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The production structure and the dynamics of development

*Gérard Fichet and Norberto González **

The authors criticize the fallacious concept of an antinomy between import substitution policies and policies to promote the export of manufactures. To regard these as mutually exclusive alternatives poses options geared only to part of the problem, and incapable of providing an adequate answer to development needs. Substitution without exports, carried out within the narrow framework of each national market, leads to inefficiency and high costs. The export of manufactures without substitution maintains the current backwardness in the production of capital goods and essential intermediate goods which is a bar to less dependent and more rapid development and helps to account for Latin America's present unsatisfactory position in the world economy. The authors show that, in developed economies, the larger the market, the farther industrial development can be taken without any loss of efficiency. In the light of this object lesson, they suggest that if import substitution policies and policies for the export of manufactures were combined through co-operation between the countries of the region, Latin America would attain a better position in the international economy and a much higher level of development.

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Introduction¹

Most of the Latin American countries are faced with controversy on the development strategy which should be followed, and are discussing, among other fundamental aspects, the role that should be played in it by import substitution policies and policies to promote the export of manufactures.

This paper sets out to show that the time has come to consider such policies as complementary elements of a development strategy for Latin America. The common fallacy that the two policies are in opposition is the result of a mistaken over-simplification and only confuses the search for appropriate solutions.

This confusion has above all militated against Latin American co-operation in the industrial and commercial spheres. Import substitution is often erroneously regarded as a policy which can only be applied in the limited context of each national market. Nor has the export of manufactures, mainly from the economically largest countries of the region, been carried out with sufficient attention to the important role that Latin American trade can play as an instrument for securing these countries a better foothold in the world economy. There is, in consequence, a tendency to assume that it is possible to pass directly from the historical stage of highly-protected national industrialization to the conquest of international markets, envisaging the Latin American market merely as part of the world market,

¹ The authors are grateful to Juan Ayza for his assistance in carrying out the analysis of the relationship between the development potential of the more dynamic industrial sectors and the dimensions of national demand, which occupies an important place in the central argument of this article.

without assigning an important role to co-operation between the Latin American countries, and thus disregarding the possibilities of import substitution at the level of the regional market.

These erroneous concepts acquire particular significance in the context of the period of difficulties and radical change through which both the world economy and that of Latin America are now passing. Latin America, without losing its identity as a member of the developing world, is becoming more and more individualized as a region whose characteristics, problems and potentialities distinguish it from the rest of the Third World. Because of its higher per capita income it has been increasingly excluded from the international mechanisms of financial co-operation. Its degree of industrial development, which is on an average higher than that of the countries of Africa and Asia, allows it to assign a more prominent role to the manufacturing sector in both the growth of exports and the solution of the domestic problems of absorbing labour and overcoming mass poverty, without detracting from the continuing importance of exports of primary commodities and simple manufactures. Many Latin American countries are already exporting significant quantities not only of simple manufactures but also of capital goods and other products entailing a fairly advanced technology, manufactured by the metal-transforming industries. It is clearly essential to define a new role for Latin America and a new mode of incorporation of the Latin American countries in world trade and industry.

As will be shown later, regional co-operation² must play a primary role in securing this new position and in the achievement of a satisfactory balance between import substitution and the conquest of external markets.

The following section analyses the relation which exists, for the industries producing capital and intermediate goods, between the size of the domestic market and the possibilities of increasing production and trade in the countries of the Organisation for Economic Co-operation and Development (OECD), which have competitive economies. It will be appreciated that if competitive conditions in Latin America were similar to those of the OECD economies, the opportunity of operating in a market of regional size would considerably broaden the possibilities of change in the structure of domestic production and of trade; this is true even of the more developed and larger countries of Latin America.

Sections 2 and 3 set forth some strategy options and study the prospects for Latin American development on the assumption that it will continue to be based entirely on the domestic market and the isolated effort of each country to conquer external markets; it will be seen that these prospects are decidedly restricted, since in such conditions only very limited changes in the production and trade structures would be feasible.

Section 4 briefly analyses a hypothesis of co-operation based on the promotion of the metal-transforming and chemical industries and of regional trade in their output. The results could be very significant, since such a course would not only appreciably speed up the

²The hypotheses presented here are merely illustrative and refer to a group of countries comprising Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela; since only limited statistical information was available on the other countries of Latin America they were not included in these hypotheses, but co-operation should of course extend to the whole of the region.

rate of development, but would also help to overcome the chronic backwardness of these sectors, inasmuch as conditions of international competition would prevail and their exports to the rest of

the world might expand considerably.

