increase came from Argentina (17 per cent), Brazil (17.6 per cent), Mexico (7.4 per cent) and Venezuela (26

per cent). The four together account for 90 per cent of steel production in the region.

Peru was the only other producer country to show a substantial increase (11 per cent). Chile's ingot steel output decreased by nearly 10 per cent, and Colombia's by almost 4 per cent, while Uruguay's modest production was cut by a third.

The strong upswing in Argentina's production corresponded to the rise in demand for materials for construction and public works. It should be mentioned in this connexion that the Somisa blast furnace at San Nicolás was reconditioned in mid-1968. The plant, which turns out semi-manufactured products, had found that its capacity was too small to meet the requirements of the rolling-mills, and large amounts of billet had to be imported in 1968 to close the gap and satisfy the demand for finished steel products.

Other firms also added to their capacity. Dalmine-Siderca purchased continuous casting machinery, and the Santa Rosa metallurgical plant put its third electric blast furnace into operation. This is part of the second phase of its plan of expansion, which will ultimately enable it to produce about 180,000 tons of ingot steel a year.

Brazil's steel production, which had declined in 1967, revived in 1968, helped by the general upsurge of industry, and, in particular, of the branches that use a large amount of steel products (e.g., shipbuilding, and production of motor vehicles, machinery and electrical equipment). Building under the government housing policy also expanded. Steel output in 1968 amounted to 4.3 million tons. To produce this volume, installed capacity was used to the maximum, and at the same time the first stage of a plan to raise production by 1.4 million tons was put into effect. This stage is scheduled for completion in 1971.

In Mexico, production of ingot steel increased by 7.4 per cent. Although less than in 1967, this expansion nevertheless indicates that the industry continues to make steady progress. It was mainly due to the fact that the third blast furnace in the Fundidora de Hierro y Acero de Monterrey S.A. was put into full production. Siderúrgica Nacional also brought a unit for producing special steels into operation. As part of its plans for expansion, Altos Hornos de México intends to raise its capacity by 2 million tons in 1970-71 through the addition of a fourth blast furnace, which is already under construction. The Compañía Fundidora de Monterrey also plans to increase the output of its third blast furnace in 1969, when the Guadalajara steel mill is to be opened. All in all, these ex-

pansions will raise production to 5 million tons by 1971.

The noteworthy expansion in Venezuela's steel production was achieved through fuller use of installed capacity. About 280,000 tons of finished steel products are exported. The Orinoco steel plant (SIDOR) plans to raise its capacity to 1.2 million tons by 1970 and in the meantime has begun to manufacture roughly 30,000 tons of cast-iron pipes a year.

In Chile, the Compañía de Acero del Pacífico (CAP) is implementing a plan for expansion based on a second blast furnace, which is already in operation. During the first stage, steel production will be 800,000 tons and will eventually reach the million mark. An electrolytic tin-plating plant, which has an initial capacity of 65,000 tons of tinplate and will eventually produce as much as 140,000 tons, is scheduled to go into operation in the first half of 1969.

Aceros Andes S.A. began production early in 1968, and will soon be in a position to manufacture tyres and railway axles, and forged parts and castings for the mining sector and motor-vehicle industry in particular.

Colombia's steel mills (Acerías Paz de Rio and the Siderúrgica del Pacífico, S.A.) and the Sociedad Siderúrgica de Chimbote in Peru also have plans for expanding production.

(ii) *The chemical industry.* The partial indicators available for some of the Latin American countries indicate that the chemical industry made excellent progress in 1968, owing to the rapid growth of manufacturing industry, and also of construction, which is using an increasingly large amount of chemical inputs.

It is provisionally estimated that chemical output in Argentina increased about 20 per cent. An upward trend was observed for all basic chemical products, except sulphuric acid, which showed an increment of just over 4 per cent. The upswing was partly due to the expansion of capacity for a number of basic chemical products, including ammonia, urea and ammonium sulphate for fertilizers, and polyvinyl chloride.

In Mexico, the data for eleven months show that output of chemical fibres was stepped up 19.7 per cent, sulphuric acid, 16.1 per cent, caustic soda, 18.1 per cent, urea, 18.3 per cent and ammonium sulphate, 40.7 per cent. Production of ammonia dropped by 3.8 per cent, however, while that of ammonium nitrate rose by 2.8 per cent. In the petrochemicals industry, production of benzene and toluene increased by 52.7 and 7 per cent respectively, while that of dodecylbenzene declined by 5.5 per cent.

Current plans for expanding the chemical

industry include the establishment, between 1969 and 1972, of a petrochemical complex by the Dow Chemical Company near Bahía Blanca in Argentina for a capital cost of 114 million dollars. Another enterprise (Carboclor) opened the first stage of a petrochemical plant in the Province of Buenos Aires. By 1970 this will be producing 16,000 tons of isopropanol and other derivatives a year. In addition, Empresas Petroquímicas Argentinas will be setting up a plant in 1971-72 to produce about 180,000 tons of ethylene a year.

In Brazil, Petroquímica União plans to build a big petrochemical complex at São Paulo. Work is scheduled to begin on this in 1970. It will have a capacity of 600,000 tons (including 181,000 tons of ethylene and 97,000 tons of propane), and the final cost is estimated at 450 million dollars. Other projects include a phosphate plant at Jucupiranga (São Paulo) with a capacity of 200,000 tons, a fertilizer complex (nitrogenous compounds, urea and ammonia) for the Companhia Química de Minas Gerais, and additions to a caustic soda plant owned by Carbocloro Industrias Químicas at Cubatão (São Paulo), which will raise production to 140,000 tons a year. The Government of Brazil plans to spend a total of 687 million new cruzeiros on its three-year plan for the petrochemical industry.

In Chile, Petrodow (a branch of the Dow Chemical Company) is installing an ethylene complex at Talcahuano, consisting of a 20,000 ton polyethylene plant and a plant for producing vinyl chloride with an initial capacity of 18,200 tons.

Petróleos Mexicanos (PEMEX) has opened an ammonia plant with a daily capacity of 1,200 tons at Minatitlán (Veracruz). This State-owned company, in association with private capital, is establishing forty petrochemical plants for a total investment of 1,356 million pesos.

Venezuela has concluded agreements for the construction of complexes to produce ammonia, ethylene (polyethylene) and aromatic hydrocarbons for the home and export markets.

(iii) *The motor-vehicle industry.* This industry continued to develop well in 1968, at an estimated rate of about 12 per cent.

Argentina, the second most important manufacturer of motor vehicles in the region, showed a growth rate of 2.7 per cent, which indicates that the industry recovered its 1966 level. During the first half of 1968, production had continued to decline as market demand was covered by carry-over stocks from the previous year, but, in the third quarter, output of utility

vehicles and lorries began to increase in view of the encouraging prospects for agriculture, and by the end of the year production of passenger cars was also expanding with the appearance of the new models on the market.

Output in Brazil is estimated to have gone up by 20 per cent and to total 280,000 units. The manufacture of lorries and motor buses made particularly big strides (a 50 per cent increment) and so did that of tractors (62 per cent), while production of passenger cars increased by about 18 per cent and that of lorries and utility vehicles a little less.

In Mexico, which, with Argentina and Brazil, represents 90 per cent of all motor-vehicle manufacture in the region, production rose by 17.6 per cent, divided into 20 per cent for passenger cars and 7.7 per cent for lorries.

All the producing countries have projects for expanding production capacity. The most important are those of IKA-Renault in Argentina, Chrysler and Mercedes Benz in Brazil and Fiat and Ford in Chile. Investment in production is being supplemented by investment in the manufacture of spare parts and components, for which there are highly encouraging trade prospects in the Latin American Free-Trade Area.

(f) *Electric energy*

In 1968 total electric energy generation in Latin America amounted to about 125,000 GWh, or 9.5 per cent more than in 1967. The growth rates in 1966 and 1967 were 7.5 and 7.3 per cent respectively. In accordance with the distribution of installed capacity, the highest proportion was generated by the public sector (81 per cent), and 60 per cent of this was produced by hydroelectric plants.

Preliminary figures indicate proportionally larger increases in Brazil, Mexico and some of the Central American and Caribbean countries. Chile and Uruguay are among the countries where output increased slowly. In Chile, a severe drought devastated the central region, affecting hydroelectric energy generation mainly in the power stations located north of the Bío-Bío river, including the recently opened Rapel plant which, to all intents and purposes, was out of use. The lack of rainfall and snow also affected the mountain region of Argentina, causing a considerable shortage in that country also. In Chile, it is hoped that with the construction of the Bocamina thermoelectric plant in the coal-mining district, and of the El Toro hydroelectric plant, which, with its huge reservoir of 4,000 cubic hectometres, will be practically independent of hydrological conditions, the

system will be safeguarded against drought. In Uruguay, the slow growth must be ascribed to the fact that its capacity is over-loaded and has not been expanded for some years.

The figures for installed capacity and generation show that utilization of capacity during the year amounted to 4,500 hours for the public service.

In 1968 a great many public service power plants were put into operation or were at an advanced stage of construction, which considerably increased installed capacity. Hydroelectric plants on which intensive work has been done in the last few years are responsible for a high proportion of this increase. The plants constructed account for over 2,500 mW, of which approximately 2,000 mW are additions to the group of hydroelectric plants. This alters the balance that has existed for twenty years between hydro and thermal installed capacity, and the gap will continue to widen in favour of hydroelectric plants as the proposed projects are completed.

Installed capacity in self-generating plants did not alter much with the continued development of the public service, which now adequately covers demand for electric energy in nearly all areas supplied by its main enterprises. Thus, the self-generating sector is lagging still further behind the public utilities, its share in total installed capacity shrinking from 23 per cent in 1967 to 21 per cent in 1968.

With the new additions mentioned above, the public service power stations have raised their total installed capacity to 25,700 mW, of which 54 per cent is in hydroelectric plants. In contrast, the installed capacity of self-generating plants has remained constant at around 7,000 mW, with only 14 per cent in hydroelectric plants.

At present, an extremely large-scale construction plan is under way in the public electric supply service, which will effectively help Latin America to emerge from its backward state in electric energy generation compared with world levels. The capacity of the power stations under construction, which will begin operating before 1980, will exceed 21,000 mW, so that by then installed capacity will be more than double existing capacity at the end of 1968. Of the total projects under construction not more than 2,500 mW are thermal plants.

Some of the hydroelectric plants stand out as the most important of their kind in Latin America and even in the world. Brazil, for example, is building the Ilha Solteira, Jupia and Estreito plants, with capacities of 3,200, 1,200 and 1,050 mW respectively. The programme for Ilha

Solteira is to install a total of 2,560 mW by 1980, and the rest at a later date. Venezuela is constructing the Guri power station, with a final capacity of 6,000 mW, of which 3,000 mW will be incorporated before 1980. Mexico is building the 1,080 mW Malpaso plant, and Peru the Mantaro plant, with a total capacity of 2,650 mW, of which 1,100 mW are to be installed before 1980. In Argentina, the Chocón-Cerros Colorados power station is to have a total capacity of 1,650 mW by 1978.

The Atucha plant now under construction will be Latin America's first nuclear power station. It is near Buenos Aires and will have a capacity of 319 mW, which may be doubled later.

The following is a brief account of the stage of construction reached during the past year by the large hydroelectric power stations mentioned above.

At the Jupia plant, the reservoir was closed in November and will be filled within a month or two. This power station is expected to begin operating in 1969, with three units of 100 mW each. Similar capacities will be incorporated in 1970, 1971 and 1972.

The first stage of the Guri plant—which is to have three 175 mW units—is well advanced, and the installation of the first unit was practically completed by the end of 1968.

Two 180 mW units were opened at the big Malpaso plant, which was then put into operation; when finished it will include an additional four units of the same capacity, two of which are to be installed in 1969.

In the Mantaro plant, work is going ahead on the construction of the surge tank, the valve chamber and the power house. Tunnel No. 1 (1,218 metres long) has been completed. Water from the Mantaro river will go through the tunnels into the surge tank, and on to the valve chamber; it will then drop 900 metres to the power house, where 342 mW will be installed as a first stage.

Financing was obtained for the Chocón-Cerros Colorados power station. Housing is being erected for the staff who are to operate the plant, and the civil engineering contracts for delivery of energy in 1973 have been awarded. Bids were opened for the supply of turbines and generators and the relevant decision will be taken in February 1969.

Interconexión Eléctrica S.A. (ISA) was established in 1968 to join up the main public electricity supply systems in Colombia. The interconnection is estimated to cost some 44 million dollars and it should be practically completed in 1972. It is facilitated by the fact that the

enterprises concerned have a standard frequency of 60 cycles. ISA will own the whole network and all future additions to installed capacity except the Canoas-El Colegio (Bogotá) and Guatapé (Medellín) power plants, and the Colima-Yumbo, San Francisco and Alto Anchicayá expansion (CVC-Chidral).

The Government has also given priority to electrical development on the Atlantic seaboard, where a number of small isolated enterprises provide a somewhat inefficient service in general. It is planned to set up a public corporation embracing the following departments: Atlántico, Bolívar, Córdoba, Magdalena, César, Sucre and Guajira; in addition to controlling all the supply systems in that area, it will group them in a single interconnected system which, in turn, can be linked up with systems of neighbouring regions in the country or outside it. With these projects, Colombia will join the ranks of countries with large interconnected systems.

Mexico, having already resolved to establish the standard frequency of 60 cycles per second for the whole country, decided in 1968 to effect the standardization by stages, the first of which (conversion of the area surrounding Mexico City) should be completed in 1971, and the rest in 1974. The total cost of this frequency change, which will affect some 1,500 mW, is estimated at about 130 million dollars.

Meanwhile, the Federal Electricity Commission has continued its work on interconnections, thanks to which it will be possible to link up the Falcón-Monterrey and Torreón-Chihuahua systems in 1969, and the Colotlipa-Acapulco and Central systems in 1972.

In Brazil, the preparatory work for switching to a frequency of 60 cycles in the States of Guanabara and Espírito Santo, which was put in hand in 1967, continued in 1968. In the south the Companhia Estadual de Energia Elétrica do Rio Grande do Sul is planning its new power stations for operation with frequencies of 50 and 60 cycles, in view of the change-over to 60 cycles and their subsequent interconnexion with other regions.

In Venezuela, Cambio de Frecuencia C.A. has made good progress in changing to 60 cycles in the area supplied by Electricidad de Caracas, and energy of that frequency will soon be received from Guri. The programme is scheduled for completion in 1971.

With the advances made and decisions adopted in regard to frequency changes in Brazil, Mexico and Venezuela, in the continent itself only the five southernmost countries—Argentina, Bolivia, Chile, Paraguay and Uruguay—will continue

with a frequency of 50 cycles, while the rest will operate with 60 cycles.

As regards international interconnexions, the entry into operation of the power station on the Acaray river will make it possible to transmit energy from Paraguay to the Argentine border area. IDB is to grant a 5 million dollar loan, to Electricidad de Misiones for the construction of the necessary high tension line. The interconnexion should be completed in 1971.

A general study was begun on interconnexion possibilities between the six countries of Central America, and a regional agreement was studied with a view to the exchange of electric energy and the joint planning and construction of interconnexion projects. It is expected that the agreement will be concluded, and the general study completed in the course of 1969.

A small interconnexion will be established in the border area of Colombia and Venezuela, with the installation of a 15 mW gas turbine at Zulía and a 115 kV transmission line which will link this plant with the La Fría system in Venezuela.

An electrical interconnexion was put into operation between the city of Salto (Uruguay) and Concordia (Argentina). Its purpose is to make good the shortage of energy in that part of Uruguay, where installed capacity amounts to only one third of existing requirements. The transmission line will have an initial capacity of 6 mW, which may be raised to 100 mW in the future.

The interconnexion that has existed for some years between the border areas of Uruguay and Brazil continued operating as usual.

(g) Transport

(i) *Shipping.* In 1968 little headway was made towards a more integrated development of the Latin American fleets although some countries improved the share of their merchant fleets in the carriage of their foreign trade. This is reflected both in the planned increases in the volume of freight and in the search for preferential markets.

The LAFTA Water Transport Agreement, signed on 30 September 1966,⁴ has so far been ratified only by Chile and Mexico, and it cannot be put into effect until at least five countries have adhered to it. Since then, there have been negotiations with a view to preparing a set of regulations which will make the agreement

⁴ See ECLA, *Economic Survey of Latin America, 1966* (United Nations publication, Sales No.: E.68.II.G.1), p. 296, and "Economic survey of Latin America, 1967" (E/CN.12/808 and Add.1), Part Two, p. 293.

operative. A Special Commission met in October 1968 and adopted a set of regulations without the approval of Argentina, Brazil and Uruguay; the main point of disagreement related to the maintenance or abolition of existing bilateral privileges.

At the same time there has been a tendency for agreements to be concluded among small groups of countries. Thus, at the end of September 1968 an agreement was signed between Argentina and Brazil, under which all maritime trade between the two countries is to be carried in their own bottoms. In addition, some countries, notably Brazil, have made great strides in ensuring that more of their foreign trade is carried by their own merchant fleets. Other examples of this trend are the agreements which Brazil has concluded or is negotiating with the United States and certain European countries. Thus, the aim is to expand the national merchant fleets so that they can carry a larger share of extra-regional trade. Furthermore, the number of liner services with Latin American vessels serving the regional traffic has increased, and today most of the Latin American countries have lines connecting them with other countries of the region.

The total tonnage of the Latin American merchant fleet increased from 5,026,000 to 5,118,000 between 1 January 1967 and 1 January 1968, or by 1.8 per cent. As regards the quality of the fleets, the average age of the vessels dropped slightly, from 15.1 to 14.7 years, and the proportion of dry cargo carriers increased in relation to tankers. This situation may change radically in the future, in view of the number and tonnage of the vessels under construction and contracted for as at 1 January 1968: 931,000 gross registered tons. Countries in this position are Brazil, with 590,000 gross registered tons—or 54.3 per cent of its present fleet—in this category, followed by Mexico and Peru. Thanks to the execution of such large-scale programmes, these countries will be able, not only to carry out their naval policy, but also to operate the shipyards on a large enough scale not to run at a loss.

(ii) *Highways and road transport.* In 1968 particular attention was paid to road integration projects in the southern countries of Latin America. IDB granted Argentina a loan of 34 million dollars to improve the integration of highways with Bolivia, Brazil, Chile and Paraguay. This project involves the construction, reconstruction, extension and paving of 554 kilometres between Buenos Aires and Bolivia, and of 148 kilometres of the highway from Mendoza to the Chilean frontier, and improvements on the Argentine side of the international tunnel. Chile was granted a loan of 15 million

dollars in 1966 to build the section from Valparaíso to the border tunnel. Another loan is to be used to build a bridge 1,670 metres long over the Paraná river, between the cities of Corrientes and Barranqueras; this will link up the road under construction from Corrientes to Puerto Iguazú with that between Resistencia (Argentine Chaco) and Salta and Bolivia, and with Buenos Aires-Asunción road.

As regards national highways, Argentina finished repaving and widening 150 kilometres of highway between Campana and San Nicolás, and in 1969 expects to complete the 2,400-metre Paraná-Santa Fé under-river tunnel, which will be the first direct land connexion between Mesopotamia and the rest of the country. Further, bids were called for the works on the Zárate-Brazo Largo highway network which is to link the south of Entre Ríos with the north of Buenos Aires Province by means of the road-railway bridges over the Paraná de las Palmas and Paraná-Guazú rivers.

Brazil received 61 million dollars' worth of international financing—35 million from IDB and 26 million from IBRD. The first loan will help to complete the network of arterial highways in the Brazilian Nordeste—780 kilometres in length—and the construction of a bridge over the San Francisco river. The IBRD loan will be used for the construction and improvement of six highways, totalling 429 kilometres, in the states of Rio Grande do Sul, Minas Gerais, Paraná and Santa Catalina. Moreover, an agreement was signed with Paraguay for the construction of a 60-metre international bridge over the Apa river; Paraguay, for its part, will build 74 kilometres of roads which will link this bridge with the Concepción-Puerto Caballero highway.

Colombia obtained a loan of 12.7 million dollars from IDB to build and improve 288 kilometres of the Caribbean transversal highway which stretches from La Fe to Paraguachón on the frontier with Venezuela. With IBRD aid, a start will also be made on the construction of certain stretches of trunk roads (totalling 510 kilometres in length) including a bridge over the river Cauca. Colombia also accepted the proposal made by the Permanent Executive Committee of the Pan American Highway Congresses that it should change the course of the Pan American highway over its territory; the new road, which would shorten the distance considerably, would start from Palo de las Letras on the border with Panama and would go as far as the neighbourhood of Guapá on the north-south route to the Ecuadorian frontier.

Chile was given a loan of 11.6 million dollars by IBRD to buy equipment for road maintenance.

nance, build workshops and engage consultants on the co-ordination of transport and planning of road investment. Progress has been made with the international road linking Osorno with the Argentine town of Bariloche.

In 1968, the Ministry of Public Works of Mexico invested nearly 3,000 million pesos in the construction of Federal highways and bridges and of local approach roads to the arterial network. Work on the national network and secondary roads consists of fifty-six projects covering 6,693 kilometres. Improvements are also being made to 800 local roads.

Peru made headway with the construction of 17 kilometres of the Carretera Marginal de la Selva between Satipo and Mazamari in eastern Peru.

In Uruguay's road plans, priority was given to the transversal roads linking up with international highways, and IDB gave a loan of 14.8 million dollars for work on the roads linking Tacuarembó in the centre to Melo and the Brazilian border, and to the southern transversal highway, which begins at Montevideo and follows the coast to Chuy on the frontier with Brazil.

El Salvador was given a 2.8-million-dollar loan from IBRD and another of 4.7 million dollars from the Central American Economic Integration Bank for the development of its road infrastructure.

The fifth meeting of the LAFTA Transport Advisory Committee was held between 12 and 16 August 1968 to study the basis for a multilateral international road transport agreement to remove the existing barriers to international traffic.

(iii) *Railways.* Incomplete data on five countries show that the main events in rail development have been as follows:

In Argentina, where rail traffic trends have been irregular and confused in the last few years, the net volume of freight carried in terms of ton/kilometres increased 8.2 per cent during the first half of 1968, while traffic in passenger/kilometres was 3.8 per cent more than in the first six months of 1967. These increases helped to offset the reductions that took place in the 1967 levels of freight and passenger traffic compared with those of 1966 (15.7 and 3.4 per cent respectively).

The number of ton/kilometres of freight carried by the Federal rail network in Brazil rose by 12.6 per cent during the first half of 1968, while income increased 25.6 per cent during the first five months over the same period in 1967.

In Chile, rail freight traffic declined by 9.1 per cent in 1967 after a vigorous comeback between 1961 and 1966. However, incomplete data for the

northern and southern networks (Pueblo Huidido to Puerto Montt) of the State Railways show an improvement of 6.2 per cent during the first eleven months of 1968 compared with the same period in the previous year.

After an increase of over 50 per cent in 1961-66, the volume of Colombian rail freight traffic dropped by 9.7 per cent in 1967. In 1968, however, net ton/kilometres carried, including the railways' own traffic, expanded by 10 per cent. Passenger traffic has been dropping steeply since 1961. It fell by nearly a third between 1961 and 1967, and underwent a further reduction of 10.7 per cent during the first nine months of 1968.

In Mexico, where rail freight traffic has risen in the last few years (by 45.6 per cent in terms of net ton/kilometres between 1961 and 1967), a slight decrease of 1.3 per cent was noted in the first five months of 1968 compared with the same period in 1967.

The Latin American Railways Association (ALAF) has done much to improve collaboration between the regional railways. In March it concluded an agreement with the Pan American Committee on Technical Standards in order to prepare and publish recommendations for uniform technical standards to be applied to rolling-stock in the countries of the region, and to determine the specifications of the most suitable types of containers. In the same month, it also signed an agreement with the Spanish National Railway Network, under which the Spanish company is to give technical assistance to ALAF and the Latin American railways through a branch set up for that purpose. The first practical result of the agreement was the collaboration between ALAF and ECLA in the organization of the Seminar on Railway Cost Accounting, which was held at Santiago, Chile, in September 1968. The object of the meeting was to help the railway companies to improve, rationalize and modernize their systems of information; adopt a manual of basic statistics for use by all railways throughout the region; update working papers for publication in the form of a report on systems of railway information to serve the companies as a basic work of reference; and lay the basis for continuing co-operation between the railway companies and bodies in the region with a view to improving their information systems. The conclusions and recommendations adopted by the Seminar included a recommendation to ALAF that it should set up a standing committee on railway statistics, costs and accounting, and invite its own member companies and other railway companies and departments in the region to be represented on it. ECLA would also

be requested to give assistance to the committee on a permanent basis.

In July, ALAF held an area meeting at Paso de los Libres and Uruguayana to discuss matters relating to rail exchange between Argentina, Brazil and Uruguay. On that occasion an international traffic agreement was concluded between the Brazilian Federal Railways and the Argentine Railway Company. Under this agreement, an initial delivery of 20,000 tons of wheat has been dispatched from Argentina to Brazil since September, and it is hoped to make this amount up to 100,000 tons in 1969.

(iv) *Air transport.*^a New international air routes were opened in 1968 between South America and points on the western side of the Pacific to which it had previously been linked by relatively few air services. Chile's national airline (LAN Chile) inaugurated flights between Santiago and Tahiti via Easter Island, thus providing direct connexions across the South Pacific to Australia and the Far East. Varig extended its Rio de Janeiro-Mexico City-Los Angeles service over the North Pacific to Honolulu and Tokyo. This year also saw closer co-operation among airlines of the Central American region, two of which, for instance, TAN of Honduras and LANICA of Nicaragua, combined routes that they had been serving separately into a single international service Managua-San Salvador-San Pedro Sula-Belize-Miami. In airline fares, an important development was the agreement reached among IATA airlines early in 1968, following a conference held at Viña del Mar at the end of 1967, concerning fares on long-haul routes between North and South America; this agreement resulted in the establishment of an integrated fare pattern for international air routes in the whole Latin American region.

The total demand for air transport in Latin America was of the order of 1,550 million ton/kilometres in 1968, which represented an increase of 8.4 per cent over 1967. This estimate includes all traffic (passenger, cargo and mail; international and domestic) carried on scheduled services of the airlines registered in the region. If it is compared to the world total of 37,450 million ton/kilometres for 1968 (excluding the USSR and the People's Republic of China), the traffic of Latin American airlines represents only about 4.1 per cent of that figure; this constitutes a further decline from the share it held in world air transport in previous years (5.6 per cent in

1964; 5.2 per cent in 1965; 4.6 per cent in 1966 and 4.3 per cent in 1967). This situation, which has been analysed in detail in a recent ICAO study on the development of international air passenger travel in Latin America (Circular 90-AT/16, July 1968), results mainly from the relatively slow growth of domestic operations. These increased by 6.3 per cent in 1968, for instance, while the world increase for domestic services during the same year was 16.4 per cent. In contrast international traffic on Latin American airlines increased by 10.2 per cent, which is closer to the world figure of 12.5 per cent.

These comparisons apply to the region as a whole, and in percentage variations from 1967 to 1968 there are substantial differences between the airlines of one country and those of another. To mention only the largest variations for countries with significant air transport operations, international traffic expanded nearly 35 per cent in the case of Argentina, while it fell almost 20 per cent in that of Peru; domestic traffic increased approximately 12 per cent in Brazil and decreased about 4 per cent in Venezuela.

The over-all weight load factor for all traffic—passenger, freight and mail; international and domestic—on the Latin American airlines remained higher than the world average in 1968: 55.7 per cent against 48.4 per cent. This disparity, which was not so marked in previous years, is due chiefly to the great increase in total world airline capacity available in 1968, while the capacity offered by the airlines of Latin America continued to grow at about the same rate as before. Actually the total number of aircraft registered in the region was less than in 1967, owing to the elimination of many obsolete piston-engined aircraft, but the entry into service of thirty-five new turbine-engined aircraft with a much greater productive capacity has largely offset this reduction in the fleet, and resulted in an expansion of the total number of seat/kilometres available on Latin American airlines.

(v) *External loans to the transport sector.* The loans granted to the transport sector by international credit agencies in 1968 amounted to a total of 262.3 million dollars. This sum represents a significant increase in relation to the preceding year, and doubles the figure for 1966. There were considerable differences between the purposes for which the loans were granted in 1968 and 1967, since the relative importance of credits for air transport declined, and those allocated to road and rail transport showed an exceptionally large increase. The explanation lies in the noteworthy expansion of the funds earmarked for highway projects by

^a The information on which this section is based was supplied by the International Civil Aviation Organization (ICAO).

IBRD, which rose from 11.4 million dollars in 1967 to 82.3 million in 1968, mainly owing to the substantial loans granted to Brazil and Mexico. On the other hand, Export and Import Bank loans for the purchase of commercial aircraft decreased sharply in 1968, reverting to their 1966 level after the vigorous upswing that had taken place in 1967, while special emphasis was placed by EXIMBANK on credits for the railways.

In institutional terms, a salient feature was the magnitude of IBRD operations, attributable to the channelling of much larger funds into road building projects, and the reduction of the loans accorded to the transport sector by the United States Agency for International Development.

4. THE EXTERNAL SECTOR

(a) Recent over-all trends

Latin America's external sector developed much more rapidly in 1968 than the internal economy, but not fast enough to prevent the continued deterioration of the region's relative position in world trade as a whole.

Its dynamism was reflected both in exports and imports of goods and in movements of capital. As stated earlier, the value of exports of goods and services reached the unprecedented sum of 13,790 million dollars, while imports of goods and services totalled 13,500 million dollars. Both figures represent increases in relation to the 1967 levels, of 6 and 8.1 per cent respectively (see table 62).

Most of the countries of the region shared in this expansion, in varying proportions. On the export side, the sole exception was Argentina, where a slight decrease in the current value of external sales determined the maintenance of imports at much the same levels as in 1967. Peru was the only country whose imports contracted substantially, but those of El Salvador, Haiti, Nicaragua and Uruguay also declined to a lesser extent. In all these cases, however, the current value of exports increased.

Since the growth rate of imports exceeded that of exports, the balance-of-trade surplus was once again reduced, this time to only about 300 million dollars. What is more, if Venezuela is excluded, the other countries showed in the aggregate an excess of imports over exports which rose from some 250 million dollars in 1967 to nearly 430 million in 1968 (see table 63). This negative trade balance is mainly imputable to the transactions effected by Brazil and Mexico, although smaller shares in the responsibility for the deficit must also be assigned to Bolivia, Chile, Colombia, the Dominican Republic, Ecuador, Haiti, Panama, Paraguay and the five Central American countries. Thus, apart from Venezuela, only Argentina, Peru and Uruguay exported more goods and services than they imported.

Net payments under the head of income from foreign capital—interest and profits on direct investment—again increased in 1968, rising to

Table 62. Latin America: recent export and import trends
(Millions of dollars at current prices)

Country	Exports of goods and services		Imports of goods and services	
	1967	1968	1967	1968
Argentina	1,693.0	1,555.0	1,390.0	1,403.0
Bolivia	169.0	172.8	193.0	199.6
Brazil	1,821.0	2,071.0	1,880.0	2,342.0
Chile	1,003.0	1,037.0	903.0	1,052.0
Colombia	704.0	767.5	688.0	795.2
Ecuador	218.1	226.9	234.2	272.9
Mexico	2,156.0	2,446.0	2,328.0	2,642.0
Paraguay	61.9	62.9	80.9	81.9
Peru	883.0	982.0	1,021.0	827.0
Uruguay	217.7	240.2	203.4	195.5
Venezuela	2,582.0	2,586.0	1,814.0	1,867.0
Haiti	41.1	44.6	56.0	54.1
Dominican Republic	181.6	192.5	229.3	248.9
Panama	286.0	299.0	296.5	307.5
Costa Rica	173.5	205.0	215.5	232.8
El Salvador	228.5	231.7	254.9	248.6
Guatemala	232.7	270.4	281.3	306.7
Honduras	170.7	201.2	182.4	199.7
Nicaragua	182.5	198.2	233.7	223.3
TOTAL	13,005.3	13,789.9	12,485.1	13,499.7

Table 63. Latin America: balance-of-payments transactions and positions on current account
(Millions of dollars)

Country	Balance-of-payments position on current account			Current transactions 1967					Current transactions 1968				
	Average 1958-62	Average 1965-65	1966	Exports of goods and services	Imports of goods and services	Net investment income	Net private transfer payments	Balance on current account	Exports of goods and services	Imports of goods and services	Net investment income	Net private transfer payments	Balance on current account
Argentina .	-262.8	+161.6	+257.0	1,693.0	1,390.0	-119.0	0.0	+184.0	1,555.0	1,403.0	-142.0	-2.0	8.0
Bolivia .	-35.3	-38.2	-31.7	169.0	193.0	-16.7	+1.0	-39.7	172.8	199.6	-16.5	+1.0	-42.3
Brazil .	-383.6	+31.0	-67.0	1,821.0	1,880.0	-295.0	+50.0	-304.0	2,071.0	2,342.0	-325.0	+60.0	-536.0
Chile .	-161.4	-126.7	-68.0	1,003.0	903.0	-201.0	+5.0	-96.0	1,037.0	1,052.0	-234.0	+3.0	-246.0
Colombia .	-54.9	-98.3	-290.0	704.0	688.0	-105.0	0.0	-89.0	767.5	795.2	-104.0	0.0	-131.7
Ecuador .	-13.7	-20.3	-21.7	218.1	234.2	-24.9	+5.0	-36.0	226.9	272.9	-26.1	+4.9	-67.2
Mexico .	-240.5	-345.0	-367.0	2,156.0	2,328.0	-469.0	+1.0	-640.0	2,446.0	2,642.0	-535.0	+1.0	-730.0
Paraguay .	-10.6	-9.1	-16.6	61.9	80.9	-5.5	+2.2	-22.3	62.9	81.9	-6.9	+2.5	-23.4
Peru .	-34.3	-77.3	-165.0	883.0	1,021.0	-140.0	+8.0	-270.0	982.0	827.0	-137.0	+8.0	+26.0
Uruguay .	-41.5	+19.4	+49.6	217.7	203.4	-25.8	+0.6	-10.9	240.2	195.5	-22.7	+0.1	+22.1
Venezuela .	+194.7	+213.0	-45.0	2,582.0	1,814.0	-695.0	-105.0	-32.0	2,586.0	1,867.0	-709.0	-111.0	-101.0
Haiti .	-10.3	-11.6	-10.3	41.1	56.0	-2.9	+13.2	-4.6	44.6	54.1	-3.7	+10.0	-3.2
Panama .	-35.5	-33.9	-48.2	286.0	296.5	-22.8	-7.0	-40.3	299.0	307.5	-21.2	-8.0	-37.7
Dominican Republic .	+6.7	-43.0	-67.6	181.6	229.3	-22.2	+6.0	-63.9	192.5	248.9	-19.0	+8.9	-66.5
Costa Rica .	-17.9	-42.2	-47.8	173.5	215.5	-17.0	+4.5	-54.5	205.0	232.8	-19.7	+4.0	-43.5
El Salvador .	-5.8	-19.1	-44.2	228.5	254.9	-8.6	+7.6	-27.4	231.7	248.6	-9.8	+7.5	-19.2
Guatemala .	-32.3	-32.7	-17.1	232.7	281.3	-20.8	+7.4	-62.0	270.4	306.7	-23.1	+8.0	-51.4
Honduras .	-2.6	-14.1	-22.8	170.7	182.4	-21.2	+0.5	-32.4	201.2	199.7	-23.7	+0.5	-21.7
Nicaragua .	-7.8	-15.5	-53.9	182.5	233.7	-18.7	+2.7	-67.2	198.2	223.3	-19.4	+2.8	-41.7
Latin America (excl. Cuba) .	-1,149.4	-502.0	-1,077.3	13,005.3	12,485.1	-2,231.1	+2.7	-1,708.2	13,789.9	13,499.7	-2,397.8	+1.2	-2,106.4
Latin America (excl. Cuba and Venezuela) .	-1,344.1	-715.0	-1,032.3	10,423.3	10,671.1	-1,536.1	+107.7	-1,676.2	11,203.9	11,632.7	-1,688.8	+112.2	-2,005.4

Sources: For 1958-67, IMF, *Balance of Payments Yearbook*, vols. 15, 18, 19 and 20. For 1968, ECLA estimates based on fragmentary country data.

about 2,400 million dollars (almost 1,700 million with the exclusion of Venezuela). The biggest of these increases, in both absolute and relative terms, were shown by Argentina, Brazil and Mexico.

The cumulative impact of the balance-of-trade deficit for trade transactions in the majority of countries and the rise in net external factor payments was reflected in a balance-of-payments deficit on current account of over 2,100 million dollars. This development reaffirmed the modification of the trend that had been so marked in the first half of the nineteen-sixties. The deficit had averaged over 1,100 million dollars per annum in 1958-62, and had dropped to an average of only 500 million dollars in 1963-65. But it subsequently climbed to 1,070 million dollars in 1966, a little over 1,700 million in 1967, and the above-mentioned peak of more than 2,000 million in 1968.

Only three countries—Argentina, Peru and Uruguay—made no contribution to this position, as their export surpluses more than sufficed to cover net payments of income from foreign capital. In contrast, the unfavourable balances were particularly large in Mexico (over 700 million dollars), Brazil (over 500 million), Chile (nearly 250 million) and Colombia (130 million), and in all these cases implied a considerable aggravation of the deficits recorded in 1967.

Viewed from another angle, the size of the balance-of-payments deficit on current account represents the net total of external financing. Moreover, as most countries had balance-of-payments surpluses prior to compensation, the net movement of non-compensatory capital must have considerably exceeded the figure mentioned. Provisional estimates place it above 2,600 million dollars, including errors and omissions.

The latter is one of the most salient features of external-sector trends, since it represents an all-time peak level and an increase of more than 500 million dollars over the 1967 figure adjusted for errors and omissions, i.e., an increment of 23 per cent.

If the inflow of non-compensatory capital in 1967 is adjusted for errors and omissions, big increases will be found in Brazil and Chile and, to a lesser extent in Mexico—where the bulk of the capital still goes—Bolivia, Ecuador, Haiti and the Dominican Republic. The inflow remained constant in Venezuela and Paraguay, and declined in Argentina, Colombia, Central America and Panama. In Peru, however, the reverse took place; a substantial net capital inflow in 1967 was followed by a net inflow in 1968,

and the same situation could be observed in Uruguay, although to a less-marked extent.

In various sections of the present *Survey* some of the effects of these recent external-sector trends are analysed, including their contribution to the expansion of aggregate supply and demand and the changes they caused in the composition of these variables. In addition, the background information contained in Part One of this *Survey* helps to place these short-term trends in a broader perspective. In the following sections, therefore, more careful consideration will be given to only two aspects of the problem: first, some of the most significant developments to which the exceptionally rapid growth of movements of foreign capital is linked, and, second, the framework of the world economy in which these changes took place, the situation with respect to external demand for the region's staple exports, and the significance of the trends described for Latin America's position in world trade flows.

(b) *The increased inflow of capital in 1968*

It has been repeatedly stated that one of the characteristics of the Latin American economy in 1968 was a considerable increase in net external financing. The net inflow of non-compensatory foreign capital was some 2,550 million dollars, the highest figure in the current decade, which helped to cover a considerable deficit in the balance of payments on current account and to improve the international reserves of the monetary authorities.

Unfortunately, sufficiently detailed and comprehensive information is not yet available for obtaining proper idea of the nature and significance of this further expansion of external financing. It may be useful, however, to look at some provisional data on certain aspects of the question.

(i) *Main components.* As was pointed out in the first section of this chapter, in 1968 virtually all the main components of the net inflow of foreign non-compensatory capital attained levels which were appreciably higher than in 1967. The only exception was "official transfer payments", which are thought to have fallen from 121 million dollars in 1967 to some 100 million in 1968.

In the provisional estimates, net long-term loans show the highest increase, in both absolute and relative terms, rising from 1,085 million in 1967 to 1,460 million dollars in 1968. Short-term liabilities rose from 324 million dollars to 410 million over the same period.

The component which is generally most difficult to estimate independently is direct investment. Initial figures show that net direct invest-

Table 64. Latin America: financing of
(Millions)

Country	Average 1958-1962				Average 1963-1965			
	Net movement of non-compensatory capital	Net movement of compensatory capital (increase)	Errors and omissions	Total	Net movement of non-compensatory capital	Net movement of compensatory capital (increase)	Errors and omissions	Total
Argentina	+325.1	+72.9	-135.2	+262.8	-93.7	-60.6	-7.3	-161.6
Bolivia	+39.5	+1.0	-5.2	+35.3	+51.9	-12.0	-1.7	+38.2
Brazil	+255.8	+170.0	-42.2	+383.6	+172.0	-95.0	-108.0	-31.0
Chile	+115.8	+46.8	-1.2	+161.4	+98.0	-5.3	+34.0	+126.7
Colombia	+50.5	+3.5	+0.9	+54.9	+143.5	+1.4	-46.6	+98.3
Ecuador	+14.4	-0.8	+0.1	+13.7	+21.9	-1.3	-0.3	+20.3
Mexico	+204.2	+11.3	+25.0	+240.5	+350.3	-35.3	+30.0	+345.0
Paraguay	+11.1	+0.5	-1.0	+10.6	+15.0	-3.6	-2.3	+9.1
Peru	+51.7	-15.5	-1.9	+34.3	+90.8	-8.7	-4.8	+77.3
Uruguay	+28.8	+21.8	-9.1	+41.5	+10.4	+18.1	-47.9	-19.4
Venezuela	-374.5	+220.5	-40.7	-194.7	-36.7	-138.3	-38.0	-213.0
Haiti	+5.8	+0.1	+4.4	+10.3	+6.0	+1.6	+4.0	+11.6
Panama	+35.2	—	+0.3	+35.5	+37.3	—	-3.4	+33.9
Dominican Republic	+0.8	+7.8	-15.3	-6.7	+50.4	-0.4	-7.0	+43.0
Costa Rica	+13.7	+3.5	+0.7	+17.9	+37.5	+5.9	-1.2	+42.2
El Salvador	+9.5	+4.4	-8.1	+5.8	+31.9	-10.1	-2.7	+19.1
Guatemala	+31.1	+7.9	-6.7	+32.3	+49.5	-6.4	-10.4	+32.7
Honduras	+1.8	+0.9	-0.1	+2.6	+19.9	-3.6	-2.2	+14.1
Nicaragua	+9.6	+0.2	-2.0	+7.8	+32.9	-12.8	-4.6	+15.5
TOTAL for Latin America (excluding Cuba)	+829.9	+556.8	-237.3	+1,149.4	+1,088.5	-366.4	-220.1	+502.0
TOTAL for Latin America (excluding Cuba and Venezuela)	+1,204.4	+336.3	-196.6	+1,344.1	+1,125.2	-228.1	-182.1	+715.0

SOURCES: For 1958-67, IMF, *Balance of Payments Yearbook*, vols. 15, 18, 19 and 20. For 1968, ECLA estimates based on fragmentary country data.

ment increased, from 474 million dollars in 1967 to 580 million in 1968. Some fragmentary data suggest, however, that the latter figure probably considerably under-estimates the actual flow of investment, and, when all the figures are in, it may well be that this component will show the largest relative increase.⁶

(ii) *Origin of capital.* One of the most striking facts is that the increase in the net inflow of foreign capital has come at a time when capital outflows from the United States have been somewhat restricted. The capital markets based in Washington to which Latin America has traditionally addressed itself for resources to finance development projects have restricted their supply of capital appreciably over the past two years, while at the same time raising interest and amortization rates.⁷

⁶ One of the factors which make it especially difficult to work out more precise provisional estimates is the relatively high figure shown in the regional balance of payments under "Errors and omissions" (more than 430 million dollars in 1967).

⁷ In this respect, see *Economic Survey of Latin America*, 1967, op. cit.

The net disbursements of the international agencies based in the United States fell sharply during 1967, and their 1968 recovery brought them to a level only 7 million dollars higher than the figure recorded in 1966 (see table 65). A determining factor here was first the decline and then the stagnation of net disbursements by IBRD, since IDB has steadily increased the volume of its transactions.

The information available shows a further decline in credit disbursements by United States Government agencies, which fell by 44 million dollars, reducing the total in 1968 to only 348 million dollars. Moreover, the downward trend in United States official transfer payments to Latin America continued, and they probably amounted to less than 90 million dollars in 1968.

The very incomplete information available on long-term Latin American liabilities to private banks and the capital market in the United States indicates a continuing decline, which seems to be in line with the general difficulty of obtaining capital on the United States market and the apparent crisis of liquidity which the United

balance-of-payments deficit on current account
of dollars)

1966				1967				1968			
Net movement of non-compensatory capital	Net movement of compensatory capital (increase)	Errors and omissions	Total	Net movement of non-compensatory capital	Net movement of compensatory capital (increase)	Errors and omissions	Total	Net movement of non-compensatory capital ^a	Net movement of compensatory capital (increase)	Errors and omissions	Total
-139.0	-38.0	-80.0	-257.0	-7.0	-439.0	+262.0	-184.0	+151.0	-159.0		-8.0
+38.3	-4.8	-1.8	+31.7	+33.9	+8.0	-2.2	+39.7	+37.7	+4.6		+42.3
+206.0	-120.0	-19.0	+67.0	+165.0	+166.0	-27.0	+304.0	+623.0	-87.0		+536.0
+83.0	-27.0	+12.0	+68.0	+158.0	+34.0	-96.0	+96.0	+366.0	-120.0		+246.0
+275.0	+42.0	-27.0	+290.0	+61.0	-70.0	+98.0	+89.0	+192.4	-60.7		+131.7
+45.2	-11.4	-12.1	+21.7	+48.5	-8.9	-3.6	+36.0	+64.8	+2.4		+67.2
+531.0	+18.0	-182.0	+367.0	+620.0	-81.0	+101.0	+640.0	+801.0	-71.0		+730.0
+23.6	-1.3	-5.7	+16.6	+27.8	+0.2	-5.7	+22.3	+21.5	+1.9		+23.4
+176.0	+22.0	-33.0	+165.0	+208.0	+47.0	+15.0	+270.0	-20.0	-6.0		-26.0
+7.8	-19.6	-37.8	-49.6	+30.0	-21.4	+2.3	+10.9	-11.9	-10.2		-22.1
+91.0	+22.0	-68.0	+45.0	+115.0	-114.0	+31.0	+32.0	+144.0	-43.0		+101.0
+2.1	+0.4	+8.6	+10.3	+1.6	+1.9	+1.1	+4.6	+5.8	-2.6		+3.2
+38.3	—	+9.9	+48.2	+37.5	—	+2.8	+40.3	+37.7	—		+37.7
+35.0	+30.7	+1.9	+67.6	+39.2	+5.2	+19.5	+63.9	+76.4	-9.9		+66.5
+43.3	+5.2	-0.7	+47.8	+56.1	-16.8	+15.2	+54.5	+56.7	-13.2		+43.5
+30.5	+12.2	+1.5	+44.2	+30.1	+1.1	-3.8	+27.4	+21.9	-2.7		+19.2
+11.4	+6.7	-1.0	+17.1	+48.9	+2.6	+10.5	+62.0	+51.9	-0.5		+51.4
+20.3	-4.0	+6.5	+22.8	+27.6	-1.4	+6.2	+32.4	+26.6	-4.9		+21.7
+51.2	-1.9	+4.6	+53.9	+44.0	+16.6	+6.6	+67.2	+40.5	-1.2		+41.7
+1,570.0	-69.6	-423.1	+1,077.3	+1,745.2	-469.9	+432.9	+1,708.2	+2,687.0	-580.6		+2,106.4
+1,479.0	-91.6	-355.1	+1,032.3	+1,630.2	-355.9	+401.9	+1,676.2	+2,543.0	-537.6		+2,005.4

^a Including errors and omissions.

States banking system began to experience beginning in February 1968.⁸ This crisis no doubt also helped to make it more difficult for Latin America to obtain short-term credit from United States banks.

The restrictions imposed on exports of capital by the United States in 1968 were extended to the capital flows of private United States investment. However, the picture is rather more complicated, since the restrictions are not incompatible with an increase in United States investment in Latin America, provided it is financed by transfers from other capital markets, mainly by means of the Euro-dollar.

In any event, this all indicates that there has been an expansion in the inflow of capital from non-traditional sources, and consequently an increasing tendency in Latin American external financing to look away from the United States towards Western Europe and, to a lesser extent, towards the COMECON countries.

⁸ See The Chase Manhattan Bank, N.A., *Business in Brief* (New York, December 1968).

The significance of these changes will be more readily appreciated in the following sections, which examine each of the main components of the flow of foreign non-compensatory capital.

(iii) *Direct investment.* During the current decade, direct investment, which comprises both the new capital invested in enterprises in Latin America and the capital reinvested by existing enterprises, has fallen below its level in the nineteen-fifties. During the period 1960-66, for example, average annual direct investment amounted to some 390 million dollars, ranging from a low of 221 million dollars in 1962 to a high of 580 million in 1966. It fell to 474 million dollars in 1967 but then recovered in 1968, amounting, according to preliminary estimates, to at least 580 million dollars, although this figure is probably an under-estimate since, owing to the difficulty of obtaining complete information at the present stage, it is necessary to use indicators covering only a part of the region, and the much higher increase to which calculations on this basis would give rise cannot be taken for granted.

Table 65. Main sources of net inflow of long-term loans to Latin America, 1966-68^a
(Millions of dollars)

	1966	1967	1968
International institutions . . .	381.6	352.5	388.7
IBRD group	206.2	159.8	148.0
IDB	175.4	192.7	229.7
United States Government . . .	427.9	392.5	348.0
TOTAL from official sources	809.5	745.0	736.7
(Private United States banks)	(150.0)	(120.0)	(105.0)
(Other sources) ^b	(-90.0)	(220.0)	(618.0)
TOTAL long-term loans	869.7	1,085.1	1,460.0

SOURCES: IBRD group: 1966 and 1967, *Statement of Loans*; 1968, estimates based on information in International Monetary Fund, *International Financial Statistics*. IDB: 1966-68, *Statement of Approved Loans*. Includes funds administered by IDB for various Governments. United States Government: 1966 and 1967, EXIMBANK, *Statement of Loans and Authorized Credits*, and AID, *Status of Loan Agreements* (and for credits under United States Public Law 480), *Operations Reports*. The data for 1968 is based on information covering part of the year contained in these documents. Private United States banks: Information on underwritings and credits taken from the international press and statistical tables of the International Monetary Fund, *Balance of Payments Yearbook*. This information is considered a preliminary estimate.

