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# CEPAL

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## REVIEW



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# CEPAL Review

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# Participation in the context of the world economy

## Norberto González

### 1. Developing countries: a limited participation

The participation of the countries of the third world, in particular the Latin American countries, in the basic decisions of the world economy is very limited. This is clearly seen if consideration is given to the way in which some of the recent major changes in the international economic system have been negotiated and put into practice. The following are a few examples.

The international exchange system created at Bretton Woods was modified *de facto* in accordance with decisions adopted by the developed countries, with little or no participation of the developing countries. As is known, the changes began in August 1971 with the decision of the United States Government officially to suspend the convertibility of the dollar into gold. At the end of that same year the financial authorities of 11 industrialized countries, meeting at the Smithsonian Institution, modified the exchange rates for their currencies, devaluing some in relative terms and revaluing others. It proved impossible to maintain that agreement and the result was a variety of exchange systems created by decisions of the major industrialized countries. The developing countries had no alternative but to link their currencies with that of some industrial country with which they had important economic relations, often with adverse effects on the stability of their balances of payments. This *de facto* situation was legalized with the amendments to the Articles of Agreement of the International Monetary Fund approved at the Jamaica Meeting.

The developing countries' voting powers in the International Monetary Fund are very limited.<sup>1</sup> The decisions of the Jamaica Meeting and other measures adopted by the International Monetary Fund in recent years created additional resources totalling nearly 64 billion dollars, only 10% of which are earmarked for the

non-oil-exporting developing countries, despite the fact that they account for 22% of the total contributions to the Fund and generate at least 15% of the total national product of its members.<sup>2</sup>

In trade, an illustrative example is the result of the developed countries' decisions concerning the protection of sectors of industry which are gradually losing their competitiveness in the north and for which the south shows a distinct export aptitude and vocation: footwear, leather manufactures, textiles, electronic equipment, steel, canned fish, sugar, soya, zinc, copper and natural flowers. In some cases there was an increase in tariff and non-tariff barriers, which were already higher, on average, for these sectors than for others which constitute the primary items of trade among the industrialized countries. In other cases the developing countries were faced with the option of accepting the reductions in the growth rate of their exports suggested by the industrialized countries or seeing the barriers to these goods increase. The frequency and extent of these cases are in practice creating a system whereby the rules governing international trade in sectors of interest to the south are being defined on a bilateral instead of a multilateral basis in response to initiatives of industrialized countries.

In the multilateral trade negotiations of GATT which take place in Geneva, the agreements in particular on the five proposed codes of conduct adopted in mid-July by the developed countries, without the participation of the developing countries, will probably determine the rules of the game for the developed countries and constitute the basis for the decisions to be adopted at the end of the negotiations. If this should happen, the industrial world's decisions would to a great extent be sanctioned, while the interests and needs of the third world would not be given proper consideration.

These examples contrast with the small progress made in negotiations in which the decision-making powers were more evenly divided between the north and the south. The meagre results of the Paris Conference and the UNCTAD and IMF-IBRD Development Committee sessions are eloquent examples.

<sup>1</sup>At the Jamaica Meeting the Interim Committee increased the voting powers of the oil-exporting countries in the International Monetary Fund from 5 to 10% of the total, but did not change the limited voting powers of the rest of the developing countries.

<sup>2</sup>Carlos Massad, "The revolt of the bankers in the international economy: a world without a monetary system", *CEPAL Review*, Santiago, Chile, second half of 1976.

## II. *Factors helping to explain this situation*

The different participation of the north and the south in international economic decisions reflects the gap in economic and social power existing between the two, which in its turn is related to the considerable —and in some cases increasing— difference in their stages of development.

The relations between the two groups of countries are of a notably asymmetrical nature.

(a) In the cultural field the modernization of many developing countries is usually associated with the imitation by their high-income strata of the consumption patterns in industrialized countries, even though these strata are integrated in economies which are still at a primitive or intermediate stage of development.

(b) As regards technology, creativeness is virtually confined to the north, with the sole exception of incipient efforts at adaptation made in countries of the south which do nothing to change the essence of the situation.