Lastly, some of the instruments which could serve to implement regional co-operation strategy are outlined in brief.

1.

Latin America's role in world trade and industry: past and present

The foreign trade and industrial production structures of Latin America show serious deficiencies in comparison with those of the industrially advanced countries, as is evidenced both in trends over the last twenty-five years and in the current situation.

(a) *Trends over the last 25 years*

An analysis of trends in the external sector and in industry reveals some characteristics which will have marked repercussions on the future economic development of the region.

The import substitution process has been very intensive over the last 25 years, particularly towards the mid-1960s, and since then there has been an unprecedented expansion of exports, and a parallel increase in imports. It should however be pointed out that:

(i) Import substitution is making very unequal progress; not only are some countries more backward than others in this respect, but even in those that are more advanced some industrial sectors of great strategic importance for development (intermediate and capital goods) are lagging behind, and still show quite high import coefficients;

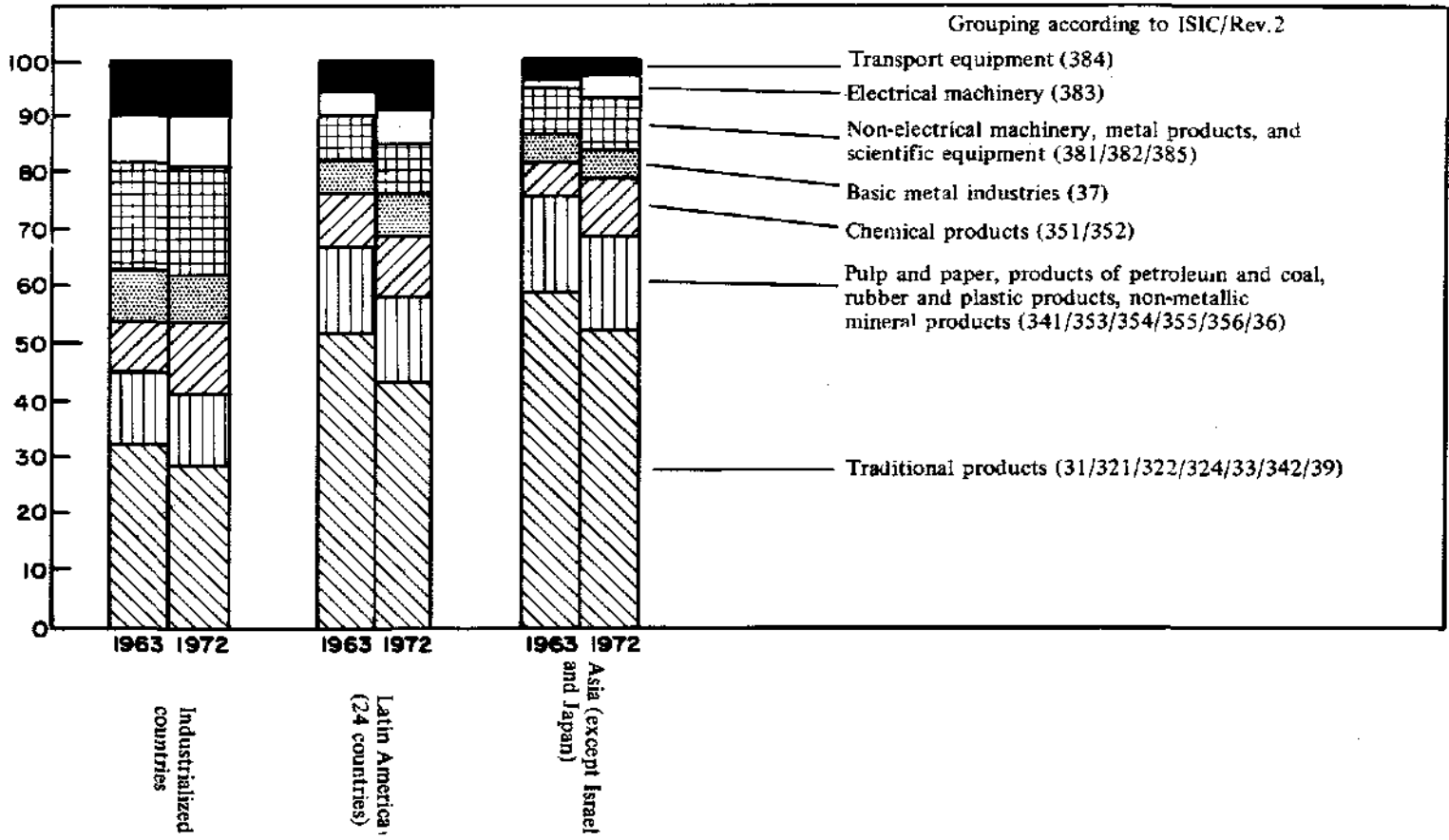
(ii) The growth rate of Latin American imports, which up to 1964 was only 0.4 times that of the product, is now 1.3