^a Provisional estimates.

^b Calculated residually.

Whatever the actual figures, it is patently obvious that direct investment increased considerably during 1968. Viewed from Latin America, this is attributable to new investment in mining in Chile, the sustained growth rate in Mexico, the economic recovery in Argentina, Brazil and Colombia and, no less important, the expansion in Latin America of the world-wide practice of the purchase of established enterprises in developing countries by international investors.⁹

With regard to sources of financing, the investment of United States enterprises operating in Latin America increased by some 20 per cent during 1968, according to estimates based on information relating to five hundred such enterprises supplied to the United States Department of Commerce in June 1968 and covering anticipated expenditure on plant and equipment during that year.¹⁰ The main increases probably came in mining (approximately 38 per cent), including both the extraction and refining of ores and,

⁹ Until recently, there were regulations hampering or prohibiting the purchase of established enterprises in the industrialized countries only, those adopted by Japan (of a general nature) and Sweden (prohibiting foreigners from acquiring an interest in banking institutions) being particularly worthy of mention. More recently, a number of developing countries have adopted similar regulations, including some Latin American countries in 1968.

¹⁰ See United States Department of Commerce, *Survey of Current Business* (Washington, September 1968), p. 17 et seq.

because of the diversification of their assets,¹¹ in the metal-transforming industries. Although to a slightly lesser extent, petroleum enterprises probably increased their investment as well, owing to the rate at which operations are proceeding in Colombia and Ecuador and their growing share in the establishment of the petrochemicals industry in Latin America. Investments by manufacturing enterprises grew comparatively little, by some 10 per cent, while the rate of investment was even lower in agricultural enterprises, public services and, among "miscellaneous services", hotels.

In early 1968, the United States Government instructed United States enterprises operating internationally to limit their investment in Latin America—among other developing areas—to 110 per cent of their average 1965-66 level. Since such investment had increased considerably in 1967, it was expected that in 1968 the result would be a reduction in the flow of direct United States investment rather than an increase. As can be seen, industrial enterprises and most of the non-classified enterprises seem to have complied with the instructions.

This was not the case, however, with enterprises operating in different continents. They were authorized to offer loans abroad but were obliged to repatriate almost two thirds of the resulting profits. These enterprises made ample use of facilities for offering loans abroad, since it is clear that their operations formed the major part of the growth of the international Euro-dollar market in 1968.¹² It is doubtful whether these credits created capital flows to Latin America, but this may not be true of remittances of profits.

The Euro-dollar or Euro-bond market is genuinely international, since it is not controlled by the monetary authorities of the developed countries. The Euro-dollar consists of dollar assets held by natural or legal persons not resident in the United States, which includes subsidiaries, affiliates or agencies of United States enterprises abroad. If these entities retain their assets outside the United States by, for example, transferring profits to Latin America, the assets continue to be Euro-dollars. On the

¹¹ The enterprises are classified by the United States Department of Commerce according to their principal activity in the United States. Foreign subsidiaries operating in other fields of activity are listed under the activity of the parent enterprise.

¹² According to statements by the Director, Office of Foreign Direct Investment, United States Department of Commerce, published in the *International Herald Tribune* (Paris, 10 December 1968), the amount owed to United States enterprises totalled 2,500 million dollars.

other hand, if they are returned to the United States they become United States dollars. While the currencies of the industrialized countries are fully convertible, the debts being contracted in Euro-dollars by enterprises are substantial. Transfers between subsidiaries would be a precautionary measure, since it must not be forgotten that the United States, France and the United Kingdom have been forced to establish regulations restricting the movement of private capital and, hence, its convertibility.

There is, therefore, a probability that a part of the profits that should have been returned to the United States helped to finance direct United States investment in Latin America in 1968. This conclusion seems to be borne out by the amendments introduced into the regulations by the United States Department of Commerce in November 1968, which are mainly designed to prevent United States enterprises, particularly the petroleum companies in the Middle East, from engaging in accounting practices with respect to certain components of their profits which had unfavourable effects on the United States balance of payments. The new system of calculation will mean that the figure for direct investment abroad will rise from 2,650 million dollars in 1968 to 2,900 million in 1969; however, as stated by one of the Under-Secretaries of the Department of Commerce,¹³ the difference between the two figures would represent the larger inflow in respect of remittances of profits to the United States.

However, it was not only United States enterprises that helped to increase direct investment in Latin America in 1968, as European, Canadian and Japanese capital also made a substantial contribution. All that the available data show, though, is that the flow of direct investment increased appreciably during the year and that it was channelled mainly into manufacturing.

In the case of Western Europe, the two most obvious factors underlying these increases are the movements of capital out of the area in 1968 and the expanding trend of German and Italian companies. As regards the first factor, the United States balance of payments showed a surplus in 1968, largely owing to the purchase of shares in United States enterprises by private European investors, to a value that has trebled since 1967. Up to November 1968 these purchases amounted to 1,980 million dollars, and they were probably over 2,200 million dollars by the end of the year. These movements show that there is a large stock

of private European capital ready to leave Europe.¹⁴

The second factor, i.e., the expanding trend of European enterprises, was intensified in 1968, for reasons connected with the balances of payments of the Western European countries.

The growth of the Western European economies and their grouping in multinational markets have made it possible to remodel enterprises or establish new ones whose scale of operations goes far beyond the limits of each country.¹⁵ On the other hand, these companies' prospects of extending their operation to other industrialized countries are blocked by economic factors or by institutional restrictions on the entry of capital, as in the case of Japan¹⁶ and the COMECON countries. This situation has also given rise in recent years to a larger flow of investment into Latin America, as may be seen from the number of subsidiaries of European companies established in various countries of the region.

This trend was intensified in 1968, partly as a result of the incentives for private investment abroad provided by the Governments of the Netherlands, Italy and the Federal Republic of Germany, whose currency was considered to be under-valued in relation to the international monetary system. These incentives included official credit and guarantees for companies investing abroad, and the establishment of special institutions to support direct investment in other countries. The first of these institutions is the Netherlands company for financing projects in developing countries, which, according to the bill submitted to Parliament by the Netherlands Government, is to be a semi-public enterprise for the promotion of Netherlands private investment in developing countries. Naturally, these measures have so far had only a limited influence in promoting direct investment in Latin America, but presumably the effects will be felt more strongly in the near future.¹⁷

¹⁴ For example, foreign investment in Japanese securities has been exceptionally high since March 1968, standing at an estimated 500 million dollars.

¹⁵ The establishment of "conglomerates" is encouraged by the governments of industrialized countries, usually as a means of resisting the trend towards foreign take-overs of existing companies and of enabling them to expand on an international scale.

¹⁶ Since 1967, however, the Government of Japan has permitted foreign investment in a limited number of industries, in line with OECD resolutions. Present restrictions in the case of the manufacture of vehicles, electronic computer systems and equipment for the petrochemical industry will remain in force until 1972.

¹⁷ In the case of Asia, the Private Investment Company for Asia (PICA) has been set up with the participation of 120 important companies in the United States, Japan, Europe, Canada and Australia.

¹³ This information is taken from the *International Herald Tribune* (Paris, 15 and 17 November 1968). The Under-Secretary concerned was Mr. J. W. Bartlett.

(iv) *Long-term loans.* During the nineteen-sixties, the main form of external financing in Latin America has been long-term autonomous credit. This situation persisted in 1968 since, despite the increase recorded in direct investment, the net value of this capital amounted to 1,460 million dollars. This is the peak figure for the decade and represents a steep rise in relation to the 1967 figure of 1,085 million dollars.

Part of the information available is expressed in net terms of net balances, but it can be said that in 1968 there was no change in the characteristics of the disbursements and amortization of those loans compared with previous years. Disbursements pursued an upward trend, following an annual pattern of expansion and sharp contractions. In contrast, amortization payments rose steadily, although there was some irregularity resulting from refinancing operations, when they were partially transferred to the compensatory capital account. In 1968, refinancing operations amounted to a relatively small figure compared with previous years; consequently, the net figure mentioned above was the result of sizeable increases in both disbursements and amortization payments in respect of long-term autonomous loans, which has an important bearing on operations in the near future.

Since in most of the Latin American countries the private sector cannot contract external debts unless they are guaranteed by the public sector, there must have been a fresh increase in the region's guaranteed public external debt. Moreover, the available indicators point to a reduction in the maturity period, as financing has been drawn less and less from the official sources of capital that have predominated in recent years and more from other sources which impose shorter maturity periods.

The United States Agency for International Development, the World Bank Group and the Inter-American Development Bank, which are the main sources of the first type, contributed less, in fact, in 1968 than the European, Canadian and Japanese institutions that supply export credit. The latter, as part of an active policy of stepping up exports, have improved their credit terms for Latin America, but this improvement seems to have affected interest rates and grace periods rather than the average maturity period, which is regulated by agreements to which only the industrialized market economies are parties.

There has been no such improvement in the terms granted by the first group of sources. AID has maintained the interest rates of 2 and 2.5 per cent imposed in 1967 for the periods of grace, and loans must be repaid in dollars. The commission and interest liable on credits granted by

IDB against its Fund for Special Operations have been 3 to 4 per cent, while those charged against its regular resources are 7.75 per cent. IBRD has raised its interest rate and commission to 6.5 per cent. There is a marked contrast between these sources and the institutions encouraging the expansion of exports, including the United States Export-Import Bank, which have lowered their rates of interest and commissions (the latter to 5.5 per cent).

The World Bank Group and IDB have not received the same preferential treatment in securing their resources as the institutions granting export credit; they therefore have had to charge higher rates of interest on loans to Latin America than those payable on export credit or bilateral development loans.

Lastly, it should be noted that, thanks to the high liquidity of world capital markets and the satisfactory credit which several Latin American countries have succeeded in establishing, it has been possible for Latin American governments to continue to sell their bonds on those markets. If the long-term operations with banking consortia carried out by the Mexican petroleum enterprise (Petróleos Mexicanos—PEMEX) are included, and some of the loans which in practice constitute refinancing are excluded, bond sales stood at over 180 million dollars in 1968. Moreover, some of those bonds were sold on the Euro-dollar market, to which the Latin American countries are having considerable recourse for the first time.

Loans from the World Bank Group. Disbursements of loans for projects, such as those granted by the World Bank Group, are mainly subject to the loan agreements concluded during the last four years. In this respect, the loans authorized in 1968 have had little influence on the flow of capital from the Group to Latin America, which has followed the conservative lines characterizing the Group's disbursements since 1963. Amortization payments, on the other hand, have continued to rise steadily; consequently, on the basis of incomplete data, it is estimated that the Group's net contribution of capital to Latin America has declined for the third year in succession.

IDB loans. For an institution which only began operating in the present decade, IDB has a considerable volume of authorized credit which it has not yet been able to disburse, as it is earmarked for specific development projects. Its disbursements are therefore pursuing the fairly rapid upward trend which they have been following since their decline in 1965. In 1968 they totalled 292 million dollars, which represented a rise of 22 per cent over 1967 and 50 per cent

over the year before the decline. On the other hand, Latin America's amortization payments have climbed to 63 million dollars, or 35 per cent higher than in 1967 and 7.4 times higher than in 1964. The net movement of capital has accordingly been 37 million dollars more than in 1967, a sum that will probably be insufficient to offset the rise in interest which the Latin American countries are charged by IDB, i.e., a total of 39 million dollars in 1967. In actual fact, if amortization and interest are taken into account, IDB's net capital contribution has remained constant since 1964.

United States Government loans. A dual situation arises in connexion with United States remittances of capital to Latin America. The annual law on foreign aid takes into account only part of the United States assets and liabilities vis-à-vis the developing economies. Eximbank operations, which have reflected negative balances for Latin America since 1964, are not officially covered by this law. This dual situation distorts, at the level of the region and, in particular, of the individual countries, the conception of "aid" that is adopted for the credit granted by AID since several countries' balance sheets of assets and liabilities with respect to the two institutions show net outflows of capital.

This situation persisted in 1968, since the preliminary data available show that several countries still have negative balances with Eximbank, resulting in a negative balance for the region as a whole similar to that recorded in 1967. AID disbursements, most of which are for projects, were affected by the cut-back in the funds requested by AID from the United States Congress for loans under the programme of the Alliance for Progress. Although AID requested a larger sum for the 1968 financial year than for the previous year (533 as against 455.3 million dollars respectively), the constant reductions in the budget estimates for foreign aid since 1964 (the amount requested in that financial year was 550 million dollars) have had its effect on the loans contracted and the relevant disbursements. The latter dropped from 425.3 million dollars in 1964 to 321.6 million in 1967 and, judging from the figures up to September 1968, the decline has continued. The value of net disbursements for the past year will probably be a little over 300 million dollars, since Latin America's amortization payments to AID, although still small are rising steadily.

If sales of agricultural surpluses on credit are included, the gross and net figures for long-term loans from the United States Government to the Latin American countries declined in 1968. It

might be added that dollar transfer payments also decreased, in line with the slash in the Federal budget estimates for this purpose.

Long-term loans from Western Europe. In 1968 the industrialized economies of Western Europe redoubled their efforts to increase exports. To this end, they adopted measures to encourage the outflow of capital, and offered more favourable export credit terms to the developing countries to enable them to purchase more than their current import capacity could sustain. It would take too long to list all the incentives provided for this purpose. Suffice it to say that interest rates on export credit have been reduced or kept below the rates for national and intra-European credit. In many cases the capital of institutions granting such credit has been increased, and tax incentives for investment calculated to step up exports have sometimes been offered. These advantages continued to be extended even by countries whose balance of payments has been under considerable pressure, as shown by the fact that France increased its foreign aid in 1968.

This group of measures must have had a highly favourable effect on capital flows to Latin America, although there are no precise data available to assess their volume.

(c) *The world economy and the demand for exports in Latin America*

The rapid growth of most of the Latin American external sector during 1968 reflects the much more positive performance of the world economy and world trade during the year.

According to data which are as yet incomplete, the growth rate of industry in the developed countries was close to 6 per cent, substantially higher than in 1967, while their exports rose by some 13 per cent. In both cases, the main body of the increase came in the second half of the year and in most of the industrialized areas and countries.

The United States emerged from the relative stagnation which had characterized its industrial growth and foreign trade in 1967. Together with an increase of 9 per cent in exports, and the placing of government controls on investment abroad, this led to very substantial changes in the country's balance-of-payments position. Despite a tremendous leap in imports (of approximately 24 per cent), the United States is estimated to have closed its financial transactions with a surplus on its balance-of-payments, in contrast to the deficit of some 3,500 million dollars recorded in 1967.

The member countries of the European Economic Community increased their imports by

slightly more than 12 per cent and their international reserves decreased, although the Federal Republic of Germany, in particular, increased its holdings and expanded its imports by some 16 per cent. At the same time it achieved a surplus on its trade balance, and speculators converted other currencies into German marks in anticipation of a possible revaluation.¹⁸

This speculation particularly affected France, whose economy was so weakened as a result of the social unrest of May and June, and in those months industrial production plummeted below its 1963 levels, although it subsequently regained its normal tempo. Despite a loss in international monetary reserves estimated at some 2,800 million dollars, it was decided not to devalue the franc and an austerity programme was instituted, comprising a reduction in public spending, and an increase in taxation, exchange and monetary controls, and wage and price controls. In the circumstances, there was a 12 per cent increase in France's imports.

Industry in the United Kingdom, on the other hand, recovered from its stagnation of the previous year, although policies to establish equilibrium in external commercial and financial transactions encountered serious difficulties. In the course of 1968 imports and exports rose by 7 per cent compared with 1967. The trade balance for the year showed a deficit of 1,900 million

dollars, the highest figure since 1961, and was accompanied by a decline in the country's international monetary reserves. Accordingly, in November 1968, further restrictions were imposed on imports, and taxes on certain consumer goods were increased.

Japan's economy continued its rapid expansion, and stepped up its imports by more than 11 per cent during the year. Similarly, Canada's imports increased by about 14 per cent.

As a result of the above trends, there was a marked increase in the volume of world exports, which grew by 11 per cent, more than twice the rate achieved in 1967 (see table 66). The largest relative increases were attributable to the developed countries, whose exports grew on the average by 12.4 per cent, with rates of nearly 10 per cent for the United States and 11.8 per cent for Western Europe. In Europe the growth of exports was particularly marked in all the EEC countries, reflecting the recovery of exports by France (a growth rate of 11.4 per cent) and Belgium (16 per cent), and the continuation of the high rates of growth of Italy (17.2 per cent), the Netherlands (14.5 per cent) and the Federal Republic of Germany (14.3 per cent). Exports from the member countries of the European Free Trade Association (EFTA) grew by 8.3 per cent, as compared with 2.4 per cent in 1967.

The vigorous growth of the developed countries' exports was not matched by corresponding growth in the exports of the developing countries. Although the former significantly increased their imports, the increase was largely accounted for by trade between the developed countries themselves, and hence the exports of

¹⁸ In actual fact, the mark was not revalued; instead, taxes on exports were raised by 4 per cent while taxes on imports were simultaneously reduced by the same amount, controls were imposed on transfers of foreign exchange, and foreign currency on deposit in German banks was frozen to prevent further speculative buying of German marks.

Table 66. Variations in current value of world exports, 1962-68
(Cumulative annual rates)

	1962	1963	1964	1965	1966	1967	1968
World	5.6	8.6	12.6	8.3	9.1	5.4	11.1
Developed countries	5.1	9.1	13.7	9.3	10.4	5.5	12.4
Developing countries	4.7	7.8	11.1	5.3	6.0	3.7	8.1
Countries with centrally planned economies ^a	10.4	7.4	8.6	7.2	6.8	7.3	8.6
United States	3.0	7.5	14.4	3.5	10.3	4.1	9.6
Latin America	5.7	4.8	10.4	4.3	5.1	0.9	3.7
Western Europe	5.6	9.2	12.5	11.0	9.2	5.2	11.8
European Economic Community ^b	5.8	9.8	13.3	12.6	9.9	6.6	14.3
European Free Trade Area ^c	4.9	8.6	10.6	8.6	7.2	2.4	8.3
Other countries of Western Europe	7.5	6.5	15.4	9.4	13.4	6.2	4.6
Japan	16.0	10.8	22.4	26.7	15.7	6.7	24.2
Eastern Europe	11.7	7.4	8.6	7.1	6.1	9.1	9.6

SOURCE: United Nations, *Monthly Bulletin of Statistics* (June 1964, 1966, 1968 and 1969).

^a The Soviet Union and other Eastern European countries, mainland China, Mongolia, North Korea and North Vietnam.

^b Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

^c Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

the developing countries, especially those of Latin America, did not expand so fast. As a result, there were further changes in the share of the various regions in world exports, with the developed countries once again strengthening their position in both absolute and relative terms.

Figures for the first half of the year indicate that Latin America's share of world trade fell to 5.1 per cent, compared with 5.5 per cent in 1967 (see table 67). Although sales to the United States were stepped up, Latin America saw its share of the market shrink again to only 12.7 per cent, thus intensifying a steady downward trend that has been apparent since 1962, when its share was 21.2 per cent. Latin America's share of EEC and EFTA trade also declined in absolute value, while its share of Canadian and Japanese trade increased slightly.

This further decline is even more significant in view of the fact that during 1968 prices for staple Latin American exports improved slightly. The price index showing the mean variation in prices for thirteen products—excluding petroleum and derivatives but including the four major ores and several temperate-zone and tropical-zone agricultural products—stood at 104.7 for 1968, taking 1963 as the base year, compared with 101.9 in 1967. The prices of cocoa, meat, cotton, sugar, copper and lead rose sufficiently to offset the discriminatory treatment of bananas and wheat, Santos type coffee, wool, tin and zinc (see table 68).

The prospects for prices in 1969 are somewhat uncertain, although some estimates are available on world production trends for certain products from which prices may be deduced. For example, it is anticipated that world sugar production will rise to nearly 68 million tons, i.e., two million tons more than in 1968, which is less than the expected increase in consumption. This would

create a deficit of some 3 million tons which might help to alleviate the serious problem of stock piles and to bolster the new minimum price for sugar fixed in the International Sugar Agreement. The coffee market is also likely to remain stable in 1969, since a contraction in supply is expected (Brazilian exports are estimated at some 6 million bags), despite the fact that stocks are sufficient to cover world consumption for a year. International prices for cocoa may rise even higher than in 1968, owing to the decline in the volume of the Ghana harvest, which is expected to amount to about 300,000 tons, or 100,000 tons less than in 1967. Wheat prices are expected to follow their 1967 trend since the major exporting countries have considerably increased their stocks. The wool market seems to have recovered during the last quarter of 1968 and, since the pace of demand is expected to outstrip that of production, world wool prices may be expected to show an upward trend during 1969.

The following sections give a more detailed account of the main events in world trade in relation to each of the major Latin American exports.

(i) *Sugar*. During the second and third quarters of 1968, free market prices for sugar dropped again owing to over-production in the world, but the situation took a sharp turn for the better in the last three months of the year after the signature of the new Sugar Agreement. On the United States market, however, prices moved up during the whole year (see table 69).

The UNCTAD Sugar Conference aimed at steadying prices on the free market, where just under half total sugar exports are sold and prices have fluctuated wildly since the stabilizing mechanism established by the international agreement of 1961 was abandoned. From then on

Table 67. Latin America: share in world trade flows, 1962 and 1965-68
(Percentages)

Country	1962	1965	1966	1967	1968
Share of world total	6.5	6.0	5.7	5.5	5.1
Share in trade of:					
United States	21.2	16.7	15.8	14.4	12.7
Canada	3.2	4.1	3.2	3.3	3.7
Japan	7.5	7.4	6.5	5.7	5.8
Western Europe	5.0	4.3	4.2	4.2	3.7
European Economic Community ^a	5.5	4.7	4.6	4.6	3.9
European Free Trade Area ^b	4.5	3.8	3.6	3.3	3.0
Other countries of Western Europe	3.9	4.2	4.3	4.4	4.2
Latin America	7.7	12.3	11.2	11.4	11.2
Rest of world	3.6	3.6	3.2	3.0	2.8

SOURCE: United Nations, *Monthly Bulletin of Statistics* (June 1963, 1966, 1968 and 1969).

^a Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

^b Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Table 68. Latin America: prices of staple export products, 1964-68
(Index: 1963 = 100)

Product	1964	1965	1966	1967	1968
<i>Food, beverages and tobacco</i>	107.4	99.3	96.2	91.9	93.7
<i>Tropical-zone products</i>	107.0	96.6	93.3	88.5	89.0
Sugar (free market)	69.3	24.9	21.9	24.4	24.9
(United States market)	84.4	82.5	85.4	89.1	92.3
Bananas	90.2	96.4	92.0	93.2	92.5 ^a
Cocoa (Bahia)	87.2	63.8	86.8	99.2	124.2
Coffee (Santos 4)	137.0	131.1	119.6	110.9	109.7
(Manizales)	123.2	122.5	119.7	106.1	107.5
<i>Temperate-zone products</i>	109.6	115.4	112.7	110.4	107.6
Beef	118.8	130.4	122.1	118.1	121.7 ^a
Wheat (Argentina)	105.0 ^b	98.1	101.2 ^b	107.0 ^b	98.4 ^{b c}
<i>Agricultural raw materials</i>	105.5	100.7	102.2	95.4	96.9
Cotton (Matamoros SMI)	100.7	98.3	96.2 ^b	104.8	106.1
Wool (Montevideo Super O'S)	110.8	82.9	93.7	82.9	72.1
(Buenos Aires 40/36)	109.9	90.1	84.0	55.6	54.3
<i>Metals</i>	116.7	128.6	151.7	140.9	147.9
Copper (Chilean) ^d	117.8	136.0	185.6	169.9	182.7
Tin	136.2	155.3	142.4	129.8 ^c	124.7 ^c
Lead	159.3	181.5	150.2	127.6 ^c	137.7 ^c
Zinc	153.5	147.1	132.8	126.4 ^c	124.2 ^c
<i>Petroleum and petroleum products</i>	94.2	93.3	90.9	90.4	...
SUB-TOTAL, excluding petroleum and petroleum products	108.8	106.5	108.0	101.9	104.7
TOTAL	103.9	101.1	101.3	97.2	...

SOURCE: ECLA, *Statistical Bulletin for Latin America*, various issues.

^a Estimate.

^b Average for less than twelve months.

^c Prices have been adjusted to take account of the devaluation of sterling.

^d After May 1968, the figures correspond to the spot price on the London Metal Exchange.

quotations have fluctuated round 4.2 dollar cents per pound, but have also risen as high as 12.3 and fallen as low as 1.13 dollar cents. Moreover, for the last three years prices have been lower than the production costs of the most efficient sugar producers. The new agreement, signed in October 1968, comes into force at the beginning of 1969. Under the regulatory machinery it contains, the export quotas of the signatory States would be reduced by 10 per cent when prices fall below 3.5 dollar cents per pound, and by 5 per cent, subject to the Sugar Council's approval, if they drop as low as 3.25

cents. The ceiling price has been fixed at 5.25 dollar cents. For their part, the importing countries have undertaken not to buy sugar from non-signatory countries at less than the floor price. It should be noted that neither the United States nor the European Economic Community countries have signed the agreement. This is not particularly significant in the case of the United States, which does not buy sugar on the free market, but it may have important repercussions in the case of EEC, which hopes to export more than a million tons in the near future.

Table 69. Sugar: world price trends, 1963-68
(Dollar cents per pound and index: 1963 = 100)

	1963	1964	1965	1966	1967	1968				Yearly average
						I	II	III	IV	
<i>Free market</i>										
Price	8.50	5.89	2.12	1.86	2.08	2.20	1.96	1.71	2.61	2.12
Index	100.00	69.30	24.90	21.90	24.40	25.90	23.10	20.10	30.71	24.94
<i>United States</i>										
Price	8.18	6.90	6.75	6.99	7.29	7.40	7.51	7.62	7.67	7.55
Index	100.00	84.40	82.50	85.40	89.10	90.40	91.80	93.20	93.77	92.30

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

(ii) *Coffee*. Coffee prices remained fairly steady during 1968, after dropping consistently since 1964 (see table 70). They were probably influenced by the rise in demand in importing countries as a result of the expectations aroused by the renewal of the International Coffee Agreement.

In 1967/68, world production of coffee for export amounted to 51.3 million bags, or 6.8 million more than in the previous crop year, thus equalling the annual average for the first five years of the present decade. It is estimated that export production in 1968/69 will be 45.6 million bags, that is, 5.7 million less.

During the first nine months of 1968, world exports of green coffee were 41.7 million bags. This is 9 per cent higher than during the same period in 1967. In Brazil in particular, although the volume of production decreased, exports actually rose by 13 per cent thanks to drawings on stocks. At the same time, Brazil attempted to solve the problem of its non-exportable surpluses by processing coffee. In 1968, nearly 800,000 bags of green coffee were used to produce soluble coffee, and it is hoped to raise this figure to 2.2 million in 1969.

The European countries are taking an increasing share of world imports of green coffee. In 1967 they bought 23.3 million bags, thus exceeding the United States total for the first time since 1914.¹⁹

In 1968 the International Coffee Council was mainly concerned with the extension of the International Coffee Agreement and the establishment of annual quotas for the 1968/69 coffee year. The new Agreement entered into force on 30 December 1968.

The Agreement as renegotiated amended the 1962 Agreement in many important respects. Annex A, which fixes the basic quotas for the producer countries, has been revised in the light of the experience gained through the

application of the earlier Agreement. A selective system, a semi-automatic mechanism for adjusting export quotas in line with the rise or fall of market prices, is provided for. The system of control established by the Agreement has also been made more stringent in order to reduce the possibility of overstepping the quotas set.

In order to achieve its purpose of balancing supply and demand over the long term, the Agreement has set production targets for 1972/73, which had to be fixed for the exporter countries before 1 April 1969. Each exporter country is expected to gear its coffee policy and output to those targets. In order to assist the producer countries to reach them, a Diversification Fund has been set up to which the producer countries contribute 60 dollar cents for every bag of coffee exported to the specified markets over and above the cut-off line of 100,000 bags a year. Their subscriptions would add up to some 30 million dollars a year at the least. During the five-year term of the Agreement, the producer countries will subscribe approximately 150 million dollars. The consumer countries can make voluntary contributions; the United States has pledged itself to provide 15 million dollars, and has also offered to match the contributions of the other consumer countries up to a maximum of 15 million dollars.

The last important amendment is the inclusion of the agreement between the Governments of Brazil and the United States to prohibit discriminatory treatment by the member countries in favour of exports of processed coffee and against green coffee. This provision compelled Brazil to levy the same charges on exports of green and soluble coffee. The Agreement also provides for arbitration by the Council itself to settle any disputes that may arise; unilateral action is permitted only if arbitration has failed and then only to neutralize the effects of the discriminatory treatment.

¹⁹ G. G. Paton & Co., *Complete Coffee Coverage* (3 and 29 May 1968).

Table 70. Coffee: world price trends, 1963-68
(Dollar cents per pound and index: 1963=100)

(Dollar cents per pound and index 1963 = 100)												
		1963	1964	1965	1966	1967	1968					
							I	II	III	IV	Yearly average	
		<i>Price</i>										
Santos 4 . . .		34.1	46.7	44.7	40.8	37.8	37.3	37.5	37.4	37.6	37.4	
Manizales . . .		39.6	48.8	48.5	47.4	41.9	52.1	42.6	42.9	42.9	42.6	
		<i>Index</i>										
Santos 4 . . .		100.0	137.0	131.1	119.6	110.9	109.4	110.0	109.7	110.3	109.7	
Manizales . . .		100.0	123.2	122.5	119.7	106.1	106.3	107.6	108.3	108.3	107.5	

SOURCE: ECLA, on the basis of the United Nations, *Monthly Bulletin of Statistics*, various issues.

At the Council meeting of August 1968, the annual quota for the 1968/69 coffee year was fixed at 47.8 million bags, that is, about the same as at the beginning of the previous coffee year. In view of the threatened port strike in the United States, a special reserve quota of 1.5 million bags was established for distributing if the average price rose to 37.40 dollar cents a pound or more.

During that same meeting, the Council made a further cut of 75 dollar cents per pound in the price differential between the floor price for unwashed *arabica*, mainly from Brazil, and the ceiling price for African *robusta*. The differential was 3 dollar cents in 1966/67 and 1 dollar cent in 1967/68. It is unlikely that the reduction will be followed by a marked increase in the sales of unwashed *arabicas*, since in 1967/68 the export quotas of the producers of *robusta* were raised automatically four times.

(iii) *Cocoa*. In 1968 the price of cocoa rose considerably. During the year it averaged 24 per cent more than in 1963, and by the end of December it had struck a record for the last ten years (see table 71). Its upturn was largely due to the fact that demand outstripped production in the last three crop years, and stocks began to dwindle. If the 1968/69 crop is smaller than in the previous year, as the provisional estimates indicate, market prices may shoot up uncontrollably.

Table 71. Cocoa beans: New York prices for Bahia, 1963-68

Year		Dollar cents per pound	Index: 1963=100
1963	.	26.5	100.0
1964	.	23.1	87.2
1965	.	16.9	63.8
1966	.	23.0	86.8
1967	.	26.4	99.2
1968	.	32.9	124.2
<i>Quarter</i>			
1967	I	26.1	98.4
	II	25.5	96.2
	III	26.0	98.1
	IV	27.8	104.9
1968	I	28.5	107.5
	II	28.1	106.0
	III	31.6	119.2
	IV	43.2	163.0

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

In 1967/68 Latin American production was 278,000 long tons, or 30,000 tons less than in the previous year. Output in Colombia, Mexico and Venezuela was essentially the same as in

1966/67, and rose by some 7,000 tons in Ecuador. The decline was therefore due to the drop in Brazilian output.

After five years of study and negotiation, it has not yet proved possible to conclude an international cocoa agreement, although the problems that loomed largest in October 1967 have now been solved.²⁰ The idea of creating a buffer stock, which would buy or sell cocoa in accordance with price levels, has been accepted. In addition, if surpluses exceed 250,000 tons, export quotas are to be introduced, which will drop gradually as prices fall to a minimum of 187 pounds sterling per ton. The conference between producer and consumer countries held at Geneva in September 1968 tried to settle the differences of opinion by a five-point negotiation package. The attempt broke down, however, mainly because France and the Ivory Coast refused to accept the automatic suspension of the export quotas if the price remains above the minimum for two weeks in succession. Both countries believe that as the price in question is an average, it should be possible to suspend the quotas even if the price drops below the minimum at the end of the fortnight. Moreover, the disputes continue between Brazil and the African countries regarding the abolition of the preferences that have been granted by the European Economic Community to imports from the African Associated territories.

(iv) *Wheat*. World output of wheat in 1967/68 was about 272 million tons, or 10 million less than the year before. Crops increased in the main importing areas—the Soviet Union and the European countries—this particularly affected Canadian exports, but had less of an impact on the other major exporters: the United States, Australia, Argentina and France. The 1967/68 harvest raised unsold stocks and surpluses of the five principal exporting countries by about 300 million bushels, and they thus reached 1,500 million bushels by 1 July 1968, the unit prices being 15 to 20 dollar cents below the minimum price stipulated in the new International Wheat Agreement.²¹

This agreement was ratified by the United States in June 1968, and later by the United Kingdom, the EEC countries and the Soviet Union. Thus it came into force on 1 July 1968, but the drop in prices owing to the increase in unsold stocks may well create serious difficulties in its implementation.

²⁰ "Economic Survey of Latin America, 1967", op. cit., p. 1-153.

²¹ See "Economic Survey of Latin America, 1967", op. cit., Part One, p. 161.

The 1967/68 harvest in Argentina is estimated to have been 7.3 million tons, or nearly 1 million tons more than in the year before. Quotations on the London market in 1968 fell below the levels reached in the two previous years, mainly because of the accumulation of stocks in the major producer countries, particularly Canada.

(v) *Meat.* World beef prices improved slightly in 1968, following the decline in the two preceding years.

One of the most significant developments in 1968 was the entry into operation on 1 July of the common market for beef in the European Economic Community. The new system consists in: (a) the elimination of trade barriers between member countries, except on health grounds; (b) the establishment of common EEC market prices, guide prices and import prices, and of a common variable levy on imports from third countries; (c) special measures covering imports of livestock for fattening; (d) new rules covering imports of frozen meat for processing and export; and (e) the introduction of export subsidies to make good the difference between EEC and world market prices. From the point of view of the Latin American countries, the common market for beef imposes heavy taxes on its meat exports, which could otherwise enter the market at much lower prices than those of the EEC local production. However, there is still a shortfall of some 150,000 tons annually in the Community, 90 per cent of which consists of various types of frozen meat for processing, whose importation is governed by special regulations; according to these rules, certain quantities of frozen meat are periodically imported for processing free of all charges except the normal customs duty of 20 per cent *ad valorem*.

As regards other markets, since 1 June 1968 the United States requires every delivery of meat from Argentina to be accompanied by a certificate stating that it has been examined and that the quantity of pesticide still in it does not exceed the amount authorized by the Food and Drug Act. Despite this restriction, imports of Argentine meat in 1968 were not affected to any notable extent. As far as Canada and Japan are concerned, neither holds out any prospects of a rapid increase in demand.

The United Kingdom suspended imports of Argentine beef from October 1967 to April 1968 because of the outbreak of foot-and-mouth disease in the United Kingdom. During that period, only frozen and canned meat was sold to some supermarkets. Subsequently, Argentina insisted on fixed prices on the basis of contracts with supermarkets and chains of restaurants, in place of the old system based on

constantly fluctuating market prices. It is also endeavouring to sell more cuts and prime meat at higher prices instead of whole animals. Moreover, Argentina has continued its campaign against foot-and-mouth disease by applying strict controls and penalties in order to enforce compulsory inoculation.

(vi) *Cotton.* In 1968, world cotton prices (Matamoras SMI) reached their highest level since 1963 (see table 72). Stocks also declined at the end of the 1967/68 harvest, largely because of the diversification policy followed by the United States.

Table 72. Cotton: recent price trends for Matamoras SMI, 1963-68

Year	Dollar cents per pound	Index: 1963=100
1963	29.3	100.0
1964	29.5	100.7
1965	28.8	98.3
1966	28.2	96.2
1967	30.7	104.8
1968 I	32.3	110.2
II	32.1	109.6
III	30.8	105.1
IV	29.0	99.0
Average 1968	31.1	106.1

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

The increase in cotton consumption in 1967/68 (about 600,000 bales) was observable in the developing and socialist countries, since competition from man-made fibres continued in the United States and Western Europe. This problem was considered at the plenary meeting of the International Cotton Advisory Committee, held at Athens early in June 1968, at which measures were studied for promoting the consumption of cotton.

An increase is expected in the 1968/69 crop, with the stimulus of better prices and an expansion of the area under cultivation in the United States. In Latin America, the 1967/68 cotton crop was somewhat larger than the year before, but was still one million bales below the 1965/66 harvest. The largest increase was in Brazil, where output came close to the record figures for 1965/66, while in Mexico it dropped to the lowest level in the past six years. Furthermore, the relatively high level of exports caused stocks to decline.

(vii) *Wool.* World prices of wool underwent a further decline in 1968, owing mainly to the continued contraction of world demand (see table 73). The seven principal consumers recorded a total consumption of 687,700 tons in 1967, a reduction of 12 per cent with respect to the

Table 73. Wool: Boston market prices, 1963-68
(Dollar cents per pound of wool, clean basis; index: 1963=100)

	1963	1964	1965	1966	1967	1968					
						I	II	III	IV	Yearly average	
<i>Montevideo Super 0's</i>											
Price	111.0	123.0	92.0	104.0	92.0	79.0	79.0	79.0	83.7	80.0	
Index	100.0	110.8	82.9	93.7	82.9	71.2	71.2	71.2	75.4	72.1	
<i>Buenos Aires 40/36's</i>											
Price	81.0	89.0	73.0	68.0	45.0	42.0	42.0	45.0	48.0	44.0	
Index	100.0	109.9	90.1	84.0	55.6	51.9	51.9	55.6	59.3	54.3	

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

previous year. In contrast, world output from the 1967/68 wool clip was exceptionally high and stocks rose sharply.

The persistent decline in consumption was mainly due to competition from man-made fibres, as is clearly observable in the United States market; the share of man-made fibres in the United States' total consumption of textile fibres climbed from 29 to 47 per cent, whereas that of cotton shrank from 65 to 49 per cent, and that of wool from 6.4 to 3.5 per cent. This situation affected Latin America's exports to its most important market, particularly for fine wool. Thus, sales of wool for clothing to the United States dropped by one third in 1967, the countries mainly affected being Argentina and Uruguay; in addition exports of Argentine wool for carpet manufacture declined by 23 per cent.

Preliminary estimates indicate that world output in 1968/69 will be 5,950 million pounds of virgin wool, i.e., 1 per cent more than the preceding year. Among the major producers, production increases are expected in Australia, New Zealand and the Soviet Union, which will more than offset possible decreases in Argentina and Uruguay.²² World market prospects for 1968/69 seem to be improving, although the possible recovery of consumption may be counterbalanced by the high level of stocks in producer countries.

(viii) *Copper*. Quotations for Chilean copper rose 7.5 per cent in 1968 compared with their level in 1967; virtually the whole increase was recorded in the first quarter of 1968, as a declining trend set in later. These price trends were closely linked to the world market position, which in turn depended heavily on the United States market. In this respect, the outstanding development was the copper strike in the United States, which lasted eight months—up to April 1968—and caused production losses of about 1.35 million tons; the result was a substantial in-

crease in imports (which have doubled in volume since 1967, and trebled since 1966).

When the United States strike ended, the declining trend in prices was partly offset by the need to build up stocks in both Europe and the United States. The future stability and firmness of the market, however, continued to depend mainly on demand, so that both the import restriction policy of the major consumer countries and the end of hostilities in south-east Asia could have important repercussions. (The proportion of copper used in the United States for military purposes is estimated at 22 per cent of the average consumption of refined copper.)

Copper production in Chile was affected by the water shortage, which reduced activities at the El Teniente mine. However, the return to normal operations on the London copper market and the more normal relation between spot prices and prices for futures enabled Chile to use the spot quotation as a reference price in its sales of copper as from 31 May 1968. This system was

Table 74. Tin, lead and zinc: recent price trends, 1964-68
(At 1968 prices: index: 1963=100)

Year				Tin	Lead	Zinc
1964	.	.	.	136.2	159.3	153.5
1965	.	.	.	155.3	181.5	147.1
1966	.	.	.	142.4	150.2	132.8
1967	.	.	.	129.2 ^a	127.6 ^a	126.4 ^a
1968	.	.	.	124.7 ^a	137.7 ^a	124.2 ^a
<i>Quarter</i>						
1967	I	.	.	132.0	127.9	132.4
	II	.	.	134.0	130.3	129.4
	III	.	.	131.9	131.9	126.0
	IV	.	.	121.1 ^a	120.3 ^a	117.6 ^a
1968	I	.	.	124.4 ^a	130.1 ^a	123.2 ^a
	II	.	.	123.4 ^a	135.8 ^a	122.9 ^a
	III	.	.	122.5 ^a	142.9 ^a	125.5 ^a
	IV	.	.	128.7 ^a	142.4 ^a	124.7 ^a

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

^a Prices have been adjusted to take account of the devaluation of sterling.

²² See *Wool Intelligence and Fiber Supplement* (September 1968).

adopted by the major copper producers and made it possible in some degree to eliminate prior speculation, which consisted in buying copper futures and later reselling at very much higher spot prices.

(ix) *Other metals.* World tin and zinc prices dropped in 1968, thereby pursuing the declining trend recorded in the two previous years. In contrast, world lead prices rose by 7.9 per cent compared with the year before (see table 74).

After the gold market was regulated by the Central Banks of the major industrial countries, there was less speculation in basic metals, and tin prices declined. Although total consumption of tin seems to equal or slightly exceed the free market supply, the International Tin Council

repeatedly had to adopt measures to maintain prices; thus, purchases for the buffer stock, mainly on the London Metal Exchange, raised the Council's stocks to nearly 10,000 tons. Further, in September 1968, the Council reduced the export quotas allocated to the major world producers—Malaysia, Thailand and Bolivia—in order to stabilize prices. The latent instability of the tin market is explained by the relatively rapid growth of production (up 20,000 tons in three years) and the likelihood that the United States will sell part of its strategic reserves. Although the United States has not sold any of its reserves in the last fifteen months, the Government announced on 27 March 1969 that it would be reducing them from their present level of about 60,000 tons.

Chapter II

ECONOMIC TRENDS BY COUNTRIES

Argentina

RECENT ECONOMIC TRENDS

In 1968 Argentina's gross domestic product increased by about 4.8 per cent, thus emerging from the stagnation of 1966 and exceeding its growth rate of 1.8 per cent in 1967.

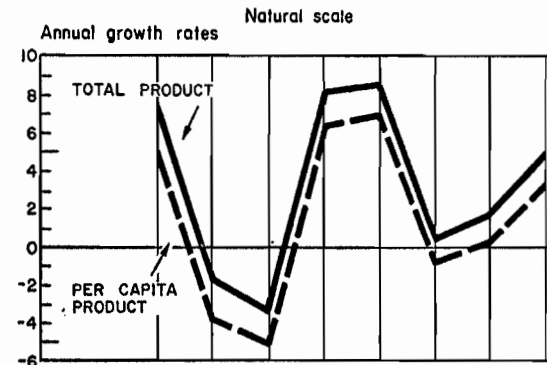
Several features clearly distinguish the economic trends in 1968 from those in the previous two years. For instance, while the sluggish growth in 1967 was characterized by an increase in agricultural production and a decline in industrial activity, the position was reversed in 1968: the agricultural product dropped by 4.8 per cent and urban activities expanded significantly, with an increase of nearly 8 per cent in manufacturing and more than 20 per cent in construction (see table 75 and figure IV).

Total consumption expanded by about 4.7 per cent owing to an upturn in private consumption, since government consumption, in real terms, remained fairly stable. On the other hand, investment went up by 14.6 per cent, most of the increment being accounted for by construction (14.8 per cent in private construction) and in particular by the expansion of public works (42 per cent). Investment in equipment rose 8.9 per cent, largely as a result of government purchases under the public investment plan, notably of

imported equipment, which increased by more than 12 per cent. In this process of rising investment over the past two years, it will be noted that the principal channel for the reallocation of

Figure IV. Argentina: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR

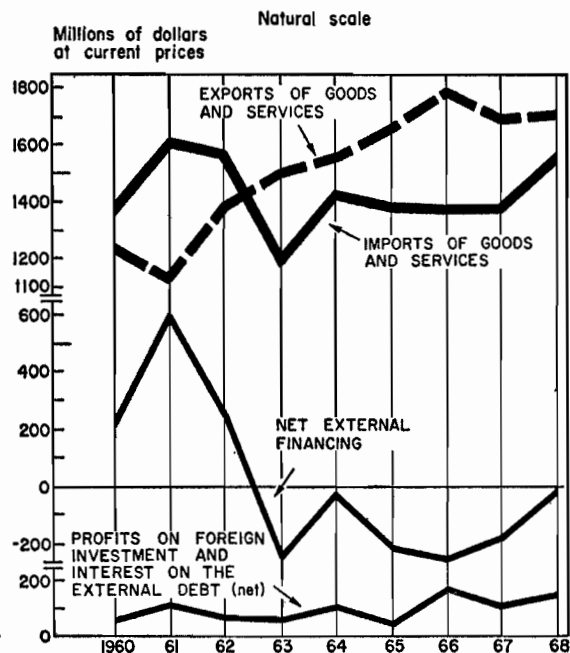


Table 75. Argentina: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

Sector	1960-66	1967	1968
Agriculture	2.3	3.6	-4.8
Mining	8.4	9.6	9.9
Manufacturing	4.3	—	7.9
Construction	-0.5	8.6	23.6
Goods	3.5	2.4	4.6
Electricity, gas and water	11.0	7.2	7.6
Transport and communications	2.8	0.8	6.4
Basic services	4.2	2.1	6.7
Commerce and finance	2.6	1.2	4.8
Government	1.5	1.0	0.7
Miscellaneous services	1.4	3.1	3.3
Other services	2.1	0.8	4.4
Growth rate of the total product	3.0	1.8	4.8

SOURCE: Central Bank of Argentina, provisional figures.

Table 76. Argentina: total supply and demand, 1960 and 1966-68
(Thousands of millions of pesos at 1960 prices)

	1960	1966	1967	1968	Percentage annual growth rates		
					1960-66	1967	1968
<i>Total supply</i>	1,075.3	1,262.6	1,285.1	1,342.6	2.7	1.8	4.5
Gross domestic product	961.2	1,150.7	1,171.4	1,227.3	3.0	1.8	4.8
Imports of goods and services	114.1	111.9	113.7	115.3	-0.3	1.6	1.4
<i>Total demand</i>	1,075.3	1,262.6	1,285.1	1,342.6	2.7	1.8	4.5
Exports of goods and services	102.5	144.0	142.7	135.6	5.8	-0.9	5.0
Total investment	218.3	201.5	210.6	231.7	-1.4	4.5	10.0
Gross fixed investment	208.6	200.2	209.5	240.1	-0.7	4.6	14.6
Construction	87.3	84.3	88.8	108.6	-0.6	5.3	22.3
Public	34.1	22.4	24.7	35.1	-6.8	10.3	42.1
Private	53.2	61.9	64.1	73.6	2.6	3.6	14.8
Machinery and equipment	121.3	1,116.0	120.7	131.4	-0.7	4.1	8.9
Total consumption	754.5	917.0	931.8	975.3	3.3	1.6	4.7
General government	86.3	85.5	85.8	86.4	-0.2	0.4	0.7
Private	668.2	831.5	846.0	888.9	3.7	1.7	5.1

SOURCE: Central Bank of Argentina, provisional figures.

resources has been the public sector (see table 76).

During the year, further progress was made with price stabilization, there being increases of only 4 per cent in wholesale prices and 9.6 per cent in the cost-of-living index. Unemployment also declined, and there was a slight deterioration in real wages.

In the public sector, current income and expenditure remained constant in real terms. There was a jump of over 22 per cent in government investment, under the stimulus of a reduction in the deficit and advance payments to public enterprises, which led to an increase in the real volume of current saving by government bodies as a whole.

External sector trends show that the value of exports of goods declined while imports rose slightly. Together with the increase in financial services, this helped to reduce the surplus on current considerably. The continued inflow of non-compensatory capital, including the proceeds from the sale of 100 million dollars' worth of government securities abroad, enabled Argen-

tina to improve the net position of its monetary reserves for the fourth year in succession.

MAJOR PRODUCTION SECTORS

Agricultural production declined, mainly on account of the weather conditions which affected most of the crops (see table 77). It is estimated that the output of cereals and linseed together fell by about 7.6 per cent, since the maize and linseed harvests shrank by 23 and 33 per cent respectively. The increase of 17 per cent in wheat failed to compensate for these contractions. Production of feed grains dropped by 3.7 per cent, of oilseeds by 15.7 per cent, of industrial crops by 15.2 per cent and of vegetables and pulses by 7.3 per cent, while the fruit harvest as a whole increased by 7.3 per cent.

The livestock product declined 0.9 per cent, mainly because of a reduction of 1.5 per cent in cattle herds. However, there was an increase in the average weight of the steers, which averaged 445 kilogrammes per head. Slaughtering accounted for a quarter of the cattle inventories. A drop of nearly 15 per cent took place in the number of

Table 77. Argentina: production of major agricultural commodities, 1953-62 and 1963-68
(Thousands of tons)

Year	Wheat	Maize	Oats, barley and rye	Linseed	Sunflower seed
1953-62	6,130	4,103	2,747	571	583
1963	5,700	4,360	995	839	462
1964	8,940	5,350	2,464	771	460
1965	11,260	5,140	2,282	815	757
1966	6,079	7,040	1,129	570	782
1967	6,247	8,510	1,248	577	1,120
1968	7,320	6,560	1,630	385	940

SOURCE: Ministry of Agriculture.

cattle for export, while 6 per cent more were sent to the domestic market. Sales of sheep edged down (1.1 per cent) and value added in the wool sector dropped by 4.4 per cent. Pig slaughtering fell off by 0.4 per cent and that of goats and horses by 4.8 per cent. However, milk production and farm products increased (3.8 and 6 per cent respectively).