(c) In the trade area there is marked asymmetry in the comparative structure of the south's exports and imports. Raw materials and a small proportion of goods produced by traditional industries are exported, but the actual demand for all these goods is by no means dynamic; scarcely any goods manufactured with more advanced technology are sold. On the other hand, capital and intermediate goods which involve more complex technology and for which there is more dynamic demand are imported from developed countries. This pattern of intersectoral specialization in the south contrasts with the intra-sectoral pattern of the countries in the north; through the latter the industrialized economies exchange goods of similar sectors, thus harmonizing specialization with a diversified structure of exports and imports.

The basic ideas regulating international trade and the machinery created on the basis of those ideas since the Second World War help to maintain the gap between developed and developing countries. The neoclassic conception of comparative advantages —particularly in its most static version— applied without modification to international trade is not conducive to an equitable distribution of the benefits of such trade among the countries. The requirement of reciprocity as a basic principle in trade relations hides the injustice and damage to efficiency resulting from the application of formally equal treatment to countries which are at different stages of development and therefore have different needs and means of action.

The essentially oligopolistic structure of the international markets for many goods and services, where free competition without restrictions is the exception rather than the rule, is an important cause of differences in the distribution of decision-making powers and the fruits of trade.

Mention should also be made of the tendency towards the conclusion of special economic arrangements between some developed and some developing countries as a factor of considerable future influence. A case of particular importance for Latin America involves the agreements concluded between the European Economic Community and a large group of over 70 developing or semi-industrialized countries (signatories of the Lomé Convention, mediterranean agreements, etc.). Although it is still too early to judge the potential effects of the establishment of this huge economic area with interlinked interests, the increasingly close co-ordination of decisions among these countries with very different economic and political power is easily discernible; it is not out of place, therefore, to harbour some concern regarding the effect on multilateralism and on the unity of the third world.

Moreover, this is not the only factor affecting the cohesion of the developing countries, a cohesion which was fairly effective during the first stage of their inclusion in the international dialogue, as borne out by the early years of negotiation in UNCTAD. Subsequently, however, their unity began to encounter increasing problems as the more general aspects gave place to specific questions, or to the negotiation or particular issues. This also contributed to the growing differentiation among the developing countries, as some of them progressed towards more advanced stages of economic and particularly industrial development.

The difficulties in achieving a closer cohesion of the south in specific respects contrast with two facts. First, the interest of various developing countries in areas such as basic commodities or manufactures and international public or private financing may vary in degree according to the characteristics and stage of development of the individual countries; but such differences in degree do nothing to alter the basic fact that all the developing countries are interested in each of these subjects, and that it is not too difficult to visualize packages of international co-operation measures which would give due consideration to their interests; in other words, the common denominators are undoubtedly very important within the third world. Se-

condly, although no individual cases are referred to, it seems clear that each of the countries of the south acting on its own carries too little economic and political weight *vis-à-vis* the great decision-making units of the north to be able to negotiate on an equal footing, particularly as the developed countries, despite their differences, agree among themselves on many basic issues. While not ignoring the practical difficulties of achieving agreement among over 100 developing countries, the net balance of advantages that might be obtained through more effective co-operation is a very strong reason why it is worthwhile making greater efforts than ever in that direction.

Another factor which should be taken into account is the significance of the emergence of transnational corporations as an influential new agent in the world economy. It is not only a question of the enormous size of these corporations, whose level of operations frequently exceeds the total gross product of many developing countries; of decisive importance too is their control of technology and its creation, their considerable powers of penetration in international markets for goods, their great organizing capacity and their unequalled mobility. These advantages give them strong bargaining powers *vis-à-vis* the developing countries. Another question is the effect of the changes that have actually taken place in the last few years whereby the great transnational banks have come to play a decisive role in the channelling of funds, including those of the oil-exporting countries. The policy of these banks in international financing operations is subject to little government control, even in the developed countries. There is also a notable lack of processes, machinery or rules for making the distribution of short-term public and private credit fairer and more rational.

### *III. Necessity and possibility of greater participation by Latin America and the third world in international decisions*

The world economic system is undergoing drastic changes in the monetary, financial and trade fields. A set of basic rules which will govern world trade in the next few decades is being devised. Not to participate effectively and intensively in these decisions means having to accept the resulting system even if it were detrimental to the interests of Latin America and the whole developing world.