times the latter rate, and in some countries almost twice as high. Among the main causes of this phenomenon it should be particularly noted that as per capita income rises there is a more rapid increase in demand for goods with a higher import content (intermediate goods and production equipment), since the region's technological backwardness and low capacity for innovation make it necessary to import many of the new goods. Secondly, in many countries more and more liberalization of imports has been among the effects of the rapid increase in export values and of access to external financing.

(iii) During the period 1963-1972, in Latin America as a whole the manufacturing sector grew faster than in the industrialized countries, but its production structure still differs greatly from that observable in the latter. (See figure 1.) In the Latin American industrialization process the production of consumer goods has been given priority over that of capital and intermediate goods.

(iv) About half the Latin American population is almost entirely cut off from participating in demand for manufactures, and only a fifth of the total population contributes to creating a market for industry and serves as a basis for its expansion abroad. The low

Figure 1
 STRUCTURE OF INDUSTRIAL PRODUCTION, 1963 AND 1972
 (Percentages)



Source: CEPAL estimates, based on United Nations, *The Growth of World Industry*, 1972 edition, Sales N° E.74. XVIII.4, New York, 1974.

income strata affected by unemployment and under-employment make no contribution to demand. At the other extreme there is a small social sector, with very diversified and refined patterns of consumption, which orients industrialization. The small size of the real markets, attributable to this factor and to the lack of inter-country integration, goes a long way towards accounting for the backwardness of those industrial sectors which are more dynamic and of greater significance for development, such as the producers of capital and intermediate goods; in small markets it is difficult to produce on a competitive scale, and this limits the possibilities of exporting manufactures, a handicap which in turn helps to determine the peculiar nature of the region's present role in the world economy.

(v) Exports of manufactures increased rapidly from 1970 onwards in several countries of the region. However, they still represent only just over a fifth of total exports,³ and consequently afford no certainty of a rapid increase in the total volume of exports. Furthermore, 75 per cent of industrial exports are concentrated in the three economically largest countries. Intra-regional trade is very important, especially in industrial sectors; in 1974 the area absorbed 70 per cent and 46 per cent, respectively, of the products of the metal-transforming industries exported by Argentina and Brazil.

(vi) In recent years the trade-balance deficit has come to be the fundamental hindrance to development. The prices of raw materials, which rose temporarily,

have fallen (with exceptions such as petroleum), and are again showing their usual trends. The growth rate of exports of manufactures has slackened, because of the problems besetting the economies of the industrialized countries. In contrast, because of world inflation import prices are rising, and will continue to do so, at least for a time, and foreign debt servicing is also increasing sharply. Hence it is reasonable to suppose that for the next few years the balance of payments will tend to condition the development of many of the countries of the region.

(b) *Current deficiencies of industrial and trade structures*

The products of the metal-transforming and intermediate industries predominate in Latin American imports. Some 40 per cent of the region's total imports of goods are metal-transforming products, whereas the proportion is much lower in Japan (14 per cent) and in the United States.

The difference is even clearer in the case of exports, for while 45 per cent of the two industrialized countries' total exports of goods consisted of metal-transforming products in 1970, in Latin America the corresponding proportion is now only 6 per cent. The disparity is much more marked in absolute terms: the value of Latin America's exports of these goods (from several countries) was some 2 000 million dollars; that of Japan's, 9 000 million; and that of the United States', 20 000 million. At the same time, a high proportion of Latin American exports consists of primary commodities (45 per cent), while the share of such products in the exports of Japan and the United States is much lower. (See table 1.)