Industry expanded by 7.9 per cent, thanks to the boost given by public investment, mainly as a result of the increase in construction activities, and, secondly, to investment in equipment (see table 78). In particular, exports of manufactures showed an improvement under the stimulus of the draw-back system. As regards domestic demand, stocks had to be drawn on during the first few months until the ratio of production to sales returned to normal. There was an increase in the utilization of production capacity, which amounted to 69 per cent compared with the average of 67 per cent for 1964-67.

Table 78. Argentina: changes in industrial production index and utilization of production capacity, 1967 and 1968

	Percentage growth rates		Percentage utilization of capacity
	1967	1968	1968
Food, beverages and tobacco	5.3	4.4	65
Textiles, made-up goods and leather goods	-1.0	8.6	75
Chemical products	-1.7	23.2	69
Stone, earth, glass and pottery	2.8	8.1	80
Metals, excluding machinery	0.7	25.6	71
Motor-vehicle manufacture	2.7	3.2	61
Machinery, excluding electrical machinery	-7.7	3.1	63
Electrical machinery and equipment	-3.6	-7.8	67
Other	-3.1	5.6	82
General index	0.0	7.9	69

SOURCE: Ministry of Economic Affairs and Labour, *Informe económico del cuarto trimestre de 1968* (Buenos Aires, February 1969).

Construction, which expanded nearly 23 per cent, was one of the main dynamic elements of the economy in 1968. Investment in public construction, in particular, rose more than 40 per cent and in private building by nearly 11 per cent. The insufficient output of industries producing construction inputs sent construction costs up in the second half of the year, but the increase over the whole year was only one-quarter of that recorded in 1967.

Petroleum output was close to 20 million tons, or 9.4 per cent more than the year before, an increase which is attributable to the State enterprise. The volume of refined petroleum increased by 5 per cent, with a progressive reduc-

tion in petroleum imports; in 1966 these had represented 20 per cent of the total oil refined, but this proportion dropped to 14 per cent in 1967 and 11 per cent in 1968. Gasoline output was the same as in the previous year, but the production of gas oil expanded.

Other increases were noted in the production of run-of-mine coal (17 per cent) and marketable coal (16 per cent); however, sales rose by less than 2 per cent because of marketing problems. As regards the power generated by the public utility plants, this was 8 per cent more than in 1967.

PRICES, WAGES AND EMPLOYMENT

Progress in price stabilization, which began to be achieved at the end of 1967, was consolidated in 1968. Thus wholesale prices in general rose only 4 per cent over the whole year, which meant that the average increase from 1967 to 1968 was 9.3 per cent compared with 25.8 per cent from 1966 to 1967. Generally speaking, the ups and downs in wholesale price stabilization have been linked to price variations in agriculture, since the increases in industrial prices levelled off. The average prices of the articles composing the market basket on the basis of which the cost of living is measured went up by 9.6 per cent in 1968, most of this increase being concentrated in the last three months owing to seasonal fluctuations in the prices of these products (see table 79).

This time the stabilization programme was carried out with a plentiful supply of credit instead of with the usual stringency in this kind of attempt to curb real demand. Fiscal policy was brought into line with credit policy by abandoning the practice of increasing the means of payment through monetary expansion—which is necessary when a large proportion of the fiscal deficit is financed in this way—and adopting that of lowering the floor for cash reserves, which makes it possible to increase the supply of credit without altering the monetary base. In this way, reductions in the fiscal deficit for the purpose of arresting inflation have become at least temporarily independent of the management of the money supply, which is allowed to expand according to the system's requirements.

Nominal wages, which had been frozen since April-May 1967, rose in January 1968 as a result of the reduction in personal contributions to the social security system, which represented 6.7 per cent of the total nominal wage. Altogether, the 1968 averages were nearly 11 per cent higher than in 1967. In real terms, however, wages seem to have deteriorated by 2.6 per cent from December 1967 to December 1968, owing to the rise in the cost of living. If the averages for the two years

Table 79. Argentina: wholesale price indexes and cost-of-living indexes in Buenos Aires, 1966-68

Period	Wholesale prices					Cost of living
	General	Agricultural	Non-agricultural			
			Total supply	Domestic supply	Imports	
Index: 1960 = 100						
December 1966 . . .	378.4	379.3	378.0	382.1	319.0	447.5
December 1967 . . .	456.3	425.0	456.7	459.3	418.3	569.9
December 1968 . . .	474.5	464.5	478.4	481.1	439.2	624.4
Average 1966 . . .	340.8	333.5	343.7	348.2	277.9	374.3
Average 1967 . . .	428.6	419.6	431.4	434.3	398.7	483.7
Average 1968 . . .	468.3	457.8	472.6	475.9	424.4	562.1
Percentage variation between the beginning and end of each period						
1967 I.	4.3	-3.7	7.5	6.8	19.2	0.5
II.	8.9	14.1	7.1	6.8	10.4	6.6
III.	5.9	10.7	4.0	4.3	9.3	5.8
IV.	0.3	-1.4	0.9	1.0	-0.5	13.4
12 months . . .	20.6	20.0	20.8	20.2	31.2	27.4
1968 I.	0.8	-3.1	2.4	2.6	-0.5	-3.1
II.	2.1	5.6	0.7	0.7	0.8	—
III.	1.7	2.1	1.5	1.4	3.1	1.5
IV.	-0.6	-2.3	—	-0.1	1.6	11.4
12 months . . .	4.0	2.1	4.8	4.7	5.0	9.6
Percentage variation between the averages						
1966/1965 . . .	19.9	21.3	19.5	19.5	19.5	31.9
1967/1966 . . .	25.8	25.8	25.7	24.7	43.5	29.2
1968/1967 . . .	9.3	9.1	9.4	9.6	6.4	16.2

SOURCE: National Statistics and Census Office.

are analysed, the deterioration is even greater: 4.6 per cent for industrial workers, 2 per cent for construction workers and 4.8 per cent for business employees. Subsequently, an increase of 8 per cent of the basic wages stipulated in the agreements governing private and public activities was authorized as from 1 January 1969.

The rate of unemployment in the metropolitan area dropped from 5.4 per cent in April 1968 to 4.8 per cent in June and October. Although employment figures are subject to seasonal variations, this represents a 3.5 per cent increase in employment over 1967. It would appear, therefore, that the increased activity in the urban sectors was reflected in the level of employment.

PUBLIC SECTOR

The evolution of the fiscal sector in 1968 indicates that the current income and expenditure budget was frozen, in real terms, and that investment rose. In addition, there was a change in the source of funds thanks to which the monetary financing of the fiscal deficit could be reduced.

Both current income and current expenditure rose proportionally to the general level of prices, thereby maintaining the same real values as in

1967. There was, however, a drop of 42 per cent in the deficits of public enterprises and in the advances to them (an item accounted for almost entirely by the State railways); this made for a real increase in the current saving of government bodies as a whole, which had already reflected a positive balance in 1967. Since on the other hand the social security system failed to show a surplus—whereas in 1967 it had contributed 10 per cent of its income to public financing—the government current account was stabilized (see table 80).

The real value of fiscal revenue was maintained thanks to the increase in taxes earmarked for specific purposes—notably the National Energy Fund (Fondo Nacional de la Energía)—since the total revenue obtained by the Treasury fell, in real terms, by about 2 per cent. The setbacks occurred in direct and foreign trade taxes, as indirect taxes showed a real increase of over 20 per cent. This trend indicates a considerable change in the tax structure, partly reversing the process which took place in 1967, when the significant increase in the tax burden was obtained through heavier direct taxation and the introduction of new export taxes. In 1968 the revenue from import taxes and charges declined, added to which the real estate tax—

Table 80. Argentina: public sector account, 1964-68
(Thousands of millions of pesos at 1960 prices)

	1964	1965	1966	1967	1968
A. Current income and expenditure					
I. General government					
1. Current income	91.2	117.0	127.9	156.3	158.1
2. Current expenditure	92.7	101.3	112.8	123.0	125.1
3. Subsidies to public enterprises	10.9	17.8	19.0	13.0	7.5
4. Current saving	-12.4	-2.1	-3.8	20.3	25.5
II. National social security system					
1. Income from social security contributions	43.8	47.7	47.2	63.9	64.5
2. Benefits	38.4	43.7	49.1	58.0	64.5
3. Saving	5.4	4.0	-1.9	5.9	—
B. Capital expenditure	43.5	47.6	48.1	62.0	73.0
I. General government	19.7	23.0	20.2	32.3	38.3
1. Grants to provinces and municipalities	4.7	5.7	5.5	4.2	3.0
2. Public works programme	11.1	11.1	11.0	17.2	35.3
3. Other capital investment and transfers	3.9	6.2	3.7	10.9	
II. Public enterprises	23.8	24.6	27.9	29.7	34.7
C. Investment financing	43.5	47.6	48.1	62.0	73.0
I. Current saving	-7.0	1.9	-5.8	26.2	25.5
II. Financial accounts	-26.1	0.1	1.7	6.4	...
1. Other public sources	1.0	9.1	4.3	8.1	3.0
2. Other net financial assets and liabilities ^a	-27.1	-9.0	-2.6	-1.7	...
III. Investment resources of enterprises	14.0	17.2	16.9	20.6	24.8
IV. Investment deficit	62.6	28.4	35.3	8.8	19.7
1. Net resources	26.6	10.9	7.4	-5.3	13.7
Gross investment resources	29.9	12.7	11.9	2.4	22.8
Amortization of public debt	3.3	1.8	4.5	7.7	9.1
2. Monetary resources	36.0	17.5	27.9	14.1	6.0

SOURCE: ECLA, on the basis of official statistics.

^a Includes statistical discrepancies.

which had been levied on a temporary basis—was abolished, and the duties on agricultural exports reduced.

Total public investment rose by about 20 per cent in real terms and the shortfall in investment still to be financed, which in 1967 had amounted to 14 per cent of total public investment, reached 27 per cent of that total in 1968. Recourse was had to two means of financing to cover this deficit. First, 100 million dollars' worth of long-term securities were sold abroad and nearly as much on the domestic capital market. Secondly, resources were obtained by making more use of deferred payment orders for debts and bills outstanding. It was thus possible not only to cover the larger investment deficit and the heavier debt amortization payments, but also to reduce monetary financing in the form of advances from the Central Bank to less than half its previous volume.

THE EXTERNAL SECTOR

The surplus on current external transactions, which had reached the figure of 257 million

dollars in 1966, dropped to 184 million in 1967 and to only 8 million in 1968 (see table 81 and figure IV). The 1968 trend is attributable to a 26 per cent decrease in the surplus on the merchandise account (which even so was 378 million dollars)—caused by a decline of nearly 100 million dollars in the value of exports, an increase of over 30 million dollars in imports and an increase in the negative balance for invisibles, which reached its highest level for the last five years.

The decline in exports was the result of a contraction in nearly all the traditional items, which was only partly offset by increases in wool and more highly processed articles. In spite of the recovery in prices on certain markets, the value of meat exports fell 22 per cent, owing partly to the embargo placed on them by the United Kingdom at the end of 1967 on account of the outbreak of foot-and-mouth disease in Argentina; the Argentine Government therefore decided to export frozen meat only on the basis of firm f.o.b. prices.

Table 81. Argentina: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	1,234.4	1,656.0	1,783.0	1,693.0	1,555.0
Goods	1,079.2	1,493.0	1,593.0	1,464.0	1,365.0
Services	159.2	163.0	190.0	229.0	190.0
Imports of goods and services	1,379.3	1,379.0	1,372.0	1,390.0	1,403.0
Goods, f.o.b.	1,099.4	1,043.0	978.0	953.0	987.0
Services	279.9	336.0	394.0	437.0	416.0
Net investment income	-57.0	-53.0	-151.0	-119.0	-142.0
Net private transfer payments	-7.0	-4.0	-3.0	0.0	-2.0
Balance on current account	-204.9	+220.0	+257.0	+184.0	+8.0
Capital account					
Net external financing	+204.9	-220.0	-257.0	-184.0	-8.0
Net non-compensatory foreign capital	+564.9	-244.0	-73.0	-42.0	+151.0
Direct investment	+332.0	+43.0	+40.0	+9.0	
Non-compensatory loans	+215.7	-275.0	-35.0	-9.0	
Short-term liabilities	+16.6	-14.0	-74.0	-39.0	
Official transfer payments	+0.6	+2.0	-4.0	-3.0	
Net non-compensatory domestic capital or assets	-8.3	+20.0	-66.0	+35.0	-159.0
Errors and omissions	-176.5	+97.0	-80.0	+262.0	
Compensatory movements (increase —)	-175.2	-93.0	-38.0	-439.0	
Net compensatory foreign capital	+131.2	-22.0	-50.0	+50.0	
Balance-of-payments loans and deferred import payments	+94.1	+24.0	-5.0	+95.0	
Other liabilities of the monetary authorities	-11.4	-2.0	+1.0	+3.0	
IMF position	+48.5	-44.0	-46.0	-48.0	
Movements of gold and foreign exchange (increase —)	-306.4	-71.0	+12.0	-489.0	

SOURCE: Up to 1967: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 20; for 1968: Ministry of Economic Affairs and Labour, *Informe económico del cuarto trimestre de 1968* (Buenos Aires, February 1969).

A decline was also observable in exports to the European Economic Community, which continued its policy of replacing frozen meat imports by live animals, and raised its variable levies on imports (*prélevements*). Agricultural exports—including vegetable oils and other by-products—fell by 17 per cent, or 100 million dollars. The sharpest reduction was in cereals, both wheat and maize. Conversely, food exports (including meat preparations) and exports of mining products and chemicals rose, the largest increases being in sales of wool—despite an appreciable deterioration in wool prices—and industrial products, which went up from 82 million dollars in 1967 to 100 million in 1968.

Movements on capital account were moderate in 1968 and represented no great change in relation to 1967. The flow of non-compensatory capital continued (with a positive sign), although on a more reduced scale, and included the sale of 100 million dollars' worth of government securities abroad. This contributed to a balance-

of-payments surplus before compensation for the fourth year in succession, cancelling out loans and improving the net position of the monetary authorities.

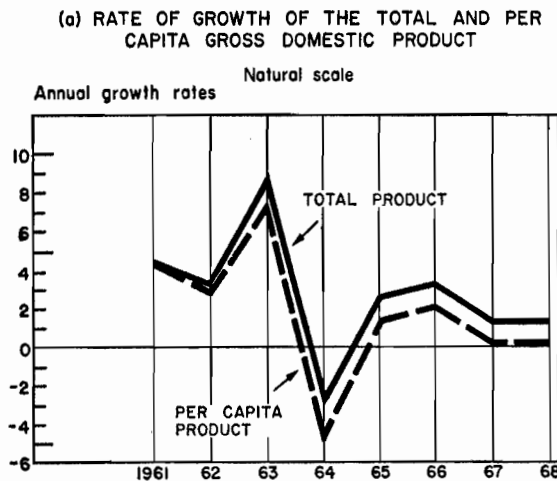
All this helped to buttress the external value of Argentina's currency and make it fully convertible in 1968. Thus Argentina entered the category of countries referred to in article VIII of the IMF Articles of Agreement.

Barbados

RECENT ECONOMIC TRENDS

According to preliminary estimates, the growth rate of the economy in 1968 was much the same as in 1967. The decline in sugar output was offset by the large amount of revenue from the tourist industry, the inflow of capital and construction activities. Consequently, the economy was less dependent on the sugar industry, in the sense that variations in output were not automatically reflected in the product (see figure V).

Figure V. Barbados: 1960-68



Although firm estimates are not available, agriculture is thought to have contributed 47.8 million East Caribbean dollars¹ to the gross domestic product in 1967, which is an increase of close to 10 per cent (at current prices) over 1966. This was attributable to the fact that sugar output totalled more than 200,000 tons in 1967, in contrast to an estimated 159,000 tons in 1966. The large increase in 1967 followed increases of 6.1 per cent in 1965 and 1.6 per cent in 1966. At the same time there is a trend in agriculture towards diversification and import substitution. Furthermore, in construction, planned public investment and the number of applications from the private sector for permission to build indicate an increase in activity, while investment in new manufacturing establishments increased from 1.1 million dollars in 1965 to 2.7 million in 1966 and 3.7 million in 1967.

¹ All references to dollars in this section are to East Caribbean dollars unless otherwise specified. One United States dollar equals two East Caribbean dollars.

The rising trend of the product is also attributable to the significant increase in the contribution of the government sector (from 21.3 million dollars in 1966 to 25.8 million in 1967) and services (from 17.5 million dollars to 19.5 million over the same period) (see table 82). It should be noted that the government sector more than doubled its contribution to the product between 1960 and 1967 from 12 to 26 million dollars. This was due to the fact that central government income and expenditure both increased—the latter more rapidly—so that the budget surplus on current account declined from 3.4 million dollars in 1960-61 to 1.6 million in 1967-68 (see table 83). Import duties and internal consumption taxes continued to account for the major share of current revenue, varying between 44 and 48 per cent of the total. Income taxes and death duties were together the second most important source of revenue. Since 1964-65 personal income tax has increased steadily while corporate income tax has remained virtually stable. Capital expenditure by the public sector fluctuated in relation to the timing of the implementation of certain major projects, attaining a high of 11.5 million dollars in 1966-67. In six of the past eight financial years, capital expenditure was financed from the budget surplus on current account, supplemented by domestic and external loans. Up to 1965, colonial development and welfare funds from the United Kingdom were an important source of financing, but subsequently credit from this source declined and has now ceased altogether. At present, loans provide most of the funds for capital expenditure and this is reflected in the increases in indebtedness and debt servicing charges, which are largely payable abroad.

THE EXTERNAL SECTOR

Visible trade grew in 1967, with exports rising at a faster rate than imports. Total exports increased by 3.3 per cent and exceeded 72 million

Table 82. Barbados: gross domestic product by sector of economic activity, 1963-67^a

	Millions of EC\$ at current prices					Sectoral growth rates				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
Sugar	37.0	29.7	31.5	32.0	35.1	46.2	-19.7	6.1	1.6	9.7
Other agriculture	8.2	8.2	8.3	8.3	...	-2.4	0.0	1.2	0.0	...
Manufacturing and mining	13.5	14.0	14.1	14.4	...	1.5	3.7	0.7	2.1	...
Construction	14.2	14.2	14.3	14.4	...	1.4	0.0	0.7	0.7	...
Distribution	33.6	34.1	35.6	37.3	...	15.1	1.5	4.4	4.8	...
Transport and public utilities	8.5	8.7	9.0	10.3	...	2.4	2.4	3.4	11.4	...
Ownership of dwellings	6.4	6.5	6.5	6.8	...	0.0	1.6	0.0	4.6	...
Services	15.0	15.4	17.0	17.5	19.5	2.7	2.7	10.4	2.9	11.4
Government	15.0	16.5	17.6	21.3	25.8	10.3	10.0	0.7	21.0	21.1
TOTAL	151.4	147.3	153.9	162.3	...	13.8	-2.7	4.5	5.5	...

SOURCE: Office of the Prime Minister, Economic Planning Unit, *Economic Survey Barbados*, 1968 (Bridgetown).

^a Estimates.

Table 83. Barbados: Central Government receipts and expenditure, 1960-68
(Thousands of EC\$)

Item	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68*
Receipts (current)	26,035	26,209	28,325	33,646	38,494	40,098	43,809	50,316
Expenditure (current)	22,684	27,157	28,399	29,036	31,273	34,628	43,392	48,674
Surplus (+) or deficit (-)	+3,352	-948	-74	+4,610	+7,219	+5,470	+437	+1,642
Capital expenditure	—	—	7,930	9,554	8,225	10,270	11,494	8,587

SOURCE: Office of the Prime Minister, Economic Planning Unit, *Economic Survey 1968* (Bridgetown).
* Provisional.

dollars in value despite a decline in re-exports, which since 1962 had averaged more than 25 per cent of total exports. Total imports increased by 2.4 per cent and amounted to a value of 134.3 million dollars. As a result, the deficit on merchandise trade in 1967 was slightly higher than in 1966. Preliminary estimates for 1968 indicate that the value of exports will decrease and that the deficit will consequently widen. The main recent increases in imports have been in chemicals and in transport machinery and equipment. The data available for 1968 indicate that the increase in domestic demand for investment goods, which began in 1964, is still continuing. Another significant development is the decrease in food imports (see table 84).

Earnings from tourism help substantially to offset the deficit incurred on visible trade, since

tourism is the second largest source of foreign exchange, exceeded only by the sugar industry. Preliminary data for 1967 show that tourists spent 34.8 million dollars—compared with 44.1 million dollars received in respect of exports of sugar, rum and molasses—and tourist expenditure appears to have grown in 1968. The expansion of the tourist industry has been very rapid: between 1960 and 1967 tourist arrivals rose from 35,535 to 91,565, while tourist expenditure grew from 13.8 million dollars to 34.8 million, substantially exceeding the forecast in the 1965-68 development plan for Barbados (see table 85). The estimates reveal that average expenditure per tourist declined between 1963 and 1967, as did the average length of stay, since an increasing number of visitors come for one to three weeks only. With regard to the origin of tourists, more than

Table 84. Barbados: percentage composition of imports, 1964-67

SITC groups	1964	1965	1966	1967
0 Food	26.7	27.4	26.0	24.4
1 Beverages and tobacco	2.0	1.8	1.8	1.8
2 Crude materials, inedible, except fuels	3.3	3.3	3.4	3.7
3 Mineral fuels, lubricants and related materials	10.4	10.1	10.0	8.7
4 Animal and vegetable oils and fats	0.5	0.7	0.6	0.8
5 Chemicals	7.9	7.2	7.5	8.2
6 Manufactured goods classified chiefly by material	19.2	20.0	20.7	20.4
7 Machinery and transport equipment	16.6	16.3	17.0	19.3
8 Miscellaneous manufactured articles	10.1	9.8	10.0	10.4
9 Miscellaneous transactions and commodities	3.5	3.4	3.0	3.1

SOURCE: Official statistics of Barbados.

Table 85. Barbados: selected indicators of tourism, 1960-67

Item	1960	1961	1962	1963	1964	1965	1966	1967
Tourist arrivals	35,535	37,060	44,258	50,627	57,625	68,418	79,104	91,565
Canada and United States	13,471	15,761	19,632	23,145	26,061	34,023	40,199	48,106
Commonwealth Caribbean	14,638	13,985	16,220	16,675	19,261	20,842	23,149	24,713
Others	7,426	7,314	8,406	10,507	12,303	13,553	15,756	18,746
Cruise passengers	24,172	26,948	24,658	27,184	41,671	52,664	51,593	45,451
Estimated expenditure (millions of EC\$)	—	—	—	20.3	23.7	26.1	29.1	34.8

SOURCE: Official statistics of Barbados.

half the arrivals in 1967 came from Canada and the United States. The number of visitors from neighbouring islands has also gradually increased, and accounted for 28 per cent of the total in 1967. Emigrants' remittances, the other significant item in the balance of payments, have continued to decline.

Bolivia

RECENT ECONOMIC TRENDS

In recent years, the product of the Bolivian economy has grown at a steady average annual rate of 5.2 per cent over the period 1960-67 and a rate of 5.3 per cent in 1968. The sectors contributing most to the economy's growth were manufacturing industry (which since 1960 has grown at an average annual rate of over 7 per cent), construction (which tripled its value added over the same period) and petroleum production (which began to boom in 1966). These three sectors again made rapid progress during 1968 (see table 86 and figure VI).

Exports and imports grew relatively little during 1968, as the pronounced upward trend of earlier years slowed down: between 1960 and 1967 exports almost tripled their dollar value, and this, together with external aid and capital inflows, signified that imports more than doubled.

This rapid rise in production and imports meant that the domestic supply of goods and services increased by almost 5 per cent, totalling 60 per cent more in 1968 than in 1960 (see table 87). The result was a 55 per cent rise in consumer expenditure and a 79 per cent rise in

Table 86. Bolivia: growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968 (Percentages)

Sector	Annual growth rates		
	1960-66	1967 ^a	1968 ^b
Agriculture	2.6	-6.4	3.5
Petroleum	9.3	72.9	5.3
Mining	6.2	4.3	2.6
Manufacturing	7.4	6.8	7.3
Construction	9.6	23.4	14.7
Goods	5.1	7.6	5.4
Electricity, gas and water	7.1	2.6	4.1
Transport and communications	4.4	5.1	4.4
Basic services	4.7	4.8	4.4
Commerce and finance	3.9	2.8	5.3
Government	8.7	1.8	3.0
Miscellaneous services	4.7	2.5	6.9
Other services	5.3	2.4	5.4
Growth rate of the total product	5.1	5.6	5.3

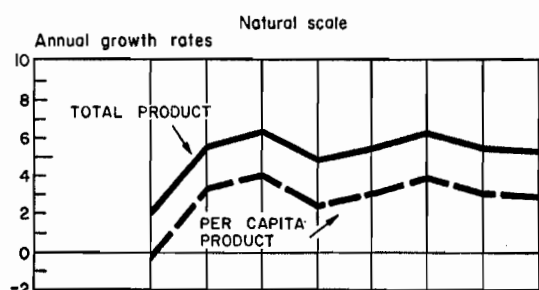
SOURCES: ECLA, on the basis of data supplied by the Planning and Co-ordination Office and the National Accounts Department of the Statistics and Census Office.

^a Provisional figures.

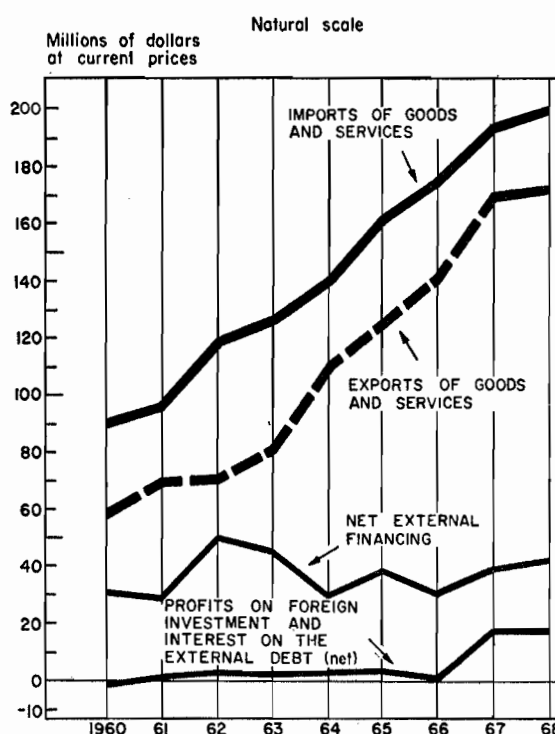
^b Estimates.

Figure VI. Bolivia: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



capital expenditure. Following the unusually high level of investment in 1967, investment again increased in 1968 (by slightly more than 5 per cent), bringing the average annual growth rate of fixed capital formation over the period 1960-68 to 7.8 per cent, with marked differences in the rates for individual years attributable to the implementation of large-scale petroleum, energy, mining and highway projects. Over the same period private consumption grew annually at an average rate of 5.5 per cent.

The public sector had a very dynamic influence on the growth of both consumption and investment. General government expenditure grew by more than 10 per cent in 1968, compen-

Table 87. Bolivia: total supply and demand, 1960 and 1966-68

	Millions of pesos at 1960 prices			
	1960	1966	1967 ^a	1968 ^b
<i>Total supply</i>	5,551	7,945	8,482	8,901
Gross domestic product	4,479	6,050	6,387	6,724
Imports of goods and services	1,072	1,895	2,095	2,177
<i>Total demand</i>	5,551	7,945	8,482	8,901
Exports of goods and services	726	982	1,231	1,265
Total investment	675	1,171	1,178	1,214
Fixed investment	637	864	1,101	1,160
Public	275	450	470	480
Private	362	414	631	680
Total consumption	4,150	5,792	6,073	6,422
General government	387	599	601	664
Private	3,763	5,193	5,472	5,758

SOURCES: ECLA, on the basis of data supplied by the Planning and Co-ordination Office and the Department of National Accounts of the Statistics and Census Office.

^a Provisional figures.

^b Estimates.

sating for its relative stagnation during 1967, and bringing the average annual growth rate over the period 1960-68 to 7 per cent. Public investment grew very rapidly between 1960 and 1966 (8.6 per cent annually) but then appeared to lose headway (4.4 per cent in 1967 and 2.1 per cent in 1968). Much of the expansion of the public sector was based on contributions from external sources and on large fiscal deficits which in recent years—particularly in 1968—have tended to shrink.

TRENDS IN SELECTED PRODUCTION SECTORS

Agricultural production made a partial recovery in 1968 after its decline in 1967 and grew by some 3.5 per cent. Increases in production in 1968 came in the main crops: wheat production rose; rice production was sufficient to cover domestic consumption; potato production increased (by 20,000 tons, which led to a drop in prices); citrus fruit and banana production also rose, as did coffee production, which grew by 16 per cent over and above its rise of 73 per cent in 1967, and resulted in an exportable surplus. Activities to promote land settlement and to bring new farmland under cultivation continued. A pilot project is being undertaken in the Abapó-Izozog area whereby 725,000 hectares of farmland suitable for crops and livestock will be brought under cultivation. Under the land settlement programmes 4,500 families were to be settled in the Alto Beni, Chimoré and Yapacani areas by mid-1968, while 2,000 families are to be settled in San Julián over a four-year period; 47,000 families have already been settled in other areas.

Mining production, which grew at an average annual rate of almost 6 per cent during the

period 1960-67, increased by only 2.6 per cent in 1968. This was due to the decline in tin and zinc production as a result of the drop in prices, and to the establishment of export quotas for tin. At the same time, the attempts to raise mineral yields in national refineries continued. The Bolivian Mining Corporation (Corporación Minera de Bolivia—COMIBOL) intends to use the industrial complex it is building in Vinto (Oruro) for this purpose, especially for low-grade minerals, and in 1970 the National Smelting Company (Empresa Nacional de Fundición) will begin to produce 7,500 tons of electrolytic tin and 800 tons of alloy annually. Large investments have been made in private mining enterprises producing sulphur, asbestos, zinc and wolfram, and this has been reflected in increased exports.

Petroleum production rose by slightly more than 5 per cent in 1968, following the 1967 boom (73 per cent). The production of the State Petroleum Corporation (Yacimientos Petrolíferos Fiscales Bolivianos—YPFB), which amounts to 19 per cent of total production, rose by 12 per cent and that of the Gulf Oil Companies by 3 per cent. The two corporations have agreed to prospect a large area of the Bolivian *altiplano* jointly. There is also a project to construct a petroleum refinery at Santa Cruz and another to expand the YPFB refinery at Cochabamba. A YPFB liquid gas plant at Camiri will soon go into operation with an initial capacity of 40 tons per day, capable of being raised to 100 tons. In July 1968, YPFB and the Bolivian Gulf Oil Companies signed an agreement with the State Gas Enterprise (Gas del Estado) of Argentina under which the latter is to purchase natural gas over a twenty-year period to a total value of some 300 million dollars. Under the agreement the State Gas Enterprise of Argentina will purchase

4 million cubic metres of gas per day for the first seven years, and 4.5 million cubic metres per day for the remaining thirteen years. A price of 8 dollars per thousand cubic metres of gas with a calorific value of not less than 9,300 calories was established. The agreement will run from the date of completion of a 600 kilometre gas pipeline, to be built by YPF and the Bolivian Gulf Oil Companies at a cost of 40 million dollars, which will be connected with the Argentine gas pipeline.

Continuing the trends of earlier years, industry grew by 7 per cent during 1968. In recent years, the rate of growth of the traditional industries (foodstuffs, beverages, tobacco, textiles, clothing and footwear), which are responsible for more than 80 per cent of the value added in industry, has been quite rapid, increasing by over 40 per cent between 1963 and 1967. The increment was greater in petroleum refining and the production of electrical equipment although these industries' share of the total is still small.

THE PUBLIC SECTOR

As a result of the financial management of the decentralized bodies, whose expenditure is double that of the Central Government, the fiscal deficit has fallen in recent years. However, the deficit of the public sector as a whole in 1967 amounted to 290 million pesos, of which 215 million was attributable to the Central Government, and this led to the introduction of a policy of curbing expenditure and increasing income as a result of which the Central Government's deficit fell in 1968 to 107 million pesos. During 1968, expenditure dropped by 1.2 per cent while income rose by 12.6 per cent, mainly owing to the royalty payments made by the oil companies (65.4 million pesos from the Gulf Oil Company and 12 million from YPF), and to the 8 per cent increase in internal taxation. The deficit was financed by the Central Bank and by an external loan of 54 million pesos.

In mid-1968, the total external debt amounted to 341 million dollars, i.e., 23 million dollars more than at the end of 1967. During 1967 it had risen by 27 million dollars (41 million dollars in new loans and 14 million dollars for debt servicing), and a breakdown at the end of the year showed that 71 per cent was attributable to the Central Government, 20 per cent to public enterprises, 5.8 per cent to banking institutions and the remainder to the private sector. The servicing of this debt accounted for slightly over 5 per cent of total public expenditure, and was equal to one third of the external credit received by the public sector.

THE EXTERNAL SECTOR

The current value of exports rose slightly in 1968, despite the steady drop in tin prices since 1965; in 1968, this was offset by an increase in the volume of sales (25 per cent for tin and a little less for petroleum). The relative stagnation of exports in 1968 must be set against their remarkably rapid growth and increased diversification over the whole decade, since they have more than trebled in current value since 1960 (see table 88 and figure VI). Up to 1965, their growth was due to higher prices for tin; once the effect of this wore off, an expansion took place in the volume of tin exports, while sales of petroleum soared from 700,000 dollars in 1965 to 6.5 million in 1966, nearly 23 million in 1967 and 24 million in 1968. The other products, which together account for almost 30 per cent of mining exports, more than trebled their value between 1962 and 1968. Exports of zinc, for instance, climbed from 900,000 dollars in 1962 to 5 million in 1965 and 3.5 million in 1968, while copper sales increased from 1.5 to 8 million and exports of silver and wolfram from 3.9 to 11.6 million and from 1.7 to 10 million respectively. Exports of agricultural commodities rose from 10 to 20 million dollars in value between 1965 and 1968.

Imports, which, in 1967, were 66 per cent higher than in 1962, increased less vigorously. In 1968, they rose by about 4.2 per cent, owing to a new system of customs valuation based on minimum prices, higher duties on some non-essential goods and an embargo on the import of a large number of others. Although their growth rate slowed down, they continued to outstrip exports in value.

From 1960 to 1966, income from goods and services, including private transfer payments, totalled 669 million dollars compared with outgoings of 923 million dollars. The resulting cumulative net deficit of 254 million dollars on current account might have exerted heavy pressure on the balance of payments had it not been for large-scale foreign aid in the form of official transfer payments, which averaged 143 million dollars (20 million a year). During the same period, external loans to the value of 197 million dollars were obtained, while 60 million dollars entered in the form of direct investment and a further 30 million in short-term capital. As expenditure, which mainly consisted of amortization payments, amounted to 120 million dollars, the net inflow of capital totalled 310 million. For errors and omissions there was a debit balance of 20 million dollars for the seven years in question. The balance of payments before compensatory financing thus showed a surplus of 36 million dollars, which improved the net monetary position

Table 88. Bolivia: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	57.8	125.8	142.0	169.0	172.8
Exports	54.4	115.5	133.1	155.2	161.0
Services	3.4	10.3	8.9	13.8	11.8
Imports of goods and services	89.7	161.7	174.2	193.0	199.6
Goods, f.o.b.	68.2	126.6	138.8	151.8	159.9
Services	21.5	35.1	35.4	41.2	39.7
Net investment income	+1.2	-3.6	-0.8	-16.7	-16.5
Net private transfer payments	+0.2	+1.1	+1.3	+1.0	+1.0
Balance on current account	-30.5	-38.4	-31.7	-39.7	-42.3
Capital account					
Net external financing	+30.5	+38.4	+31.7	+39.7	+42.3
Net non-compensatory foreign capital	+32.7	+53.2	+36.2	+35.8	
Direct investment	+16.5	+12.5	+2.0	+0.5	
Non-compensatory loans	+1.4	+15.9	+10.3	+25.2	
Short-term liabilities	+2.0	+9.9	+3.9	-1.8	
Official transfer payments	+12.8	+14.9	+20.0	+11.9	+37.7
Net non-compensatory domestic capital or assets	-1.8	-2.2	+2.1	-1.9	
Errors and omissions	-3.1	+1.3	-1.8	-2.2	
Compensatory movements (increase —)	+2.7	-13.9	-4.8	+8.0	
Net compensatory foreign capital	-2.6	-0.9	-5.8	-4.7	
Balance-of-payments loans and deferred import payments	-0.7	—	—	—	+4.6
Other liabilities of the monetary authorities	-0.5	+0.1	-0.2	+4.7	
IMF position	-1.4	-1.0	-5.6	—	
Movements of gold and foreign exchange (increase —)	+5.3	-13.0	+1.0	+3.3	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20, 1968: ECLA estimates.

of the Central Bank by 13 million and added 23 million to the country's international reserves.

In 1967, in spite of a better trade balance, there was a debit balance of nearly 40 million dollars on current account mainly owing to remittances of almost 17 million dollars under the head of profits and interest on foreign investment. This balance-of-payments item had been negligible in earlier years. Although direct investment decreased on a par with official transfer payments, which totalled only 12 million dollars, the net total for long and medium-term loans rose to 25 million dollars from 10 million in 1966. However, this was not enough to offset the debit balance on current account and other capital movements, and the balance of payments closed with a deficit of 8 million dollars. In 1968, remittances of profits and interest were as high as in the previous year, and the net movements of non-compensatory capital, added to the balance for errors and omissions, amounted to about 38 million dollars. The balance of payments therefore closed

with a small deficit, which worsened the net monetary position of the Central Bank.

Brazil

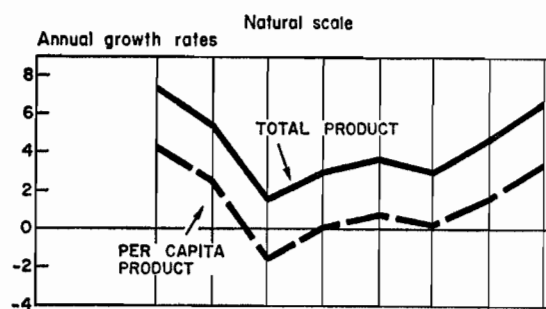
GENERAL CHARACTERISTICS

In 1968 the over-all growth rate of the Brazilian economy was 6.8 per cent. This is the first time since 1962 that a similar rate to that prevailing in 1957-61, which marked the peak for the post-war period, has been regained. Various characteristics distinguish the recent economic trend (see figure VII).

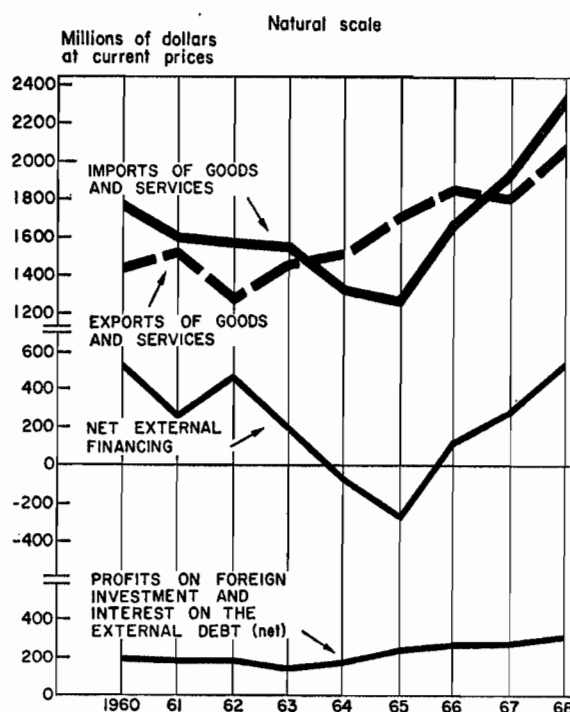
First, agricultural production as a whole departed from its trend in 1967 by remaining static. However, this situation was counter-balanced by the dramatic revival of industry, which achieved a growth rate of 15 per cent (see table 89). These trends were strongly influenced by the economic activity in the São Paulo area, which, since 1962, has been contributing a disproportionately small amount to the modest overall growth rate and investing it with much of its

Figure VII. Brazil: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



own instability. Early estimates indicate that there has been an expansion of about 8.7 per cent in the São Paulo economy, with a decline in agricultural output offset by a 16 per cent increase in manufacturing production.

The external sector played a very dynamic part. The value of exports of goods and services reached the unprecedented figure of 2,070 million dollars, while that of imports exceeded 2,300 million. This is a 25 per cent increase on 1967 levels. The total deficit in current transactions amounted to more than 500 million dollars and was counterbalanced by a larger net inflow of non-compensatory capital, which also added to the country's international reserves.

Table 89. Brazil: growth rate of the gross domestic product, by sector of economic activity, 1960-66, 1967 and 1968 (Percentages)

Sector	Annual growth rates		
	1960-66	1967	1968*
Agriculture	3.8	7.1	—
Mining	12.7	5.6	12.6
Manufacturing	5.1	2.4	14.9
Construction	-1.4	9.2	17.4
Goods	4.2	5.1	6.9
Electricity, gas and water	6.9	4.8	12.7
Transport and communications	5.4	7.7	7.3
Basic services	5.7	7.1	8.4
Commerce and finance	4.2	6.3	10.9
Government	2.4	2.4	2.4
Miscellaneous services	3.3	2.6	3.0
Other services	3.5	4.1	6.2
Growth rate of the total product	4.1	4.9	6.8

SOURCE: 1960-66 and 1967: ECLA, on the basis of data from the Getulio Vargas Foundation, the Brazilian Institute of Economics, National Accounts Centre.

* Preliminary estimates based on data in Conjuntura Econômica, year XXIII, No. 1 (January 1969).

The main aim of economic policy was to stimulate development and this was vigorously pursued during the year through more expansionist tax and monetary measures. Government revenue increased considerably, and the real deficit was reduced below the previous year's level in both absolute and relative terms. Public expenditure was stepped up considerably, particularly transfer payments, and transfers of capital to decentralized agencies increased although direct investment by the Central Government fell off. Thus, more capital was invested in basic infrastructural works (175 kilometres of new road were built and a further 2,150 kilometres paved, and electric energy generating capacity was enlarged by 1 million kW). Monetary expansion, which had originally been visualized at 15 per cent, totalled 40 per cent by the end of the year, in response less to public sector pressure then to the provision of about 60 per cent more credit to the private sector.

Despite these conditions, the rise in prices was on much the same scale as in 1967, i.e., about 24 per cent.

Changes were made in wage policy with a view to maintaining real urban wages. The wage adjustments made in the course of the year were generally kept on a par with the increase in the cost of living, in which food prices rose less than the over-all index. In addition, there was a sizeable expansion in employment (about 8 per cent in industry and construction).

Production increased more rapidly than employment, in many cases owing to more

intensive use of available capacity and a supply of inputs whose relative prices had to be kept steady, thereby adding considerably to enterprises' profits. These developments, combined with easier credit facilities, led to a marked increase in the volume of investment and particularly in the flow of private capital (see table 90).

MAJOR SECTORS OF ACTIVITY

The progress of agriculture was handicapped by bad weather conditions which seriously affected export crops (coffee and cocoa), reducing them to 20 per cent below their 1967 levels. Among commodities for domestic consumption, the bean harvest was a good deal smaller and the major crops (rice and maize) were also reduced to some extent, although absolute levels of output outstripped domestic demand and left an appreciable margin for export. Agricultural production as a whole remained the same as in 1967.

Manufacturing industry continued to recover from the low level it had dropped to in March 1967. Most of the principal branches were more buoyant—traditional and dynamic alike—and industry as a whole achieved a growth rate of 15 per cent (see table 91). Among the dynamic industries, special mention should be made of the following: transport equipment, and the motor-vehicle industry in particular, which achieved an annual output of 280,000 vehicles; the chemical industry, especially plastics and perfumes; electrical equipment, including apparatus and household appliances; and metallurgy, especially the steel industry, which was once again able to use its surplus capacity. The metal-transforming industry also made tremendous strides despite the competition of imported

Table 91. Brazil: preliminary estimates of the industrial product, 1968

	Percentage variation	
	1967	1968
I. Extractive industry (mineral products)	5.61	12.58
II. Transforming industries	2.39	14.91
Processing of non-metallic minerals	8.58	14.71
Metallurgy	-2.48	9.47
Metal-transforming	3.83	35.63
Electrical and communications equipment	—	24.84
Transport machinery and equipment	0.18	21.82
Wood	2.12	—
Furniture and accessories	—	—
Paper and paperboard	15.93	16.02
Rubber products	8.21	9.64
Leather, hides and skins and allied products	8.94	—
Chemical products	3.43	13.00
Pharmaceutical and medicinal products	—	—
Toilet preparations, soaps, candles	—	—
Plastic products	—	11.55
Textile goods	-1.97	19.98
Clothing, footwear and other made-up textile goods	-5.76	18.45
Food products	7.32	6.11
Beverages	-12.42	2.82
Tobacco	9.57	13.05
Printing, publishing and allied industries	—	—
Miscellaneous	—	—
III. Construction	9.32	17.38
IV. Industrial public utilities	4.85	12.74
TOTAL	2.85	14.91

SOURCE: Getulio Vargas Foundation, the Brazilian Institute of Statistics, National Accounts Centre.

Table 90. Brazil: total supply and demand, 1960 and 1966-68
(Millions of new cruzeiros at 1960 prices and percentages)

	1960	1966	1967	1968*	Annual growth rates		
					1960-66	1967	1968
Total supply	2,621.6	3,248.7	3,417.7	3,685.2	3.6	5.0	7.8
Gross domestic product	2,418.8	3,076.1	3,230.0	3,450.0	4.1	5.0	6.8
Import of goods and services	202.8	172.6	187.7	235.2	-2.7	8.7	25.3
Total demand	2,621.6	3,248.7	3,417.7	3,685.2	3.6	5.2	7.8
Exports of goods and services	166.8	223.0	220.3	247.9	5.0	-1.2	12.5
Total investment	418.5	490.0	510.0	560.0	2.7	4.1	9.8
Fixed investment	399.7	390.0	410.0	490.0	-0.4	5.1	19.5
Total consumption	2,036.3	2,535.7	2,687.4	2,877.3	3.7	6.0	7.1
General government	370.7	355.6	363.0	374.0	-0.7	2.1	3.0
Private	1,665.6	2,180.1	2,324.4	2,503.3	4.6	6.6	7.7

SOURCE: 1960 and 1966-67: ECLA, on the basis of data from the Getulio Vargas Foundation, Brazilian Institute of Economics, National Accounts Centre.

* Estimates.

capital goods, which benefited from a cut of nearly 50 per cent in the protective tariffs established for national industry in 1965-66. Between January and July 1968 the São Paulo metal-transforming industry raised output more than 16 per cent over its level during the same period of 1967. The impact of this expansion was felt most strongly by the branches producing heavy capital goods, loading equipment, agricultural machinery and textile equipment, whose growth rates exceeded 20 per cent. The only sub-sector which declined was machine-tools, apparently because its production structure was not flexible enough to adjust to changes in demand. The traditional industries also recovered, and textiles in particular achieved very high growth rates for both production and employment, apparently surpassing the 1962 levels.

Construction is thought to have made even greater progress than manufacturing industry. It increased more than 19 per cent, thus strengthening the trend which began with the inauguration of a financing scheme based on the substantial resources allocated to the National Housing Bank (Banco Nacional de Habitação)^a and the development of an expanding private financing market for housing bonds. The rate had already been high the year before (nearly 10 per cent), and in 1968 the Bank, with the sizable addition of the Wage Fund (Fundo de Salários), which was put at its disposal, built 170,000 low-cost housing units and helped to finance the private construction industry. The cement industry was unable to keep pace with the rising tide of demand and nearly 500,000 tons of cement had to be imported.

^a The proportion was 1.2 per cent of the total wage and salary bill for the country as a whole.

In the mining sector, the two major products responsible for the high average rate of growth (more than 12 per cent) were petroleum, with an increment of 12.3 per cent, and manganese, mainly for export, output of which expanded by over 20 per cent. Imports of crude petroleum and petroleum products nevertheless rose sharply, and the import coefficient does not seem to have dropped in relation to total expenditure, since the daily output of 200,000 barrels of petroleum was too little to cover even half the domestic requirements.

The electric power industry raised its annual output by nearly 13 per cent, as a result of the extension of the distribution network and, in particular, the expansion of capacity in the State concern, ELETROBRAS.

ECONOMIC POLICY ASPECTS

Fiscal. The execution of the general government budget in 1968 was more favourable than in the previous year. Total income rose more than 23 per cent in real terms, mainly because of a substantial increase in the revenue from taxes on industrial goods and imports, which stemmed, in its turn, from the expansion of the taxable economic base (see table 92).

Expenditure increased less, and its structure changed considerably: outlays on consumption were cut by nearly 30 per cent and direct general government investment by more than 6 per cent, while current transfer payments expanded by 90 per cent and capital payments by 10.6 per cent (see table 93). Under current transfer payments, the State and Municipal Participation Fund (Fundo de Participação dos Estados e Municípios), made up of 20 per cent of the revenue from the two chief Federal taxes (on industrial goods and income), plays a fairly important role. The Fund gives a disproportionate amount

Table 92. Brazil: national exchequer - revenue, 1967 and 1968^a
(Millions of new cruzeiros and percentages)

Item	Current value		Constant value (at January 1967 prices)		Percentage increase 1968 1967	Percentage share	
	1967	1968	1967	1968 ^b		1967	1968
Taxes	5,152.6	8,491.0	4,654.6	6,181.0	+32.8	85.6	92.3
Processed goods	2,271.2	4,324.9	2,050.0	3,147.4	+53.5	37.7	47.0
Income	1,389.6	1,869.3	1,256.1	1,359.4	+8.2	23.1	20.3
Imports	403.8	736.6	364.3	535.7	+47.0	6.7	8.0
Flat rate on electricity	103.7	133.5	92.4	93.8	+1.5	1.7	1.4
Minerals	29.0	33.0	27.2	26.8	-1.5	0.5	0.4
Flat rate on fuels and lubricants	955.3	1,393.7	864.6	1,017.9	+17.7	15.9	15.2
Other ^c	867.9	704.2	783.0	515.6	-34.2	14.4	7.7
TOTAL	6,020.5	9,195.2	5,437.6	6,696.6	+23.2	100.0	100.0

SOURCE: Central Bank.
^a January-November each year.