The economic structure of Latin America is also changing (it is becoming a manufactures-

exporting region, with several countries attaining the level of semi-industrialized economies and ceasing to be under-developed countries in the traditional sense). Latin America needs to participate in international decisions so that it may devise its new role in the world economy, its new division of labour with the developed countries, and the new forms and modes of operation with enterprises and countries of the north. The present limited participation greatly impedes its assumption of this new role.

Not unrelated to the problem of participation by the countries of the third world is their need to maintain and consolidate their national identity and their own cultural values, which tend to be displaced by the undeniable cultural, political and economic influence they receive from the north.

But the need is not enough; an adequate basis is an indispensable requisite. Without exaggeration, some factors may be singled out as conferring on the region a considerable potential bargaining capacity and amply justifying its fuller participation in decisions. Some of these factors are examined below.

1. Large internal market. There is now a very large market for many manufactured goods in the south; the present actual demand of the middle income strata for durable and non-durable consumer goods and capital goods is considerable. The potential market of the developing world is much greater still if account is taken of the sectors currently excluded from the market, but in which they will gradually be included in the next few decades. The market of the north tends to become saturated in the case of many goods. Thus, for large-scale industries the market in the south is becoming increasingly important compared with that of the north. This is significant not only for the exports of industrialized countries to developing countries, but also for transnational corporations of the former which are more and more interested in producing in the latter for their domestic markets. This is reflected, *inter alia*, in the growing competition among transnational corporations of the United States, Europe and Japan to gain a foothold in the developing countries' markets; actuated by this competition, such corporations are more and more willing to accept conditions more favourable to the interests of the south than those traditionally in force. Some significant signs of this are the recent cases in which transnational corporations have agreed to split up the private investment package (transferring technology without necessarily being owners of the investment); to export manufactured

products (including metal manufactures and machinery) from a developing country, instead of producing only for the country's domestic market as they traditionally did; to enter into an association with national public or private capital and even hold a minority share of the capital of joint enterprises. Whenever the developing countries have exercised their bargaining powers firmly, prudently and intelligently, the corporations' reactions have generally been flexible.

2. Availability of natural and particularly non-renewable resources. For some years, especially since the increase in oil prices, there has been growing concern in the north regarding the need to ensure a regular supply of raw materials. This partly explains why, in those situations where developing countries have used the bargaining powers afforded them by the availability of mining resources, governments and enterprises in the north have tended to accept new modes of action: further processing of these products in the countries of origin, sale of technology independently of ownership of the mine. These are only incipient trends but they indicate the path to follow in order to achieve progress.

3. Latin America, as a developing region, is attaining a degree of industrial maturity which enables it to undertake more advanced activities than in the past. The countries of the region are in a position to produce manufactures, even some with fairly advanced technology, on a competitive base, as so eloquently borne out by the defensive attitude of the countries of the north which is reflected in greater protectionism. Far from being an impracticable aim, the region's hopes of playing a new role *vis-à-vis* the industrialized nations have a sound economic foundation.

4. Economic co-operation and integration among third world countries, at present in a very incipient stage, can be an important instrument in promoting their development, strengthening their national enterprises and also helping to achieve fuller participation in the decisions of the world economy. Such co-operation and integration are progressing in real terms, if measured by the increase in the share of inter-Latin American trade in the total, a significant increase recorded in spite of the institutional difficulties affecting integration.

#### IV. *External participation as a factor contributing towards fuller internal participation*

External and internal participation are not mutually excluding alternatives; indeed, they are both necessary and support each other. The developing countries' lack of external participation in world economic decisions is no excuse for there not being greater internal participation; the lack of sufficient internal participation by various social groups in the developing countries is no excuse for the north to preclude the south from the possibility of having more say in international decisions.

At the internal level, serious problems of marginality, unemployment and critical poverty persist. Unless these problems are solved, the marginal sectors cannot have any real influence; participation in the production system goes hand in hand with political participation and the social situation. The solution of these problems of unemployment and poverty is hampered by the style of development prevailing in many Latin American countries, linked with the developed countries' barriers to the developing countries' imports.