³ CEPAL, *Exports of manufactures in Latin America*, E/CEPAL/L.128, January 1976, shows that sales of traditional manufactures represent almost half of total industrial exports.

In Latin America there is a very marked asymmetry in foreign trade caused by the difference in the relative importance of products of the metal-transforming industry and of primary commodities in total imports and exports; this asymmetry is not found in the developed countries. Furthermore,

the proportions represented by traditional goods in imports and in exports are more similar in the United States than in Latin America. The heavy imbalance observable in Japan's foreign trade in primary commodities is due to its shortage of natural resources.

Table 1
STRUCTURE OF FOREIGN TRADE
(Percentages of total exports and imports)

| Groupings according to ISIC/Rev.1 | Japan (1970) | | United States (1970) | | Latin America (in the mid-1970s) | |
|--------------------------------------|-----------------|---------|-------------------------|---------|-------------------------------------|---------|
| | Exports | Imports | Exports | Imports | Exports ^a | Imports |
| Primary products ^b | 3.7 | 52.3 | 20.8 | 20.4 | 44.8 | 17.1 |
| Traditional industries ^c | 24.3 | 16.7 | 13.0 | 26.7 | 24.6 | 9.1 |
| Intermediate industries ^d | 26.7 | 17.1 | 19.8 | 22.9 | 25.1 | 33.8 |
| Engineering industries ^e | 45.3 | 13.9 | 46.4 | 30.0 | 5.5 | 40.0 |

Source: United Nations, *Yearbook of International Trade Statistics 1972-1973* (Sales No: E.74.XVII.6), and CEPAL estimates for Latin America.

^aIn this table goods which in the UNCTAD classification are correctly considered as primary and semi-manufactured products are included under the traditional and intermediate industries. This explains the difference between the proportion of manufactures to the total according to this table, and that of just over a fifth of the total of manufactures in the strict sense previously mentioned in the text.

^bDivisions 01 to 19 of ISIC/Rev.1.

^cDivisions 20 to 26 and 28, 29 and 39, of ISIC/Rev.1.

^dDivisions 27 and 30 to 34 of ISIC/Rev.1.

^eDivision 35 to 38 of ISIC/Rev.1.

Latin America's manufacturing production is very different in structure from that of Japan or the United States. (See table 2.) In Latin America the relative share of the metal-transforming industry in total production is considerably lower than in the two industrialized countries, as will be seen clearly farther on, when the components of the capital goods sector are studied in more detail. The production of traditional and

intermediate goods predominates in the region.⁴

Thus, in comparison with other countries Latin America is lagging behind in the production of capital goods and basic intermediate goods, and

⁴The industries producing intermediate goods include the basic non-ferrous metal industries, which are very important in Latin America.

this is reflected in the asymmetric structure of its foreign trade.

The metal-transforming products which have a lower percentage share in Latin American production (23.7) and whose relative significance in imports of industrial goods is greatest (48.3 per cent) are precisely those in which the volume of world trade is growing most rapidly: 10.7 per cent a year over the period 1965-1973. In Latin American

exports, however, the predominant products are those in which world trade is growing at a slower rate; during the same period the volume of world exports of agricultural goods increased by only 3.7 per cent yearly.⁵

These shortcomings in the production and trade structures make for a more rapid increase in import requirements than in exports, and thus lead to external bottlenecks.

Table 2
STRUCTURE OF INDUSTRIAL PRODUCTION
(Percentages of total production)

| | Japan (1970) | European Economic Community ^a (1972) | United States (1970) | Latin America (in the mid-1970s) |
|--------------------------------------|-----------------|--|----------------------------|---|
| Traditional industries ^b | 25.6 | 29.0 | 36.6 | 38.5 |
| Intermediate industries ^c | 29.5 | 34.0 | 27.4 | 37.8 |
| Engineering industries ^d | 44.9 | 37.0 | 36.0 | 23.7 |

Source: United Nations, *The Growth of World Industry*, 1972 edition, *op. cit.*, Volume I, "General Industrial Statistics, 1962-1971", and CEPAL estimates for Latin America.

^aComprising nine countries.