^b Provisional figures.
^c Including unclassified revenue.

Table 93. Brazil: national exchequer – expenditure, 1967 and 1968^a
(Millions of new cruzeiros and percentages)

Item	Current values		Constant values (at January 1967 prices)		Percentage increase 1968	Percentage share	
	1967	1968	1967	1968 ^b	1967	1967	1968
Current expenditure . . .	4,604.8	6,465.6	4,177.4	4,733.6	13.3	61.9	63.4
Purchases of goods and services . . .	2,935.3	2,530.6	2,665.7	1,851.6	-30.5	39.5	24.8
Transfer payments . . .	1,669.5	3,935.0	1,511.7	2,882.0	90.6	22.4	38.6
Capital expenditure . . .	2,834.0	3,729.4	2,571.2	2,732.6	6.3	38.1	36.6
Investment . . .	708.5	816.2	641.1	597.3	-6.8	9.5	8.0
Transfer payments . . .	2,125.5	2,913.2	1,930.1	2,135.3	10.6	28.6	28.6
TOTAL . . .	7,438.8	10,195.0	6,748.7	7,466.2	10.6	100.0	100.0

SOURCE: Central Bank.

^a January–November each year.

^b Provisional figures.

of aid to the under developed areas of the Nordeste; in 1968 such payments represented nearly half the total transfers made and exceeded the cash deficit of the National Exchequer. At the end of the year a presidential decree was promulgated, restricting the share of these areas to 12 per cent.

The Exchequer's cash deficit was brought down to some 1,200 million new cruzeiros. This was about 40 per cent less than in 1967 and 1.6 per cent of the product.

Monetary and financial aspects. Although the government deficit weighed less on the monetary expansion than in past years, the pressure exerted by the private sector increased appreciably. Consequently, the 15 per cent increase in the means of payment, which was allowed for in the monetary budget, was transformed into 40 per cent by the end of the year.

The forms and machinery of financing have recently included a considerable expansion in the private institutions that provide the major industrial and commercial firms with working capital, and directly or indirectly finance the sale of durable consumer goods. The loans and financing thus made available, which, at the end of 1964, constituted less than 7 per cent of the total resources of the financial system tied up in working capital for the private sector, have now climbed to 20 per cent of the total; this is virtually equal to the short- and medium-term loans given by the Banco do Brasil (a government concern) and nearly 40 per cent of all financing by commercial banks. The Government refrained from placing a large number of public bonds on the market during the year, so as not to compete with private financing agencies or to drive up the rate of interest paid by the firms that make use of such resources in the form of working capital. A number of fiscal measures were taken to improve the financial situation of financing enterprises and of the stock market by allowing the revaluation

of working capital and the capitalization of reserves without payment of taxes. Income tax payable on bearer bond dividends was also reduced.

Public banks, such as the National Economic Development Bank (Banco Nacional do Desenvolvimento Econômico—BNDE), the National Housing Bank, the Banco do Brasil and the Banco do Nordeste, which are the main financial agencies continued to be primarily responsible for providing the private sector with long-term capital. The expansion of these operations was due to the inauguration of the National Housing Bank, with its network of agents dealing in housing bonds backed by the Bank, and to the Fund for the Financing of Medium-scale Industry (Fundo de Financiamento a la Mediana Industria—FINAME) and other funds specially established for financing small- and medium-scale industry. These fund were originally associated with BNDE, which is still the major source of capital for investing in private industry, as well as the depositary of public funds for top-priority investments in infrastructure and basic industries.

Prices policy. Although direct anti-inflationary measures loomed less large in economic policy, the rise in domestic prices was no greater than in 1967 (24 per cent). This was partly due to a favourable financial year, but the main reason was the growth of the economy, which enabled it to absorb excess liquidity.

The policy of minimum agricultural prices was maintained without any increase in real terms, and rents were adjusted at rates equivalent to the rise in the cost of living or in the minimum legal wage, while the cost of electricity and the prices of steel produced by the State companies also increased, but only to a limited extent. At the end of December, the Government announced its intention of freezing the prices of food, beverages and medicaments for three months and of re-

vising its rent policy in order to improve the living conditions of the poorer urban groups. Measures to be enforced by the Ministry of Finance in 1969 included the scaling down of the Federal budget deficit by rechanneling some of the resources that would otherwise be allocated to the Participation Fund for states and municipalities.

Foreign trade policy. The year 1968 saw the continuation of the export promotion drive launched in 1964 through special bank credit lines set up to aid the production of manufactures for export, the implementation of export credit insurance, and reductions in the tax on processed goods for export.

In matters of exchange policy, after August 1968 the length of time between adjustments was shortened to such an extent that the net result was the establishment of a flexible exchange rate. The rate of devaluation over the year was 20 per cent, which was less than the rise in domestic prices. In addition, the trend towards lower tariff levels begun in 1964 was continued.

In external financing, it was recognized that international financing agencies should plan their co-operation for several years at a time, in order to offer some degree of security and continuity in the work of domestic programming. The Ministry of Planning was entrusted with the co-ordination of external credits, and no Federal union guarantee could be obtained without its express authorization.

The strategic development programme. In mid-year the Government published its plan of action for 1968-70. The plan laid down the terms and operational methods for longer term planning and stipulated that the public sector should participate in capital formation and the sectoral allocation of resources.

The plan underlines the need to diversify the dynamic sources of development through a long-term strategy aimed at expanding the domestic market in order to open the way for continuous and self-sustained growth. Two phases are envisaged: the first, up to 1970, will be transitional; economic growth will be based on the revival of activity, mainly through utilization of idle production capacity and will thus involve little investment, while during the second stage, growth will be more directly dependent on an increase in the saving-investment rate.

During the first stage, the rate of inflation will have to be gradually slowed down as development is reactivated, and public investment should be guided towards the key economic and social sectors so that growth can be placed on a sounder footing during the second stage.

Government policy for increasing the amount of income available and stimulating demand for non-durable consumer goods will be focused on wage policy, so as to recover over the medium term the loss in real wages that took place between 1965 and 1967, and on the reduction of the marginal tax burden and the real costs of public services. On the supply side, the competitive capacity of domestic industry would be strengthened and a long-term policy adopted for the restriction and reduction of the costs of basic inputs, the promotion of scientific and technological development, research into mineral resources and the rationalization and diversification of traditional industries.

THE EXTERNAL SECTOR

In 1968 foreign trade reached unprecedented heights. The value of exports of goods and services rose to 2,070 million dollars while imports exceeded 2,300 million (see table 94 and figure VII). The items that ranked foremost in the expansion of exports were coffee, with an increase of over 13 per cent in volume at firm world market prices; cotton, iron ore, sugar and pinewood, with an average rise of 30 per cent in value; and maize and meat, which, in expanding by the exceptional amount of approximately 200 per cent, became two of the major export items. Iron and sugar were mainly aided by the rise in world market prices, since the volume of ore exported increased very little, while that of sugar contracted. The only significant reductions were in manufactures, cocoa, hides and skins, soluble coffee and wool.

In imports, the items which increased the most (in every case by nearly 40 per cent) were raw materials—except petroleum and wheat—and capital goods, an increment responding to the needs of the high rate of industrial growth and the vigorous expansion of investment. Imports of machinery and equipment in general and of parts and pieces for the metal-transforming, transport and electrical equipment industries amounted to some 700 million dollars. Although the margins of tariff protection were lowered, the increase in imports of food and beverages was fairly moderate (less than 6 per cent).

The balance for services is still very much on the debit side. Net payments of dividends on foreign capital were over 300 million dollars, of which over 100 million represented remittances of profits. Non-financial services, freight, insurance, etc., showed a deficit of about 300 million dollars, which was greater than in the previous year.

The deficit of over 500 million dollars on current transactions was more than offset by a much bigger inflow of non-compensatory capital.

Table 94. Brazil: balance of payments, 1960 and 1965-68
(Millions of current dollars)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	1,459.0	1,747.0	1,875.0	1,821.0	2,071.0
Goods	1,270.0	1,596.0	1,741.0	1,654.0	1,881.0
Services	189.0	151.0	134.0	167.0	190.0
Imports of goods and services	1,786.0	1,280.0	1,703.0	1,880.0	2,342.0
Goods, f.o.b.	1,293.0	941.0	1,303.0	1,441.0	1,855.0
Services	493.0	339.0	400.0	439.0	487.0
Net investment income	-194.0	-259.0	-284.0	-295.0	-325.0
Net private transfer payments	-13.0	+39.0	+45.0	+50.0	+60.0
Balance on current account	-534.0	+247.0	-67.0	-304.0	-536.0
Capital account					
Net external financing	+534.0	-247.0	+67.0	+304.0	+536.0
Net non-compensatory foreign capital	+233.0	+131.0	+250.0	+202.0	
Direct investment	+138.0	+154.0	+159.0	+115.0	
Non-compensatory loans	-19.0	-9.0	+79.0	+118.0	
Short-term liabilities	+97.0	-50.0	-22.0	-58.0	
Official transfer payments	+17.0	+36.0	+34.0	+27.0	
Net non-compensatory domestic capital or assets	-38.0	-8.0	-44.0	-37.0	
Errors and omissions	+10.0	-31.0	-19.0	-27.0	
Compensatory movements (increase —)	+329.0	-339.0	-120.0	+166.0	
Net compensatory foreign capital	+320.0	-117.0	-153.0	-112.0	
Balance-of-payments loans and deferred import payments	+211.0	-131.0	-78.0	-63.0	
Other liabilities of the monetary authorities	+94.0	-6.0	-18.0	-16.0	
IMF position	+15.0	+20.0	-57.0	-33.0	
Movements of gold and foreign exchange (increase —)	+9.0	+222.0	+33.0	+278.0	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

The balance of payments therefore closed with a surplus of over 80 million dollars, which improved the net monetary position of the Central Bank. Short-term credits seem to have been the principal item in this inflow, and are still governed by Instruction 289 of the former monetary and credit agency (Superintendencia da Moeda e Crédito—SUMOC) and resolution 63 of the Central Bank. In fact, during the first half of the year alone, more than 250 million dollars entered the country in the form of non-compensatory capital.

Colombia

OVER-ALL TRENDS

According to provisional estimates based on data for the first half of 1968, the growth rate of the Colombian economy for 1968 will probably be above 5 per cent. This would be a considerable improvement over the rate for 1967 (3.9 per cent), and would also exceed the average annual rate of 4.6 per cent recorded in 1960-66 (see figure VIII).

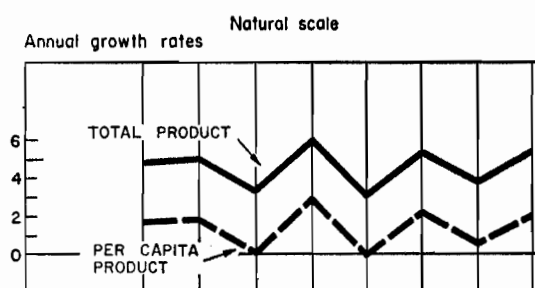
The major sectors of economic activity grew at a faster pace than in 1967, with the exception of mining, which continued to decline (see table 95).

A very pronounced rise in imports and a smaller, but substantial, rise in exports meant that the domestic supply of goods and services increased more rapidly than the total product. As a result, there were substantial increases in both consumption and investment (slightly over 5 per cent in total investment and almost 8 per cent in fixed capital investment); the increase in consumption was mainly attributable to private consumption, while under investment the expansion of construction was the most striking feature (see table 96).

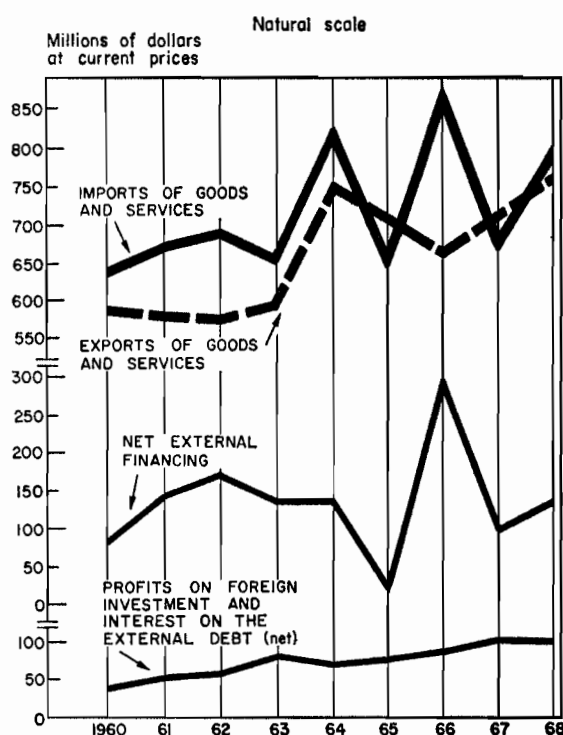
The expansion of total supply helped to keep the rise in domestic prices within reasonable limits, which continues to be the main objective of the principal economic policy instruments. In 1968, the consumer price indexes rose by 7.6 per cent for employees and 7.4 per cent for workers, compared to rates of 9 and 8 per cent

Figure VIII. Colombia: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



respectively for the same period in 1967 and a rise of some 14 per cent in 1966.

Despite the increased deficit in the balance of payments on current account, the country's international monetary reserves grew for the second year in succession, as a result of a larger inflow of non-compensatory capital.

THE MAJOR SECTORS OF PRODUCTION

According to preliminary estimates, the agricultural sector grew during 1968 at a rate of some 5.5 per cent, with large increments in rice, cotton, banana and sugar output; livestock production rose by almost 6 per cent and there was a substantial expansion in fisheries production. A

Table 95. Colombia: growth of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

Sector	Annual growth rates (percentages)		
	1960-66	1967	1968 ^a
Agriculture	2.9	3.9	5.5
Mining	2.7	-1.7	-5.0
Manufacturing	5.7	4.3	6.5
Construction	4.6	6.5	9.0
Goods	3.8	3.8	5.4
Electricity, gas and water	8.2	6.4	10.0
Transport and communications	5.5	2.2	2.8
Basic services	5.9	2.8	3.9
Commerce and finance	5.6	3.1	4.8
Government	5.8	3.5	5.0
Miscellaneous services	5.2	5.8	6.3
Other services	5.5	4.1	5.4
Growth rate of the total product	4.6	3.9	5.3

SOURCE: Banco de la República, Economic Research Department.

^aECLA, provisional estimates based on incomplete statistics.

factor promoting this growth was the increased amount of credit granted by the Colombian Land Reform Institute (Instituto Colombiano de la Reforma Agraria—INCORA), the Livestock Bank (Banco Ganadero) and the Agricultural Credit Bank (Caja de Crédito Agropecuario).

Mining production again declined, at a much faster pace than in 1967, particularly the output of petroleum, gold and silver. The decline was more than 8 per cent for petroleum, 7.2 per cent for gold and 9.1 per cent for silver.

The growth of industry (about 6.5 per cent) was fostered by the expansion of specific credit programmes. There were significant increases in cement (12 per cent), sugar (11 per cent), caustic soda (17.8 per cent) and gasoline production (19 per cent), which reflect the dynamism not only of the activities producing such manufactures but also of those that use them as inputs. Production of electrical energy and liquid gas also rose (about 11 and 19 per cent respectively), and there were similar rises in construction, judging from the increase in the consumption of cement and the number of building permits issued.

THE EXTERNAL SECTOR

Initial estimates of the balance of payments for 1968 show an increase of 9 per cent in the current value of exports of goods and services and of 16 per cent for imports. This raised the deficit on current account to 132 million dollars in 1968 compared with 89 million in 1967.

The rise in exports for the second year in succession was a very positive factor, particularly since the average annual growth rate of exports in the nineteen-sixties has been about 3

Table 96. Colombia: total supply and demand, 1960 and 1966-68

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1966	1967	1968*	1960-66	1967	1968
<i>Total supply</i>	30,579	40,189	40,142	42,729	4.7	-0.1	6.4
Gross domestic product	26,418	34,647	35,998	37,906	4.6	3.9	5.3
Imports of goods and services	4,161	5,542	4,144	4,823	4.9	-25.2	16.4
<i>Total demand</i>	30,579	40,091	40,145	42,729	4.6	-0.1	6.4
Exports of goods and services	4,164	4,626	5,093	5,509	1.8	10.1	8.2
Total investment	5,477	7,094	7,225 ^a	7,600	4.4	1.8	5.2
Fixed investment	4,827	5,472	5,725 ^a	6,170	2.1	4.6	7.8
Machinery and equipment	2,130	2,153	2,190 ^a	2,320	0.2	1.7	5.9
Construction	2,697	3,319	3,535 ^a	3,850	3.5	6.5	8.9
Total consumption	20,938	28,469	27,824	29,620	5.2	-2.3	6.5
General government	1,659	2,257	2,336 ^a	2,450	5.3	3.5	4.9
Private	19,279	26,212	25,488	27,170	5.2	-2.8	6.6

SOURCE: ECLA, on the basis of data prepared by the Banco de la República, Economic Research Department.

* ECLA, provisional estimates based on incomplete indicators.

per cent, with marked differences from year to year. This improvement was due in large measure to the rise in coffee exports—500,000 more bags were exported than in 1967—while increased sales of other less important exports totalled some 160 million dollars, with pronounced increases in some new industrial products (made-up textile goods, textiles, paper, paper-board, chemical and pharmaceutical products), and in agricultural products such as cotton and livestock. There was also a slight recovery in world prices for Colombian coffee.

The marked upswing in imports followed the severe drop of 25 per cent in 1967 as a result of direct controls and exchange control, and thus in absolute terms still remained below the high level achieved in 1966 (see table 97 and figure VIII). The increment largely consisted of intermediate and capital goods, while imports of consumer goods declined.

These changes in import and export levels increased the deficit in the balance of payments on current account, although the increased inflow of foreign non-compensatory capital meant that, before compensatory financing, the balance of payments showed a surplus similar to that of 1967, thus indicating the monetary authorities' policy of strengthening the country's net gold and foreign exchange position.

SOME FEATURES OF SHORT-TERM ECONOMIC POLICY

Monetary policy led to a 16 per cent increase in the means of payment which was lower than the 22 per cent increase in 1967. This helped to control possible inflationary pressures arising from the monetary situation in 1967 and from

any possible surplus linked to the rise in net international reserves during 1968. At the beginning of the year, bank cash reserves covering demand and thirty-day liabilities were therefore increased in order to curb the growth of current account deposits. In addition, it was decided to reduce the amount of reserves payable on demand as from July 1968 and gradually to eliminate the machinery under which part of bank cash reserves could be held in government scrip. At the same time, attempts were made to guarantee short-term financing for the main productive activities through the Fund for Agricultural Financing (Fondo Financiero Agrario) and the Fund for Industrial Financing (Fondo Financiero Industrial).

Credit policy was closely linked to the measures adopted with respect to bank cash reserves and reserve liquidity. Broadly speaking, bank credit in current terms rose at a lower rate (9.3 per cent) in 1968 than in 1967, when it was 14.4 per cent. More credit was extended to mining, commerce and construction than in 1967, but less to stock farming and industry, while the level for agriculture remained the same. In addition, the special credit institutions stepped up their loans to industry and agriculture considerably, partly through the channelling of external loans.

Both the income and expenditure of the Central Government rose by more than 20 per cent at current prices, although the relative share of each item of expenditure fell within the ranges set in 1967. There was also an increase in the burden of taxation, through tax credit certificates, higher income taxes and heavier import duties but the revenue from the charges on exchange transactions declined.

Table 97. Colombia: balance of payments estimates, 1960, and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	589.1	709.0	663.0	704.0	767.5
Goods	495.3	591.0	534.0	558.0	605.5
Services	93.8	118.0	129.0	146.0	162.0
Imports of goods and services	634.4	653.0	867.0	688.0	795.2
Goods, f.o.b.	496.4	430.0	639.0	464.0	559.2
Services	138.0	223.0	228.0	224.0	236.0
Net investment income	-39.6	-79.0	-86.0	-105.0	-104.0
Net private transfer payments	+0.4	+4.0	0.0	0.0	0.0
Balance on current account	-84.5	-19.0	-290.0	-89.0	-131.7
Capital account					
Net external financing	+84.5	+19.0	+290.0	+89.0	+131.7
Net non-compensatory foreign capital	+30.5	+12.0	+249.0	+48.0	+192.4
Direct investment	+2.5	+10.0	+40.0	+41.0	
Non-compensatory loans	+8.5	+75.0	+103.0	+69.0	
Short-term liabilities	+14.2	-81.0	+96.0	-84.0	
Official transfer payments	+5.3	+8.0	+10.0	+22.0	
Net non-compensatory domestic capital or assets	+14.1	-17.0	+26.0	+13.0	-60.7
Errors and omissions	+44.0	+67.0	-27.0	+98.0	
Compensatory movements (increase —)	-4.1	-43.0	+42.0	-70.0	
Net compensatory foreign capital	-66.3	-45.0	+33.0	-64.0	
Balance-of-payments loans and deferred import payments	-43.8	-23.0	+36.0	-98.0	
Other liabilities of the monetary authorities	-1.3	+2.0	-1.0	...	
IMF position	-21.2	-24.0	-2.0	+34.0	
Movements of gold and foreign exchange (increase —)	+62.2	+2.0	+9.0	-6.0	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

Exchange policy continued to be regulated by the exchange law of March 1967, which established two types of market: one for capital, at a fixed rate of 16.30 pesos to the dollar, and another for exchange certificates, at a fluctuating rate, fixed initially at 13.50 pesos to the dollar. Since March 1967, the rate for exchange certificates has risen slowly but surely and at the beginning of June 1968 rates in the two markets stood at parity. Accordingly, the Monetary Council (Junta Monetaria) decided to transfer all the exchange transactions handled on the capital market to the exchange certificates market; this brought the exchange rate closer into line with the supply of and demand for foreign exchange and also helped to eliminate speculation.

Costa Rica

GENERAL FEATURES

In 1968 the economy of Costa Rica kept up the high growth rate which has been characteristic of it in recent years. According to provisional estimates, the rate of increase of the gross domes-

tic product was about 8 per cent, which implies a 4.5 per cent increment in per capita income (see table 98 and figure IX).

Agricultural production achieved a noteworthy expansion of 14 per cent, largely because the banana-growing area had been enlarged in previous years and the weather conditions were

Table 98. Costa Rica: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

	1960-66	1967	1968 ^a
Agriculture	3.8	6.4	14.0
Manufacturing	9.9	11.0	11.3
Construction ^b	4.5	7.0 ^a	—
Goods	5.4	7.8	12.4
Basic services ^c	6.8	7.3	2.9
Other services	7.3	7.7	4.5
Growth rate of the total product	6.4	7.7	8.1

SOURCE: ECLA, on the basis of official statistics.

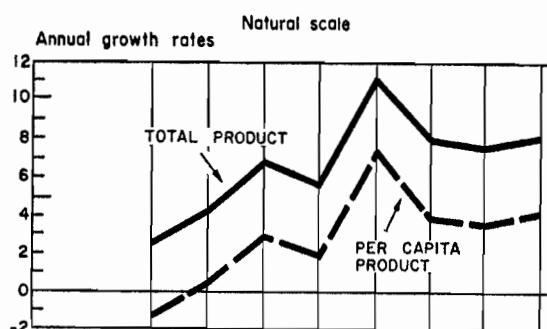
^a Estimates.

^b Including mining.

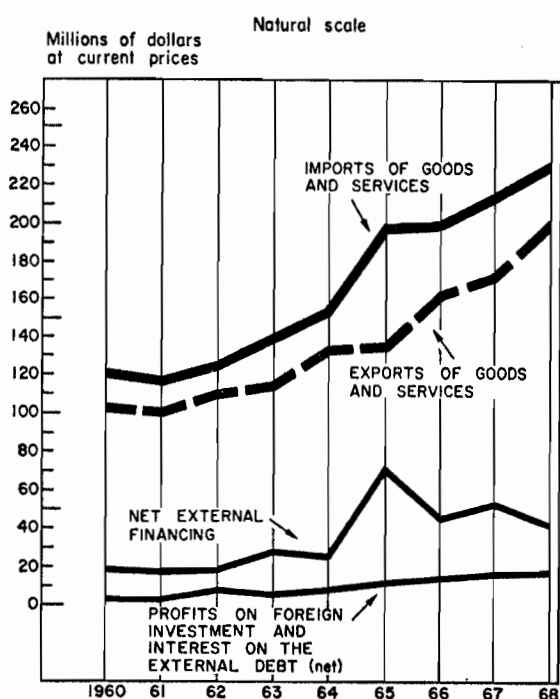
^c Including electricity, gas and water, and transport and communications.

Figure IX. Costa Rica: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



good for rice, maize and sugar, which are the most important of the crops grown for domestic consumption. Activity in the manufacturing sector, under the stimulus of rising income and regional demand, also showed an appreciable increase (11.3 per cent). Construction trends, however, flattened out, as a result of the reduction of public investment.

As in previous years, the mainspring of economic activity was the external sector, whose development made for an improvement in income and employment levels. There was a much bigger increase than in 1967 in exports of goods, the value of which soared to 170 million dollars. This upswing is attributable mainly to the expansion in the volume of bananas sales and, on a smaller scale, of coffee and livestock sales, since export prices were inclined to weaken. The growth rate of exports of manufactures to the Central American market remained rapid, with the resultant strengthening of industrial activities.

External market and regional demand prospects continued to provide incentives to private investment, which rose 10 per cent above its 1967 level, and was primarily channelled into the manufacturing sector and banana production in the Atlantic zone. Implementation of the programme aimed at trebling the banana-growing area—which was launched in 1967 and is scheduled for completion in 1970—continued without interruption.

The components of domestic demand played a less active role in 1968. This is largely due to the stabilization measures adopted by the Government to curb the growth of consumption and thus improve the balance-of-payments position. The sales tax and the exchange and credit restrictions applied in 1967 seem to have kept the increase in private consumption down in 1968, but it reached 5.9 per cent all the same, as against 7.2 per cent in the preceding year (see table 99).

Table 99. Costa Rica: total supply and demand, 1960 and 1966-68
(Millions of colones at 1960 prices)

	1960	1966	1967	1968*
Total supply	3,562.0	5,260.1	5,655.9	6,108.3
Gross domestic product	2,811.0	4,072.0	4,386.0	4,740.0
Imports of goods and services	751.0	1,188.1	1,269.9	1,368.3
Total demand	3,562.0	5,260.1	5,655.9	6,108.3
Exports of goods and services	583.0	900.7	991.1	1,175.9
Gross fixed investment	479.0	689.0	743.0	777.0
Public	95.0	150.1	165.8	142.2
Private	384.0	538.9	577.2	634.8
Total consumption	2,500.0	3,670.4	3,921.8	4,155.4
General government	328.0	511.6	535.6	569.9
Private	2,172.0	3,158.8	3,386.2	3,585.5

SOURCE: ECLA, on the basis of official statistics.

* Estimates.

Cuts in its administrative expenditure and other current outlays enabled the Central Government to reduce its rate of expansion to 5.6 per cent, compared with 9.7 per cent in 1967. At the same time tax revenue was boosted by 16 per cent, thanks to new sales taxes and temporary income and land tax surcharges. This halted the rapidly rising trend shown by the budget deficit in the preceding five-year period. For the first time in three years the Central Government had a margin of savings at its disposal for the financing of investment. Its value in absolute terms, however (21 million colones), was barely one third of what it had been in 1962, and it was enough to finance only 10 per cent of the total public investment projected for 1968 (216 million colones).

The inadequacy of domestic saving and, up to a point, handicaps of a technical nature reduced public investment by 14 per cent in relation to 1967. It was for this reason that the construction work for the new port of Limón and the building of the highway to link it up with the capital were temporarily shelved.

The measures designed to check the expansion of domestic demand helped to slow down the

growth of imports, which continued to climb under the stimulus of the steep rise in export earnings. Hence it was possible to reduce the deficit on current account (see table 100 and figure IX). Although net inflows of capital were smaller than in 1967, they sufficed to cover the deficit and enable gold and foreign exchange reserves to be considerably increased.

AGRICULTURAL AND INDUSTRIAL PRODUCTION

Thanks to a combination of favourable circumstances, agricultural production boomed in 1968/69. Weather conditions, plus the impact of credit policy and the technical assistance given to farming for domestic consumption, generated increases of 20 per cent in output for export and 9 per cent in output for the home market. Livestock production also expanded, although on a smaller scale.

So vigorous an upswing in output for export was primarily due to a bumper banana crop of 682,800 tons (or 39.5 per cent more than in 1967/68), which was big enough to permit of a substantial increase in external sales. These

Table 100. Costa Rica: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	104.5	136.8	163.4	173.5	205.0
Goods	87.0	111.7	135.7	143.3	170.0
Services	17.5	25.1	27.7	30.2	35.0
Imports of goods and services	120.9	199.4	201.0	215.5	232.8
Goods, f.o.b.	98.9	160.9	162.1	173.7	187.0
Services	22.0	38.5	38.9	41.8	45.8
Net investment income	-3.7	-13.4	-15.0	-17.0	-19.7
Net private transfer payments	+0.8	+4.8	+4.8	+4.5	+4.0
Balance on current account	-19.3	-71.2	-47.8	-54.5	-43.5
<i>Capital account</i>					
Net external financing	+19.3	+71.2	+47.8	+54.5	+43.5
Net non-compensatory foreign capital	+10.9	+55.6	+50.2	+66.5	
Direct investment	+2.4	+0.1	+14.6	+16.2	
Non-compensatory loans	+0.7	+33.5	+25.4	+15.8	
Short-term liabilities	+4.5	+18.5	+6.7	+30.2	
Official transfer payments	+3.3	+3.5	+3.5	+4.3	
Net non-compensatory domestic capital or assets	-1.7	-7.5	-6.9	-10.4	
Errors and omissions	-1.1	+15.8	-0.7	+15.2	
Compensatory movements (increase —)	+11.2	+7.3	+5.2	-16.8	
Net compensatory foreign capital	+9.9	+8.6	+3.2	-15.4	
Balance-of-payments loans and deferred imports payments	+10.0	+1.5	+2.7	-15.3	
Other liabilities of the monetary authorities	—	—	—	-0.1	
IMF position	-0.1	+7.1	+0.5	—	
Movements of gold and foreign exchange (increase —)	+1.3	-1.3	+2.0	-1.4	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

results were due to the extension of the banana-growing area in recent years, which in turn had been made possible through the credits granted by the official banks and the guarantees to purchase accorded by the banana companies to independent producers.

Coffee production in the current crop year is estimated at 82,900 tons, or 7.2 per cent more than in 1967/68. The quota of 939,902 bags assigned to Costa Rica by the International Coffee Council for the two-year period 1968-69 will thus be filled, and, as in previous years, exportable surpluses will be left over for new markets. Cocoa production fell a little short of its 1967/68 level, despite the fact that world market prices for cocoa rose during 1967 and 1968.

Sugar production, which has gained momentum in the last few years with the increase in Costa Rica's quota for export to the United States and the expansion of domestic demand, is estimated at 142,600 tons for the current crop year, and should thus exceed the 1967/68 volume by 10.7 per cent. This larger output was sufficient to cover a further increase in sugar exports, which had already risen by 20 per cent in the preceding year.

Owing to the policy of support prices and the official backing given to agriculture for domestic consumption (which showed a marked acceleration of its rate of growth), production of maize and rice increased by 4.2 and 8.6 per cent, respectively, in relation to the previous crop year. Livestock production expanded by 4.7 per cent. This was a good deal smaller than the increment achieved in the preceding farm year, but exports from this sector rose by 25 per cent in 1968, largely because the Government was driven by force of circumstances to modify its export restriction policy in view of the possibility that the eruption of the Arenal volcano might cause losses of cattle in the area affected.

In response to the stimulus of domestic demand and the incentives provided by the Central American Common Market, manufacturing output kept up the high growth rate of the last few years, expanding by 11.3 per cent, and attaining a gross value of about 956 million colones.

The trend towards strengthening production of intermediate as against consumer goods sharpened in 1968. Thus, although their relative importance within the industrial sector is still slight, the most rapid growth rates were recorded for rubber products (37.9 per cent), chemical products (13.4 per cent), and petroleum derivatives, production of which began in mid-1967. Attention should also be drawn to the increase in the rate of expansion of the industries manufacturing machinery and electrical appli-

ances, which raised their aggregate output for the year by 12 per cent.

According to estimates, sixty-five projects for the installation of new industrial plants or the expansion of others already in existence were put into execution in the course of 1968. Of these, thirty-seven were completed and twenty-eight are under way. Among the most important were the plants for the manufacture of textiles, papain, batteries and plates for machinery, fats, oils and lubricants, and transport material, as well as a sawmill and a factory making wood products. Of particularly far-reaching scope is the project for producing alumina from bauxite at San Isidro de El General, which represents a total investment of 60 million dollars. This plant will produce for external markets.

The 1969 Operational Plan for Industry was approved in 1968, and draft legislation was submitted on amendments to the Industrial Protection and Development Act. These two measures, together with the establishment of a Centre for Export and Investment Promotion as a semi-autonomous agency, may be regarded as the most salient features of the policy pursued in 1968 with a view to strengthening the manufacturing sector.

Chile

MAIN ECONOMIC TRENDS IN 1968

The drought that affected most of the country in 1968 had serious direct and indirect effects which partly explain the recent economic trends and further obstructed the efforts to curb inflation.

Preliminary estimates indicate that the total product increased by 2.5 per cent. This mainly reflects a growth rate of some 2 per cent for agricultural production, a decrease for construction, and only a slightly higher growth rate for industry (see table 101). Consumer prices rose by 27.9 per cent from December 1967 to December 1968, compared with 21.9 per cent the previous year.

In contrast with the slow growth of the total product, fixed capital investment increased by nearly 10 per cent over 1967, and consumption by 4.5 per cent. Investment was boosted by the greater facilities for importing capital goods, the increase being largely the result of programmes for the expansion of the copper industry.

The external sector continued to grow. The value of exports, which has now reached a higher level than ever before, increased relatively little, while imports rose substantially and for the first time exceeded 1,000 million dollars. Even

Table 101. Chile: growth rate of the gross domestic product by sectors of economic activity, 1960-66, 1967 and 1968

Sector	(Percentages)		
	Annual growth rates		
	1960-66	1967	1968*
Agriculture	2.9	3.9	-4.0
Mining	5.7	-0.6	—
Manufacturing	7.5	2.5	3.0
Construction	5.2	-6.6	-3.5
Goods	5.9	1.4	0.4
Electricity, gas, water, etc.	7.8	10.7	2.0
Transport and communications	12.0	-0.1	2.5
Basic services	11.4	1.1	2.4
Commerce and finance	4.6	6.2	2.9
Government	3.2	2.2	1.7
Miscellaneous services	3.7	-1.7	5.4
Other services	4.0	2.5	3.7
Growth rate of the total product	5.4	2.0	2.1

SOURCE: Up to 1967: ODEPLAN, *Cuentas Nacionales de Chile 1960-1967*. 1968: provisional estimates based on partial indicators from official sources. Two sets of figures corresponding to two different concepts are available for agricultural growth: one calculated by ODEPLAN on the basis of value added at constant prices, which shows a growth rate of 8.1 per cent for 1966 and of 3.9 per cent (now under revision by ODEPLAN) for 1967; and the other calculated by the Agricultural Planning Office of the Ministry of Agriculture, which assesses gross production trends at constant prices and has found a rate of 5.7 per cent for 1966, of 6.1 per cent for 1967 and of 1.8 per cent for 1968.

* Provisional estimates.

so, the sharp upturn in the inflow of capital resulted in a surplus on the balance of payments before compensatory financing and an increment in Chile's gold and foreign exchange reserves.

MAJOR SECTORS OF PRODUCTION

Agricultural production, which was affected by the drought in the central and northern areas, increased by what is provisionally estimated to have been 1.9 per cent in 1968. Crop farming suffered less than stock farming. The animal population, mainly sheep but also cattle to some extent, was reduced in quantity and quality by deaths, and losses in weight owing to the lack of fodder in the drought-stricken areas. This was counterbalanced to a certain extent by the good results obtained farther south. Other livestock products, including milk, eggs and poultry, showed an appreciable improvement in output. There was also a notable increase of about 30 per cent in the fishing catch, which was partly accounted for by the larger volume of fish earmarked for fish-meal production.

The mining sector proceeded with its medium- and long-term expansion programmes backed by heavy investment; thus, the Copper Corporation (Corporación del Cobre) reports that of a total programmed investment of 627 million dollars, 225 million had already been invested by the end

of the third quarter of 1968. As regards present activities, however, mining production as a whole grew hardly at all (0.6 per cent). Copper output remained at its 1967 levels, since the increases in small- and medium-scale mining were cancelled out by the drop in large-scale copper mining, whose output was 519,000 tons, compared with 536,000 in 1967. This reduction was largely due to the water shortage which interfered with the supply of power, and affected the ore-processing operations and the El Teniente mine, where production declined from 181,000 to 154,000 tons. An analysis of the trends followed by other branches of mining reveals widely differing results; substantial increases in the production of iron and petroleum (10.7 per cent in both cases) contrast with a sharp reduction of about 22 per cent in nitrate output. Petroleum output was 2,177,000 cubic metres as against 1,966,000 in 1967.

Industry again showed a relatively sluggish growth rate (of about 3 per cent), influenced, *inter alia*, by the evolution of domestic demand and the restrictions placed on the supply of electric power as a result of the drought. The data available show pronounced discrepancies in the trends of certain items in particular. While steel production dropped nearly 12 per cent, that of motor vehicles rose by 37 per cent, and 18,000 units were assembled with 53 per cent domestic components. The industry manufacturing durable electrical consumer goods recorded a considerable expansion, and there were also sizable increments in petroleum refining (9.8 per cent), beet sugar output (16 per cent), fish meal production (round 30 per cent), and sheet glass and tyre manufacture (44 and 10 per cent respectively), although output of cement rose by only 2 per cent and that of paper by 0.4 per cent. The information obtainable on the textile industry indicates that production of rayon yarns fell off. There are no data available on the food products industry.

Construction apparently declined again in 1968 (by 1 per cent), the vigorous upward trend of housebuilding being offset by the slackening off in public works. By the end of the third quarter, the indicators showed that public construction had increased by 8 per cent while private construction had dropped by 11 per cent. At year end, however, the indexes of public construction begun and of private construction planned (in 60 communes) reflect increases of 16.2 and 8.4 per cent respectively. This shows that housebuilding—and private building in particular—surged ahead towards the end of the year.

The tempo of activity in the sectors producing goods had its impact on the services sectors,

whose growth is estimated to have been 2.2 per cent for basic services and 3.2 per cent for other services.

TOTAL SUPPLY AND DEMAND

From the standpoint of the actual availability of goods and services, the slow growth of the product was offset in 1968 by the considerable expansion of imports, so that total supply rose by 4.2 per cent (see table 102). As at the same time the value of exports of goods and services (at constant prices) declined, appreciable changes took place in the composition of total demand, while the growth rates of consumption and investment were respectively equal to and higher than that of the domestic product.

Fixed capital investment rose by about 10 per cent, despite the further decline in construction. In particular, imports of machinery and equipment increased by about 22 per cent,^a including those effected under the expansion programmes for the copper industry.

There was a 4.5 per cent increase in total consumption, which is mainly accounted for by private consumption (5 per cent), since public consumption grew at a much slower rate. Government accounts, however, did not follow the same trends; on the contrary, public incomes and expenditure continued to soar, but the major current expenditures were mainly in the form of transfers to the private sector and the decentralized public sector. According to preliminary estimates supplied by the Budget

^a Items classified as capital goods by the Central Bank. The growth figures derived from the official national accounts data, which are not yet available, may not be the same because a different criterion is used for classifying these imports.

Office, fiscal revenue appears to have risen by 9.8 per cent in real terms, the largest increments being obtained from indirect taxation, particularly the sales tax, taxes on services, and customs duties. Public expenditure rose by 9 per cent in real terms, which kept the deficit at the same level as in the previous year (7 per cent of expenditure). Seventy per cent of the deficit was covered with domestic resources (especially contributions from the Central Bank and forced loans from the private sector), and the external contribution was obtained mainly under the agreement on agricultural surpluses and from the United States Agency for International Development.

DOMESTIC PRICES

Inflation continued to be one of the main sources of concern in the management of short-term economic policy, and the Government was unable to prevent it from rising above the level of the previous year.

The consumer price index rose by 27.9 per cent from December 1967 to December 1968, and, of its components, food increased 27 per cent, housing 27.3 per cent, clothing 25 per cent, and miscellaneous items 35.8 per cent. The wholesale price index went up 33 per cent over the same period, with increases of 25.3 per cent for agricultural products, 20.4 per cent for mining products, 34.9 per cent for manufactured goods, and 41.6 per cent for imports.

The cost of construction rose by 38 per cent from December 1967 to December 1968. The general context in which this price increase occurred seems to indicate that it was mainly due to increases in building costs and to the inflexible nature of supply, as distinct from the

Table 102. Chile: total supply and demand, 1960 and 1966-68

	Millions of escudos at 1960 prices				Annual growth rates (percentage)		
	1960	1966	1967	1968*	1960-66	1967	1968*
Total supply	4,857	6,586	6,723	7,024	5.2	2.1	4.5
Gross domestic product	4,160	5,687	5,803	5,948	5.4	2.0	2.5
Imports of goods and services	697	899	920	1,076	4.3	2.3	17.0
Total demand	4,857	6,586	6,723	7,024	5.2	2.1	4.5
Exports of goods and services	574	765	779	765	5.5	1.8	-1.8
Total investment	722	1,035	995	1,085	6.2	-3.9	9.0
Gross fixed investment	641	868	879	965	5.2	1.3	9.8
Construction	377	494	461	456	4.6	-6.7	-1.1
Machinery and equipment	264	374	418	509	6.0	11.8	21.8
Changes in stocks	81	167	116	120	12.8	-30.5	3.4
Total consumption	3,561	4,786	4,949	5,174	5.0	3.4	4.5
General government	447	590	588	593	4.7	-0.3	0.9
Private	3,114	4,196	4,361	4,581	5.0	3.9	5.0

SOURCE: ECLA, on the basis of data supplied by ODEPLAN, *Cuentas Nacionales de Chile 1960-1967*.

* Preliminary ECLA estimates based on partial indicators.

situation in 1965-66 when the major pressure came from factors on the demand side.

THE EXTERNAL SECTOR

Although, compared with 1967, they followed a very different pattern in 1968, the values of exports and imports of goods and services reached unprecedented levels, in both cases exceeding 1,000 million dollars (see figure X).

The increase in exports was relatively small, notwithstanding the persistently favourable prices of the major export items; in fact, there was a slight reduction in the total volume of exports, which was more than offset by a 5 per cent increase in average unit prices.

As mentioned before, the unfavourable evolution of the volume of exports may be ascribed

mainly to mining products. The value of agricultural exports was practically the same as in 1967. The largest increase was in the volume and value of fruit, while other items declined in importance. Exports of manufactures climbed 20 per cent, owing to the larger volume of fish-meal exports, the marked increase in exports of copper manufactures, and the progress made in placing pulp on foreign markets.

Imports rose 16.5 per cent in value (from 900 to 1,050 million dollars) between 1967 and 1968. The bulk of this increment is accounted for by imports of capital goods and spare parts (to a great extent for the replacement of equipment in large-scale copper mining) whose share in total imports rose from 34 to 41.2 per cent between 1967 and 1968, or to 308 and 435 million dollars respectively. On the other hand, the growth of other import items slackened; thus imports of agricultural and industrial consumer goods increased by 8.3 and 10.2 per cent respectively, and those of industrial raw materials by 7.5 per cent. Fuel imports, for their part, declined in absolute terms as a result of the substantial domestic output.

These changes in exports and imports aggravated the balance-of-payments deficit on current account (see table 103), which rose to over 240 million dollars; however, a heavy increase in the inflow of foreign capital resulted in a surplus on the balance of payments before compensatory financing.

The gross inflow of compensatory and non-compensatory funds reached an exceptionally high figure, i.e., over 640 million dollars.⁴ Although amortization and service payments increased to 250 million dollars, and remittances of profits on direct foreign investment and interest on foreign loans rose to 234 million dollars, the net contribution of foreign funds to the financing of imports reflected a positive balance for the first time since 1964 (see table 104). This surplus—some 157 million dollars—not only reinforced Chile's capacity to import but also enabled it to increase its gold and foreign exchange reserves considerably.

Ecuador

GENERAL CHARACTERISTICS OF ECONOMIC TRENDS IN 1968

A drought which affected agricultural production, a weaker growth rate in industry and a

⁴ Including a stand-by agreement with the International Monetary Fund for 46 million dollars, drawings on which up to November amounted to 37 million dollars. At the same time payments totalling 25 million dollars were made to the International Monetary Fund.

Figure X. Chile: 1960-68

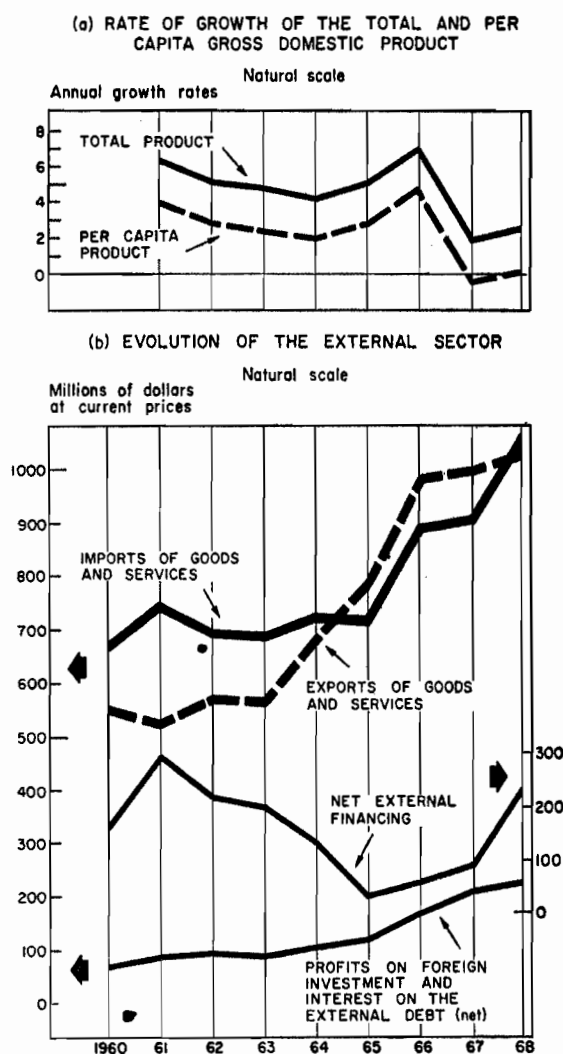


Table 103. Chile: balance of payments, 1961 and 1965-68
(Millions of dollars)

	1961	1965	1966	1967	1968*
Current account					
Exports of goods and services	521.1	788.0	982.0	1,003.0	1,037.0
Goods	444.1	688.0	865.0	886.0	911.0
Services	77.0	100.0	117.0	117.0	126.0
Imports of goods and services	-741.3	-716.0	-883.0	-903.0	-1,052.0
Goods, f.o.b.	-570.1	-569.0	-709.0	-717.0	-840.0
Services	-171.2	-147.0	-174.0	-186.0	-212.0
Net investment income	-81.7	-121.0	-172.0	-201.0	-234.0
Profits	-53.3	-55.0	-100.0	-126.0	-149.0
Interest	-28.4	-66.0	-72.0	-75.0	-85.0
Net private transfer payments	+6.8	+10.0	+5.0	+5.0	+3.0
Balance on current account	-295.1	-39.0	-68.0	-96.0	-246.0
Capital account					
Net external financing	+295.1	+39.0	+68.0	+96.0	+246.0
Net non-compensatory foreign capital	+197.2	+80.0	+109.0	+158.0	+376.0
Direct investment	51.9	-38.0	-30.0	+19.0	
Non-compensatory loans	+86.0	+93.0	+93.0	+111.0	
Short-term liabilities	+42.5	+26.0	+36.0	+23.0	
Official transfer payments	+16.8	-1.0	+10.0	+5.0	
Net non-compensatory domestic capital or assets	+9.4	-36.0	-26.0	...	-130.0
Errors and omissions	-22.9	+34.0	+12.0	-96.0	
Compensatory movements (increase —)	+111.4	-39.0	-27.0	+34.0	
Net compensatory foreign capital	+72.0	+10.0	+15.0	-10.0	-48.0
Balance-of-payments loans and deferred import payments	+37.4	+15.0	+12.0	+11.0	-66.0
Other liabilities of the monetary authorities	-18.5	-4.0	+18.0	-6.0	
IMF position	+53.1	-1.0	-15.0	-15.0	+18.0
Movements of gold and foreign exchange (increase —)	+39.4	-49.0	-42.0	+44.0	-82.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 18 and 20.

* Preliminary estimates.

Table 104. Chile: net external contribution to the financing of imports, 1960-68
(Millions of dollars)

Year	Gross inflow of external compensatory and non-compensatory capital	Service payments on external capital			Net contribution to the financing of imports
		Amortization and service payments	Profits on direct external investment and interest on foreign loans	Total service payments	
	A	B	C	D = B + C	E = A - D
1960	189.3	78.2	64.6	142.8	46.5
1961	406.5	131.1	81.7	212.8	193.7
1962	488.0	140.0	93.0	233.0	255.0
1963	451.0	272.0	90.0	362.0	89.0
1964	440.0	276.0	106.0	382.0	58.0
1965	374.0	284.0	121.0	405.0	-31.0
1966	382.0	258.0	172.0	430.0	-48.0
1967	336.0	188.0	201.0	389.0	-53.0
1968	641.0	250.0	234.0	484.0	157.0

SOURCES: Up to 1967: official statistics; 1968: ECLA estimates.

greater struggle to keep up the rate of public investment are the main reasons why the Ecuadorian economy failed to expand in 1968 as rapidly as in previous years. Even in these circumstances, the total product increased by slightly over 4 per cent, largely because of the growth of the services sectors.