This style, based on the consumption of a small high-income population group which imitates the consumption of developed countries, leads to substantial imports, favours the use of technology offering little employment to the labour force, and frequently results in the production of goods with very insufficient dynamic effects on the rest of the economy.

In addition to the development style and other political and social determinants, the achievement of greater internal participation also depends on the attainment of a sufficiently rapid economic growth rate to permit the productive absorption of manpower and higher income and consumption levels for the present marginal strata. In its turn, a faster economic growth rate requires the fuller and more active participation of these countries in the world economy and in the fundamental decisions on monetary, financing and trade matters.

For the south to achieve a fuller effective participation in decisions concerning the world economy requires, *inter alia*, greater economic co-operation and cohesion among these countries in international negotiations; fuller exercise by the south of the bargaining power afforded by its market and natural resources, a bargaining power which would be even stronger

if it were exercised jointly, not separately by each country. Participation at the international level should be reflected in the possibility that

the developing world may really have some influence in the design of a New International Economic Order that will consider its interests.

## Four views of the new international economic order\*

*Luciano Tomassini*

1. In 1974 the United Nations General Assembly, at its sixth special session, adopted a Declaration and Programme of Action on the Establishment of a New International Economic Order. For some, this event marks a radical change in the evolution of centre-periphery relations. For others, it is merely the latest version of certain ideas that had been fermenting over the past 20 years and first found systematic expression at a world level at the first session of UNCTAD in 1964, but had long been taking shape in CEPAL, which integrated them in the report presented at the meeting of the Inter-American Economic and Social Council held at Quitandinha in 1954 and distributed at the time to its member governments. Whatever the correct interpretation in this respect, there can be little doubt that as far as north-south relations are concerned the period beginning with the rise in oil prices determined by OPEC in 1973 and ending with the conclusion of the Conference on International Economic Co-operation which took place in Paris up to 1977 was as rich in progress as it was in frustration. Among the most significant achievements during that five-year period is the increased bargaining power of the developing countries as a whole; the industrialized countries' acceptance, particularly at the seventh special session of the General Assembly, of the need to

introduce drastic changes in their economic relations with the periphery nations; and the more far-reaching and interrelated measures included in the Programme on the New International Economic Order compared with the approaches made in the past by the Group of 77. There is little doubt, however, regarding the modest results obtained at the close of the fourth UNCTAD session and the Paris Dialogue. The time seems to have come, therefore, to make a retrospective appraisal of events during the last five years within the context of north-south relations in order to discover the causes of the stagnation of the respective negotiations and identify the best procedures for reopening those negotiations on a solid basis. It is not surprising, therefore, that CEPAL has been actively concerned with these subjects during the first half of 1978.

2. One of the factors which may best help to explain the fact that the north-south dialogue has yielded such poor results lies in the conceptual confusion which seems to prevail in the discussions. The more conferences, forums and proposals there are to promote the cause of the New International Economic Order, the clearer it is becoming that the greatest confusion reigns in this matter. Specific proposals put forward from every angle may, according to the case in point, be regarded as supplementary, optional, conflicting or simply unrelated. On the other hand, the alternative large-scale models of a world economic order on which those measures should be based have not been made sufficiently explicit. As distinct from what occurred at least during the past 200 years in the political, economic and social evolution of the national States—which can be explained only in the light of the struggle between alternative social philosophies embodied in political parties or in great currents of opinion—the broad concepts underlying the approaches which are formu-

\*These comments are based on the internal discussion in CEPAL of the main problems connected with the New International Economic Order during the first half of 1978, and particularly on some specific events or studies such as the cycle of round-table meetings organized with the participation of Professors Carlos Diaz-Alejandro, Albert Fishlow, Abraham Lowenthal and Dudley Seers, on the occasion of the Seminar on International Economy and Developing Countries organized by the Economic Research Corporation for Latin America (CIEPLAN), the Seminar on Basic Needs and a New International Economic Order held jointly by the World Bank and CEPAL, and some follow-up activities related to the work of the Brandt Commission. The choice and treatment of the topics is the exclusive responsibility of the author.