The financing of public expenditure continued to be one of the chief concerns of economic policy. The means of payment increased as much as 15.3 per cent over the first ten months of the year, in comparison with only 8.9 per cent during the same period in 1967. The free exchange market quotation for sugar in Quito and Guayaquil rose from an average of 20.17 sucres per dollar in 1967 to an average of 22.21 sucres per dollar in 1968; this represents a devaluation of 10.1 per cent. In spite of these adverse factors, prices remained relatively stable. During 1968 the consumer price index rose 4.3 per cent over its 1967 level.

In the external sector, imports rose considerably and exports also increased, but to a much lesser extent. This led to a net decrease in international reserves.

THE TREND OF THE PRODUCT

The provisional data available indicate that the product expanded by 4.3 per cent in 1968, thus falling short of the 5.6 per cent rate it achieved in 1967. The sectors producing goods increased by 2 per cent and the services sectors by 7 per cent (see table 105 and figure XI).

These changes indicate that the trend of the product was characterized, for the second consecutive year, by an expansion in the share of services, and of commerce and finance in par-

Table 105. Ecuador: growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

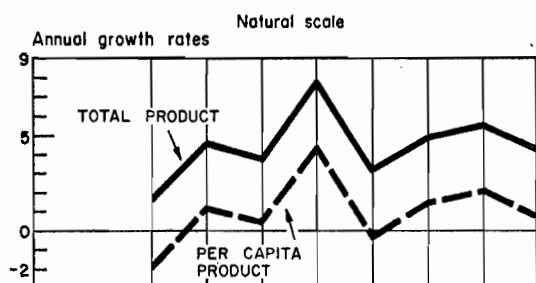
Sector	Annual growth rates (Percentages)		
	1960-66	1967	1968 ^a
Agriculture	3.3	2.2	1.5
Mining	1.2	-1.2	-1.5
Manufacturing	5.9	5.6	3.3
Construction	5.2	...	...
Goods	4.0	3.3	2.0
Electricity, gas and water	8.4	7.3	5.7
Transport and communications	3.6	6.3	7.4
Basic services	4.8	6.6	6.9
Commerce and finance	4.9	15.1	8.3
Miscellaneous services	4.9	5.9	6.0
Other services	4.9	9.5	7.0
Growth rate of the total product	4.4	5.6	4.3

SOURCE: 1960-67: *Memorias del Banco Central*.

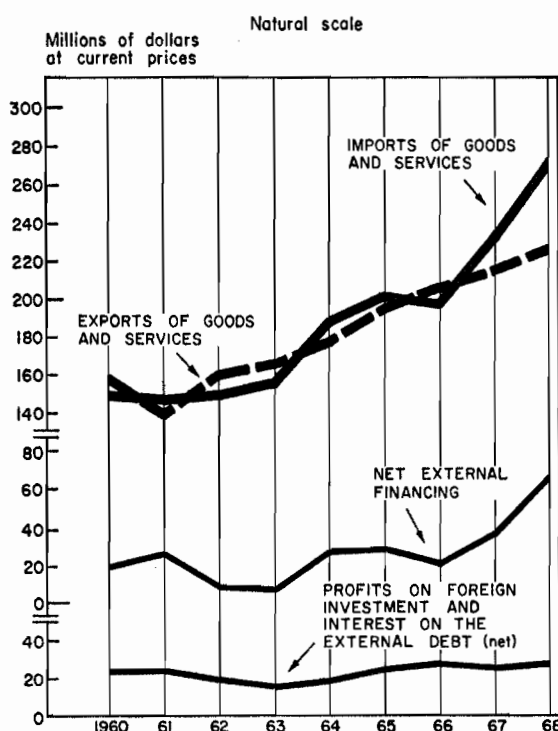
^a ECLA estimates on the basis of partial indicators.

Figure XI. Ecuador: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



ticular. To a certain extent, this involved a shift of income from other sectors of the economy.⁵

⁵ Unlike the methods of calculation normally used for other Latin American countries, in Ecuador the sectoral trend of the product measured at constant prices is not based on the calculation of changes in the volume of the relevant items of production, but on the deflation of the product at current values by the over-all price index. Hence, the figures do not always reflect the real contribution of each sector to the total product, but rather show real income (or purchasing power) generated by the factors of production in the sectors concerned. Thus, in 1967, the rate of growth of the agricultural product fell far short of the increase in the volume of agricultural output, whereas the product for commerce and finance expanded by more than 15 per cent although this figure has no bearing on the increase in the real volume of domestic and imported goods brought into the economy.

The growth rate of the agricultural product was just under 1.5 per cent, owing to the protracted drought in some provinces on the coast and in the inter-Andean area which affected commodities for home consumption and export markets alike. To judge by the preliminary estimates, the losses in the maize, rice, coffee and cotton crops and the impact on the rate of cattle slaughtering totalled 1,000 million sucres. This is equivalent to 12 per cent of the value added in the agricultural sector.

In the industrial sector, the growth rate dropped to 3.3 per cent from 5.6 per cent in the previous year. This slackening in the tempo of growth was partly due to the repercussions of the scant progress made by agriculture, and the competition of important industrial goods entering the country as a result of the relaxation of foreign trade controls. Another adverse factor was the contraction in the mining sector, where output dropped by 1.5 per cent following a reduction of 1.2 per cent in 1967. Basic services as a whole—electricity, transport and communications—achieved a slightly higher growth rate (6.9 as against 6.6 per cent).

PUBLIC REVENUE AND EXPENDITURE

Up to October 1968, the real income of the Central Government was a little under two-thirds of the budget estimates, while current expenditure amounted to 72 per cent. Consequently, capital expenditure amounted to only 42 per cent of the investment target, and the Central Government accounts showed a substantial deficit.

It is estimated that, for the year as a whole, this deficit may represent about 26 per cent of expenditure, thereby accentuating an existing trend. During the five-year period from 1963 to 1967, the gap between income and expenditure

ranged from 5 to 22 per cent of total expenditure. The failure of income to increase at an adequate pace has mainly affected public investment, which has ceased to play a dynamic role and has even declined in absolute terms during the nineteen-sixties (see table 106).

THE EXTERNAL SECTOR

Estimates based on the permits granted up to 15 November 1968 indicate that the current value of exports of goods and services increased by 4 per cent (see table 107 and figure XI). Bananas, cocoa and coffee accounted for 84 per cent of the total increase, but showed very different trends: bananas made some progress, despite a slight fall in prices, while cocoa climbed by almost 50 per cent under the stimulus of the price increases recorded since 1966, and coffee declined by 21.1 per cent. As regards the items of secondary importance, balsa wood progressed, while sugar and seafood products fell off.

Imports of goods and services improved upon their 1967 level by just over 16 per cent, partly because of the incentive provided by the relaxation of the controls enforced in 1966. The value of the permits used in 1968 amounted to 194.6 million dollars, or 29.4 million more than in 1967.

The difference in the trends of exports and imports, coupled with the increase in net remittances abroad worsened the situation of the balance of payments, which had already been in disequilibrium in 1967, with the result that the net deficit on current account rose to record heights. This increase in the current imbalance was juxtaposed with a substantial expansion in the inflow of non-compensatory foreign capital. Consequently, the balance of payments before compensatory financing closed with a deficit

Table 106. Ecuador: total supply and demand, 1960 and 1966-68
(Millions of sucres at 1960 prices and percentages)

	1960	1966 ^a	1967 ^a	1968 ^b
<i>Total supply</i>	16,616	21,364	22,855	24,328
Gross domestic product	14,140	18,185	19,191	20,020
Imports of goods and services	2,476	3,179	3,664	4,308
<i>Total demand</i>	16,616	21,364	22,855	24,328
Exports of goods and services	2,530	3,226	3,400	3,491
Total investment	2,151	2,387	2,433	2,460
Fixed investment	1,897	2,065	2,123	2,160
Public	882	725	713 ^b	...
Private	1,015	1,340	1,410 ^b	...
Total consumption	11,935	15,751	17,022	18,377
General government	1,813	2,488	2,612	2,800
Private	10,122	13,263	14,410	15,577

SOURCE: Up to 1967: *Memorias del Banco Central*.

^a Provisional figures.

^b ECLA estimates based on partial indicators.

Table 107. Ecuador: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968*
Current account					
Exports of goods and services	154.9	196.6	203.3	218.1	226.9
Goods	146.3	180.7	186.5	201.1	210.0
Services	8.6	15.9	16.8	17.0	16.9
Imports of goods and services	152.3	201.0	202.6	234.2	272.9
Goods, f.o.b.	109.8	155.2	152.7	176.7	210.0
Services	42.5	45.8	49.9	57.5	62.9
Net investment income	-22.8	-25.0	-25.2	-24.9	-26.1
Net private transfer payments	+1.4	+2.2	+2.8	+5.0	+4.9
Balance on current account	-18.8	-27.2	-21.7	-36.0	-67.2
Capital account					
Net external financing	+18.8	+27.2	+21.7	+36.0	+67.2
Net non-compensatory foreign capital	+28.0	+30.4	+47.1	+46.8	
Direct investment	+8.0	+7.4	+16.0	+16.4	
Non-compensatory loans	+15.2	+13.2	+19.1	+22.8	
Short-term liabilities	-1.0	+2.7	+5.4	+0.1	
Official transfer payments	+5.8	+7.1	+6.6	+7.7	
Net non-compensatory domestic capital or assets	-10.5	-1.7	-1.9	+1.7	
Errors and omissions	-2.3	-13.7	-12.1	-3.6	
Compensatory movements (increase —)	+3.6	+12.2	-11.4	-8.9	
Net compensatory foreign capital	+0.8	+9.6	+3.9	-0.9	
Balance-of-payments loans and deferred import payments	—	-0.2	-0.2	-0.2	
Other liabilities of the monetary authorities	+0.8	+0.8	-0.9	+0.1	
IMF position	—	+9.0	+5.0	-0.8	
Movements of gold and foreign exchange (increase —)	+2.8	+2.6	-15.3	-8.0	

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 19.

* Provisional figures.

which, although small, led to a deterioration in the country's net monetary position.

El Salvador

RECENT OVER-ALL TRENDS

In 1968, the economy of El Salvador again developed at only a modest rate. Available data show that the gross domestic product increased by 3.7 per cent, or rather less than in 1967 (see table 108 and figure XII).

The value of exports stood at much the same level as in the preceding year. Traditional exports were limited by a reduction in the coffee supply and, for the third year running, a contraction in the volume of cotton sales, attributable on this occasion to the poor 1967/68 crop. At the same time, exports to the Central American common market—especially sales of manufactures—failed to expand as much as in previous years.

For the first time in several years, private investment decreased in real terms by a little over 1 per cent. Residential building was the sector most seriously affected, to judge from the partial data to hand. Investment in industry also seems to have lost the impetus by which it had previously been characterized, despite the firm financial support accorded by the Government through

the activities of the Salvadorian Institute of Industrial Development (Instituto Salvadoreño de Fomento Industrial—INSAFI) and the Development Fund.

Public investment continued to decline, although the decrease (9 per cent) was smaller than in 1967. This was partly because the Government

Table 108. El Salvador: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

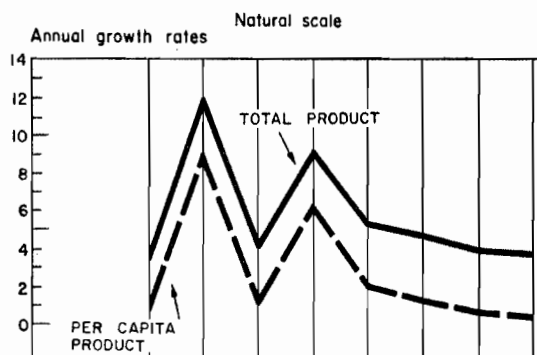
	(Percentages)		
Sector	1960-66	1967	1968*
Agriculture	4.5	1.0	3.1
Mining	-6.8	0.0	0.0
Manufacturing	9.7	8.4	6.8
Construction	10.7	-4.5	-14.0
Goods	6.6	2.9	2.9
Electricity, gas and water	11.4	8.4	8.3
Transport and communications	3.8	3.9	4.3
Basic services	5.5	5.2	5.4
Commerce and finance	6.8	4.3	4.7
General government	3.9	4.1	3.0
Miscellaneous services	5.9	6.4	4.7
Other services	6.0	4.9	4.4
Growth rate of the total product	6.5	3.9	3.7

SOURCE: ECLA, on the basis of official data.

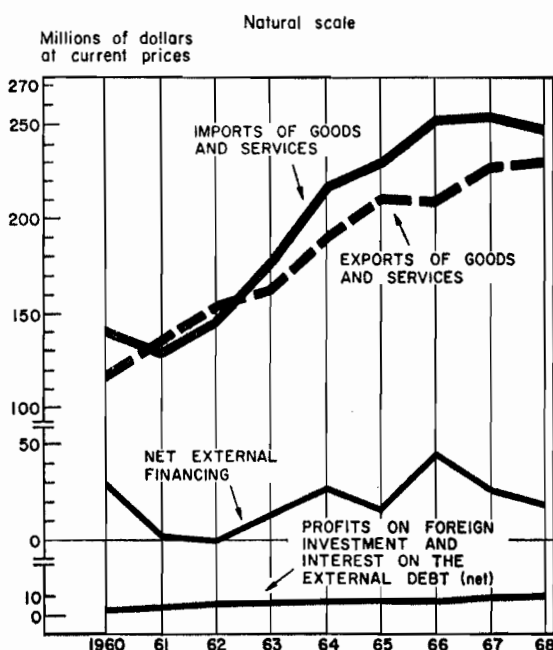
* Estimates.

Figure XII. El Salvador: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



obtained less external financing, and public-sector saving was inadequate. Tax revenue, which had been stationary since 1965, was raised by about 5 per cent in 1968 through the application of a surcharge on the property tax, but this increase in income was outstripped by the expansion of the Central Government's current expenditure, mainly on account of the stepping-up of social service benefits for public officials and the subsidizing of autonomous enterprises. Consequently, the savings available for the financing of public investment were once again reduced, for the third consecutive year, falling to about 38.3 million colones (15.3 million dollars).

The depressive effects on economic activity produced by the decrease in investment were strengthened by measures to restrict the expansion of the money supply and imports. All these factors, in combination with the slow growth of income, kept the rate of increase of private consumption down to only 3 per cent (see table 109).

The slight rise in exports was accompanied by a drop of 2.4 per cent in the total value of imports of goods and services. The balance-of-payments deficit on current account, which had reached a peak figure in 1966, was thus reduced. Net inflows of capital sufficed to cover it, and even allowed the monetary authorities to augment the country's gold and foreign exchange reserves (see table 110 and figure XII).

MAJOR SECTORS OF PRODUCTION OF GOODS

There was a falling-off in construction activities in 1968 amounting to 14 per cent in real terms as a result of the reduction in public investment and private residential building.

Industrial development received a powerful stimulus through the contracting of a million-dollar loan from the Inter-American Development Bank for pre-investment studies relating to industrial and agricultural projects. Plans are also afoot for expanding the functions of the National Commission on Foreign Trade (Comisión Nacional de Comercio Exterior) and placing it on a permanent footing, by giving it the status of a technical department responsible for co-ordinating the industrial aspects of the new development plan.

Production in the agricultural sector, after recessions in two successive years and a growth rate of barely 1 per cent in 1967, expanded by about 3 per cent in 1968, largely by virtue of a bumper coffee harvest in 1967/68 (135,000 tons). On the assumption that the 1968/69 crop will be closer to the normal yield, coffee output will not exceed the 120,000 tons required to cover the quota assigned to El Salvador under the International Coffee Agreement. In order to get rid of several years' carry-over stocks, recourse was had to new markets at the end of 1967 and the beginning of 1968, and sales were made at prices lower than those established in the Agreement.

Since its sharp downturn in 1965/66, cotton production has not recovered its leading export position. Pests and droughts have in the meantime reduced yields, pushed up costs and led to a decrease in the cotton-growing area. According to estimates, the 1968/69 crop year will witness the termination of this downward trend, thanks to favourable weather conditions coinciding with the implementation of a cotton production

Table 109. El Salvador: total supply and demand, 1960 and 1966-68
(Millions of colones at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	1,773.8	2,629.1	2,712.5	2,775.8
Gross domestic product	1,420.0	2,071.2	2,152.4	2,233.1
Imports of goods and services	353.8	557.9	560.1	542.7
<i>Total demand</i>	1,773.8	2,629.1	2,712.5	2,775.8
Exports of goods and services	289.4	476.8	538.9	552.5
Gross fixed investment	204.4	317.1	318.1	308.8
Public	40.6	90.7	68.1	62.1
Private	163.8	226.4	250.0	246.7
Total consumption	1,280.0	1,835.2	1,855.5	1,914.5
General government	143.1	181.1	189.3	197.2
Private	1,136.9	1,654.1	1,666.2	1,717.3

SOURCE: ECLA, on the basis of data supplied by the Central Bank of El Salvador.
* Estimates.

Table 110. El Salvador: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	116.9	212.8	209.4	228.5	231.7
Goods	102.6	190.0	189.5	207.8	210.0
Services	14.3	22.8	19.9	20.7	21.7
Imports of goods and services	141.6	230.9	252.6	254.9	248.6
Goods, f.o.b.	113.4	187.3	201.5	205.1	198.9
Services	28.2	43.6	51.1	49.8	49.7
Net investment income	-3.9	-7.8	-7.5	-8.6	-9.8
Net private transfer payments	+0.2	+9.7	+6.5	+7.6	+7.5
Balance on current account	-28.4	-16.2	-44.2	-27.4	-19.2
<i>Capital account</i>					
Net financing	+28.4	+16.2	+44.2	+27.4	+19.2
Net external non-compensatory foreign capital	+16.3	+25.3	+30.0	+31.3	
Direct investment	+4.5	+7.6	+8.8	+9.9	
Non-compensatory loans	+0.2	+15.5	+24.6	+16.6	
Short-term liabilities	+10.7	-1.4	-6.6	+0.6	
Official transfer payments	+0.9	+3.6	+3.2	+4.2	
Net non-compensatory domestic capital and assets	+1.5	-4.3	+0.5	-1.2	
Errors and omissions	-2.5	-3.2	+1.5	-3.8	
Compensatory movements (increase —)	+13.1	-1.6	+12.2	+1.1	
Net compensatory foreign capital	+8.5	+1.2	+17.8	-0.9	
Balance-of-payments loans and deferred import payments	+3.0	+1.1	-0.7	-0.9	
Other liabilities of the monetary authorities	-0.2	+0.1	-0.3	—	
IMF position	+5.7	—	+18.8	—	
Movements of gold and foreign exchange (increase —)	+4.6	-2.8	-5.6	+2.0	

SOURCE: Up to 1967: *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

development plan designed to promote the enlargement of the area sown to cotton and the introduction of more efficient techniques. Although cotton credit facilities have undergone no change, it is hoped that the improvement in world prices will act as an incentive to the private saving required to finance production. The current crop year's harvest may well show an increase of 14 per cent, thus amounting to about 40,200 tons which would mean that exports would also expand appreciably in 1969.

Agricultural production for domestic consumption is progressively tending to serve the regional market. A production boom was made possible by favourable weather conditions in 1968/69, and was also furthered by the price support policy of the Institute for the Regulation of Supplies (Instituto Regulador de Abastos) and by the technical assistance institutions. The recovery in grain production was the decisive factor in the expansion of agriculture for domestic consumption (23.5 per cent). The maize crop, in particular, not only made up the previous year's leeway but reached the record level of 276,000 tons. In the case of rice the production increment was on a similar scale (31 per cent), thanks to the inducement offered by high prices on the Central American market, since the 1968/69 harvest, estimated at 66,700 tons, may leave a margin for exportable surpluses. Sorghum production remained, as usual, stationary, as is natural in view of the family type of stock farming with which it is associated.

STAPLE EXPORT PRODUCTS

The low growth rate of exports of goods was imputable to a decline in sales of traditional export commodities for the third year in succession.

As on previous occasions, the chief cause of this stagnation is the contraction in cotton production in 1967/68, which reduced supply to less than half its 1965 volume (73,000 tons). Output was 6 per cent below its 1967 level, although prices rose for the second year running. This accounts for the fact that the value of cotton sales was 16 million dollars less than in 1967.

Average coffee export prices decreased a little (by 0.5 per cent) because surpluses had to be sold on free markets, over and above the ICA quota, although to a much smaller extent than in 1967. During that year carry-over stocks from several earlier harvests were disposed of, with the result that there was a sharp upswing of 25 per cent in the volume of exports, which totalled 1.7 million bags, for a value of 97 million dollars. However, this sum was not more than 9 per cent above the 1966 figure, because of its lower unit value.

In 1968 the exportable surplus was a little smaller (by 0.6 per cent), and this circumstance, in conjunction with the price decline, brought down the total value of coffee exports by nearly one million dollars.

The current value of sugar exports rose by almost 12 per cent, and accounted for nearly 5 million dollars within the trend towards recovery. The increase was entirely in terms of volume, since the unit value remained the same.

Guatemala

RECENT ECONOMIC TRENDS

In 1968, the product of the Guatemalan economy grew at a rate of 5.1 per cent, which was appreciably higher than the rate in 1967 (4 per cent). This was due in the main to the recovery of agricultural exports, for which increased harvests of bananas and cotton were largely responsible. The industrial sector, however, grew at an appreciably slower pace than in 1967, reflecting the sluggishness of domestic demand and regional trade, although some branches of manufacturing increased their exports to the Central American market. The construction industry remained virtually stationary, while some services sectors grew very rapidly as a result of the expansion of external trade and the success of agriculture (see table 111 and figure XIII).

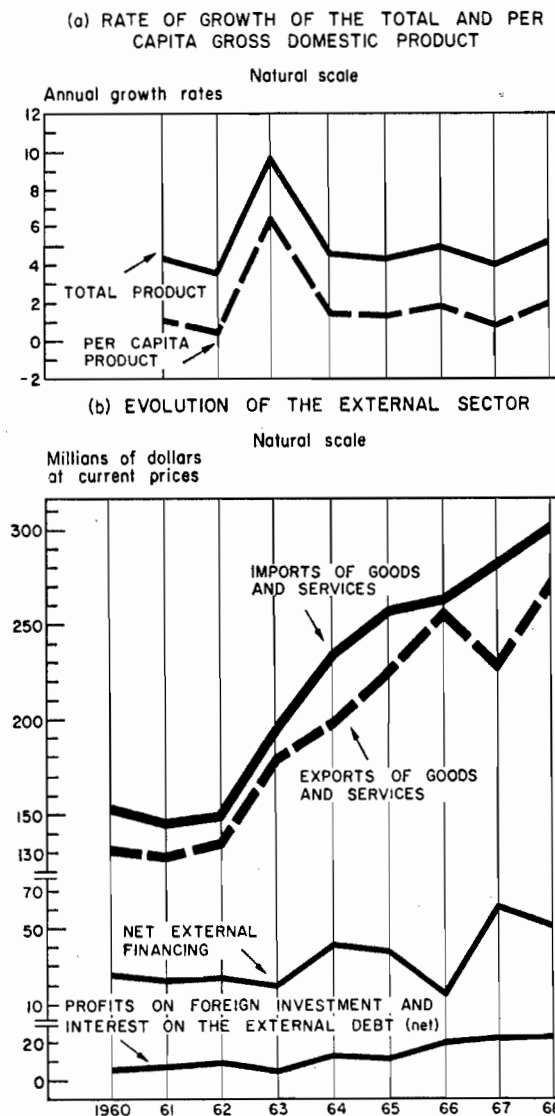
The increase in agricultural production, attributable to favourable climatic conditions and satisfactory prices for several important products, led to a very pronounced rise in the value of exports, which had dropped sharply in 1967 owing to a decline in production and unfavourable world markets for some products.

Table 111. Guatemala: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

(Percentages)				
Sector	1960-66	1967	1968*	
Agriculture	4.4	0.1	5.5	
Mining	-0.9	—	—	
Manufacturing	7.3	8.1	5.4	
Construction	3.7	3.3	0.8	
Goods	5.1	2.5	5.3	
Electricity, gas and water	13.7	5.6	8.6	
Transport and communications	7.0	7.7	7.6	
Basic services	8.1	7.3	7.8	
Commerce and finance	7.9	4.5	5.6	
Government	-0.6	8.8	2.8	
Miscellaneous services	5.7	3.6	3.0	
Other services	6.3	4.6	4.7	
Growth rate of the total product	5.2	4.0	5.1	

SOURCE: ECLA, on the basis of official data.
* Preliminary estimates.

Figure XIII. Guatemala: 1960-68



In addition to the good harvests, the marked rise in exports was due to the disposal of substantial stocks of such products as coffee and sugar, which had been built up in earlier years.

In contrast to the rapid growth of exports, the various components of domestic demand grew less rapidly than in 1967 (see table 112). Consumption increased by slightly more than 4 per cent, while total investment remained stationary.

The financial situation of the public sector, moreover, was such that government expenditure did nothing to offset these trends but rather increased the effect of the contraction of private investment. For some years current government expenditure has grown substantially, while revenue from taxation—despite the measures taken to increase it—has grown at a much slower pace, owing to the limitations of the existing taxation system, and is seriously hampering the capacity to generate enough savings to meet the needs of public investment. With a view to improving the Government's financial position, the growth of current spending was limited in 1968 and according to preliminary estimates totalled 123 million quetzals, only 4 per cent higher than in 1967.

In 1967 the monetary authorities had endeavoured—without being entirely successful—to offset the effect of the sharp drop in exports, but in 1968 had to deal with a situation in which liquidity rose sharply as a result of the very varied performance of the external sector and also as a result of measures to restrict the outflow of short-term funds. The figures available for the first nine months of the year show that private demand deposits at the end of September were 23 per cent higher than at the same point in 1967, while non-monetary deposits (particularly savings and fixed-term deposits) were 18 per cent higher. This influx of resources into the banking system led to a substantial expansion of credit,

Table 112. Guatemala: total supply and demand, 1960 and 1966-68
(Millions of quetzals at 1960 prices)

	1960	1966	1967	1968*
Total supply	1,195.3	1,641.6	1,715.2	1,812.4
Gross domestic product	1,043.6	1,415.9	1,473.2	1,548.4
Imports of goods and services	151.7	225.7	242.0	264.0
Total demand	1,195.3	1,641.6	1,715.2	1,812.4
Exports of goods and services	131.9	296.0	277.3	322.3
Total fixed investment	102.1	161.4	179.5	179.7
Public	26.6	34.7	38.9	38.7
Private	75.5	126.7	140.6	141.0
Total consumption	961.3	1,184.2	1,258.4	1,310.4
General government	79.9	88.9	95.5	98.2
Private	881.4	1,095.3	1,162.9	1,212.2

SOURCE: ECLA, on the basis of official data.

* Preliminary estimates.

particularly government credit—despite the fact that measures had been taken to restrict the lending capacity of banks—which was 46 per cent higher (3.2 million quetzals on 30 September 1968) than on the same date in 1967. It may be assumed, however, that over the year as a whole bank financing of the public sector grew much less owing to the stabilization policy initiated by the Government.

Without further restrictions, the increase in money income during 1968 would have exerted strong pressure on the balance of payments through increased demand for imports; however, as a result of controls on imports from outside the Central American area, total imports grew only slightly while regional imports rose by 15 per cent, and there was a rise in price of some significance, as shown in the figures available for the first ten months of the year, because of the relative scarcity of domestic consumer goods combined with an expansion of the money supply.

The trend in the external sector was for a substantial increase in the volume of exports and a slight improvement in unit value. Although imports grew at a slower pace, they did reach their highest level for the nineteen-sixties. Nevertheless, the deficit on current account was some 10 million dollars less than in 1967, al-

though still relatively high (see table 113 and figure XIII). An influx of capital roughly equal to the 1967 level was used to finance the deficit and slightly improved the net position of the monetary authorities.

THE MAJOR GOODS-PRODUCING SECTORS

The major production sectors varied greatly in their performance during 1968. While the growth rate of the agricultural sector was a substantial improvement over 1967, manufacturing—which grew at a very similar pace—declined in comparison with its 1967 position. The construction sector, on the other hand, remained relatively stationary.

During the crop year 1968/69, agricultural exports continued to grow rapidly, owing to increases in production of almost all crops. Banana production had the highest growth rate, increasing by 50 per cent over 1968, which was attributable to climatic factors and to the entry into production of 900 hectares of banana plantations under a programme to grow certain crops in more suitable areas. The programme will cover a total of 10,000 hectares and one quarter of it is expected to be completed by 1969.

Cotton production rose by 10 per cent during the 1968/69 crop year, thus continuing its strong

Table 113. Guatemala: balance of payments, 1960 and 1965–68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	131.5	226.1	257.9	232.7	270.4
Goods	115.9	192.1	228.7	203.9	240.0
Services	15.6	34.0	29.2	28.8	30.4
Imports of goods and services	152.1	256.7	262.6	281.3	306.7
Goods, f.o.b.	124.8	206.1	201.8	226.5	247.0
Services	27.3	50.6	60.8	54.8	59.7
Net investment income	-5.0	-11.2	-18.6	-20.8	-23.1
Net private transfer payments	+0.1	+3.5	+6.2	+7.4	+8.0
Balance on current account	-25.5	-38.3	-17.1	-62.0	-51.4
Capital account					
Net external financing	+25.5	+38.3	+17.1	+62.0	+51.4
Net non-compensatory foreign capital	+40.2	+63.0	+9.7	+48.5	+51.9
Direct investment	+16.8	+14.1	+14.5	+18.2	
Non-compensatory loans	+4.1	+25.0	+13.4	+27.5	
Short-term liabilities	+4.8	+19.9	-21.4	+0.8	
Official transfer payments	+14.5	+4.0	+3.2	+2.0	
Net non-compensatory domestic capital or assets	-0.8	-0.3	-1.7	+0.4	-0.5
Errors and omissions	-6.2	-21.4	-1.0	+10.5	
Compensatory movements (increase —)	-7.7	-3.0	-6.7	+2.6	
Net compensatory foreign capital	+2.3	+9.4	-0.4	+9.7	-0.5
Balance-of-payments loans and deferred import payments	+2.3	+5.6	-5.7	-0.3	
Other liabilities of the monetary authorities	—	—	—	—	
IMF position	—	+3.8	+5.3	+10.0	-0.5
Movements of gold and foreign exchange (increase)	-10.0	-12.4	+7.1	-7.1	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

recovery of the previous year. Although prices were pushed up by the heavy costs of disease and pest control, favourable conditions on the world market led to an expansion of cotton production, which benefited from exceptionally good climatic conditions, and yields were substantially increased.

Coffee production, which had risen substantially during the previous crop year, lost some of its momentum owing both to biological factors affecting the plantations and to the policy of maintaining the area under cultivation at a fixed level, a policy prompted by the existence of large surpluses, some of which had to be disposed of on the free market at very low prices.

Since less credit and technical assistance were available for crops for domestic consumption, it was not possible to derive the maximum benefit from favourable climatic conditions. Although maize production rose by 5 per cent, it was only just higher than the level achieved in the crop year 1966/67. Sugar cane and wheat production, on the other hand, remained stationary. Rice production was affected by the floods in the Izabal area and also remained virtually stationary. The Government has initiated development programmes and promoted the expansion of irrigation for rice production, as for vegetables and some fruits.

Livestock production was also encouraged and 260,000 hectares of pastureland was opened up in the south. However, in contrast to 1967, the external market for livestock was not very encouraging in 1968, while domestic consumption grew by less than 2 per cent.

It is estimated that manufacturing grew by slightly more than 5 per cent during 1968, in contrast to the high rates of earlier years. This is attributable both to inadequate stimulation of domestic demand and to a decline in the purchasing power of the regional market.

EXPORT PRODUCTS

During 1968, the volume of the main traditional exports grew very significantly, while prices improved for several products.

Among the major exports, coffee recovered from the serious setback of 1967 without, however, reaching the high level attained in 1966. This was due both to the results of the 1967/68 harvest and to the disposal of surplus stocks. However, a considerable proportion of the export in excess of the country's coffee quota was sold at 25 per cent below the internationally agreed price, thus lowering the average income of producers.

The rise in cotton production, which led to an increase of 16 per cent in the volume of exports,

was accompanied by an improvement in prices and meant that the value of cotton exports rose by 29 per cent in 1968. Banana exports, which were over 50 per cent higher in volume than in 1967, grew at an exceptional pace, and there was also a slight improvement in unit prices, while the unit value of fresh meat exports improved by 5.8 per cent.

In contrast to 1967, sugar prices fell by 6 per cent during 1968 and since the volume exported was not increased sufficiently to offset this trend—although surplus production was exported—the value of sugar exports declined slightly (by a little more than 1 per cent).

It is estimated that exports to the Central American Common Market grew by 16 per cent—slightly more than in 1967. This was mainly accounted for by agricultural products and to some extent by exports of new manufactures of textile goods, foodstuffs, chemical products, paper and building materials, and by the recovery of exports of rubber products, particularly automobile tires.

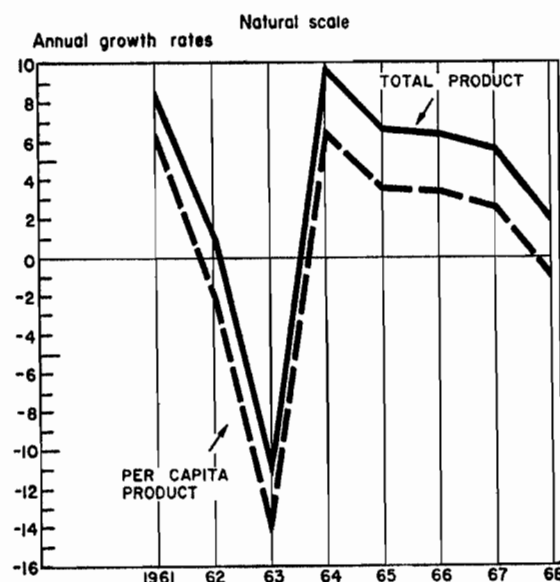
Guyana

RECENT ECONOMIC TRENDS

According to provisional estimates, the rate of growth of the Guyanese economy appears to have slackened off in 1968 compared with the high growth rates of 1964–67 (see figure XIV). After its decline in 1963, the gross domestic product at

Figure XIV. Guyana: 1960–68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



current prices grew at an annual rate of 8.1 per cent until 1967, but in 1968 it is thought to have done so by only 5.4 per cent. The increase in domestic consumer prices was slightly less than 4 per cent, mainly due to the devaluation of the currency.

This slackening in the tempo of economic growth was attributable to the poor results in some major sectors of production, as, for example, agriculture, which declined by 1.3 per cent, and to the loss of momentum in manufacturing, which grew by only 1.6 per cent. Added to this were the small increases in the transport sector (3.1 per cent) and in the general government sector, which carries special weight in the Guyanese economy and grew by only 4.2 per cent in 1968. This compares unfavourably with the average annual rate of 15 per cent over the period 1963-67. In contrast, mining and quarrying and construction grew by 17 and 15 per cent respectively (see table 114). These increases were attributable to the expansion of production capacity in the bauxite industry and to investment in infrastructure under the general public investment plan for 1966-72, which totalled 200 million Guyanese dollars.

Output of dried bauxite amounted to 1,851,000 tons in 1968, thus exceeding the total for previous years. Output of calcined bauxite amounted to 588,000 tons, which was 26 per cent higher than in 1967. In contrast, alumina output remained virtually stationary, while manganese output fell to almost half that of 1967. It should be noted that the manganese mining company stopped work in August 1968. The output of mining and quarrying products for construction appears to have increased substantially, in tune with the upswing in construction activities.

The decline of 1.3 per cent in agricultural output reflects an 8 per cent decrease in the production of sugar cane and unhulled rice, which

accounts for approximately three quarters of total output. This affected the manufacturing sector, since the processing of sugar and rice constitutes more than one third of the industrial product. If, however, sugar and rice processing are excluded, it becomes clear that the remainder of the manufacturing sector, which is made up of more thriving industries, has been expanding rapidly since 1963 at an average annual rate of 15 per cent.

Imports continued to climb during 1968, mainly due to the fact that recent investment programmes resulted in increases in imports of capital goods and building materials; in addition food imports had to be stepped up owing to the stagnation of agricultural production.

Exports grew faster than imports, chiefly because of the increase in bauxite sales, which created a surplus on merchandise trade and helped to reduce the deficit on current account, despite the increase in remittances abroad of interest and profits (see table 115). In recent years capital inflows in the form of direct investment have been gradually declining as the bauxite expansion programme nears completion.

Table 115. Guyana: balance of payments on current account, 1966-68
(Millions of Guyanese dollars)

	1966	1967	1968*
Exports of goods and services	220.5	251.4	269.1
Goods	192.3	217.8	238.9
Imports of goods and services	270.4	296.9	306.0
Goods	202.0	225.3	229.2
Balance on merchandise trade	-9.7	-7.5	+9.7
Balance on current account (including transfer payments)	-40.2	-36.6	-27.9

SOURCE: ECLA, on the basis of publications of the Ministry of Economic Development and the Statistical Bureau.

* Provisional figures.

Table 114. Guyana: gross domestic product* by sector of economic activity, 1965-68

Sector	Millions of Guyanese dollars at current prices				Annual growth rate			
	1965	1966	1967	1968	1965	1966	1967	1968*
Agriculture	68.5	66.6	69.8	68.9	6.1	-2.8	4.8	-1.3
Fishing and forestry	14.3	15.6	14.5	15.0	24.1	9.1	-7.1	3.4
Mining and quarrying	54.0	59.3	63.2	73.9	1.0	9.8	6.6	16.9
Manufacturing	42.7	44.3	49.1	49.9	15.4	3.7	8.6	1.6
Transport and communications	21.3	23.7	25.9	26.7	6.8	11.3	9.3	3.1
Construction	17.1	20.6	21.7	25.0	13.4	20.5	5.3	15.2
Commerce	39.4	42.1	45.3	47.1	0.7	6.9	7.6	4.0
Government	40.2	43.4	50.0	52.1	24.6	8.0	15.2	4.2
Other services	32.1	35.3	36.6	37.7	7.5	10.0	3.7	3.0
TOTAL gross product	329.6	350.9	376.1	396.3	8.8	6.5	7.2	5.4

SOURCE: ECLA, on the basis of publications of the Ministry of Economic Development, the Statistical Bureau and the

Bank of Guyana.

* At current factor cost.

Haiti

In 1968 the Haitian economy continued to develop at its characteristically slow rate. The increase in the gross domestic product was 1.3 per cent, i.e., virtually identical with the preceding year's figure and with the average for 1960-66 (see table 116 and figure XV). Since the

Table 116. Haiti: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

Sector	1960-66	1967 ^a	1968 ^a
Agriculture	0.4	0.8	1.2
Mining ^b	7.1	2.0	2.6
Manufacturing	2.8	3.7	1.2
Goods	1.2	1.5	1.3
Electricity, gas and water	5.3	-1.0	-1.6
Transport and communications	-0.5	-4.3	2.1
Basic services	1.0	-3.3	1.0
Commerce and finance	-0.6	0.6	1.1
General government	1.1	0.0	0.6
Miscellaneous services	3.1	3.0	1.7
Other services	1.4	1.6	1.3
Growth rate of the total product	1.3	1.4	1.3

SOURCE: ECLA, on the basis of data supplied by the Haitian Institute of Statistics.

^a ECLA estimates.

^b Including construction.

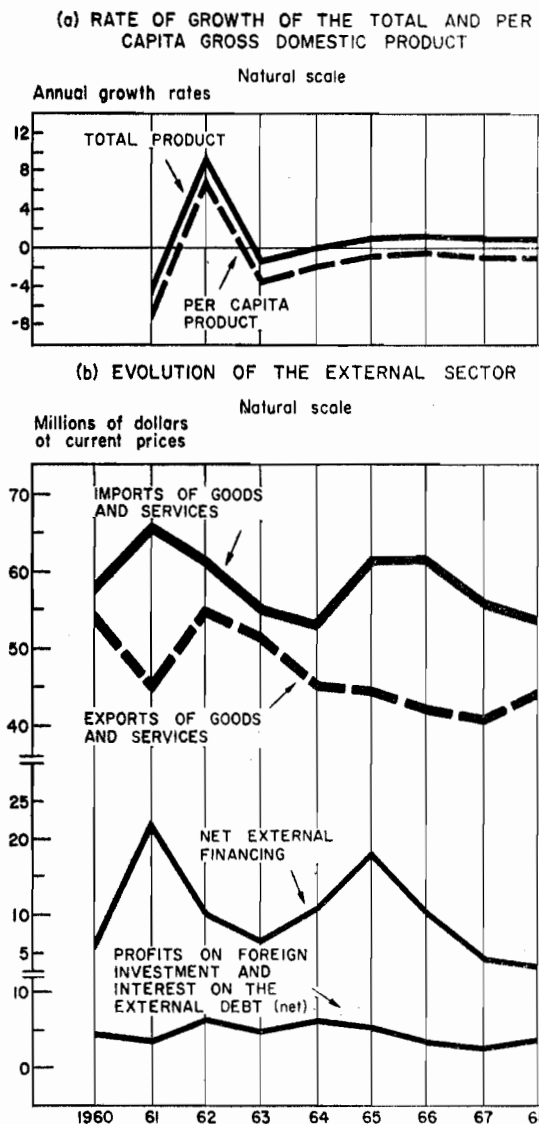
annual growth rate of the population is approximately 2.3 per cent, so small an increase in the product implied a deterioration in per capita income levels.

The evolution of the product by sectors shows a rather more gradual rise in agricultural production and a recovery of levels of activity in basic services, whereas manufacturing output expanded less than in previous years. Within the agricultural sector, coffee production increased significantly, while that of sugar remained at the same levels as before and that of sisal decreased. Economic infrastructure projects relating to the provision of basic services included a contract signed with an Italian firm for the installation of electric power generating equipment at the Peligre dam, and Canadian companies are expanding the Port-au-Prince water supply and the telephone service throughout the country. Furthermore, an airport with take-off and landing capacity for jets has been in operation since 1967.

Other general features of recent development trends are the persistence of the external deficit and the difficulty of augmenting public-sector income.

The latter contracted by approximately 20 per cent in relation to 1967, with the result that government expenditure was also considerably reduced.

Figure XV. Haiti: 1960-68



The rigidity of the domestic supply situation continued to exert a decisive influence on external sector trends. Exports of goods have tended to remain stationary in the last four years, at levels even lower than in 1960. In addition, the slump in income from tourism has sharpened the over-all decline in export earnings. Since 1965, alongside the trends in question, there has also been a downward movement in the value of imports. They are still in excess of exports, however, giving rise to a structural deficit which has not hitherto been reflected in very severe pressures on the country's external balance-of-payments position because of the

income received in the shape of private transfers (see table 117 and figure XV).

The balance-of-payments deficit on current account was smaller than in 1967, owing to the combination of a slight expansion of exports with a reduction of imports and a somewhat smaller inflow of private transfer payments. However, receipts of capital more than sufficed to finance this unfavourable balance on current account, so that in the upshot the Central Bank of Haiti was able to increase its gold and foreign exchange reserves.

The foregoing trends are clearly reflected in the evolution of aggregate supply and demand (see table 118). The decline of imports in 1967 followed by a slight increase in 1968 has meant that since 1960 the growth rate of the supply of goods and services has been slower than that of the product. On the demand side, as is natural in a relatively static economy, the growth rate of private consumption at least approximates to that of the population. Hence the components of demand most seriously affected have been public consumption and investment.

Honduras

RECENT ECONOMIC TRENDS

The Honduran economy expanded in 1968 at an estimated rate of 6.4 per cent, which is higher than the average for the period 1963-66 and the rate for 1967 (see table 119 and figure XVI). Per capita income therefore rose by about 3 per cent in the past year.

A particularly dynamic factor of the recent evolution was expenditure on capital formation. While in 1963-66 investment grew fairly slowly (3.5 per cent annually), the position changed radically in the last two years, the annual increase climbing to over 13 per cent (see table 120). Public investment, in particular, reached a fairly high level in 1968, representing a 34 per cent increase over 1967, without creating inflationary pressures thanks to more public saving and greater use of external credit.

The other components of domestic expenditure followed widely differing trends. Private consumption rose by only 2 per cent, as a result of credit restrictions, which channelled resources

Table 117. Haiti: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968*
Current account					
Exports of goods and services	54.4	44.9	42.4	41.1	44.6
Goods	38.1	37.8	34.7	32.3	34.8
Services	16.3	7.1	7.7	8.8	9.8
Imports of goods and services	58.1	62.2	61.9	56.0	54.1
Goods, f.o.b.	43.4	42.6	43.7	40.3	38.0
Services	14.7	19.6	18.2	15.7	16.1
Net investment income	-4.1	-5.2	-3.7	-2.9	-3.7
Net private transfer payments	+2.6	+4.7	+12.9	+13.2	+10.0
Balance on current account	-5.2	-17.8	-10.3	-4.6	-3.2
Capital account					
Net external financing	+5.2	+17.8	+10.3	+4.6	+3.2
Net non-compensatory foreign capital	+8.2	+8.1	+4.8	+4.3	
Direct investment	+0.1	+1.0	+1.0	+1.0	
Non-compensatory loans	+1.2	+1.6	-0.5	-1.1	
Short-term liabilities	+0.3	+1.5	+0.2	+0.4	
Official transfer payments	+6.6	+4.0	+4.1	+4.0	
Net non-compensatory domestic capital or assets	-2.2	+3.4	-2.7	-2.7	
Errors and omissions	+2.1	+5.2	+8.6	+1.1	
Compensatory movements (increase —)	-2.9	+1.1	-0.4	+1.9	
Net compensatory foreign capital	-2.0	+0.3	-0.7	+1.6	
Balance-of-payments loans and deferred import payments	—	—	—	—	
Other liabilities of the monetary authorities	-0.7	+0.3	-1.6	—	
IMF position	-1.3	—	+0.9	1.6	
Movements of gold and foreign exchange (increase —)	-0.9	+0.8	+0.3	+0.3	

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 20.

* ECLA estimates.

Table 118. Haiti: total supply and demand, 1960 and 1966-68
(Millions of gourdes at 1960 prices)

	1960	1966 ^a	1967 ^a	1968 ^a
Total supply	1,920	2,004	1,987	2,014
Gross domestic product ^b	1,629	1,757	1,781	1,804
Imports of goods and services ^c	291	247	206	210
Total demand	1,920	2,004	1,987	2,014
Exports of goods and services ^c	272	204	201	215
Total investment	87	83	82	82
Total consumption	1,561	1,717	1,704	1,717
General government	125	140	151	117
Private	1,436	1,577	1,553	1,600

SOURCE: ECLA, on the basis of data supplied by the Haitian Institute of Statistics.

^a ECLA estimates.

^b At market prices (ECLA estimates).

^c ECLA estimates, based on data from IMF, *Balance of Payments Yearbook*.

Table 119. Honduras: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

	1960-66	1967	1968 ^a
Agriculture	4.7	0.9	4.2
Mining	17.2	6.6	2.1
Manufacturing	8.2	11.5	10.7
Construction	6.3	18.2	10.5
Goods	5.8	4.5	6.1
Electricity, gas and water	11.0	10.0	13.6
Transport and communications	6.9	8.8	8.9
Basic services	7.3	8.9	9.4
Commerce and finance	5.5	5.1	6.7
Government	-2.1	-1.4	2.2
Miscellaneous services	1.4	5.7	3.3
Other services	2.9	4.7	4.9
Growth rate of the total product	5.5	5.3	6.4

SOURCE: ECLA, on the basis of official statistics.

^a Estimates.

mainly into the production sectors. Private investment increased by 4.4 per cent.

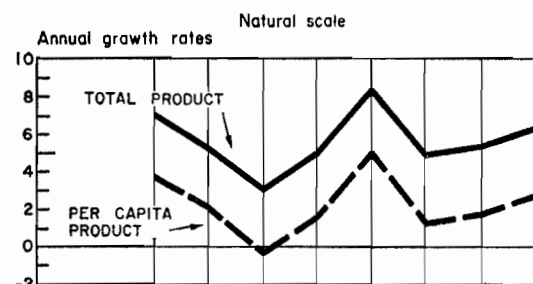
Current expenditure by the Government rose at a fairly accelerated pace (6.4 per cent), particularly if compared with the previous year. It is still insufficient, however, to exert a decisive influence on domestic demand.

The greater stimulus to demand had its counterpart in the supply of goods and services, whose trend was determined mainly by the relative recovery of agriculture. Industrial production, encouraged by the increased economic activity and by regional demand, also continued to expand rapidly, although at a slightly lower rate than in 1967 (10.7 per cent). Electricity, gas and water attained a higher growth rate of 13.6 per cent, thus pursuing the upward trend noted in recent years.

The loss of international reserves in 1967 prompted the Government to change the tenor of monetary and credit policy in 1968. Thus, the Central Bank concluded a stand-by-agreement

Figure XVI. Honduras: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR

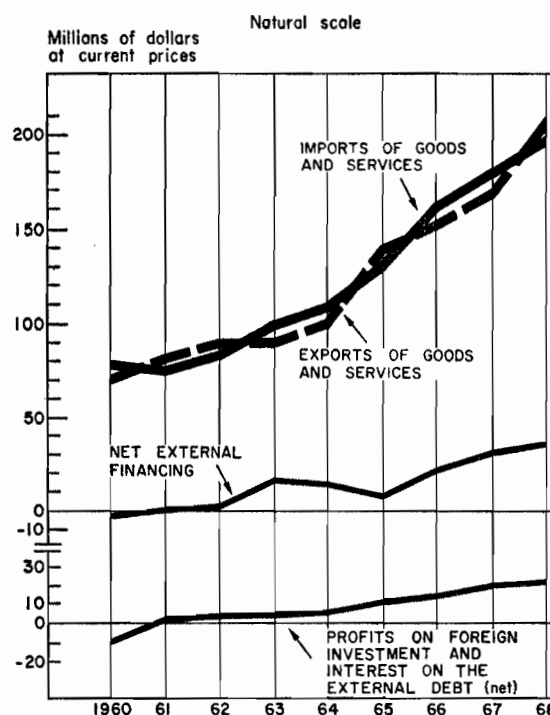


Table 120. Honduras: total supply and demand, 1960 and 1966-68
(Millions of lempiras at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	909.0	1,357.8	1,447.1	1,549.5
Gross domestic product	756.0	1,043.1	1,098.9	1,168.8
Imports of goods and services	153.0	314.7	348.2	380.7
<i>Total demand</i>	909.0	1,357.8	1,447.1	1,549.5
Exports of goods and services	136.0	260.2	283.8	336.2
Gross fixed investment	95.8	138.7	159.1	177.9
Public	20.2	29.8	40.0	53.6
Private	75.6	108.9	119.1	124.3
Total consumption	677.2	958.9	1,004.2	1,035.4
General government	73.0	103.1	107.2	114.1
Private	604.2	855.8	897.0	921.3

SOURCE: ECLA, on the basis of official statistics.
* Estimates.

with IMF for 11 million dollars to safeguard the stability of the exchange rate, restricted credit for imports of luxury goods and continued its policy of channelling a larger proportion of loans to the production sectors.

In terms of current value, exports increased substantially over their 1967 level (by 18 per cent) but imports exceeded it by only 10 per cent. The sizable deficit on current account was conse-

quently reduced, and the net position of international reserves improved for the fourth year running, despite a reduction in the net inflow of non-compensatory capital (see table 121 and figure XVI).

MAJOR PRODUCTION SECTORS

The recovery of agriculture extended to both export commodities, which continue to be of

Table 121. Honduras: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	71.9	137.7	156.6	170.7	201.2
Goods	64.4	128.2	144.5	155.9	185.1
Services	7.5	9.5	12.1	14.8	16.1
Imports of goods and services	77.9	134.9	164.3	182.4	199.7
Goods, f.o.b.	65.4	113.2	138.0	152.4	168.0
Services	12.5	21.7	26.3	30.0	31.7
Net investment income	+9.1	-13.1	-15.5	-21.2	-23.7
Net private transfer payments	-0.6	+0.4	+0.4	+0.5	+0.5
Balance on current account	+2.5	-9.9	-22.8	-32.4	-21.7
<i>Capital account</i>					
Net external financing	-2.5	+9.9	+22.8	-32.4	+21.7
Net non-compensatory foreign capital	+0.1	+21.9	+21.2	+35.0	
Direct investment	-7.6	+6.3	+8.3	+8.7	
Non-compensatory loans	+3.6	+5.3	+3.4	+8.6	
Short-term liabilities	+0.9	+6.1	+5.7	+13.5	
Official transfer payments	+3.2	+4.2	+3.8	+4.2	
Net non-compensatory domestic capital or assets	-1.6	-1.3	-0.9	-7.4	
Errors and omissions	-0.7	-5.2	+6.5	+6.2	
Compensatory movements (increase —)	-0.3	-5.5	-4.0	-1.4	
Net compensatory foreign capital	+0.6	-1.8	0.0	-6.0	
Balance-of-payments loans and deferred import payments	—	—	—	—	
Other liabilities of the monetary authorities	+0.1	+0.7	+1.0	-1.0	
IMF position	+0.5	-2.5	-1.0	-5.0	
Movements of gold and foreign exchange reserves (increase —)	-0.9	-3.7	-4.0	+4.6	

SOURCES: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

decisive importance in the structure of agriculture, and production for the home market.

The two principal banana companies in Honduras have almost completed the programme for improving production and expanding the area under cultivation. Output in 1968 is estimated at 3 million stems, which is an increase of 8.7 per cent over 1967. This increment is attributable to favourable weather conditions which made it possible to obtain high yields during the year, since world prices were little or no incentive to production.

Coffee production, also favoured by rainfall, rose from 30,300 to 40,600 tons between the last two crop years. World market prospects indicate, however, that the present harvest may give rise to a problem of surpluses,⁶ which would compel Honduras to seek new markets for this commodity.

The factors which for two years have caused a reduction in the cotton-growing area (basically pests and lack of financing) persisted in 1968. Although, to judge from the estimates for 1968/69, an increase of about 17 per cent may be expected in the volume of production, this would still fall short of the peak figure of 11,300 tons recorded for the 1964/65 crop.

The Banco Nacional de Fomento proceeded in 1968 with its programme of technical and financial aid to promote the production of basic grains. Noteworthy in this respect are the project for the use of improved seeds, the recently approved programme for the construction of silos which in a few years' time will increase the storage capacity of the price regulating agency from 271,100 to 793,820 quintals, and the credit programme to finance inputs for the small farmer cultivating basic grains, which the Bank is to launch in 1969 in co-operation with the Rural Development Co-operative Service (Servicio Cooperativo de Desarrollo Rural).

Available data on the industrial sector indicate a growth of 10.7 per cent in 1968. Industrial policy underwent little change during the year. Some developments, however, represent progress in laying the bases for broader industrial development. Thus for example, a study has been completed with a view to establishing an industrial estate at San Pedro Sula, and other studies have been carried out to determine whether it is feasible to set up other industrial estates at Tegucigalpa and in the south, on the Gulf of Fonseca.

⁶ The 1967/68 harvest had already produced a small surplus of 77,000 bags, part of which is beginning to be exported against the quota for the 1968/69 crop year.

The two most important industrial projects undertaken in 1968 are a petroleum refinery and a sugar mill. Other projects include two shrimp and meat packing plants at San Pedro Sula, a plant producing plastic spectacle frames and another manufacturing motor-car silencers, a cotton-seed and sesame-seed oil mill, and a vulcanizing plant. In addition, the existing cement plants, iron and steel foundries and plants producing food concentrates were expanded.

A venture holding out excellent prospects is the proposed establishment of a pulp and kraft paper mill; an enterprise has been set up to undertake the preliminary negotiations and the engineering studies. The project would be initiated in 1969 for completion in two years, at a cost of 77 million dollars. Another project of regional scope which would have a decisive influence on industrial growth is the steel plant which Honduras is planning to establish at Agalteca. It would produce 100,000 tons annually of carbon steel billet, utilizing the country's supplies of iron ore, limestone and coal.

Lastly, the entry into effect of the Protocol on Fiscal Incentives in 1969 should strengthen Honduras' efforts to develop its manufacturing industry in the next few years.

THE PUBLIC SECTOR

Public sector trends in 1968, which were similar to those noted in 1967, are reflected in the figures for government income and expenditure. The importance which the public sector has gradually assumed has influenced the total volume of public expenditure; this increased to 246 million lempiras in 1968 from 117 million two years before, thus raising the ratio of public expenditure to the product from 15.9 to 19.3 per cent. The biggest increase was in capital expenditure, which preliminary estimates put at approximately 113 million lempiras, or 75 per cent more than in 1966 and 10 per cent more than in 1967. Consumption expenditure, on the other hand, rose by a little more than 18 per cent over 1966, and only 5 per cent over 1967.

The vigorous growth of public investment is the result of more energetic government action to step up the construction of economic and social infrastructure works. Nevertheless, the public investment coefficient is still low, and projects have been completed in relation to those programmed.⁷

⁷ Estimates of the Planning Council show that at the end of 1967 the public sector had a balance in hand of 76 million dollars obtained from international financing agencies, and new loans totalling 25 million dollars had been contracted for 1968.

Current general government income in 1968 continued the rapidly rising trend of the last few years, with the exception of 1967. The expansion of foreign trade, the measures to raise tax revenue and the improvement in economic activity in general resulted in a 23.3 per cent increase in income. The proceeds from direct and indirect taxes rose by nearly 14 per cent, reaching 41.7 and 95.8 million lempiras respectively. The larger volume of exports pushed up income from export taxes and charges from 4.4 million lempiras in 1967 to 7.6 million in 1968, while revenue from import duties also went up by 16 per cent.

As a result of the evolution of income and expenditure, the surplus on the public sector current account may be estimated at a little over 40 million lempiras for 1968, which means that the rising trend of the last few years was maintained. Accordingly, the Government was able to dispense with financing from the banking system, although it made considerable use of external resources.

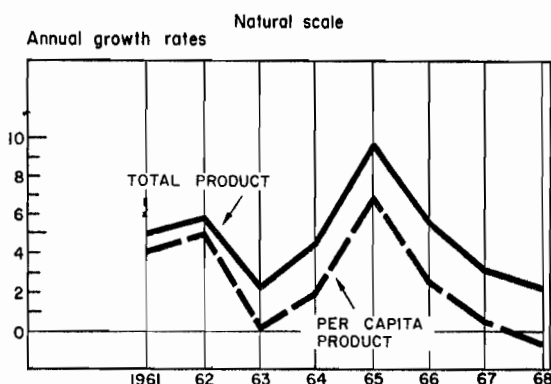
Jamaica

In 1968 the Jamaican economy failed to regain the rate of growth recorded from 1960 to 1966 (see figure XVII). In terms of current prices, the gross domestic product is estimated to have increased by 5.5 per cent in 1968, which compares favourably with the 1967 rate of 4.3 per cent. This difference is significantly reduced, however, if it is considered that domestic consumer prices rose by about 3.6 per cent over the past year, as a result of devaluation of the currency at the end of 1967.

The increase in the product was mainly due to the fact that certain important production sectors, such as mining, manufacturing, construction and transport, recovered some of their impetus (see table 122). Exports also rose 7.5 per

Figure XVII. Jamaica: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



cent up to September 1968 over the same period in 1967. This increase is all the more striking inasmuch as the prices of the major primary export items, particularly agricultural commodities, remained low.

MAIN PRODUCTION SECTORS

Because of the drought, which affected agriculture for the second consecutive year, the agricultural product rose by only 1.6 per cent in terms of current prices, which was as small an increase as in the previous year. This situation was the result of the production levels of sugar, bananas and of articles for home consumption.

In contrast, it is estimated that the output of extractive industry went up 6.8 per cent in 1968, which is substantially more than in the previous year and the same as the sector's high average growth rates for the nineteen-sixties. This increase is mainly attributable to the higher output of alumina; up to October, this was more than 6 per cent over the 1967 level as a result of additions to existing installed capacity, which

Table 122. Jamaica: gross domestic product by sector of economic activity, 1960 and 1966-68^a

Sector	Millions of Jamaica pounds at current prices				Annual growth rates		
	1960	1966	1967 ^b	1968 ^c	1960-66	1967 ^b	1968 ^c
Agriculture, forestry and fishing	26.0	37.6	38.2	38.8	6.3	1.6	1.6
Mining, quarrying and refining	20.8	30.9	32.3	34.5	6.8	4.5	6.8
Manufacturing	29.4	49.5	50.7	54.6	9.1	2.4	7.7
Construction	25.7	34.6	36.5	39.4	5.1	5.5	7.9
Transport and communications	16.7	24.2	25.0	26.6	6.4	3.3	6.4
Commerce	38.9	45.6	47.9	49.8	2.7	5.0	4.0
Government	13.3	25.0	26.7	27.8	11.1	6.8	4.1
Other	44.6	75.1	79.1	83.4	9.1	5.3	5.4
Growth rate of the total product	215.4	322.5	336.4	354.9	7.0	4.3	5.5

SOURCES: Up to 1967: publications of the Department of Statistics and the Central Planning Unit, Kingston. For 1968: full year projections from part year estimates.

^a At current factor cost.

^b Provisional figures.

^c Estimates.

had been completely utilized the year before. The construction of a new alumina plant began in 1967, and others will be built later, thus existing capacity will be trebled by 1975. On the other hand, preliminary estimates show that bauxite production was below the peak level of 9.2 million tons reached in 1967 (see table 123). Other industries contributing to this sector's growth include quarrying—despite its relatively minor importance compared with the alumina and bauxite industry—in response to the greater demand for construction purposes, and petroleum refining (included in this sector in the official national accounts estimates). In 1968 petroleum refining recovered from the decline it had shown the previous year as a result of a labour dispute.

Table 123. Jamaica: bauxite and alumina production, 1963–68
(Thousands of tons)

	Bauxite	Alumina
1963	7,014	719
1964	7,936	757
1965	8,650	753
1966	9,061	802
1967	9,230	828
1968 ^a	8,680	882

SOURCE: ECLA, on the basis of official statistics.

^a Estimates based on data for ten months of the year.

The volume of imports of construction materials, the increase in commercial bank credit for construction, and other indicators, such as cement sales, confirm the increase of approximately 8 per cent that had been estimated for construction activities. This increase is accounted for by the construction of new infrastructure works and of industrial and mining plants, since house-building seems to have remained at the same level.

Manufacturing industry recorded the highest growth rate for the decade and thus exceeded the value added of the other sectors. It also underwent a structural change, proceeding from the processing of primary products for export, as

a first stage, to the more diversified production of foodstuffs, chemicals and metal products, in response to a well-defined import substitution policy.

From 1963 to 1966 the manufacturing product rose by 8 per cent annually at current prices. In 1967 the rate was only 2.4 per cent because of the drop in sugar, rum and alcohol production and the 6 per cent decline in cement output. The growth of the manufacturing product in 1968 is estimated at 7.7 per cent; two factors contributing to this were the recovery in the construction industry and the inclusion of new industries in the national economy.

THE EXTERNAL SECTOR

Bauxite and alumina continue to account for a substantial share of exports, i.e., almost half of the total. Sugar and some sugar products rank next in importance—22 per cent—followed by bananas and other agricultural commodities—14 per cent—(see table 124). In 1967 exports remained unchanged owing to the drought that affected agriculture and to the low export prices. There seems to have been some improvement in the past year, in spite of the continued effects of the drought. Up to the end of September, exports had risen by about 7.5 per cent over the same period in 1967; this increase is attributable to mining products, fuels and manufactured products rather than to agricultural commodities as a whole. Tourism earnings rose in the past year to an estimated 38 million Jamaican pounds.

Imports went up 29 per cent in the first nine months of 1968 compared with the same period in 1967. In spite of the import substitution policy, foods and consumer manufactures continue to account for a large share of imports. In recent years there has been a gradual change in the composition of imports, with increasing purchases of capital goods required for the development of industry and the expansion of installed mining capacity.

This situation is believed to have aggravated the balance-of-payments deficit on current

Table 124. Jamaica: exports of staple products, 1962 and 1965–67

	Millions of Jamaica pounds				Percentages	
	1962	1965	1966	1967	1962	1967
Bauxite and alumina	30.2	35.3	37.7	39.4	48.6	49.0
Sugar, rum and molasses	16.4	17.7	18.6	17.7	26.4	22.0
Bananas	4.5	6.1	6.3	6.6	7.2	8.2
Citrus fruit, cocoa, coffee, etc.	4.1	5.1	5.3	4.5	6.5	5.6
Manufactured goods	4.8	7.9	9.0	8.8	7.7	11.0
Other products	2.2	2.9	3.2	3.4	3.6	4.1
TOTAL	62.2	75.0	80.1	80.4	100.0	100.0

SOURCES: Publications of the Department of Statistics and the Central Planning Unit, Kingston.

Table 125. Jamaica: balance of payments on current account, 1963-67
(Millions of Jamaica pounds)

	1963	1964	1965	1966	1967
Exports of goods (f.o.b.)	74.4	78.1	77.4	82.3	82.7
Imports of goods (c.i.f.)	80.1	102.7	102.7	115.7	125.0
Balance on merchandise trade	-5.7	-24.6	-25.3	-33.4	-42.3
Net services	2.0	2.5	8.3	12.2	11.0
Net transfer payments	7.2	6.5	6.1	5.2	5.0
Balance on current account	3.5	-15.6	-10.9	-16.0	-26.3

SOURCES: Department of Statistics and the Central Planning Unit, Kingston.

account, which in 1967 was already 26 million Jamaican pounds. According to the trend shown up to September, the trade deficit would appear to have increased from 42 million Jamaican pounds in 1967 to some 70 million in 1968 (see table 125). This figure was probably reduced to some 40 million pounds with the greater inflow under the head of tourism and the movement of other current account balances. There seems to have been a substantial increase in the inflow of capital, however, since by the end of the year international reserves were showing an increment over the figure for the end of 1967.

Mexico

RECENT ECONOMIC TRENDS

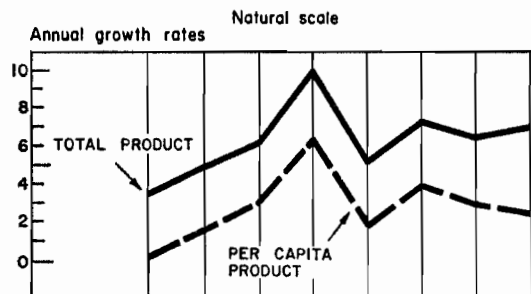
During 1968, the Mexican economy followed very similar trends to those of the mid-nineteen-fifties. The gross product increased 7.7 per cent, or more than in 1967 (see table 126 and figure XVIII).

The expansion of the product mainly reflects the progress made by the agricultural sector, which increased by 3.9 per cent after its decline in

1967. Crop farming, especially for export, made a particularly good recovery, and the livestock industry also showed signs of greater vitality. Mining and the services sector expanded as well.

Figure XVIII. Mexico: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR

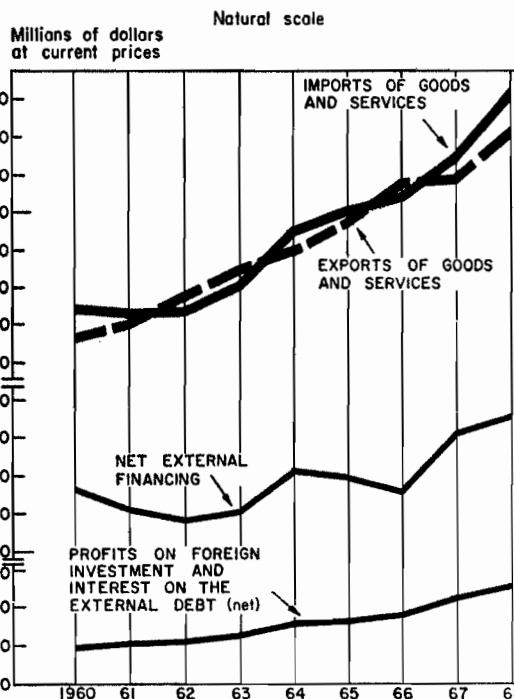


Table 126. Mexico: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

	1960-66	1967	1968 ^a
Agriculture	3.9	2.3	3.9
Mining	0.5	1.0	2.7
Petroleum	5.9	11.4	6.2
Manufacturing	8.5	8.2	9.0
Construction	7.6	11.3	9.0
Goods	6.4	6.6	7.1
Electricity, gas and water	10.0	10.2	8.5
Transport and communications	3.4	5.0	5.5
Basic services	4.9	6.4	6.3
Commerce	6.4	6.4	7.5
Government	6.5	5.0	6.5
Miscellaneous services ^b	6.2	7.4	7.1
Other services	6.4	6.7	7.3
Growth rate of the total product	6.3	6.5	7.0

SOURCE: Banco de México, S.A.

^a Preliminary estimates.

^b Including finance.

Furthermore, the growth rate of industry was higher than in 1967, although it showed divergent trends, with the output of capital goods advancing much faster than that of consumer goods.

An ample supply of agricultural commodities thanks to good weather conditions and abundant water for irrigation raised exports over their 1966 level. They were also helped by better world market prices for cotton, sugar, livestock products and some minerals, mainly sulphur and copper. Net returns from tourism increased by 18 per cent, which is a higher rate than in 1967, owing to the influx of foreign visitors to the Olympic Games.

Domestic demand was less buoyant than external demand, having increased over the year at the rate of 7.3 per cent, mainly owing to the expansion in public investment (see table 127). The improvement in the situation of agriculture and the adjustment in minimum wage levels for 1968-69, which represented increases of 15 and 16 per cent for urban and rural areas respectively also did much to raise domestic consumption.

Gross fixed investment is estimated to have been 60,240 million pesos at current prices, that is, 13.8 per cent more than in 1967. The increase was greater in public investment and, although less than in the previous year, was a sufficient stimulus to produce an expansion of 9 per cent in construction activities. Its effect was most powerful in the first half of the year and gradually weakened as the various building projects for the Olympic Games and tourism were completed.

The partial data available indicate that stronger fiscal measures were taken in 1968 to increase domestic savings. The income tax system was modified, as were the tax systems for production, turnover, corporation income and foreign trade. As a result, the current revenue of the Federal Government was raised by as much

as 17 per cent. At the same time, the expansion of current expenditure was kept within the specific limit of 13 per cent, so that over 1,300 million pesos became available for investment purposes.

In monetary matters, the tendency of the money supply to grow more slowly than the product at current prices has been reducing overall liquidity little by little for some years. By the end of 1968, the money supply was 12.9 per cent greater than in 1967, and was thus able to meet the demand for greater liquidity as a result of the upsurge of economic activity, a state of affairs which had not occurred for many years.

The bank system granted additional financing to the value of some 22,000 million pesos, which represents a growth rate of 18 per cent, or more than in the previous year. The bulk of the increase—64 per cent—was made up of bigger loans to the private sector, most of which went to industry. In terms of growth, however, the funds distributed to the public sector far outweighed those destined for firms and private persons, since the former increased by more than 23 per cent and the latter by 16 per cent. This changed the structure of financing, as the Government's share of loan funds, mainly consisting of Government bonds sold to banks, rose from 25 to 36 per cent between 1967 and 1968.

The higher level of internal economic activity and the credit expansion in 1968 led to a 12 per cent increase in imports of goods (more than 1,900 million dollars), with durable consumer goods accounting for the major portion. This explains why the balance-of-payments deficit on current account was approximately 14 per cent more than in 1967, despite the reactivation of export trade. Capital inflows again exceeded the high level of the past few years, and were thus able to wipe out the current deficit and to

Table 127. Mexico: total supply and demand, 1960 and 1966-68
(Millions of pesos at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	174,214	250,251	267,246	287,770
Gross domestic product	155,889	224,798	239,410	256,288
Imports of goods and services	18,325	25,453	27,836	31,482
<i>Total demand</i>	174,214	250,251	267,246	287,770
Exports of goods and services	16,599	23,304	23,122	25,944
Gross fixed investment	23,226	37,461	42,100	45,434
Public	10,071	12,700	16,600	18,804
Private	13,155	24,761	25,500	26,630
Total consumption	134,389	189,486	202,024	216,392
General government	7,669	12,168	12,885	14,855
Private	126,720	177,318	189,139	201,537

SOURCE: ECLA, on the basis of official figures.
* Preliminary estimates.

strengthen the position of Mexico's international reserves for the second year in succession (see table 128 and figure XVIII).

Although factors on the demand side were expected to push up prices in 1968, the increase in the supply of goods combined with prudent management of fiscal and monetary policies prevented them from climbing unduly. The wholesale price index for Mexico showed an increase of 1.9 per cent in 1968 compared with 2.9 per cent in 1967. Over the same period, prices of food rose slightly more than those of other consumer goods, while the rise in the cost-of-living index for manual workers was a little higher than in December 1966 to October 1967, but even so was only 1.8 per cent.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In 1968, production for export made good progress, as several commodities commanded higher prices. Export crops, which had dropped almost as much as 2 per cent in 1967, expanded at a rate of nearly 6 per cent in 1968, thanks to good weather conditions and an abundant supply of water for irrigation.

The increase in the volume of cotton output, as a result of the extension in the cotton-growing

area and higher yields, combined with better world market prices to raise the value of exports to 170 million dollars. Nevertheless, cotton has not fully recovered from its decline in 1967, since the depressive effects of the cotton cycle that began in that year persisted into 1968. The partial recovery in the value of sales is attributable to a bigger harvest in 1968/69, the impact of which will probably be felt even more strongly in 1969.

Exports of coffee earned an additional 18 million dollars as the average sales price was maintained at the previous year's level, with the result that the volume of supply was increased slightly. The actual export quota was 86,500 tons for October 1967 to September 1968 as against only 81,300 tons the year before. The 4 per cent increase in the 1968/69 quota, which had been approved by the International Coffee Council in February, was helpful to exports in the last quarter of the year.

Sales of maize and wheat, which, in 1967, had largely compensated for the drop in cotton and coffee exports, played a very different part in 1968: virtually no wheat was sold abroad while the value of maize exports fell by nearly 40 per cent. In the last few years an attempt has been made to bring their output into line with domestic

Table 128. Mexico: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	1,340.0	1,972.0	2,132.0	2,156.0	2,446.0
Goods	764.0	1,146.0	1,228.0	1,152.0	1,255.0
Services	576.0	826.0	904.0	1,004.0	1,191.0
Imports of goods and services	1,481.9	2,024.0	2,121.0	2,328.0	2,642.0
Goods, f.o.b.	1,150.2	1,522.0	1,563.0	1,706.0	1,905.0
Services	331.7	502.0	558.0	622.0	737.0
Net investment income	-190.5	-339.0	-373.0	-469.0	-535.0
Net private transfer payments	-6.9	-6.0	-5.0	+1.0	+1.0
Balance on current account	-339.3	-397.0	-367.0	-640.0	-730.0
Capital account					
Net external financing	+339.3	+397.0	+367.0	+640.0	+730.0
Net non-compensatory foreign capital	+189.6	+239.0	+460.0	+711.0	
Direct investment	-38.1	+214.0	+186.0	+109.0	
Non-compensatory loans	+173.7	+3.0	+159.0	+379.0	
Short-term liabilities	+52.2	+22.0	+117.0	+227.0	
Official transfer payments	+1.8	—	-2.0	-4.0	
Net non-compensatory domestic capital or assets	-2.1	-94.0	+71.0	-91.0	
Errors and omissions	+131.5	+191.0	-182.0	+101.0	
Compensatory movements (increase —)	+20.3	+61.0	+18.0	-81.0	
Net compensatory foreign capital	+4.8	-10.0	-12.0	-13.0	
Balance-of-payments loans and deferred payments	—	—	—	—	
Other liabilities of the monetary authorities	+4.8	—	+20.0	-4.0	
IMF position	—	-10.0	-32.0	-9.0	
Movements of gold and foreign exchange (increase —)	+15.5	+71.0	+30.0	-68.0	

SOURCES: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

demand, as in the case of wheat. As maize production increased appreciably in 1968, stocks have undoubtedly gone up.

Sugar exports achieved the remarkably high value of 85 million dollars (26 per cent more than in 1967), owing to a larger volume of sales and an increase of over 8 per cent in the average price. In 1968, about 650,000 tons were exported (16 per cent more than in the previous year),* 85 per cent of which went to the United States mainly because of the increase in Mexico's sugar quota following a redistribution of the quotas.

Sales of cattle and beef, which had been limited in 1967 by the failure of output to keep pace with domestic requirements, increased appreciably in 1968 owing to the upsurge of activity in the livestock industry. Exports were 32 per cent higher than in 1967 and average prices rose too, particularly for cattle on the hoof. They amounted to 80 million dollars in value; this figure topped the previous year's level by 37 per cent and was higher than at any other time in 1964-67.

Shrimp sales, on the other hand, dropped 18 per cent in value to their 1966 level, owing to a reduction in supply due to the shrimp's reproductive cycle and to hurricanes which coincided with the fishing season.

Zinc and copper exports showed a moderate improvement in both value and volume (copper was also influenced by an increase of about 13 per cent in the average export price). These improvements reflect a higher rate for ore mining than in 1967. The value of sulphur exports also went up by 16 per cent to 56 million dollars despite the reduction in the amount extracted, thanks to soaring market prices. In addition, there was an increment in silver exports, which totalled 62 million dollars, thereby improving upon their 1967 figure. This was partly due to an expansion of the volume exported, but more particularly to the rise in international market prices.

Exports of manufactures remained at virtually the same level as in the last two years, except for textiles, the sales of which fell off, probably because of the contraction in production and problems that limited the possibilities of placing them on the United States market.

Under the stimulus of domestic demand and an improvement in national purchasing power, imports continued to rise in 1968. They amounted to more than 1,900 million dollars in value, which is 12 per cent higher than in 1967. This

increase was basically due to private purchases, since public-sector purchases were reduced slightly.

From the partial data available, it can be seen that imports of consumer goods, particularly durables, expanded by about 20 per cent after remaining constant in 1967. The expansion was mainly due to bigger purchases of motor vehicles and of radio and television parts.

Imports of capital goods and raw materials increased by 13 and 18 per cent respectively, representing 30.4 and 45.6 per cent of the total. The bulk went to industry, but a sizeable amount was also earmarked for the transport sector. The increase in their share of the total was due to purchases of telephonic and telegraphic apparatus, airplanes and the necessary spare parts, chassis for motor vehicles and motors for driving machinery.

Purchases of building materials expanded by 17 per cent, while those of fuels and lubricants fell off slightly.

Exports of goods were outstripped by those of services. The Olympic Games did much to swell income from tourism to an estimated net value of 18 per cent more than in 1967, and the sale of television rights abroad represented an additional source of revenue. Border trade expanded from 595 to 710 million dollars, at the same rate as in the previous year.

Despite these improvements, and the recovery of exports of goods after their stagnation in 1967, the increased inflow of imports coupled with higher factor payments abroad (particularly interest) resulted in a particularly large deficit on current account.

Much of the deficit was covered by the net inflow of long-term capital, in spite of the increase in amortization payments. Capital movements mainly consisted of greater direct investment and external financing for the public sector, but short-term capital movements were also quite appreciable.

MAJOR GOODS-PRODUCING SECTORS

Industrial production expanded more rapidly than in 1967, as a result of the increased development of manufacturing (9 per cent, compared with 8.2 per cent in 1967). Meanwhile, mining and quarrying, with a rate of 2.7 per cent, recovered from their relative stagnation in the previous year (see table 129).

In the manufacturing sector, the production of capital goods grew at a faster pace (10.5 per cent) than that of consumer goods (7.4 per cent),

* Including some 100,000 tons taken from carry-over stocks from the previous year.

Table 129. Mexico: industrial production indexes, 1960-68
(1950 = 100)

Year	General	Mining	Petroleum and coke	Manufacturing	Construction	Electric power
1960 . . .	197.4	132.6	207.8	202.9	201.6	242.6
1961 . . .	204.7	127.0	231.4	210.1	203.6	265.6
1962 . . .	215.1	128.6	235.8	223.6	205.8	282.8
1963 . . .	235.0	133.1	250.4	244.2	238.1	309.9
1964 . . .	266.0	134.3	273.2	278.8	277.2	356.0
1965 . . .	280.9	133.2	284.7	298.7	272.5	390.0
1966 . . .	309.9	136.7	293.8	331.9	313.4	430.1
1967 . . .	336.5	138.1	327.3	359.1	348.8	474.0
1968 ^a . . .	365.1	141.8	347.6	391.4	380.2	514.3
	344.6	139.8	318.7	373.3	340.4	468.2
	372.8	142.6	344.7	403.8	379.0	500.1

SOURCE: Banco de México, S.A.

^a Preliminary estimates.

in line with the dynamic trend shown by investment during the year (see table 130). The production and assembly of motor vehicles regained the growth rate attained in previous years, following a tapering off in 1967, and sales rose from 86,000 to 103,280 units. A larger proportion of installed capacity was therefore utilized, although there is still a fairly considerable amount of idle capacity. Output of electrical articles responded to the stimulus of increased demand, with a 23 per cent expansion in volume between January and September.

The production of textiles was affected in some degree by the trade union dispute in the textile industry, and by the difficulties that arose over exports to the United States. The manu-

facture of cotton fabrics increased by about 5 per cent, while that of artificial fibres exceeded the 1967 level by 18 per cent.

The food, beverage and tobacco industries recorded smaller increases than in 1967. The highest rate was attained in the production of canned meat, followed by that of dairy products and noodles, but on a lesser scale. Output of canned fish, ground and roasted coffee, and sugar also declined, that of sugar because of the poor cane harvest in the previous crop year.

Iron and steel making expanded considerably; this was not wholly reflected in the growth of production (11.4 per cent in 1968 as against 10 per cent in 1967), but is clearly apparent in investment in this branch of activity, stimulated

Table 130. Mexico: index of manufacturing production and volume of production of selected items, 1964-68
(1950 = 100)

	1964	1965	1966	1967	1968 ^a
Index of manufacturing production (1950 = 100)	278.8	298.7	331.9	359.1	391.4
Volume of production ^b					
Pig iron and sponge iron	1,130	1,159	1,402	1,611	2,064
Ingot steel	2,326	2,455	2,787	3,040	3,270
Cement	4,339	4,199	4,828	5,544	6,098
Sheet glass (thousands of square metres)	11,462	10,759	12,496	13,148	16,343
Sulphuric acid	454	515	581	639	743
Caustic soda	95	104	110	121	139
Rolled products	1,830	1,953	2,199	2,348	2,620
Pulp and groundwood	281	338	353	378	402
Paper and paperboard	529	591	633	685	740
Artificial fibres	33	38	42	49	58
Tyres (thousands of units)	2,908	3,077	3,642	3,818	4,311
Cotton textiles	120	126	134	137	144
Beer (millions of litres)	1,016	1,098	1,163	1,227	1,238
Vegetable oils	321	335	350	402	430
Sugar	1,815	1,983	2,011	2,327	2,264

SOURCES: Banco de México, S.A. and Nacional Financiera, S.A.

^a Preliminary estimates.

^b Thousands of tons unless otherwise stated.

by the industrial policy aimed at self-supply in steel products. Thanks to the expansion of installed capacity, it was possible to process a volume of 2.1 million tons of primary iron, compared with 1.6 million tons in 1967. The new plants and facilities, some of which are expected to begin operating in 1969, will boost capacity to 5.1 million tons of ingot steel by 1971.

Steel output maintained its 1967 growth rate, amounting to 3.3 million tons of ingot steel. The incomplete data available show that the production of rolled products rose 11.6 per cent in 1968, covering practically all domestic requirements, while exports also increased.

The rate of increase in petroleum output was 6.2 per cent lower than in 1967. On the other hand, 834,000 tons of basic petrochemical products were obtained, a start being made on the production of acetaldehyde, and the capacity for producing ammonia being quadrupled. Forty petrochemical plants are at present under construction at a total cost of 1,356 million pesos, 57 per cent of which is being contributed by *Petróleos Mexicanos* and the rest by private firms, with or without government participation.

To meet the growing demand for fertilizers, the process of consolidating several manufacturing firms under *Guanos y Fertilizantes de México, S.A.*, was completed, and plants were adapted in order to keep supply in line with the requirements of the programme for introducing technical improvements in agriculture. Production in terms of nutrients has reached 183,000 tons of nitrogen and 107,000 tons of phosphorus.

In mining, except for sulphur and zinc production, which declined by 10.8 and 1.0 per cent in relation to 1967, the production of mining products for export was stimulated by external demand, with increase in silver, copper and lead. In contrast, manganese output continued to shrink, reaching its lowest level in 1968—16,000 tons—mainly because of the depletion of the deposits worked in the state of Jalisco. The growth of demand from the steel industry favoured the production of iron ore, which expanded by 18 per cent to a volume of 1.9 million tons.

Weather conditions for agriculture in 1968 were satisfactory, with abundant rainfall. As a result of the previous year's rains, water in the reservoirs reached a very high level. Consequently, both irrigated and non-irrigated crops developed without difficulty, giving rise to a substantial increase in agricultural production compared with the previous year.

A study of agricultural trends over the nineteen-sixties shows that production for export has been influenced more by the improvement in

yields than by the expansion of the area under cultivation. In effect, the respective cumulative annual rates indicate an increase of 4.2 per cent in yields over the past five years and an expansion of less than 1 per cent in the area under cultivation.

Besides production for export, agricultural production for domestic consumption also followed a more satisfactory trend than in the preceding crop year. In particular, the larger maize crop was favoured by sowings in an additional area of over 200,000 hectares, especially in the dry farming regions, and also by an improvement in yields per hectare. In line with the policy followed in fixing support prices, there was a further reduction in the area earmarked for wheat (45,000 hectares), which caused a drop in output. The restrictions placed on maize and wheat in irrigated districts favoured other crops including sorghum, production of which has climbed steadily in recent years, helped by credit programmes and the establishment of support prices.

Production of oilseeds has been increasing significantly, as a result of the policy to promote the manufacture of oils and fats by utilizing the land freed by other crops. Over the past year there have been appreciable increments in such crops as safflower, sesame and soya, while the excellent cotton crop sent up supplies of cottonseed for industrial use by 14 per cent.

Although a smaller area was devoted to sugarcane, harvest results indicate a somewhat larger output than in the crop year 1967/68. Mexico's sugar production considerably exceeds domestic demand (1.6 million tons), and the external market usually absorbs a substantial part of the surplus.

Mexico's agricultural policy has been aimed emphatically at improving production techniques, and in 1968 this objective was given high priority in government programmes. Accordingly, there were significant increases in the budget appropriations for agricultural research and training, livestock development, improved seeds, and the promotion of fruit farming. The sums allocated to irrigation projects were also increased considerably, thanks to which work could proceed on important projects under the National Small-Scale Irrigation Plan (*Plan Nacional de Pequeña Irrigación*), which is intended to benefit 306,000 hectares over a period of ten years⁹ and is now in its second year of

⁹ The sum of 380.6 million pesos was allocated to this Plan in 1968 (compared with 102.2 million in 1967). If investment by the executing bodies and state contributions are taken into account, the resources earmarked for this undertaking total 416.4 million pesos.

execution. Six large reservoirs and fourteen smaller ones were completed, thus expanding the irrigated area by 75,000 hectares, besides introducing improvements in a further 24,000.

Nicaragua

GENERAL TRENDS

The domestic product expanded by approximately 4.5 per cent in 1968. This is an improvement on the growth rates in 1965 and 1966, which were 3.9 and 4.1 per cent respectively, but is still much lower than in 1963-65, when it was over 8 per cent (see table 131 and figure XIX).

Table 131. Nicaragua: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

Sector	1960-66	1967	1968*
Agriculture	3.9	3.6	4.5
Mining	4.5	-4.7	0.0
Manufacturing	8.8	7.0	6.0
Construction	3.0	-13.3	1.9
Goods	5.0	3.4	4.6
Electricity, gas and water	15.6	16.3	7.7
Transport and communications	6.3	4.6	5.0
Basic services	8.6	8.2	5.9
Commerce	9.4	4.1	5.6
Government	8.6	6.7	-1.6
Miscellaneous services	12.3	3.1	4.7
Other services	10.2	4.1	4.1
Growth rate of the total product	7.6	4.1	4.5

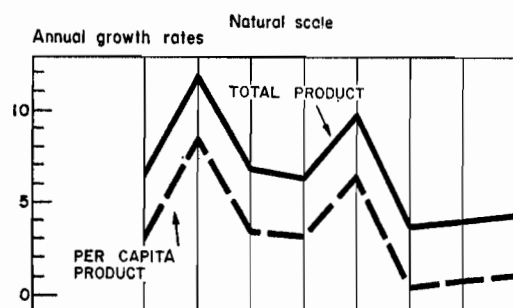
SOURCE: ECLA, on the basis of official statistics.
* Preliminary estimates.

The weakening of the economy in the last few years is closely related to the loss of momentum in the external sector and the increasing difficulty of keeping up the growth of public expenditure. Both exports and imports had soared in the first half of the nineteen-sixties, but from 1965 onwards, exports tended to remain static, while the maintenance of even a more moderate growth rate for imports tipped the balance of payments far into disequilibrium on current account. Central government expenditure exceeded current income in 1966, when direct government investment was at its maximum, and the deficit became a good deal larger in the following year despite a retrenchment in capital expenditure.

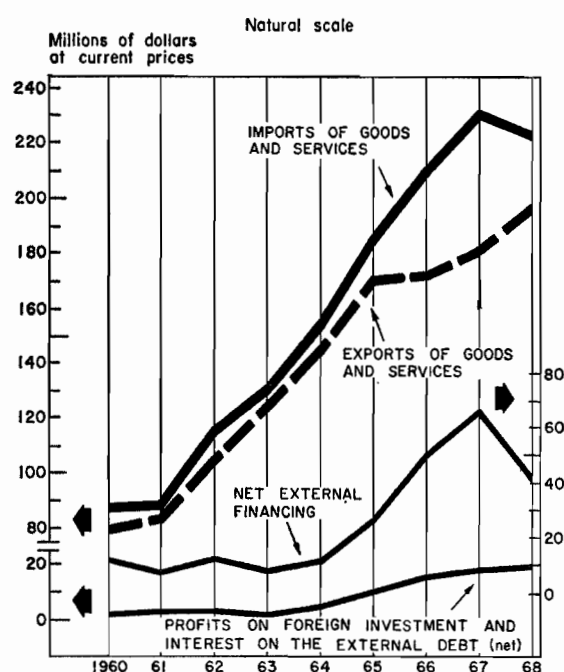
This explains why the main concerns of economic policy in 1968 were to clamp down on public expenditure and to restrict imports. The former led to a sharp cut in total central government outgoings, and particularly public investment, which was virtually confined to the completion of works already in hand (see table 132). The current value of imports of goods and services decreased by about 4.5 per cent, although purchases from Central America expanded, albeit at a slower rate.

Figure XIX. Nicaragua: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



The contraction in imports, coupled with an increase of 8.6 per cent in exports, reduced the deficit on current account, but even so it stood at about 40 million dollars (see table 133 and figure XIX). At the same time, the inflow of non-compensatory capital remained constant and, although reserves rose, the utilization of stand-by loans from the International Monetary Fund worsened the net position of the monetary authorities for the second year running.

During the first half of 1968, conditions were extremely favourable for agriculture, and promised a substantial improvement in the production of traditional export commodities. Unlike those for the two previous crop years, forecasts were for exceptional growth owing to timely rains and more effective pest control,

Table 132. Nicaragua: total supply and demand, 1960 and 1966-68
(Millions of córdobas at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	3,075.8	5,526.0	5,842.1	5,900.2
Gross domestic product	2,426.2	3,759.7	3,915.5	4,089.8
Imports of goods and services	649.6	1,766.3	1,926.6	1,810.4
<i>Total demand</i>	3,075.8	5,526.0	5,842.1	5,900.2
Exports of goods and services	525.0	1,281.5	1,351.4	1,451.1
Gross fixed investment	314.3	838.0	873.8	874.5
Public	74.2	154.9	146.0	121.4
Private	240.1	683.1	727.8	753.1
Total consumption	2,236.5	3,406.5	3,617.0	3,574.6
General government	210.0	305.4	329.0	323.6
Private	2,026.5	3,101.1	3,288.0	3,251.0

SOURCE: ECLA, on the basis of official statistics.

* Preliminary estimates.

Table 133. Nicaragua: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	79.2	171.8	172.0	182.5	198.2
Goods	63.9	149.2	143.0	148.0	159.1
Services	15.3	22.6	29.0	34.5	39.1
Imports of goods and services	87.7	188.7	212.6	233.7	223.3
Goods, f.o.b.	56.4	133.9	151.8	172.2	164.8
Services	31.3	54.8	60.8	61.5	58.5
Net investment income	-2.8	-12.8	-15.7	-18.7	-19.4
Net private transfer payments	+0.2	+2.3	+2.4	+2.7	+2.8
Balance on current account	-11.1	-27.4	-53.9	-67.2	-41.7
<i>Capital account</i>					
Net external financing	+11.1	+27.4	+53.9	+67.2	+41.7
Net non-compensatory foreign capital	+7.7	+51.6	+57.2	+38.7	
Direct investment	+1.7	+8.2	+12.2	+14.5	
Non-compensatory loans	-0.6	+10.6	+21.5	+16.9	
Short-term liabilities	+3.9	+28.6	+18.8	+4.2	
Official transfer payments	+2.7	+4.2	+4.7	+3.1	
Net non-compensatory domestic capital or assets	-0.9	+2.2	-6.0	+5.3	
Errors and omissions	+0.2	-6.9	+4.6	+6.6	
Compensatory movements (increase —)	+4.1	-19.5	-1.9	+16.6	
Net compensatory foreign capital	+4.0	-1.3	-1.2	-14.1	
Balance-of-payments loans and deferred import payments	+4.0	-1.6	-1.6	-0.8	
Other liabilities of the monetary authorities	—	+0.3	+1.3	-1.0	
IMF position	—	—	-0.9	-12.3	
Movements of gold and foreign exchange (increase —)	+0.1	-18.2	-0.7	+30.7	

SOURCES: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

particularly for cotton. However, in the second half of the year, the volcano Cerro Negro erupted, covering a wide stretch of cotton-growing land with a dense layer of ash.

Bigger sales to the Central American regional market, in which Nicaragua has shown a con-

siderable deficit, helped to push up exports as a whole.

MAJOR ECONOMIC SECTORS

The favourable conditions for agriculture and the progress made by the livestock industry raised the agricultural product by 4.5 per cent;

this is an accentuation, though still restrained, of the upward trend which began in 1967.

The encouraging prospects for the 1968/69 crop year were determined by rainfall and the agricultural development policy launched two years ago with the aim of increasing cotton, rice and coffee-growing by the provision of credit, the widespread adoption of more efficient methods of cultivation, and aid in improving the system of distribution.

The livestock industry was affected by the adverse state of the United States meat market, which set up import quotas based on each country's sales in past years and the total supply available. This was particularly unfortunate for Nicaragua's meat industry, which had just started on an ambitious plan of expansion.

Bananas also had difficulty in finding a market, as did Havana tobacco, whose production was developing well. Thanks to the improvements introduced in coffee-growing, which include the renovation of the plantations, coffee production has been in full swing, although the area sown has remained the same. In the 1968/69 crop year, output is expected to increase by 9 per cent without creating any stockpiling problems, since the quota assigned to Nicaragua is large enough for the whole crop to be sold.¹⁰

Industrial activities expanded by 6 per cent, which was less than in the previous year. However, the addition of some large industrial units has considerably strengthened the country's manufacturing capacity, although it was too early for their effects to be felt in 1968. One unit for which 1968 was the first year of operation was a plant for processing chlorinated insecticides. This was put into production at the end of 1967, but has not yet begun to operate at full capacity. A textile mill with a capacity of 7 million yards annually was also brought into operation, and a polyvinyl plant, a dairy products plant and another textile mill, with an annual capacity of 3 million yards, are all under construction. In addition, industrial projects for processing wood pulp and fish meal are being studied.

Construction activities in 1968 reflected the decline in the growth rate of investment, which had also been a characteristic of 1967. In comparative terms, however, the year was one of recovery, since, although the increase in construction was barely 2 per cent, it followed upon a contraction of more than 13 per cent in the previous year.

¹⁰ The actual quota, which was 396,296 bags in 1967/68 was raised to 469,951 bags for 1968/69.

In general, the services sector followed a downward trend, in keeping with the economy as a whole. Commerce and transport expanded by about 5 per cent, but a decrease of nearly 2 per cent took place in the government sector as a result of the policy of austerity applied in the public sector. The only activity to achieve a fairly high rate (8.6 per cent) was banking.

FISCAL AND CREDIT POLICY

In 1968, revenue from direct taxes levied by the Central Government declined by 6 per cent, and income from import duties, which are still the main source of revenue, dropped by 12 per cent, owing to controls on imports and their replacement by regional tax-free goods since 1963. Nevertheless, current income fell only 4 per cent, thanks to the introduction of new consumption taxes under the terms of the San José Protocol, and the increase in revenue following the establishment of the capital tax on services.

The reduction of 14 per cent in total central government expenditure was partly obtained through a drastic cut in capital expenditure, which was used almost entirely to finish works already in execution. Another determinant was the reduction in expenditure on wage and salaries under the policy of overhauling the organization of the public administration, which was introduced in 1967 and involved staff changes.

While public expenditure was being slashed, credit policy was restricting economic activity, in certain areas in particular. The figures at hand indicate that by the end of September, the volume of bank credit was 13 per cent higher than in 1967. This represents an increment of 126 million córdobas, of which 28 million were for official bodies and 90 million for the private sector. The main source of the expansion of Central Bank credit was the increase of 76.5 million córdobas in international liabilities. The credit was distributed selectively to official bodies in the form of ordinary loans for a value of 26 million, and to the commercial banking system in the same fashion for a total of 44 million. The commercial banks adopted the same fund-raising practices as the Central Bank, since they drew extensively on external financing (92 million córdobas), particularly long-term (60 million), in order to increase the floatation of loans to the private sector, mainly for agricultural activities. The Banco Nacional continued to play a major part in managing agricultural credit, by virtue not only of the volume of credit granted by it but also of its system of tying financial aid to increases in productivity.

Panama

OVER-ALL ECONOMIC TRENDS

The year 1968 witnessed a slackening of the rapid rate of expansion achieved by the Panamanian economy since the beginning of the present decade. Whereas in 1960-67 the average annual growth rate had been 8.2 per cent, in 1968, according to provisional estimates, the product increased by only 4.5 per cent, or approximately 1.3 per cent in per capita terms (see table 134 and figure XX).

This falling-off was common to the various sectors of production, but was most marked in some of the services sectors. Political circumstances which prevailed almost throughout the

Table 134. Panama: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

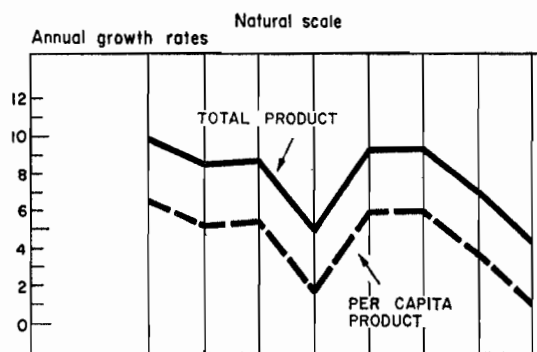
	1960-66	1967	1968*
Agriculture	6.4	6.4	5.5
Mining	9.5	5.3	—
Manufacturing	12.4	10.9	6.0
Construction	8.6	5.5	5.2
Goods	8.6	8.0	5.6
Basic services	13.1	-1.0	5.7
Commerce and finance	11.0	7.6	2.2
Government	7.3	14.9	7.5
Miscellaneous services	6.2	7.4	3.6
Other services	7.6	7.9	3.3
Growth rate of the total product	8.4	7.1	4.5

SOURCE: ECLA, on the basis of official statistics.

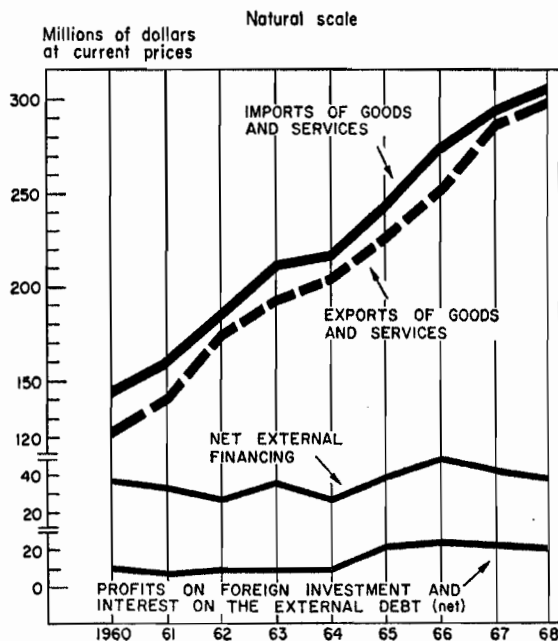
* Estimates.

Figure XX. Panama: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



year affected tourism and the volume of expenditure in Panama on the part of residents in the Canal Zone. Under both these heads decreases of more than 9 per cent were shown, as against increases on the same scale in the preceding year.

In agriculture, the rate of expansion was lower than in 1967 (5.5 per cent instead of 6.4 per cent), and in manufacturing too the rise in the level of activity was much more moderate than in the previous year (6.0 per cent in contrast with 10.9 per cent). The development of these sectors also reflected the impact of a reduction in the growth rate of external demand. Among agricultural exports, only those of bananas increased—thanks to higher production figures and better prices—while those of sugar, shrimps and coffee remained stationary or declined; in the industrial sector, external sales of petroleum products dwindled, with the concomitant sharpening of the downward trend noted in 1967.

In fact, exports of goods and services (at current prices) climbed by 4.5 per cent in 1968, whereas they had shot up by 13 per cent in 1967 and 10.6 per cent in 1966.

Internal demand likewise stood at a low level, and in view of the contraction in public and private investment, consumer expenditure was the factor that gave some impetus to economic activity (see table 135).

In the public sector, capital outlays were severely curtailed (by about 14 per cent) owing to the suspension of certain public works programmes in consequence of the political events and the external and internal financing difficulties which characterized the year 1968. On the other hand, the current expenditure of the Government, estimated at 115,200,000 balboas, continued to expand, although at a somewhat lower rate than in 1967. Tax revenue showed a less intensive increase, and government saving

Table 135. Panama: total supply and demand, 1960 and 1966-68
(Millions of balboas at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	562.2	942.3	994.4	1,034.0
Gross domestic product	418.0	679.0	727.3	760.0
Imports of goods and services	144.2	263.3	267.1	274.0
<i>Total demand</i>	562.2	942.3	994.4	1,034.0
Exports of goods and services	126.0	257.1	274.0	285.4
Total investment	67.8	146.1	153.9	149.0
Gross fixed investment	61.4	133.0	141.9	137.0
Public	12.0	18.8	26.9	23.0
Private	49.4	114.2	115.0	114.0
Total consumption	368.4	539.1	566.5	599.6
General government	46.9	74.5	82.3	87.0
Private	321.5	464.6	484.2	512.6

SOURCE: ECLA, on the basis of official statistics.
* Estimates.

sank from 7,700,000 to 5,800,000 balboas. The growth rate of tax revenue had actually been declining for several years, after the upswing resulting from the tax reform launched in 1964.

The political circumstances referred to also had marked repercussions on the official banking institutions. The liquidity position of the Banco Nacional and the Caja de Ahorros was suddenly and seriously impaired by depositors' withdrawals, and emergency measures had to be adopted to save the situation. The first expedient to which the Banco Nacional resorted was that of contracting short-term loans with its corresponding banks abroad, after which it negotiated with the private banking system the conversion of demand deposits amounting to 2,500,000 dollars into time deposits, and the acquisition of a further 3,000,000 dollars, also in the form of time deposits. In addition, a stand-by credit agreement for 3 million dollars was concluded with IMF in May, and a supplementary agreement for 3,300,000 dollars was concerted towards the end of the year and approved in January 1969. In connexion with this latter operation, Panama decided to increase its IMF quota—which had been a little over 11 million dollars—to 28 million.

The procedure adopted to rebuild the financing capacity of the Banco Nacional was combined with a policy of credit restriction. In the banking system as a whole, what seems to have taken place is not so much a significant loss of liquidity as its redistribution between public and private institutions.

As a result of the situation described, imports of goods and services increased by only 2.6 per cent at constant prices and 3.7 per cent at current prices; the deficit on current account was thus slightly reduced.

Internal price trends were influenced by the special conditions prevailing in 1968. A certain amount of speculation seems to have been responsible for fairly substantial increases, reflected in the over-all consumer price index for Panama City, which in the second quarter of the year was over 2 per cent higher than in the corresponding period in 1967, the rise being sharpest in the case of food products. The upward movement apparently persisted in the second half of 1968, and in the last two or three months of the year this induced the authorities to take measures, through the Price Regulation Office, to control the prices of essential goods and services.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

After expanding by over 13 per cent in 1967, and maintaining a high average growth rate throughout the current decade, exports of goods and services showed a more modest increase of 4.5 per cent in 1968, when their value was nearly 300 million dollars. The drop in some service items, attributable to the causes mentioned above, was combined with a rise of 10.4 per cent in exports of goods, despite the adverse effect of the decline in external sales of petroleum products. There was little improvement in the net inflow of long-term capital, and in the upshot the country's external purchasing power was reduced. No significant balance-of-payments pressures made their appearance, however, since the decrease in the rate of economic growth was offset by the limited scale of the increase in demand for imports (see table 136 and figure XX).

The net inflow of resources from the Canal Zone expanded by only 4.9 per cent—the lowest rate recorded in the present decade, except in 1964. A contributory factor was the contraction

Table 136. Panama: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	122.2	228.6	252.8	286.0	299.0
Goods	39.0	92.5	103.3	108.7	120.0
Services	83.2	136.1	149.5	177.3	179.0
Imports of goods and services	144.2	241.9	271.5	296.5	307.5
Goods, f.o.b.	108.7	192.4	217.7	232.1	243.0
Services	35.5	49.5	53.8	64.4	64.5
Net investment income	-10.4	-20.4	-23.4	-22.8	-21.2
Net private transfer payments	-5.3	-5.8	-6.1	-7.0	-8.0
Balance on current account	-37.7	-39.5	-48.2	-40.3	-37.7
<i>Capital account</i>					
Net external financing	+37.7	+39.5	+48.2	+40.3	+37.7
Net non-compensatory foreign capital	+30.0	+56.4	+82.4	+19.6	
Direct investment	+17.3	+10.9	+8.7	+3.8	
Non-compensatory loans	+5.3	+13.6	+18.8	+11.6	
Short-term liabilities	+1.3	+22.2	+46.9	-4.5	
Official transfer payments	+6.1	+9.7	+8.0	+8.7	
Net non-compensatory domestic capital or assets	+5.4	-20.8	-44.1	+17.9	
Errors and omissions	+2.3	+3.9	+9.9	+2.8	

SOURCES: Up to 1967: *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

in the expenditure effected by Canal Zone residents in Panama (-2.2 million balboas), which was to some extent counterbalanced by a rise in the salaries and wages paid to Panamanian personnel employed in the Canal Zone (6.9 million balboas).

Exports of goods and services to the rest of the world also increased at an unimpressive pace. This trend was determined by the combined influence of the falling-off in petroleum sales (-11.7 per cent), the expansion of banana exports as a result of the success of banana-growing development programmes (16.2 per cent), the decline in income from tourism, and the boom in freight, shipping insurance and transport.

As previously stated, the growth rate of purchases of goods and services from abroad was very moderate in 1968 (3.7 per cent)—lower, in fact, than at any other time in the current decade. While imports of services showed little variation, purchases of goods rose by 4.7 per cent. One of the determinants of the latter figure was a reduction of approximately 2 per cent in imports of consumer goods. In the aggregate, the effect of the behaviour pattern of exports and imports of goods and services was to bring down the deficit on current account from 40,300,000 dollars to 37,700,000 between 1967 and 1968.

PRODUCTION

(a) *The agricultural sector*

Although its growth rate (5.5 per cent) fell somewhat short of the preceding year's figure,

the evolution of the agricultural sector in 1968 compared fairly satisfactorily with that of the other sectors of the economy, especially services (see table 137).

As in previous years, export crops and livestock production showed the highest rates of expansion. Production of export crops increased by 10 per cent, mainly by virtue of the progress made in banana-growing. Of the total banana crop, nearly 18 million stems were earmarked for export; this probably implied a slight curtailment of the supply available for domestic consumption. The enlargement of the area under cultivation, the introduction of improved varieties and the favourable world market situation undoubtedly contributed to the result achieved.

Cocoa production, on the other hand, notwithstanding the improvement in world prices, did no more than regain somewhat higher levels, after several very poor crops (partly attributable to the fact that bananas were substituted for cocoa in some areas, as being more lucrative).

Agricultural production for domestic consumption continued to pursue its relatively slow growth trend, rising by 3.1 per cent, i.e. less than in 1967, despite sizable increase of 5.3 per cent in the rice crop, which amounted to about 160,000 tons in 1968/69. Tomato, sugar-cane and coffee production expanded considerably, but maize, after making headway in the preceding crop cycle, showed no further improvement, presumably because there was no change in the area

Table 137. Panama: gross value of agricultural production, 1960, 1963, and 1966-68
(Millions of balboas)

	1960	1963	1966	1967 ^a	1968 ^b
<i>Total</i>	118,820	137,157	176,153	186,345	196,594
Agriculture	108,857	124,820	149,017	158,197	167,794
Crop farming	80,901	89,316	110,997	118,191	124,794
Stock farming	27,956	35,504	38,020	40,006	43,000
Forestry	736	1,207	1,252	1,322	1,400
Fishing	9,227	11,130	25,884	26,826	27,400
Crop farming					
For export	19,680	22,317	38,912	42,013	46,200
Bananas	18,360	21,503	38,516	41,652	45,752
Cocoa	1,320	814	396	361	448
For domestic consumption	61,221	66,999	72,085	76,178	78,594
Unhulled rice	10,123	11,712	14,764	15,890	16,728
Maize	3,899	5,033	5,599	5,902	5,972
Beans	869	800	1,166	984	1,084
Coffee	3,024	3,340	3,748	3,870	4,203
Sugar cane	3,192	4,297	4,877	4,903	5,063
Tomatoes	1,310	2,619	2,530	3,409	4,479
Bananas	2,628	4,462	4,370	6,165	5,699
Other	36,176	34,736	35,031	35,055	35,366
Stock farming					
Cattle	9,213	12,088	14,272	14,688	15,058
Pigs	2,578	2,384	2,356	2,370	2,413
Other	16,165	21,032	21,392	22,948	25,529

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

^b Estimates.

under cultivation. It is worth noting that, with the sole exception of rice, the variations in the volume of production for domestic consumption were entirely due to the extension of the area under cultivation, not to improvements in yields.

Thanks to increased credit facilities, livestock production expanded by almost 8 per cent, mainly as a result of greater efficiency in dairy farming and poultry-rearing, since production of pigs and cattle increased by barely 2.0 and 2.5 per cent, respectively.

(b) *Manufacturing and construction*

The growth rate of the industrial sector was 6 per cent in 1968, as against 10.9 per cent in the preceding year and 12.4 per cent per annum during the period 1960-66. This slackening of impetus is partly attributable to political events, which had a depressive effect on demand. Almost all the branches of industry producing consumer goods reduced their rate of expansion; cases in point are the food processing industries and those making beverages, clothing, furniture and miscellaneous products. Output figures for hydraulic cement, and the lower growth rate of such activities as sawmilling and the manufacture of wood and metal products, were closely linked to the slowing-up of construction since 1967.

The system of import quotas applied to specific products for protectionist purposes remained in force during 1968. This policy has been applied since 1965 because of the difficulty of securing approval for a tariff reform. The schedule of products subject to the system embraces a wide range of articles, and its coverage was extended in 1968.

Financing for this sector was in the hands of the Banco Nacional and the Banco de Desarrollo Industrial, S.A., institutions which continued to expand the volume of industrial credit although the keynote of official credit policy was restriction. The Banco Nacional has at its disposal a credit line of one million dollars granted by IDB, which it uses in combination with some of its other funds to form a source of credit for small- and medium-scale industry.

Construction activities, which had boomed between 1960 and 1966, developed less dynamically in 1967 and 1968. As from the close of 1967, public construction began to be affected by the approach of the Presidential elections. Up to September 1968, State investment in house-building had represented only about 55 per cent of the budget appropriation, and much the same was true of the programmes for the construction of roads and school buildings, while other public works virtually came to a standstill. In private

construction too there was a loss of impetus, perhaps imputable to the uncertainty of the outlook for the whole of the country's economic activity and to the reduction of the funds available for housing in recent years.

Paraguay

GENERAL TRENDS

The growth rate of the Paraguayan economy continued to be moderate in 1968. Provisional estimates indicate that the gross domestic product increased by 4.2 per cent, which is a similar rate to that of 1960-66 and a little lower than that of 1967 (see table 138 and figure XXI). However, the driving force of the economy in 1968, unlike 1967, was the agricultural sector where production expanded by 6 per cent, while industrial output remained at more or less the same level.

Table 138. Panama: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

	1960-66	1967	1968*
Agriculture	6.4	6.0	6.4
Mining	9.5	5.3	—
Manufacturing	12.4	11.2	6.5
Construction	8.6	5.9	—
Goods	8.6	7.8	5.5
Basic services	13.1	11.1	6.3
Commerce and finance	11.0	10.4	3.4
Government	7.3	11.5	11.9
Miscellaneous services	6.2	6.2	2.3
Other services	7.6	7.7	3.2
<i>Growth rate of the total product</i>	<i>8.4</i>	<i>8.1</i>	<i>4.5</i>

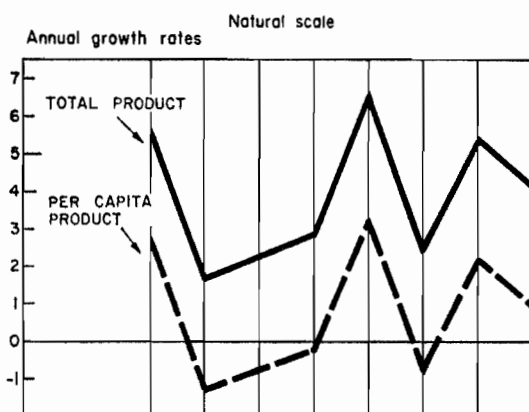
SOURCE: ECLA, on the basis of official statistics.
* Estimates.

To judge by fiscal budget figures for the first ten months of the year, there was an increase of 5.6 per cent in revenue and of 8.4 per cent in expenditure, which raised the deficit well above its 1967 level. Economic policy measures included an appreciable rise in bank loans. Between January and November 1968, the Banco del Paraguay opened new credit lines of 4,000 million guaraníes for the public sector and of 18,000 million for the private sector, which represent increases of 18 and 14 per cent respectively over the same period in 1967. The over-all price index relating to the structure of consumption among workers' families in Asunción climbed by 2.7 per cent between the closing months of 1967 and 1968, but this figure drops to 0.6 per cent if the annual averages are compared.

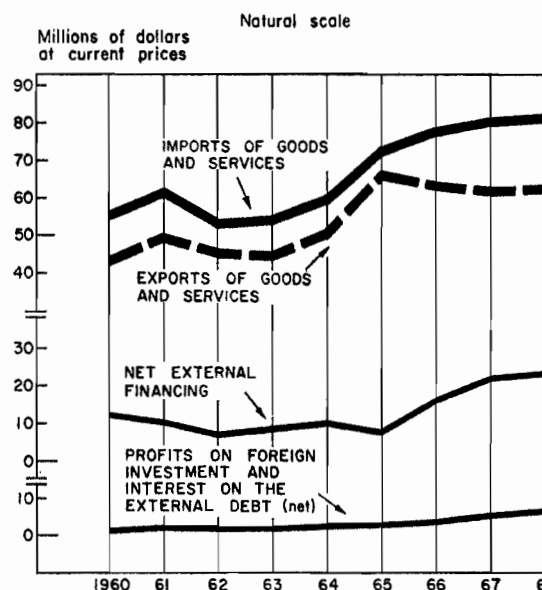
Although total supply grew more rapidly than the product in 1968 owing to the relative stagnation of imports, the domestic supply of goods

Figure XXI. Paraguay: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



increased by 4.4 per cent following a slight drop in exports. At the same time investment and consumption rose by 3.5 and 4.6 per cent, respectively (see table 139).

In the external sector, exports of goods dropped slightly for the third consecutive year, owing to a reduction in the volume of sales, since meat, cotton and quebracho extract commanded better prices on the world market. Their decline was offset by an increase in exports of services, and, in particular, by more revenue from tourism. Imports of goods remained at much the same level as in the previous year, which indicates that the deficit on current account was comparable in size. In 1968, however, the net

Table 139. Paraguay: total supply and demand, 1960 and 1966-68
(Millions of guaranies at 1960 prices)

	1960	1966	1967	1968 ^a
<i>Total supply</i>	41,491	52,106	54,684	54,627
Gross domestic product	34,523	42,581	44,880	46,765
Imports of goods and services	6,968	9,525	9,804	9,762
<i>Total demand</i>	41,491	52,106	54,684	56,527
Exports of goods and services	5,494	6,977	6,791	6,516
Total investment	5,840	8,044	9,177	9,500
Public	1,400	2,164	3,451	...
Private	4,440	5,880	5,726	...
Total consumption	30,157	37,085	38,716	40,511
General government	2,629	3,552	3,737	4,000
Private	27,528	33,533	34,979	36,511

SOURCE: ECLA, on the basis of data from the Central Bank.

^a Estimates.

inflow of non-compensatory capital was too small to wipe out the deficit altogether, and the net monetary position of the Central Bank therefore deteriorated (see table 140).

MAJOR SECTORS OF PRODUCTION

After its absolute decline in 1966 and subsequent recovery, agriculture expanded by 6 per cent in 1968. The crop farming product alone

grew by 8.4 per cent, with substantial increments in output of tung, tobacco, wheat and tartago while manioc and maize, which account for nearly a third of gross agricultural output, expanded at lower rates (1.6 and 3.7 per cent). Cotton production, which is highly erratic because of its vulnerability to changes in weather, fell by 7 per cent in 1967, but is thought to have increased by over 12 per cent in 1968.

Table 140. Paraguay: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	43.6	66.4	64.0	61.9	62.9
Goods	37.3	60.8	53.6	50.3	49.5
Services	6.3	5.6	10.4	11.6	13.4
Imports of goods and services	55.3	72.4	77.9	80.9	81.9
Goods, f.o.b.	44.7	53.0	59.6	61.5	61.5
Services	10.6	19.4	18.3	19.4	20.4
Net investment income	-1.5	-3.0	-4.1	-5.5	-6.9
Net private transfer payments	+0.8	+1.1	+1.4	+2.2	+2.5
Balance on current account	-12.4	-7.9	-16.6	-22.3	-23.4
<i>Capital account</i>					
Net external financing	+12.4	+7.9	+16.6	+22.3	+23.4
Net non-compensatory foreign capital	+10.4	+17.3	+24.1	+28.4	
Direct investment	+2.4	+3.3	+2.1	+1.9	
Non-compensatory loans	+3.9	+7.6	+16.3	+21.9	
Short-term liabilities	+1.4	+3.3	+2.6	+1.8	
Official transfer payments	+2.7	+3.1	+3.1	+2.8	
Net non-compensatory domestic capital or assets	-0.6	-0.9	-0.5	-0.6	
Errors and omissions	-0.2	-0.7	-5.7	-5.7	
Compensatory movements (increase —)	+2.8	-7.8	-1.3	+0.2	
Net compensatory foreign capital	-0.1	-2.8	-1.7	+0.5	
Balance-of-payments loans and deferred import payments	—	-1.7	-0.8	-0.2	
Other liabilities of the monetary authorities	+0.1	-0.6	—	+0.7	
IMF position	-0.2	-0.5	-0.9	—	
Movements of gold and foreign exchange (increase —)	+2.9	-5.0	+0.4	-0.3	

SOURCES: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.

Tobacco is in a similar situation, since its output also varies with changes in weather conditions and export possibilities. For instance, after a poor harvest in 1967 and a better crop in 1968, the tobacco-growing area was enlarged in 1968 under the stimulus of a rise in world market prices, and output was nearly 50 per cent higher than in the previous year. Coffee production, which had been at a standstill in the two preceding years, grew in 1968 at the rate of 3 per cent. At the beginning of the year, the International Coffee Council assigned a quota of 70,000 bags to Paraguay and resolved to raise it each year by 4,000 bags to 98,000 in all. In order to become self-sufficient in wheat, the wheat-growing area was expanded from 8,000 hectares in 1967 to 21,000 in 1968, and market guarantees and minimum prices were established to encourage production. Other crops, such as rice, pulses and fruit, made little progress owing to the drought in the first quarter of the year.

The cattle population increased over the last ten years at an annual rate of 1 per cent, and by 1968 totalled 5.6 million head. The number slaughtered in that year is estimated to have been 700,000. This total covers a sharp cut of 26 per cent in the volume of slaughtering for export, since the stockfarmers regarded the prices paid internally by the meat-packing plants as too low, and kept back a large proportion of their animals. An investment programme is now being carried out, with financial aid from the Agency for International Development, to provide wire fencing, water, drainage, roads and other facilities for about 700 big cattle ranches possessing about 40 per cent of the herds.

The adoption of a long-term export policy in forestry is changing the structure of production. Accordingly, in 1967 it was agreed to reduce log exports by 20 per cent each year until they had been eliminated completely by 1973, when only processed wood was to be sold abroad. In 1968, there was an increase of 3.4 per cent in forest production.

Manufacturing was stagnant in 1968, owing to a recession in the major branch of industry—meat canning—which was caused by a drop in the rate of cattle slaughtering for export. Output of quebracho extract (tanning) recovered from its setback in 1967 under the spur of greater external demand.

THE EXTERNAL SECTOR

Exports of goods reflected the reduction in livestock sales, which were virtually limited to canned meat, and the drop in sales of cotton fibres and tung. On the other hand, exports of tobacco, coffee and coconuts increased by over 30 per cent, the first-named owing to greater

buoyancy in world demand. Sales of wood grew by only 4 per cent, since the country is still replacing its exports of logs by processed wood.

These changes in the structure of exports were matched by variations in the geography of trade flows. The tendency for the United States to replace Argentina as Paraguay's principal buyer, which began in 1967, seems to have continued in 1968. Although the over-all value of imports changed very little, there were some shifts in their internal make-up. Purchases of food, intermediate goods and agricultural machinery increased in particular, while imports of iron and of other metals and machinery were reduced.

The Central Government made use of 6.8 million dollars' worth of external loans, mainly to finance road-building. In addition, the Banco Nacional de Fomento received 8.5 million for crop and livestock projects and for the wood processing industry.

Peru

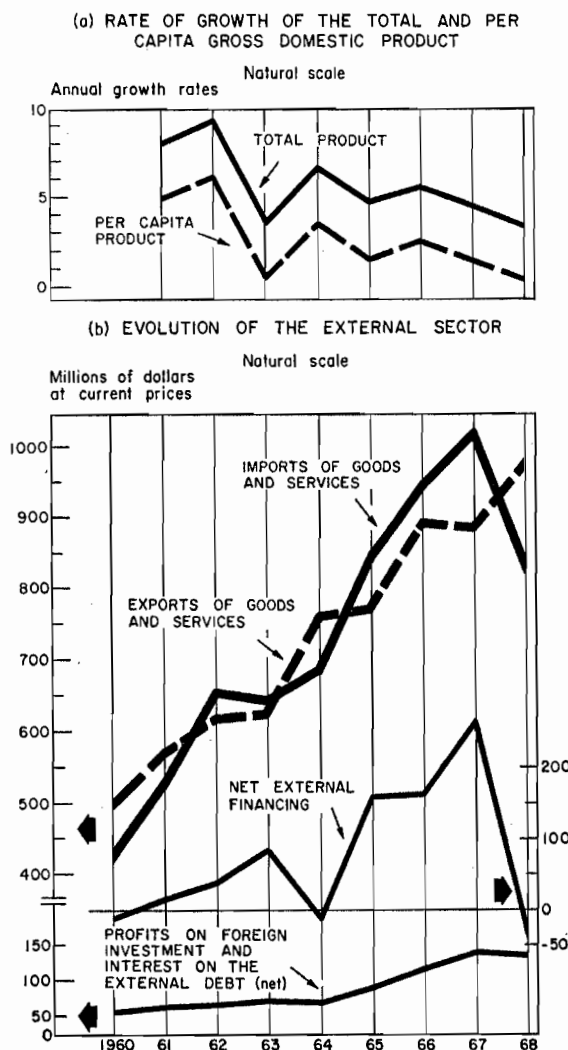
RECENT ECONOMIC TRENDS

The slackening that was apparent in Peru's economic development in 1967 was accentuated in 1968. Preliminary figures indicate that the total product increased 3.5 per cent, compared with 4.6 per cent in 1967, and at an average annual rate of 6.4 per cent over the period 1960–66 (see figure XXII).

This loss of momentum seems to be due to the very nature of Peru's previous economic growth. The main factors contributing to that growth had been a rapid expansion of public sector activities, particularly investment expenditure; a sharp and sustained increase in imports, supported by a considerable rise in exports but also by increasing external borrowing; and the very rapid growth of manufacturing industry, stimulated by the opportunities for import substitution and the steady expansion of domestic demand. In contrast, agricultural production developed slowly and fell far short of domestic requirements.

Inasmuch as the expansion of public expenditure was not accompanied by radical reforms in the fiscal revenue system, the existing budget disequilibrium was intensified and recourse was had to sources other than taxation to cover the resulting deficits. Similarly, the steady rise in imports was increasingly slowed up as foreign debt servicing reduced the real capacity to import, which gave rise to balance-of-payments disequilibria despite the sustained growth of exports. The currency devaluation in 1967 and the inflexible nature of agricultural supply—which even resulted in an appreciable increase in food

Figure XXII. Peru: 1960-68



imports—exerted pressure on domestic prices and prompted the adoption of some measures to restrict demand. This helped to curb the expansion of manufacturing, which, in addition, was exhausting its import substitution possibilities in respect of many consumer goods whose manufacture required little capital and fairly simple techniques, and it was therefore necessary to turn to other production lines in which these requirements are greater.

These developments help to explain some of the outstanding features of Peru's economic growth in 1968 and the new guiding principles of economic policy that have been adopted. In particular, public expenditure was drastically reduced and the value of imports of goods and services fell off sharply. The new Government which assumed power in October took immediate

measures, and announced others over the longer term, to deal with these problems, which included refinancing the external debt and reactivating the agrarian and tax reform programmes, in addition to expropriating the Brea and Pariñas oilfields and the industrial complex of Talara, and "Peruvianizing" the commercial banks.

EVOLUTION OF THE PRODUCT, BY SECTORS¹¹

The various sectors of economic activity contributed, to a widely differing degree, to the growth of the total product in 1968, which is provisionally estimated at 3.5 per cent (see table 141).

Table 141. Peru: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

(Percentages)

Sector	1960-66	1967	1968*
Agriculture	2.6	0.7	1.0
Fishing	9.4	14.9	16.0
Mining	2.4	6.8	6.0
Manufacturing	9.1	5.7	6.0
Construction	7.9	5.1	-7.9
Goods	5.3	4.4	3.6
Energy	10.9	10.3	6.0
Transport and communications	8.1	4.5	4.3
Basic services	8.5	5.5	4.6
Commerce and finance	8.1	4.5	4.3
Government	7.5	6.1	0.1
Miscellaneous services	7.1	4.2	3.7
Other services	7.5	4.7	3.3
Growth rate of the total product	6.4	4.6	3.5

SOURCE: ECLA, on the basis of data supplied by the Banco Central de Reserva del Perú, National Accounts Department.
* Estimates.

Agricultural output increased only 1 per cent, as a result of the most serious drought for fifty years in the north, which affected 120,000 hectares of crops and caused losses estimated at 250,000 quintals of cotton, 122,000 tons of rice, 70,000 tons of maize, 162,000 tons of sugar and 8,000 tons of beans. With a view to palliating some of the results of the drought, an emergency law was enacted earmarking special funds for irrigation works and roads in the area concerned.

These unfavourable results over the past year have aggravated the relative stagnation of agri-

¹¹ The official figures available up to 1967 were used in this section; the 1968 figures are provisional ECLA estimates. This time they were based on the gross national product series published by the Banco Central de Reserva, which has been officially entrusted with the calculation of the national accounts. The gross domestic product is no longer calculated by the National Planning Institute, whose figures were used in previous ECLA surveys.

cultural production that characterized the period 1960-68, since the growth rate for the whole period averaged less than 2 per cent annually, and in the relatively brief span between 1960 and 1967 the share of agriculture declined from nearly 21 per cent to less than 16 per cent of the total product. This trend is observable both for exports and for commodities sold on the home market. The volume of agricultural exports dropped 6 per cent from 1960 to 1967, mainly because of reductions in output of cotton, since there were appreciable increases in that of other commodities, such as coffee. As a result of the shortfall in domestic supply of such commodities as wheat, rice, fats and meat, Peru increased its imports from 58 million dollars in 1960 to 145 million in 1968.

The implementation of agrarian reform programmes, which are designed to eliminate some of the underlying causes of the above trend, has been slow and costly. Up to October 1968, 600,000 hectares had been expropriated and arrangements were being made to take over 300,000 more; subsequently, 247,000 hectares owned by the Cerro Pasco Corporation were expropriated and taken over by the Ministry of Agriculture. As regards agricultural infrastructure, in addition to the emergency programme to alleviate the effects of the drought, work proceeded on irrigation projects, and a loan was recently obtained from the Federal Republic of Germany to complete the Tinajones dam, which will regulate the irrigation of 96,000 hectares in the departments of Lambayeque and La Libertad.

Fisheries output showed a further substantial increase of 16 per cent. Already in 1967 a maximum catch of 9.8 million tons had been recorded for only 170 working days, and fish-meal exports had totalled 1,561,000 tons. In 1968 production of fish meal rose to 1,922,000 tons, and exports to 2,083,000 tons, thus reducing stockpiles by a third (to 400,000 tons) by the end of 1968.

Mining production maintained its relatively high rate of growth in 1968 (6 per cent, as against 6.8 per cent in 1967 but an average of only 3.4 per cent for the period 1960-68). Early in the year, the Mining Code was modified to empower the Government to enter into investment contracts with mining enterprises; in addition, taxes on profits were reduced and mining companies were guaranteed the necessary foreign exchange for remittances of profits and service payments. As regards the short term, the expansion of iron ore production at Marcona brought total output to 10.5 million tons; on the other hand, no action has yet been taken to invest the pro-

posed sum of over 400 million dollars over the period 1968-72 with the purpose of stepping up Peru's copper production to a substantial extent, while consideration is being given to the construction of a zinc refinery, which would also produce sulphuric acid and superphosphates, at a cost of over 40 million dollars.

There have been a number of significant developments in petroleum and petroleum products. The La Pampilla refinery was opened at the end of 1967, with an initial capacity of 20,000 barrels daily and a potential capacity of 30,000; its construction cost 20.6 million dollars. Its operation has been entrusted to the State Petroleum Enterprise (Empresa Petrolera Fiscal), which in 1968 refined 5.5 million barrels of crude (about one quarter of the total amount refined), one third being obtained from Peruvian oilfields and the rest imported.

In the second half of 1968 the Government came to an agreement with the International Petroleum Company, which was developing the Brea and Pariñas oilfields, by virtue of which the company was to hand over the oilfields and facilities, which would in future be exploited by the State Petroleum Enterprise. In return, the company was given the concession for refining and selling the output of petroleum for eighty years. After a series of disputes arising out of this agreement, the new Government which assumed power in October expropriated the oilfields and the refinery at Talara, whose operation was put into the hands of the State enterprise.

The State Petroleum Enterprise began drilling in the border area of Puno (Pirin), whose output may eventually supply the refinery it is proposed to construct at Matarani (Arequipa). Apparently an alternative to the Matarani project is to establish the Refinería del Sur at Mollendo, with a production capacity of 15,000 barrels daily, which would operate on the basis of crude petroleum imported from Bolivia and Colombia. An airport was built in the Marañón area to receive the drilling equipment which is already being used in the joint operations of three foreign companies. In October the Belco Petroleum Company announced its intention of increasing its present investment of 40 million dollars by an additional 15 million; the Gulf Oil Corporation has a contract with the State Petroleum Enterprise for the construction of service stations and the sale of certain products of the State enterprise.

Lastly, in the goods-producing sector, it is estimated that manufacturing expanded by about 6 per cent in 1968, which is comparable to the rate attained in 1967 but falls short of the very high rate recorded in 1960-66. Various factors have influenced these trends. Since the

end of the nineteen-fifties, industry has been given a strong impetus in the form of tariff and tax exemptions and credit from commercial banks and the Banco Industrial. Imports of capital goods, raw materials and intermediate products for this sector, favoured by an exchange rate which remained stable for a considerable period, rose from 204 to 481 million dollars between 1960 and 1967, accounting for as much as 58 per cent of total imports of goods in 1967. Devaluation in the last quarter of 1967 meant an increase in the cost of imported inputs and capital goods, added to which there was a contraction in credit and a shrinkage of demand. The motor-vehicle industry was particularly affected by these developments, and production dropped by about 40 per cent.

Other outstanding events which took place during the year include the construction of fishing vessels and tankers and the signing of the Agreement of the Petrochemical Industry with the countries belonging to the Andean sub-regional market. In this connexion, Bayer Industrial S.A. announced that it was planning to invest 19 million dollars in the manufacture of acrylic fibre in the Lima area.

The Cañón del Pato power plant increased its generating capacity by 50,000 kW to supply the industrial estate that is being established at Trujillo; this adds to the capacity already installed at Arequipa and Tacna. Moreover, IBRD granted Peru a loan of 17 million dollars to help finance the 40 million dollar hydroelectric power plant at Matucana, which should be completed in 1971.

THE PUBLIC SECTOR

Since the beginning of the nineteen-sixties, the public sector has been playing a very dynamic role in the development of the Peruvian economy

(see table 142). Between 1960 and 1967, general government consumption more than doubled in real terms, while public investment increased by four and a half times, accounting for one third of total fixed investment in 1967 as compared with only 13 per cent in 1960 (private investment grew by 58 per cent over the same period). Public capital expenditure made a particularly large contribution to the expansion of the economic infrastructure of the country and to housing construction.

Since public income did not grow at the same pace, the imbalances in public finances gradually became more marked and it became increasingly necessary to cover the deficit with loans from the Central Bank and the Banco de la Nación and with external credit. The situation was especially critical in early 1968, since the financial year ending in March showed a deficit of 6,690 million soles, which was covered from traditional sources of financing.

In view of the situation, the Government prepared what it termed an "economic recovery plan" in May providing for a sharp cut-back in public spending and improved methods of tax collection. The plan also aimed at strengthening the country's international reserves and balance-of-payments position by restricting imports (a policy that had been initiated in 1967) and reducing commitments abroad, and included measures to develop the major production sectors.

Subsequently, the executive branch was given extraordinary powers to implement the three aspects of the recovery plan. The main measures included raising the rates of taxation and the introduction of new taxes (including a single progressive income tax); the reduction of public spending by 1,000 million soles; a ban on over

Table 142. Peru: total supply and demand, 1960 and 1966-68
(Millions of soles at 1960 prices)

	1960	1966	1967	1968
<i>Total supply</i>	68,939	108,490	114,049	110,893
Gross domestic product	55,518	80,615	84,319	87,270
Imports of goods and services	13,421	27,875	29,728	23,621
<i>Total demand</i>	68,939	108,490	114,047	110,893
Exports of goods and services	13,466	17,142	17,937	20,064
Total investment	12,292	21,342	22,643	20,087
Fixed investment	9,541	17,605	18,664	16,471
Construction	4,250	6,759	7,102	6,541
Machinery and equipment	5,291	10,846	11,562	9,930
Total consumption	43,181	70,006	73,467	70,742
General government	4,776	7,480	9,937	9,799
Private	38,405	62,526	63,530	60,943

SOURCE: ECLA, on the basis of data supplied by the Banco Central de Reserva of Peru, National Accounts Department.
* Estimates.

250 import items; a 10 per cent surcharge on non-essential imports; and refinancing of the public debt.

The new Government which came into power in October placed special emphasis on measures to reduce the public sector deficit. By December 1968, the cash deficit amounted to 1,620 million soles (without counting some outstanding payments), and it was expected that it would not increase appreciably over the last quarter of the fiscal year because of increased income from taxation and budgetary savings.

The cut-back in public spending led to a decline of 1.4 per cent in general government consumption expenditure during 1968; public investment very probably declined as well (adequate information is not yet available on this), since total fixed investment fell by 11.8 per cent. The product of the construction sector, which is closely related to public work, fell by almost 8 per cent.

SOME OBJECTIVES OF ECONOMIC POLICY

Other important objectives of recent economic policy were the reduction of the fiscal deficit, the curbing of inflation, the control of imports and the refinancing of the external debt.

The devaluation of the exchange rate in 1967 led to a strong upward movement in domestic costs and prices. For example, the consumer price index, which had risen by some 80 per cent between 1960 and August 1967, rose by 12.8 per cent between August and December 1967.¹² These pressures were reduced by subsequent efforts, and domestic prices rose by only 9.7 per cent in 1968.

The external public debt has grown rapidly, soaring from 187 million dollars in 1962 to 742 million in 1968. The income from government and government-guaranteed investment amounted in 1968 to 156 million dollars, while expenditure for debt servicing totalled 141 million: i.e., the net inflow was only 15 million dollars and debt servicing represented roughly 16 per cent of the value of exports. This explains the Government's efforts to find ways of refinancing the external debt, and at the end of the year 48.5 million dollars had been obtained to refinance the external debt with Europe.

Several statements have been made on the basic principles of the new Government's economic and social development policy. Two of the early decisions taken by the Government are particularly noteworthy. The first relates to

the expropriation of the Brea and Pariñas oil-fields and the industrial complex at Talara, which were placed under the administration of the State Petroleum Enterprise.

The second decision, adopted on 31 December 1968, related to the "Peruvianization" of the commercial banks. It was decided that the shares of any commercial banks established in the future would have to be owned exclusively by Peruvian natural or legal persons; and that those commercial banks which were already established would be considered to be national banks when 75 per cent or more of their capital was owned by Peruvians. It was also provided that credits granted to subsidiaries of foreign enterprises could not exceed a certain percentage of the capital actually invested by such enterprises in Peru; and that any commercial bank whose investments in national currency amounted to more than 10 per cent of the total investments of all commercial banks would have to allocate 50 per cent of the surplus to loans to particular branches of activity as determined by the Banco Central de Reserva. Another decree of the same date provided that banks which did not have their head offices in Lima or Callao must limit their operations to the areas in which they were authorized to operate; in addition, such banks were obliged to raise their capital to a minimum of 20 million soles.

THE EXTERNAL SECTOR

The main trend in the external sector in 1968 was a further substantial increase in the value of exports of goods and services, which rose to some 1,000 million dollars, and a sharp contraction in the value of imports, which dropped from 1,020 million dollars in 1967 to slightly below 830 million in 1968 (see table 143 and figure XXII).

The significance of these changes will be seen more readily if they are compared with the trends for earlier years. Between 1960 and 1967 the value of exports of goods (excluding services) rose from 444 million dollars to 765 million, while the value of imports of goods rose from 327 million dollars to 802 million. The greater relative rise in imports, together with the growing outflow of capital in respect of external debt servicing and remittances abroad of the profits of direct foreign investment, led to strong pressure on the balance-of-payments and a decline in the gold and foreign exchange reserves of the Central Bank in 1966, a trend which gathered momentum in 1967. As a result the exchange rate was devalued by 45 per cent in 1967 and further measures were taken to restrict

¹² This figure was estimated by comparing the old and the new indexes prepared by the National Statistics and Census Office.

Table 143. Peru: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	494.1	772.0	895.0	883.0	982.0
Goods	444.4	685.0	789.0	765.0	870.0
Services	49.7	87.0	106.0	118.0	112.0
Imports of goods and services	426.5	845.0	949.0	1,021.0	827.0
Goods, f.o.b.	326.6	653.0	747.0	802.0	634.0
Services	99.9	192.0	202.0	219.0	193.0
Net investment income	-54.9	-91.0	-118.0	-140.0	-137.0
Net private transfer payments	+2.5	+5.0	+7.0	+8.0	+8.0
Balance on current account	+15.2	-159.0	-165.0	-270.0	+26.0
<i>Capital account</i>					
Net external financing	-15.2	+159.0	+165.0	+270.0	-26.0
Net non-compensatory foreign capital	+12.2	+220.0	+220.0	+181.0	-20.0
Direct investment	+11.1	+36.0	+30.0	+30.0	
Non-compensatory loans	-6.5	+144.0	+153.0	+108.0	
Short-term liabilities	+3.9	+29.0	+15.0	+23.0	
Official transfer payments	+3.7	+11.0	+22.0	+20.0	
Net non-compensatory domestic capital or assets	+0.9	-39.0	-44.0	+27.0	-6.0
Errors and omissions	+4.4	-40.0	-33.0	+15.0	
Compensatory movements (increase —)	-32.7	+18.0	+22.0	+47.0	
Net compensatory foreign capital	-16.1	+33.0	+5.0	+29.0	
Balance-of-payments loans and deferred import payments	-15.5	+33.0	—	+17.0	
Other liabilities of the monetary authorities	—	—	+7.0	—	-6.0
IMF position	-0.6	—	-2.0	+12.0	
Movements of gold and foreign exchange (increase —)	-16.6	-15.0	+17.0	+18.0	

SOURCES: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 19; 1968: ECLA estimates.

spending abroad, the effects of which are reflected in the 1968 figures.

In 1968 fish-meal exports totalled 2,083,000 tons, 33 per cent above the high figure for 1967. At the average price prevailing up to September this was equivalent to a value of 204 million dollars, or 28 million more than in 1967. The value of fish-oil exports is estimated at some 24 million dollars, owing to an exceptional increase in volume (73 per cent) although prices were much lower than in 1967.

The volume of exports of mining products rose by slightly more than 2 per cent, while prices rose by 11 per cent. Sales of copper are estimated at 200,000 tons, or a value of some 230 million dollars, since prices rose, partly as a result of the United States copper strike which continued until March 1968. The volume of iron sales was expected to be slightly larger than the 5.4 million tons exported in 1967 (valued at some 64 million dollars). The price of silver rose by approximately 48 per cent, which, added to an increase of 6 per cent in volume, raised the value of silver exports to some 68 million dollars (57 per cent higher than in 1967). The value of lead exports, however, was reduced by 1.5 million dollars owing to

a fall in prices, while the value of zinc exports dropped slightly compared with 1967 since the increase in the volume of exports was more than cancelled out by the fall in prices.

The value of exports of the three main agricultural products is estimated to have risen by 15 per cent in 1968, attributable to both an increase in volume (6.7 per cent) and a rise in prices (7.8 per cent). The volume of cotton exports fell slightly during the year and thus it was not possible to take full advantage of the high price for cotton, which marked a record for the nineteen-sixties. The value of sugar exports probably attained some 64 million dollars as against 53 million in 1967, since prices rose by 20 per cent over 1967 and also because virtually all the sugar exports went to the United States market where it commands higher prices than on the world market. The figures for the first nine months of the year indicate that the volume of coffee exports rose by 30 per cent, which would mean a rise of 26 per cent in value owing to the decline in coffee prices which began in 1964. Total exports of goods increased by 14.4 per cent over 1967 to a value of 870 million dollars.

Since the beginning of the nineteen-sixties

imports have risen even faster than exports. The f.o.b. value of imports of goods (excluding services) rose from 327 million dollars in 1960 to 802 million in 1967. In 1968 the measures taken to bring the balance of payments back into equilibrium led to a sharp decline in the value of imports, which fell to 634 million dollars.

Over the period 1960-66 as a whole, total exports of goods and services amounted to 4,742 million dollars, while the value of imports was 4,677 million, added to which there was a net outflow of 539 million dollars in respect of profits and interest and an inflow of 39 million dollars in respect of net private transfer payments. This resulted in a deficit of 435 million dollars on current account over the seven-year period.

During this same period, however, the net inflow of autonomous capital amounted to 628 million dollars—481 million in the form of loans, 105 million in direct investment and 50 million in official transfer payments. This produced a surplus of 193 million dollars which, less 84 million dollars in respect of errors and omissions, amounted to 109 million. Of this surplus, 13.5 million was used to reduce the liabilities of the international monetary authorities, while the remainder (95.5 million) was added to gross international reserves.

If the movement of capital is looked at from another vantage point, it will be seen that over the period 1960-66 the gross inflow of foreign capital amounted to 1,267 million dollars, while gross disbursements, mainly for repayments and other capital outflows, amounted to 451 million dollars. If net payments in respect of profits and interest—considered above under current account—are added in, the net inflow of foreign capital totalled 270 million dollars over the seven-year period, while the total cost of servicing foreign capital over the period represented 20.7 per cent of the value of exports of goods and services.

These trends have tended to change in recent years. As early as 1965 and 1966 there was a deficit of some 20 million dollars on the balance of payments before compensatory financing. This doubled in 1967, when the decline in exports, the increase in imports and a substantial outflow in respect of profits and interest combined to create a deficit of 270 million dollars on current account.

During 1967, direct investment remained at the 1966 level, while net long-term loans declined by 30 per cent. As a result, the international assets of the Central Bank fell by 18 million dollars, stand-by loans of 12 million dollars were

obtained from IMF, while a further 17 million were secured by contracting other obligations.

These trends explain why efforts were made in 1968 to change the situation by means of a sharp increase in exports and a considerable contraction of imports. Some very provisional estimates show a surplus on merchandise account of close to 240 million dollars for the year which, after deductions of other net payments in respect of financial and non-financial services, created a small surplus on current account.

In mid-November 1968, the gross international reserves of the Central Bank amounted to 113 million dollars, 10 million dollars higher than at the same point in 1967. During 1968 stand-by loans from IMF amounted to 46 million dollars, although liabilities to it fell by 42 million dollars, with 50 million dollars still outstanding of the stand-by loan of 75 million dollars granted at the beginning of November. United States commercial banks also granted 65 million dollars' worth of additional credits to form a reserve fund for three years, and 25 million dollars were obtained from European banks for the same purpose.

Dominican Republic

OVER-ALL TRENDS

Economic development trends in the Dominican Republic in 1968 resulted in an increase of about 2.3 per cent in the gross domestic product, as against 3.5 per cent in the preceding year. This time both the dynamic and the retarding factors were different from those operating in 1967, when the impetus had come from the manufacturing sector, whereas in 1968 construction and to a lesser extent agriculture were responsible for the expansion achieved. The product of industry, in contrast, declined in absolute terms (see table 144).

Table 144. Dominican Republic: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

Sector	1960-66	1967	1968*
Agriculture	0.0	-1.5	3.1
Mining	-0.2	29.7	3.1
Manufacturing	1.6	4.4	-2.1
Construction	9.8	20.4	20.6
Goods	1.2	3.4	3.7
Basic services	8.4	6.4	1.3
Commerce and finance	3.8	4.7	2.0
General government	2.3	0.7	-1.3
Miscellaneous services	4.0	3.1	1.0
Other services	3.5	3.1	0.8
Growth rate of the total product	2.8	3.5	2.3

SOURCE: ECLA, on the basis of national accounts data supplied by the Central Bank of the Dominican Republic.

* Provisional figures based on partial indicators.

From the standpoint of the supply of goods and services available for domestic use, the smallness of the increase in the product was to some extent offset by the fact that imports expanded more than exports in real terms. The additional flow of imports was largely channelled into capital formation and, in particular, construction. Private consumption, on the other hand, increased much less, and the level of general government consumption expenditure remained virtually the same as before (see table 145).

This last circumstance was attributable to the maintenance of the policy of restricting the public sector's current expenditure and stepping up its investment, with the resultant stabilization of the trend that had begun in 1966. The Central Government's current income regained the 1964 level, but its current expenditure decreased by about 10 per cent in relation to that year, owing to the continued implementation of the "austerity programme". Its savings on current account thus rose from 13 million Dominican pesos in 1964 to 30 million in 1968. In line with the trend observable in previous years, 40 per cent of public investment was placed in the transport and energy sectors. Investment in health services exceeded 20 per cent of the total, which implied a significant increase.

Domestic consumer prices in 1968 remained at the same level as in 1967.

SECTORAL PRODUCTION TRENDS

Activity in the agricultural sector had fallen off slightly in 1967 (by 1.5 per cent), in consequence of a drought which had lasted into the early months of 1968 and had also delayed sowings of certain crops in the latter year. Nevertheless, an expansion of approximately 3 per cent was achieved in 1968, mainly because

output of rice, maize, potatoes, beans and manioc increased, while, among export items, production increments were recorded for coffee and cocoa. The most significant progress was made in rice production, which sufficed to meet domestic demand, thanks to the expansion of the rice-growing area, to the use of new varieties and the application of fertilizers, and to the firmness of prices. On the other hand, production of sugar-cane dropped from 7.7 million tons to about 6 million, and that of tobacco from 19 million tons to approximately 16 million. The slaughtering rate for cattle and pigs also declined and so did milk production.

Manufacturing output fell by about 2 per cent, in contrast to the more dynamic trend it had followed since the 1965 depression. On this occasion the setback was due to a contraction of more than 15 per cent in the sugar industry, caused in its turn by the decrease in production of sugar-cane. Apart from this situation, which can be ascribed to temporary causes, the policy of encouraging industry was maintained, and some fairly important projects were completed or are in process of execution. In April 1968, for example, a new industrial incentives and protection act was passed, granting tax exemptions to certain branches of industry which have a direct impact on the balance of payments (import substitution activities or industries manufacturing export products). The Economic Development Investment Fund (Fondo de Inversiones para Desarrollo Económico) also continued to discharge its function of channelling into industrial projects resources provided by IDB, the United States Agency for International Development and the Central Bank of the Dominican Republic. As regards new projects, four new industries entered production in the Herrera area, and construction work proceeded on thirty others.

Table 145. Dominican Republic: total supply and demand, 1960 and 1966-68
(Millions of Dominican pesos at 1960 prices)

	1960	1966	1967	1968*
<i>Total supply</i>	839.8	1,075.5	1,119.6	1,157.5
Gross domestic product	722.9	851.0	880.8	901.0
Imports of goods and services	116.9	224.5	238.8	256.5
<i>Total demand</i>	839.8	1,075.5	1,119.6	1,157.5
Exports of goods and services	172.1	130.3	144.7	149.4
Gross fixed investment	75.2	149.2	169.3	190.0
Construction	44.0	77.1	92.7	111.8
Machinery and equipment	31.2	72.1	76.6	78.2
Total consumption	592.5	796.0	805.6	818.1
General government	92.2	101.9	106.5	106.5
Private	500.3	694.1	699.1	711.6

SOURCE: ECLA, on the basis of national accounts data supplied by the Central Bank of the Dominican Republic.

* Provisional figures based on partial indicators.

In 1967, industries other than sugar processing employed 11.5 per cent of the labour force, paid 19 per cent of total wages and accounted for 22 per cent of sales.¹³

The construction sector was the mainspring of progress in 1968, showing an expansion of over 20 per cent in relation to the preceding year, when its growth rate had already reached 20.4 per cent. The increase in activity was mainly attributable to public and private house-building and to road works undertaken by the public sector (in particular, the building of 174 kilometres of highways and 75 kilometres of approach roads, representing an investment of 50 million Dominican pesos).

With respect to infrastructure projects, financing was obtained for the construction of the dam for a hydroelectric power station at Tavera, and the preparatory work on approach facilities was started. In addition, the installed capacity of the Hayna thermoelectric power station was enlarged, and the installation of the transmission line between Santo Domingo and Puerto Plata was completed.

THE EXTERNAL SECTOR

In 1968 a further increase in the value of exports of goods and services took place, this time of 6 per cent. Although less than in the two preceding years, this meant that their value (193 million dollars) came close to the high level of 1964 (see figure XXIII). The decrease in domestic sugar production was offset by the growth of sales to the United States where prices, which were much higher than those quoted on the world market, rose slightly. There was also an increase in the quota assigned to the Dominican Republic by the International Coffee Council. In the cases of cocoa and tobacco, prices went up but the volume of sales decreased.

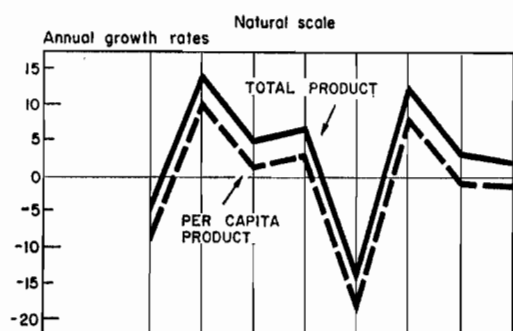
In terms of current value, imports increased more than exports (8.5 per cent). This was partly because, despite the import restriction policy in force, external purchases of food products had to be stepped up in cases where supplies had been affected by the drought.

The outcome of all these variations was that the deficit on current account was about 65 million dollars, differing little from the imbalances recorded in the two preceding years. At the same time, by virtue of a greater inflow of non-compensatory capital a pre-compensation surplus was obtained after four successive years

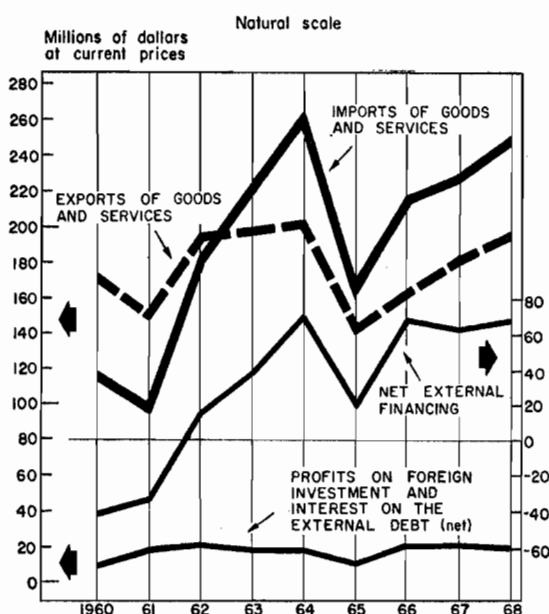
¹³ See Inter-American Committee on the Alliance for Progress (CIAP), *Domestic effort and the need for external financing for the development of the Dominican Republic* (November 1968).

Figure XXIII. Dominican Republic: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



of unfavourable balances, and the monetary authorities were enabled partly to reconstitute the country's gold and foreign exchange reserves (see table 146).

Trinidad and Tobago

In 1968 Trinidad and Tobago recorded an economic growth rate of about 4 per cent in real terms as a result of an increase of 10.8 per cent in current values, and a rise of approximately 7 per cent in prices (see table 147 and figure XXIV). The main features of the growth rate were an improved performance in the agricultural sector, an intensification of the strong forward drive of the manufacturing sector and a high level of activity in petroleum and construction (see table 148). In the external sector, exports made considerable gains, increasing at a slightly higher rate than imports. While gross fixed investment

Table 146. Dominican Republic: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	172.1	143.1	160.4	181.6	192.5
Goods	157.4	125.5	138.0	156.6	161.8
Services	14.7	17.6	22.4	25.0	30.7
Imports of goods and services	116.9	163.9	214.5	229.3	248.9
Goods, f.o.b.	90.3	120.7	160.5	174.2	192.0
Services	26.6	43.2	54.0	55.1	56.9
Net external investment income.	-9.6	-12.0	-20.0	-22.2	-19.0
Net private transfer payments	-3.0	+12.4	+6.5	+6.0	+8.9
Balance on current account	+42.6	-20.4	-67.6	-63.9	-66.5
Capital account					
Net external financing	-42.6	+20.4	+67.6	+63.9	+66.5
Net non-compensatory foreign capital	-18.2	+45.8	+34.3	+39.6	
Direct investment	+1.0	+6.0	...	...
Non-compensatory loans	-0.5	+13.5	+33.9	+39.9	
Short-term liabilities	-18.6	-38.9	-10.0	-0.3	
Official transfer payments	-0.1	+65.2	+10.4	...	
Net non-compensatory domestic capital or assets	+3.3	-3.5	+0.7	-0.4	
Errors and omissions	-28.1	-24.3	+1.9	+19.5	
Compensatory movements (increase —)	+0.4	+2.4	+30.7	+5.2	
Net compensatory foreign capital	-11.7	+0.6	+13.0	+4.0	
Balance-of-payments loans and deferred import payments	-20.7	-4.4	+6.7	+7.4	
Other liabilities of the monetary authorities	—	—	—	—	
IMF position	+9.0	+5.0	+6.3	-3.4	
Movements of gold and foreign exchange (increase —)	+12.1	+1.8	+17.7	+1.2	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 19 and 20; 1968: ECLA estimates.

increased a little at current prices, consumption expenditure rose by nearly 12 per cent, thus reducing the investment coefficient and the level of gross domestic savings.

MAIN PRODUCTION SECTORS

(a) Petroleum

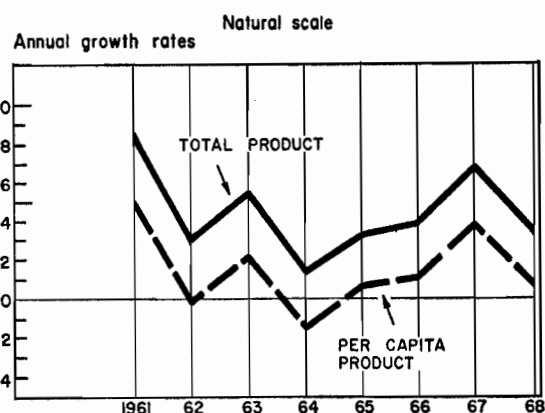
Despite the fall in its contribution to the gross domestic product from 25.4 per cent in 1967 to 24.6 per cent in 1968, the petroleum sector continued to dominate the economy. The growth rate of 8.3 per cent (at current prices) achieved during 1968 can be ascribed to an increase in both domestic crude production and refining output (see table 149). The recent increases in petroleum production were mainly at the expense of proven reserves, which, at the end of 1967, were estimated at only nine and a half times the level of production in that year. In an attempt to improve this precarious position, exploratory drilling was intensified on the east coast of Trinidad and in western Tobago.

(b) Agriculture and stock-breeding

The agricultural product grew by 13.8 per cent (at current prices) following a period of

Figure XXIV. Trinidad and Tobago: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



stagnation which began in 1960 (see table 148). The increase embraced agriculture both for export and for home consumption.

In 1968 the sugar-cane crop was estimated at 2.4 million tons, which yielded 239,000 tons of raw sugar. In the present decade, this level of

Table 147. Trinidad and Tobago: product, consumption, investment and external sector, 1960 and 1964-68

	Millions of Trinidad and Tobago dollars (current prices)						Annual growth rates			
	1960	1964	1965	1966	1967	1968*	1965	1966	1967	1968
Gross domestic product (at market prices)	918	1,190	1,249	1,349	1,469	1,628	5.0	8.0	8.9	10.8
Total investment	—	280	328	293	296	—	17.1	-10.7	1.0	—
Gross fixed investment	268	275	326	292	298	304	18.5	-10.4	2.7	2.0
Public	47	71	69	54	57	65	-2.8	-21.7	5.6	14.0
Private	221	204	257	238	241	239	26.0	-7.4	1.3	-0.8
Total consumption	643	884	966	1,020	1,093	1,232	9.3	5.6	7.2	12.7
Public	88	145	153	171	184	199	5.5	11.8	7.6	8.2
Private	555	739	813	849	909	1,032	10.0	4.4	7.1	13.5
Exports of goods and services	552	814	815	867	892	1,025	0.1	6.4	2.9	14.9
Imports of goods and services	562	792	876	846	812	932	10.6	-3.4	-4.0	14.8

SOURCES: Annual Statistical Digest and Draft Third Five-Year Plan, 1969-73. • Estimates.

Table 148. Trinidad and Tobago: gross domestic product by sector of economic activity, 1960 and 1964-68

Sectors	Millions of Trinidad and Tobago dollars (at factor cost)					Annual growth rate				
	1960	1964	1965	1966	1967	1968*	1965	1966	1967	1968
Agriculture, forestry, fishing and quarrying	108.4	111.8	105.5	107.3	111.6	127.0	-5.6	1.7	4.1	13.7
Mining and refining of petroleum, asphalt and gas	263.4	301.0	284.1	313.6	350.4	379.0	-5.6	10.4	11.7	8.2
Manufacturing	108.2	161.8	179.2	198.4	218.6	269.9	10.8	10.7	10.2	25.5
Construction	40.6	57.3	58.6	56.2	53.2	58.1	2.3	-4.1	-5.3	9.2
Transport and distribution	149.6	193.0	211.7	235.2	240.8	273.0	9.7	11.1	2.4	13.4
Public utilities	40.6	53.5	64.9	73.0	72.5	89.0	21.3	12.5	-0.7	22.8
Government	82.5	115.2	118.6	132.4	149.6	162.0	3.0	11.6	13.0	8.3
Ownerships of dwellings	16.8	44.3	47.3	49.9	53.7	54.5	6.8	5.5	7.6	1.5
Banking and finance	20.0	37.6	39.4	46.2	47.3	47.0	4.8	17.3	2.4	-0.6
Other services	34.9	58.5	66.6	72.7	80.2	83.7	13.8	9.2	10.3	4.4
TOTAL	865.0	1,134.0	1,175.9	1,284.9	1,377.9	1,543.9	3.7	9.3	7.2	12.0

SOURCES: Annual Statistical Digest and Draft Third Five-Year Plan, 1969-73. • Estimates.

Table 149. Trinidad and Tobago: domestic crude petroleum, refinery throughput and contribution to gross domestic product, 1963-68

Year	Production of domestic crude (millions of barrels)	Refinery throughput (millions of barrels)	Contribution to GDP (millions of Trinidad and Tobago dollars)
1963 . .	48.7	115.4	297
1964 . .	49.7	131.0	301
1965 . .	48.9	137.9	284
1966 . .	55.6	144.1	314
1967 . .	65.0	139.6	350
1968 . .	67.0	150.7	379

SOURCE: Draft Third Five-Year Plan, 1969-73.

production was exceeded only in 1965, and was attributable to more effective frog hopper control. Commonwealth sugar prices remained at the same level as for 1967 and, with the increase in production in 1968, earnings in the industry improved considerably. The prospects for stable sugar prices appear to be much more promising; in 1968 the Commonwealth Sugar Agreement was extended for four years up to 1978, and the new International Sugar Agreement was concluded.

The production of cocoa, which had been falling steadily since 1963, increased from 11.6 million pounds in 1967 to 13.4 million in 1968. At the same time there was an improvement in world prices, so that the value of exports increased about 40 per cent. This crop, however, is still encountering serious difficulties in the form of inefficient cultivation methods and impoverished soils.

With regard to coffee, improved methods of picking boosted production. As a result of this, and of the stability afforded by the International Coffee Agreement (which now offers Trinidad and Tobago a quota of 13.2 million pounds), output rose from 5.6 million pounds in 1967 to 9.5 million in 1968 (see table 150).

Table 150. Trinidad and Tobago: agricultural production for export, 1962-68

Year	Sugar (thousands of tons)	Cocoa (millions of lbs)	Coffee (millions of lbs)	Citrus (millions of lbs)
1962 . .	201	14.8	3.7	93.3
1963 . .	227	16.1	7.9	64.8
1964 . .	227	10.7	8.2	73.3
1965 . .	250	11.0	7.5	110.1
1966 . .	206	11.9	5.3	97.9
1967 . .	198	11.6	5.6	85.5
1968* . .	239	13.4	9.5	88.1

SOURCES: Draft Third Five-Year Plan, 1969-73, and *Quarterly Economic Report*.

* Estimates.

Agriculture for the domestic market has made fairly good headway in recent years, particularly as regards poultry, pork and fresh milk production.

(c) Manufacturing

Manufacturing has grown more rapidly than any other sector in the nineteen-sixties. Its contribution to the gross domestic product has increased from 12.5 to 17.5 per cent since 1960, and in 1968 its growth rate was 23.5 per cent, at current prices. Nevertheless, it still has a somewhat narrow base, consisting mainly of petrochemical products, especially fertilizers, although this industry is now undergoing a process of diversification. In the early stages it produced little else but sulphate of ammonia, but in recent years urea, ammonia and sulphuric acid have been produced in increasing quantities. Apart from petrochemical products, manufacturing activities extend to textiles, clothing, the assembly of some durable consumer goods, and food processing. Output of the traditional manufactures remained virtually at a standstill, mainly because the possibilities of the domestic market are virtually exhausted, and also because of increased taxes on consumption.

THE EXTERNAL SECTOR

Imports of goods and services, which had been declining from their 1965 peak, rose by 14.8 per cent in 1968, mainly owing to greater purchases of crude petroleum and to foreign travel. Crude petroleum imports average 45 per cent of the total each year, and the increased refining output in 1968 required an estimated increase of 8 million barrels of imported crude, bringing the total to 84 million barrels. Table 151 shows the position with regard to import items other than petroleum.

In 1968 exports of goods and services amounted to 1,025 million Trinidad-Tobago dollars. This means that the rate of increase for all export items except raw materials was nearly 15 per cent. Table 152 presents figures for net exports, excluding the effects of imports of crude for refining and of re-exports.

The balance of payments shows a deficit on current account similar to that recorded the previous year. While the merchandise account showed a surplus, remittances of profits on investments in petroleum, sugar and chemical products continued to weigh heavily on the debit side (see table 153).

CONSUMPTION, SAVINGS AND INVESTMENT

In 1968, total consumption increased faster than the product, at a rate of 12.7 per cent at current prices. Public consumption accounted for

Table 151. Trinidad and Tobago: principal imports,* 1963-68

	1963		1964		1965		1966		1967		1968	
	Millions of Trinidad and Tobago dollars	Per-centage of total imports	Millions of Trinidad and Tobago dollars	Per-centage of total imports	Millions of Trinidad and Tobago dollars	Per-centage of total imports	Millions of Trinidad and Tobago dollars	Per-centage of total imports	Millions of Trinidad and Tobago dollars	Per-centage of total imports	Millions of Trinidad and Tobago dollars	Per-centage of total imports
Manufactures . . .	122.7	19.1	126.5	17.3	141.8	17.4	134.7	17.4	126.1	17.8	139.5	16.4
Food, beverages and tobacco . . .	84.1	13.1	90.9	12.4	94.0	11.5	96.2	12.5	93.4	13.2	93.1	11.7
Chemicals . . .	25.5	4.0	29.0	4.0	34.6	4.2	32.8	4.2	35.3	5.0	33.5	4.2
Raw materials other than fuel . . .	8.5	1.3	10.4	1.4	9.8	1.2	12.5	1.6	10.8	1.5	12.1	1.5
Machinery and transport equipment . . .	95.6	14.8	95.7	13.1	129.1	15.8	102.7	13.3	95.7	15.2	97.0	12.2
Motor vehicles and parts . . .	14.5	2.2	21.7	3.0	25.2	3.1	28.1	3.6	21.6	3.0	20.7	2.6
Animal and vegetable oils and fats . . .	2.7	0.4	2.8	0.4	4.1	0.5	3.8	0.5	3.5	0.5	3.9	0.5

* Excluding petroleum.

SOURCE: Draft Third Five-Year Plan, 1969-73.

Table 152. Trinidad and Tobago: net exports, by major items, 1963-68
(Millions of Trinidad and Tobago dollars)

	1963	1964	1965	1966	1967	1968*
Fuels and lubricants ^b	231.2	211.8	168.6	197.3	248.1	267.9
Manufactures	12.1	13.5	14.3	16.9	17.9	24.0
Chemicals	13.5	27.9	37.3	59.0	78.2	84.7
Machinery and transport equipment	6.5	5.0	4.9	7.6	4.8	13.8
Raw materials	4.3	5.2	4.8	5.4	5.0	4.8
Agricultural commodities ^c	63.9	59.8	54.2	48.5	48.8	66.9

SOURCES: *Overseas Trade Reports* and Draft Third Five-Year Plan, 1969-73.
* Estimates.

^b Gross totals less imports of crude.
^c Includes processed sugar, citrus and bitters.

8.2 per cent of this increase and private consumption for 13.5 per cent. In the last three years, gross domestic saving followed an upward trend and was stabilized, at over 15 per cent of the gross domestic product. Nevertheless, it was necessary to draw on foreign capital to help finance the investment programme (see table 154). Gross fixed investment rose 2 per cent, at current prices, which accentuated the declining trend of the investment coefficient in relation to the product. Since 1965, when large investments were made in the petrochemical industry, the decline has been steady, reaching its lowest ebb (18.7 per cent of the product) in 1968.

POPULATION AND EMPLOYMENT

The rate of population growth during the last decade was over 3 per cent annually, but during

the nineteen-sixties the rate has slowed down because of a fall in the birth rate and the increase in emigration, while the death rate has remained fairly stable (see table 155). The net result was that the population increased by about 1.2 per cent. It is further estimated that 41 per cent of the population is under 14 years of age. The labour force in 1968 comprised 368,000 persons, of whom 53,500 (14.5 per cent) were unemployed. If the figures for disguised unemployment are added, it will be appreciated that unemployment is a very serious problem.

WAGES AND PRICES

The minimum wage index for workers in industry rose 1.6 per cent between May 1967 and May 1968. On the other hand, prices, which had

Table 153. Trinidad and Tobago: balance of payments, 1962-68
(Millions of Trinidad and Tobago dollars)

	1962	1963	1964	1965	1966	1967	1968*
Current account							
(i) <i>Goods and services</i>							
Exports, f.o.b.	559.9	595.0	693.4	710.5	752.7	750.2	830.0
Imports, c.i.f.	606.2	644.0	731.0	816.9	772.6	710.1	797.6
Balance on visible trade	-46.3	-49.0	-37.6	-106.4	-19.9	40.1	32.4
Services:							
Transportation	70.0	60.2	61.8	57.8	57.8	52.9	64.0
Foreign travel	-3.7	0.2	0.3	0.2	3.2	-0.7	2.0
Investment income	-118.5	-115.8	-121.4	-103.3	-107.6	-121.8	-131.6
Other	5.3	4.7	6.3	8.5	9.8	-8.9	6.6
Balance on services	-50.8	-53.4	-46.3	-36.8	-28.4	-78.5	-72.2
Balance on goods and services	-97.1	-102.4	-83.9	-143.2	-48.3	-38.4	-39.8
(ii) <i>Transfer payments</i>	-3.9	-2.7	1.2	21.3	8.4	-1.6	-1.0
Private	-1.6	1.4	1.3	0.6	0.6	1.6	—
Official	-2.3	-4.1	-0.1	20.7	7.8	-3.2	—
Capital account							
(i) <i>Capital inflows (net)</i>	79.3	137.4	75.2	119.3	50.3	45.6	63.0
Private sector (net)	67.3	95.3	52.3	102.0	37.6	42.9	45.0
Public sector (net)	12.0	42.1	22.9	17.3	12.7	2.7	18.0
(ii) <i>Net errors and omissions</i>	3.7	5.4	-22.9	9.9	-1.7	-3.7	-2.2
(iii) <i>Surplus or deficit</i>	-14.1	40.4	-31.6	7.3	-9.7	1.9	20.0
Financing of the deficit							
(i) <i>Net movements of foreign exchange (increase —)</i>	14.1	-40.4	31.6	-7.3	9.7	-1.9	-20.0

SOURCES: *Annual Statistical Digest* and Draft Third Five-Year Plan, 1969-73.

* Estimates.

Table 154. Trinidad and Tobago: gross savings and gross fixed investment, 1963-68
(Millions of Trinidad and Tobago dollars)

Year	Gross domestic product at market prices (1)	Gross national savings (2)	Gross fixed investment (3)	Difference (2)-(3)	Gross fixed investment as percentage of GDP
1963 . . .	1,159	181	275	-94	23.7
1964 . . .	1,190	185	275	-90	23.1
1965 . . .	1,249	180	326	-146	26.2
1966 . . .	1,349	221	292	-71	21.6
1967 . . .	1,469	254	298	-44	20.3
1968 ^a . . .	1,628	264	304	-40	18.7

SOURCES: Derived from tables 11 and 12.

^a Preliminary figures.

Table 155. Trinidad and Tobago: population, 1963-68

Year	Birth rate (per 1,000 population)	Death rate (per 1,000 population)	Net migration (thousands of persons)	Population (thousands of persons)	Population increase (percentage)
1963 . . .	35.6	7.2	+2.3	924.3	2.6
1964 . . .	34.7	7.0	-2.1	951.0	2.9
1965 . . .	32.8	6.9	-3.1	973.9	2.4
1966 . . .	30.2	7.1	-5.1	994.8	2.1
1967 ^a . . .	28.2	6.7	-9.0	1,010.1	1.5
1968 ^a . . .	30.1	7.0	-11.3	1,022.4	1.2

SOURCES: *Annual Statistical Digest* and Draft Third Five-Year Plan, 1969-73.

^a Provisional figures.

risen by an annual average rate of 2 per cent from 1960 to 1967, increased by 7 per cent in 1968. This sudden upswing is attributable to the currency devaluation of November 1967 and the increase in indirect taxation established in the 1968 budget.

SOME ECONOMIC POLICY GUIDELINES

With respect to industrial development, Trinidad and Tobago has adopted a policy of incentives to encourage import substitution, for which purpose tax exemptions were granted, accelerated depreciation allowances were authorized, duty-free imports of machinery and raw materials were permitted, and factory sites and buildings were provided. This policy was extended to agriculture, in particular through the Crown Lands Programme. The programme, launched in 1966, consists in the distribution of Crown lands to small farmers for dairy and pig farming; in addition, government assistance is provided in the form of long-term credit for land improvement and the purchase of livestock, technical assistance in livestock care, and arrangements for marketing output. As a result of these measures, milk and pork production have already increased sharply.

The second Five-Year Plan for 1964-68 came to an end in December 1968. Although a detailed appraisal of performance has not yet been under-

taken, it should be noted that the projected annual rate of growth (5 per cent in real terms) was attained, that public expenditure was lower than anticipated (306 million Trinidad-Tobago dollars over the five-year period as compared with an estimated expenditure of 320 million), and that the rate of unemployment remained constant at about 14 per cent.

The third Five-Year Plan for 1969-73 was launched in January 1969. This is regarded as the first phase of a fifteen-year plan designed to achieve full employment and a more diversified structure of production. Public expenditure is estimated at 375 million Trinidad-Tobago dollars for the five-year period. While the two previous plans emphasized infrastructure and industrial development, the third plan attaches special importance to agriculture.

Uruguay

RECENT ECONOMIC TRENDS

Uruguay's levels of economic activity recovered slightly in 1968 after the setback experienced in 1967. The goods-producing sectors increased by about 1.7 per cent, which, combined with a decline in services, resulted in a rise of only 0.3 per cent in the total product (see table 156).

Table 156. Uruguay: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, 1967 and 1968

(Percentages)

Sector	1960-66	1967	1968 ^a
Agriculture	3.9	-19.1	1.6
Manufacturing ^b	0.8	-5.9	1.6
Construction	-4.6	-7.1	2.5
Goods	1.7	-12.4	1.7
Basic services	1.3	-3.9	0.4
Other services	0.8	-2.0	-0.9
Growth rate of the total product	1.0	-6.3	0.3

SOURCE: ECLA, on the basis of data supplied by the Banco de la República Oriental del Uruguay.

^a Estimates.

^b Includes mining.

The factors making for instability continued to be the main features of Uruguay's recent economic development and the prime concern of short-term economic policy. These factors included accelerated inflation, disequilibrium in the public finances and pressures on the balance of payments. Accordingly, from the beginning of the year, action was taken to implement a programme of investment and development promotion, and economic and financial measures were applied to reinforce the existing policy governing the balance of payments, public income and expenditure, and prices and wages.

In April, exchange parity was adjusted to 250 pesos to the dollar in order to bring it into line with the rise in domestic prices since the previous devaluation (in November 1967 the official exchange rate had risen from 99 to 200 pesos to the dollar). Domestic prices jumped more than 60 per cent in the first half of the year following an increase of 135 per cent in 1967. Since then they have been virtually stabilized and the increase for the whole year was about 66 per cent.

In the face of this price increase, real wages and salaries seem to have followed different trends in

the public and private sectors. In the former, the fiscal situation was the paramount consideration, and this led to a further substantial deterioration in the real remuneration of employees, particularly during the first half of the year. The private sector granted periodic adjustments in the course of the year, which ultimately seem to have restored part of the loss in real income sustained the year before. The index of industrial wages, deflated by the consumer price index (for Montevideo), shows that there was a slight increase over the 1967 level up to November 1968, but in December it rose steeply and came close to the level of real industrial wages paid in 1966.¹⁴

Exports increased considerably (by 22 million dollars), while imports dropped 7.9 million dollars below their 1967 level, resulting in a surplus on current account. In terms of constant prices, exports rose 10 per cent and imports declined about 5 per cent. There was consequently a reduction in the domestic supply of goods and services, which affected both private consumption and fixed investment, while the progress made by construction was not enough to counterbalance the sharp drop in investment in machinery and equipment (see table 157).

MAJOR SECTORS OF ACTIVITY

In agriculture, the adverse weather conditions in 1967 continued in the first four months of 1968, with a persistent drought in the central and southern areas. Ideal weather conditions followed with moderate temperatures and timely rainfall. These two phases had a direct impact on pro-

¹⁴ The respective indexes for prices and wages (with 1961 as the base year) would be 629.8 and 680.7 in December 1966, 1,485.8 and 1,271.8 in December 1967, 2,425.6 and 2,141.2 in November 1968 and 2,471.2 and 2,376.1 in December of the same year.

Table 157. Uruguay: total supply and demand, 1960 and 1966-68
(Millions of pesos at 1960 prices)

	1960	1966	1967	1968 ^a
Total supply	16,299	16,177	15,548	15,487
Gross domestic product	13,583	14,450	13,541	13,583
Imports of goods and services	2,716	1,727	2,007	1,904
Total demand	16,299	16,177	15,548	15,487
Exports of goods and services	1,952	2,596	2,383	2,623
Total investment	2,392	1,587	1,631	1,700
Fixed investment	2,045	1,521	1,718	1,706
Construction	1,371	1,041	971	994
Machinery and equipment	674	480	747	712
Total consumption	11,955	11,994	11,534	11,164
General government	1,228	1,389	1,327	1,341
Private	10,727	10,605	10,207	9,823

SOURCE: ECLA, on the basis of data supplied by the Banco de la República Oriental del Uruguay.

^a Estimates.

duction, resulting in an increase of about 1.6 per cent in the product.

During the first four months of the year, cattle and sheep suffered the consequence of the drought. With the subsequent recovery, livestock production increased by 23 per cent over the previous year. The wool clip improved in both quantity and quality, stimulated by the difference in world prices for the various finenesses. Another favourable sign was the recovery in dairy cattle, which was reflected in the daily production of milk, which rose from 350,000 to 900,000 litres in the Montevideo dairy basin between June and November 1968. It is estimated that milk production climbed by 10 per cent in 1968, which left a considerable surplus for processing. Further, 330,000 hectares were converted into pasture land during the year by the Honorary Commission for the Agricultural Plan (Comisión Honoraria del Plan Agropecuario).

Two opposing phases are noted in crop farming. The winter crops harvested at the end of 1967 and the summer crops harvested at the beginning of 1968—with the exception of rice—showed marked decreases both in yield and in area sown, especially in the case of cereals, oil seeds, roots and tubers. On the other hand, the 1968 winter crops were highly successful. An area of 532,000 hectares was sown to wheat and some 484,000 tons were harvested, which is almost four times the previous crop and 40 per cent more than the average over the last five years. There were also increases in the areas sown to linseed (59 per cent), oats (66 per cent) and malt barley (40 per cent). Production of roots and tubers recovered while the output of vegetables more than satisfied domestic requirements. There was also an increase in the area sown to summer crops—mainly rice.

Manufacturing grew by about 1.6 per cent in 1968. The largest increments were in export items and products for the construction industry e.g., meat, fine woollen fabrics, cement and sheet glass. Enterprises producing only for the home market were affected by a decline in demand caused by the contraction in final consumption, and by the cessation of the stockpiling process. The decree freezing prices and wages, which was promulgated on 29 June, further weakened domestic demand in the third quarter of the year, but the last quarter marked a gradual recovery owing to the change of season (which particularly affected textiles, made-up textile goods and beverages), the special year-end expenditure, and tourism.

The firm recovery in construction following a setback in June brought the growth rate for

the whole year to approximately 2.5 per cent compared with 1967.

PRINCIPAL ECONOMIC POLICY MEASURES

The programme for investment and development promotion operated through the allocation of public investment and the encouragement of private investment, with a view to maintaining the level of economic activity and reducing unemployment. Government investment was financed with resources from the National Investment Fund (Fondo Nacional de Inversiones), which draws its funds from taxation, the sale of government bonds and external sources. The funds obtained under United States Public Law 480 during 1968 were equivalent to approximately 3,600 million pesos. Efforts in private investment were directed in the main towards achieving the necessary stability for planning on a large scale and facilitating the repatriation of national capital. First priority for the limited resources of the monetary programme went to the agricultural sector, while industry was encouraged mainly through the provision of external funds for the revival of construction.

The monetary programme set limits to the expansion of domestic credit and endeavoured to channel it towards priority activities. In August 1967 the minimum level of cash reserves was changed and subsequently a system of direct control (ceilings on holdings) was applied, with exceptions for some important sectors which it was hoped to reactivate immediately, in particular investments to finance export activities and to build up livestock inventories. In 1967, too, interest rates were raised on bank deposits in order to prevent savings being channelled into speculative transactions on the market on which financial agencies exercising certain banking functions carry on their operations.

Net domestic credit expanded less than had been expected owing to the restrictions imposed on the public sector. Private banking, however, exceeded the maximum targets established, mainly because the Central Bank authorized the granting of special credit to encourage production and maintain employment levels. In addition, the rise in the international reserves of the Central Bank and the Banco de la República led to an expansion of some 15,000 million pesos in domestic credit.

External financial policy was aimed at reducing the strong pressure exerted by the short-term external debt, maintaining a unified exchange rate which would reflect the movements of domestic prices, curbing speculation and preventing the stockpiling of imported goods and the retention of exportable surpluses. This

policy was implemented through the 1967 devaluation, which raised the official exchange rate from 99 to 200 pesos to the dollar, and through a further adjustment on 29 April 1968, which established a rate of 250 pesos to the dollar. The devaluation of November 1967 was reflected in a rapid rise in international reserves, but it could not prevent the run on reserves in April and May 1968, a trend which was reversed by the new devaluation of June 1968. At the end of 1968 there was no pressure on the exchange rate owing to the methods of regulating the exchange market, the ceilings imposed on bank holdings, the refinancing of the external debt and the stability of domestic prices from June onwards. In addition, as a result of the refinancing of the external debt, the supply of international means of payment immediately rose (except for gold), part of the gold backing for the currency was released, and short-term liabilities in foreign currency decreased. With regard to foreign trade, imports were liberalized—remaining subject only to surcharges and brokerage fees—and prior deposits were eliminated, while the system for authorizing imports of capital goods was maintained.

One of the main goals of fiscal policy was to reduce the fiscal deficit to a maximum of 7 per cent of central government expenditure, as opposed to 23 per cent in 1967. Steps were taken to increase real fiscal income and to cut back current expenditure while direct subsidies to consumption and to public enterprises in deficit were not reinstituted. The results obtained indicate that the cash deficit was less than had been anticipated and that income from taxation was greater than expected. The main fiscal measures adopted included the establishment of committees on income and expenditure within the Ministry of Finance, a reduction in the exchange withholdings in respect of traditional exports and a decision not to use the official bank credit of 3,000 million pesos provided for in the monetary budget.

Owing to the sharp upward turn in prices during the first half of 1968, a decree was adopted under the provisions authorizing immediate measures to safeguard the economy, which froze wages and prices at current levels.

In the public sector there was a trend to eliminate subsidies to public enterprises and to restrict wage increases in line with the funds available in the public treasury. In the private sector, wages began to rise after 1 December 1968 in accordance with a scale based on the date of the most recent wage increase received. For example, persons whose wages were increased in January, February and March 1968 received

increases of 25, 12 and 6 per cent respectively. At the same time a bill was submitted to Congress proposing the establishment of a commission on productivity, prices and income, and became law in mid-December 1968.

THE EXTERNAL SECTOR

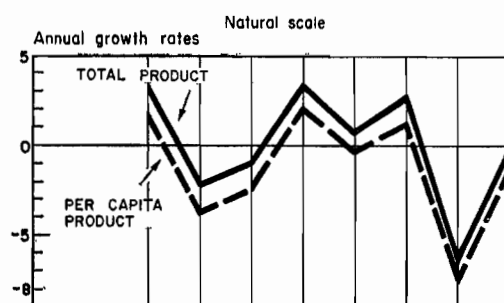
Preliminary estimates of the balance of payments show an increase of 10 per cent in the current value of exports of goods and services and a decline of nearly 4 per cent in that of imports (see table 158 and figure XXV).

The increase in exports was attributable to a rise in meat and wool exports based on an expansion in volume since foreign market prices fell.

As a result of these movements in exports and

Figure XXV. Uruguay: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR

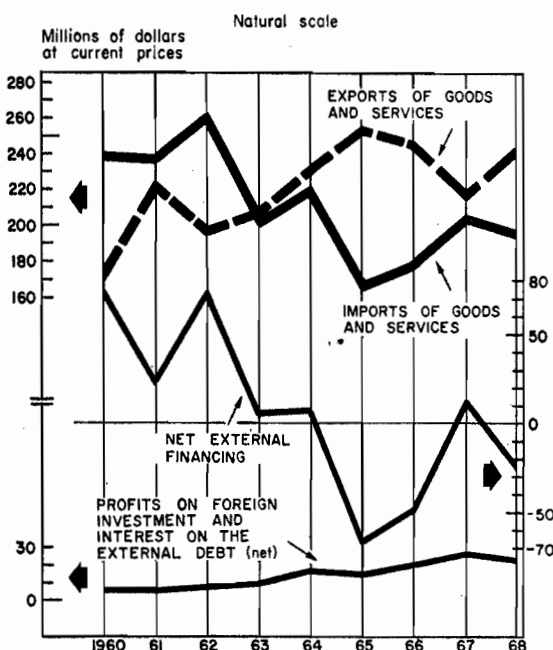


Table 158. Uruguay: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	171.2	252.5	248.0	217.7	240.2
Goods	129.4	196.3	190.3	158.7	179.2
Services	41.8	56.2	57.7	59.0	61.0
Imports of goods and services	239.8	168.3	179.2	203.4	195.5
Goods, f.o.b.	187.9	123.1	132.2	147.6	145.6
Services	51.9	45.2	47.0	55.8	49.9
Net investment income	-6.6	-15.4	-19.2	-25.8	-22.5
Net private transfer payments	-0.3	-0.6	0.0	+0.6	+0.1
Balance on current account	-75.5	+68.2	+49.6	-10.9	+22.2
Capital account					
Net external financing	+75.5	-68.2	-49.6	+10.9	-22.2
Net non-compensatory foreign capital	+25.7	-1.5	+9.1	+19.2	
Direct investment	+5.8	...	...	...
Non-compensatory loans	+6.4	-12.3	+1.2	+8.5	
Short-term liabilities	+12.4	+7.0	-1.8	-0.7	
Official transfer payments	+1.1	+3.8	+9.7	+11.4	
Net non-compensatory domestic capital or assets	+10.4	-0.5	-1.3	+10.8	
Errors and omissions	+11.5	-80.4	-37.8	+2.3	
Compensatory movements (increase —)	+27.9	+14.2	-19.6	-21.4	
Net compensatory foreign capital	+27.9	+10.5	-12.5	-31.9	
Balance-of-payments loans and deferred import payments	—	+58.0	-12.0	-25.6	
Other liabilities of the monetary authorities	+31.6	-47.5	+0.5	+2.7	
IMF position	-3.7	—	-1.0	-9.0	
Movements of gold and foreign exchange (increase —)	—	+3.7	-7.1	+10.5	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 19; 1968: ECLA estimates.

imports there was a surplus of 22 million dollars on current account, which made a decisive contribution to the improvement of the Central Bank's net monetary position.

Venezuela

GENERAL FEATURES

In 1968, the Venezuelan economy maintained a relatively high growth rate of 5.5 per cent, compared with 6 per cent in the previous year, despite its flagging export trade. Contributory factors were the steady expansion in agricultural and industrial production, and the increase in construction activities and in the provision of energy and other services, which offset the reduced tempo of growth in the petroleum industry compared with the rate in 1967 (see table 159).

Economic trends in 1968 were also distinguished by the advances made in the programmes for the agricultural infrastructure, the continuation or initiation of investment in the petroleum sector, including the construction of a desulphurizing plant, and an appreciable rise in public expenditure, for which special revenue had to be sought. The stability of domestic prices was maintained, and the rise in the cost of

Table 159. Venezuela: annual growth rate of the gross domestic product by sector of economic activity, 1960-66, to 1967 and 1968

(Percentages)			
Sector	1960-66	1967 ^a	1968 ^b
Agriculture	5.7	6.8	6.0
Mining	2.5	4.6	1.6
Manufacturing	8.2	6.7	6.5
Construction	5.0	3.2	10.0
Goods	4.6	5.4	4.3
Electricity, gas and water	12.1	10.3	12.0
Transport and communications	6.6	6.0	5.4
Basic services	8.2	7.4	7.6
Commerce and finance	5.5	7.2	5.6
Government	4.1	6.0	6.0
Miscellaneous services	5.5	6.2	7.1
Other services	5.2	6.4	6.4
Growth rate of the total product	5.1	6.0	5.5

SOURCE: ECLA, on the basis of figures supplied by the Central Office for Planning and Co-ordination (CORDIPLAN).

^a Provisional figures.

^b Preliminary estimates.

living in the metropolitan area of Caracas was only 1 per cent over the 1967 average, i.e., slightly less than the annual average rate of 1.2 per cent recorded for 1962-67.

MAJOR SECTORS OF ECONOMIC ACTIVITY

Agricultural production increased by 6 per

cent, at a similar rate to that of the previous year. Its sustained growth reflects the efforts that have been made to improve the sector's institutional framework and strengthen its infrastructure. The National Agrarian Institute (Instituto Agrario Nacional), the body mainly responsible for land reform, continued to implement programmes under which 3.8 million hectares were handed over to 145,000 families between 1959 and 1967, and 924 million bolívars invested. The Venezuelan Guayana Corporation (Corporación Venezolana de Guayana) has provided flood protection for about 900,000 hectares in the Orinoco delta, 300,000 of which are suitable arable and grazing land. Other agricultural projects under way include the CORPOANDES project for the high western plateau, which covers 3.5 million hectares of land on the eastern flank of the Andes and part of the plains, and the irrigation plan for the Medio Yacuy, under the auspices of the development agency for that area (Fundación para el Desarrollo de la Región Centro occidental—FUDECO), which ranges from the preparation of background studies to the resettlement of labour and the marketing of the products.

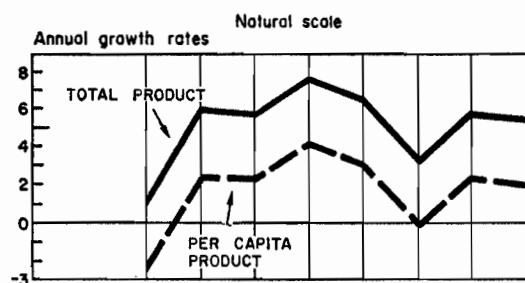
The petroleum industry has experienced some changes of fortune in recent years owing to to fluctuations in international demand rather than to internal production possibilities. An absolute fall of 3 per cent in 1966 was followed by a 5 per cent increase in the following year as a result of supply difficulties on the world market caused by the hostilities in the Middle East. Once this extra incentive was removed, the rate of growth fell back to 2 per cent in 1968. Other milestones in its recent development have been the discovery of a new oil field in the Mata Auma area on the eastern seaboard, the entry into production of the additions to the refinery of the Venezuelan Petroleum Corporation (Corporación Venezolana de Petróleo) whose capacity has expanded from 2,300 to 16,000 barrels a day, and the start of work on the construction of a gas pipeline 240 kilometres long with a capacity of 150,000 cubic feet a day and of a desulphurizing plant at a cost of 528 million bolívars, to be finished in two years' time.

Industry continued to expand at a rate of 6.5 per cent, thereby maintaining the upward trend of the last two years although less strongly than in 1960-65, when the rate was about 9.5 per cent annually. Some branches were particularly dynamic; for instance, during the first nine months of the year 656,000 tons of steel were produced, or 36 per cent more than during the same period in 1967. The motor-vehicle industry used a bigger proportion of domestically manufactured

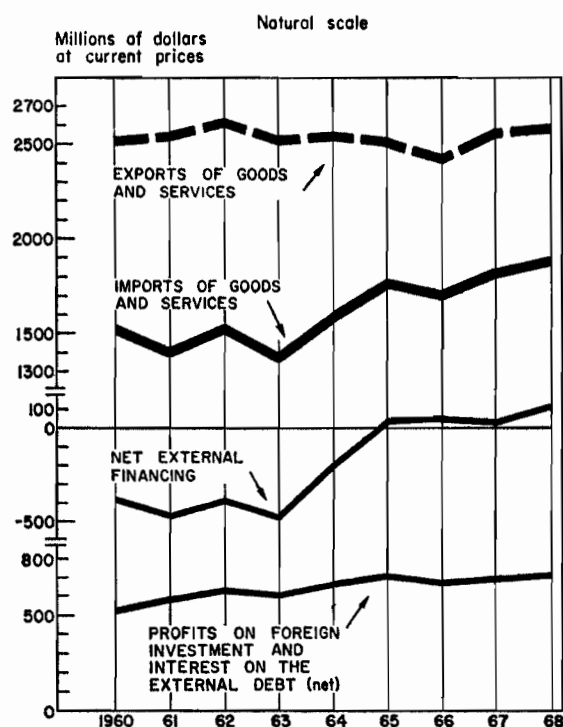
parts, which was fixed at 36 per cent for the first six months and 38.5 per cent for the second. Major projects launched during the year include the start of work on the El Tablazo petrochemical complex in the state of Zulia at an initial capital cost of 600 to 700 million bolívars. This complex will consist of two parts: one is to be the property of the Government and will process basic products (ethylene, propylene, chlorine and soda) and provide water, steam and port services, while the other, which will be managed by mixed enterprises, will produce urea, ammonia, polyethylene, synthetic rubber, vinyl and polyvinyl chloride, benzene, toluene, xylene and derivatives.

Figure XXVI. Venezuela: 1960-68

(a) RATE OF GROWTH OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCT



(b) EVOLUTION OF THE EXTERNAL SECTOR



The electric energy supply increased considerably in the course of the year. In addition, the first unit of the hydroelectric Guri power station, with a generating capacity of 175,000 kW, was put into operation.

FISCAL SITUATION

According to the data available for the first ten months of the year, fiscal activity in 1968 was notable for a much greater increase in current outgoings than in revenue. The former were 9.2 per cent higher than over the same period in 1967, while the latter increased by 4.8 per cent. The surplus on current account was thus converted into a deficit, which was met by a bigger influx of special revenue than in the year before, obtained largely by issuing about 500 million bolívares' worth of government bonds.

It is estimated that rather more than two thirds of the Central Government's current income must have come from the petroleum and mining sector in 1968. In the interests of future policy, the nature of public financing is expected to change considerably, since, if the tax base continues to grow less rapidly than the economy as a whole, income tax will have to provide a larger share of public revenue.¹⁵

COMPOSITION OF TOTAL DEMAND

Owing to the growth of imports and stagnation of exports, the supply of goods and services for the domestic market increased more than the total gross product (see table 160). This

¹⁵ See the report of the CIAP subcommittee for Venezuela (August 1968). It is estimated in this report that the petroleum and mining sector will provide just over 57 per cent of the Central Government's current revenue in 1973 and that the share of income tax will go up from 14.5 to approximately 23 per cent.

increase was equally favourable for consumption and for investment. The former expanded by 6.8 per cent, with the major portion contributed by private rather than general government consumption (7 as against 5.9 per cent). Fixed investment, which used to be a great deal more sluggish made fairly good progress. Construction was particularly dynamic, far outstripping the growth of investment in machinery and equipment.

THE EXTERNAL SECTOR

The outstanding factor in the external transactions of the Venezuelan economy in 1968 was the stagnation of exports (see table 161). This was, to some extent, symptomatic of the inelasticity of world demand for Venezuelan petroleum. As petroleum prices were virtually the same as in the previous year, both the quantum and the current value of exports remained static.

Although the latest figures for exports of goods and services denote an improvement over 1966 levels, their order of magnitude is much the same as in 1960. This means that the relative importance of the external sector for Venezuela has declined over the nineteen-sixties as a whole, and, with it, its power as a mainspring of internal growth.

Imports of goods and services again rose somewhat, and payments abroad under the head of external factor income and other remittances also went up, thus increasing the imbalance on current account. The inflow of capital was smaller than in 1967, but even so there was a surplus on the balance of payments of about 40 million dollars, which, as in 1967, helped to improve the net position of the monetary authorities.

Table 160. Venezuela: total supply and demand, 1960 and 1966-68

	Millions of dollars at 1960 prices				Annual growth rates (percentages)		
	1960	1966	1967	1968*	1960-66	1967	1968
Total supply	30,502	39,579	41,925	44,071	4.4	5.9	5.1
Gross domestic product	25,620	34,450	36,521	38,525	5.1	6.0	5.5
Imports of goods and services	4,882	5,129	5,404	5,546	0.8	5.4	2.6
Total demand	30,502	39,579	41,925	44,071	4.4	5.9	5.1
Exports of goods and services	8,096	9,374	9,934	9,950	2.5	6.0	0.2
Total investment	4,510	6,064	6,385	6,782	5.1	5.3	6.2
Fixed investment	4,607	5,780	5,932	6,382	3.9	2.6	7.6
Machinery and equipment	1,520	2,415	2,348	2,440	8.0	-2.8	3.9
Construction	3,087	3,365	3,584	3,942	1.5	6.5	10.0
Total consumption	17,896	24,141	25,606	27,339	5.1	6.1	6.8
General government	3,544	4,946	5,222	5,530	5.7	5.6	5.9
Private	14,352	19,195	20,384	21,809	5.0	6.2	7.0

SOURCES: ECLA, on the basis of data from the Central Bank of Venezuela, *Cuentas Nacionales* and CORDIPLAN.

* Preliminary estimates.

Table 161. Venezuela: balance of payments, 1960 and 1965-68
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<i>Current account</i>					
Exports of goods and services	2,509.2	2,532.0	2,441.0	2,582.0	2,586.0
Goods, f.o.b.	2,383.9	2,436.0	2,342.0	2,462.0	2,462.0
Services	125.3	96.0	99.0	120.0	124.0
Imports of goods and services	1,505.0	1,764.0	1,715.0	1,814.0	1,867.0
Goods	1,145.4	1,341.0	1,297.0	1,337.0	1,372.0
Services	359.6	423.0	418.0	477.0	495.0
Net investment income	-522.0	-706.0	-682.0	-695.0	-709.0
Net private transfer payments	-87.6	-91.0	-89.0	-105.0	-111.0
Balance on current account	+394.6	-29.0	-45.0	-32.0	-101.0
<i>Capital account</i>					
Net external financing	-394.6	+29.0	+45.0	+32.0	+101.0
Net compensatory foreign capital	-333.2	+134.0	+201.0	+178.0	+144.0
Direct investment	-126.0	+3.0	+75.0	+78.0	
Non-compensatory loans	-195.3	+86.0	+85.0	+83.0	
Short-term liabilities	-12.0	+46.0	+40.0	+21.0	
Official transfer payments	+0.1	-1.0	+1.0	-4.0	
Net non-compensatory domestic capital or assets	-18.1	-52.0	-110.0	-63.0	-43.0
Errors and omissions	-353.9	-59.0	-68.0	+31.0	
Compensatory movements (increase —)	+310.6	+6.0	+22.0	-114.0	
Net compensatory foreign capital	+161.7	+17.0	-70.0	-28.0	
Balance-of-payments loans and deferred import payments	+200.6	-15.0	-15.0	-15.0	
Other liabilities of the monetary authorities	-5.1	+32.0	-30.0	-3.0	
IMF position	-33.8	—	-25.0	-10.0	
Movements of gold and foreign exchange (increase —)	+148.9	-11.0	+92.0	-86.0	

SOURCE: Up to 1967: IMF, *Balance of Payments Yearbook*, vols. 17 and 20; 1968: ECLA estimates.