^bDivisions 20 to 26, 28, 29 and 39 of ISIC/Rev.1.

^cDivisions 27 and 30 to 34 of ISIC/Rev.1.

^dDivisions 35 to 38 of ISIC/Rev.1.

A more detailed analysis of the absolute participation of the chemical and metal-transforming sectors in total trade reveals that it is in these areas that Latin America is most backward. Table 3 shows that imports of chemical products, non-electrical and electrical machinery and transport equipment amount to 14 400 million dollars (50 per cent of total Latin American imports) and exports to only 4 300 million dollars (12 per cent of the total). In the United States and the European Economic

Community (EEC), on the other hand, the relative share of these goods in imports is lower than in exports (30 and 50 per cent, respectively).

In each of the sectors considered there is a manifest imbalance. The industrialized countries export much more than they import, because they sell

⁵General Agreement on Tariffs and Trade (GATT), *International trade in 1973/1974*, Sales No: GATT/1974-4, Geneva, 1974.

these types of goods to the developing countries, while among themselves they buy and sell products of similar sectors. In Latin America, on the other hand, the asymmetry is very marked and highly unfavourable; the ratio between imports and regional sales of non-electrical machinery is ten to one, and in the case of transport equipment, seven to one.

In recent years the gross value of per capita production in the chemical industries has been only a quarter as

much in Latin America as in France, one-fifth as much as in Japan, one-sixth as much as in West Germany and one-seventh as much as in the United States. In the metal-transforming industries the difference is far greater; in terms of value, the region's per capita production is equivalent to one-third of that of Italy, one-sixth of that of the Netherlands, one-tenth of that of West Germany, the United Kingdom and Japan, and one-thirteenth of Sweden's.

Table 3
IMPORTS AND EXPORTS OF SOME STRATEGIC SECTORS
(Billions of dollars)

| Sector | United States ^a (1970) | | European Economic Community ^{a b} (1972) | | Latin America (in the mid-1970s) ^c | |
|---------------------------------------|--------------------------------------|-------------|--|--------------|---|-------------|
| | Imports | Exports | Imports | Exports | Imports | Exports |
| Chemical products | 1.6 | 4.3 | 12.6 | 16.5 | 4.3 | 2.6 |
| Non-electrical machinery | 3.0 | 8.4 | 15.2 | 24.9 | 5.0 | 0.5 |
| Electrical machinery | 2.3 | 3.0 | 8.1 | 10.9 | 2.1 | 0.8 |
| Transport equipment | 5.9 | 6.5 | 11.4 | 20.1 | 3.0 | 0.4 |
| <i>Sub-total of these sectors</i> | <i>12.8</i> | <i>22.2</i> | <i>47.3</i> | <i>72.4</i> | <i>14.4</i> | <i>4.3</i> |
| Other goods | 27.2 | 21.0 | 106.8 | 81.2 | 14.4 | 26.0 |
| <i>Total goods</i> | <i>40.0</i> | <i>43.2</i> | <i>154.1</i> | <i>153.6</i> | <i>28.8</i> | <i>30.3</i> |

Source: United Nations, *Yearbook of International Trade Statistics, 1972-1973*, *op. cit.*, and CEPAL estimates for Latin America.

^aAt current prices.

^bComprising nine countries.

^cAt 1973 prices.

Since Latin America's total per capita product is smaller than that of the developed countries, it is only to be expected that in each of the sectors the region is lagging behind in comparison. It should however be noted that the

backwardness of the four strategic sectors included in table 3 is much greater than that of the rest of the economy. In table 4 it can be seen that the gap between Latin America's total gross domestic product per capita and

that of the developed countries is substantially less than the difference noted in the previous paragraph for these industrial sectors.

(c) *Relation between market size, specialization and foreign trade in competitive economies*

All that has been said so far is important because, as will be seen below, the smaller the size of a country, the

more it needs to export in order to achieve a scale of industrial production which will enable it to compete in world markets. This leads each country to specialize its exports intra-sectorally and therefore to import from other countries the goods that it cannot manufacture on competitive terms. This can be seen very clearly in the small European countries, where the global ratio of imports to the gross domestic product is high and on the increase and at the same time

Table 4
COMPARISON OF SOME VARIABLES, 1972
(With respect to the average for Latin America)

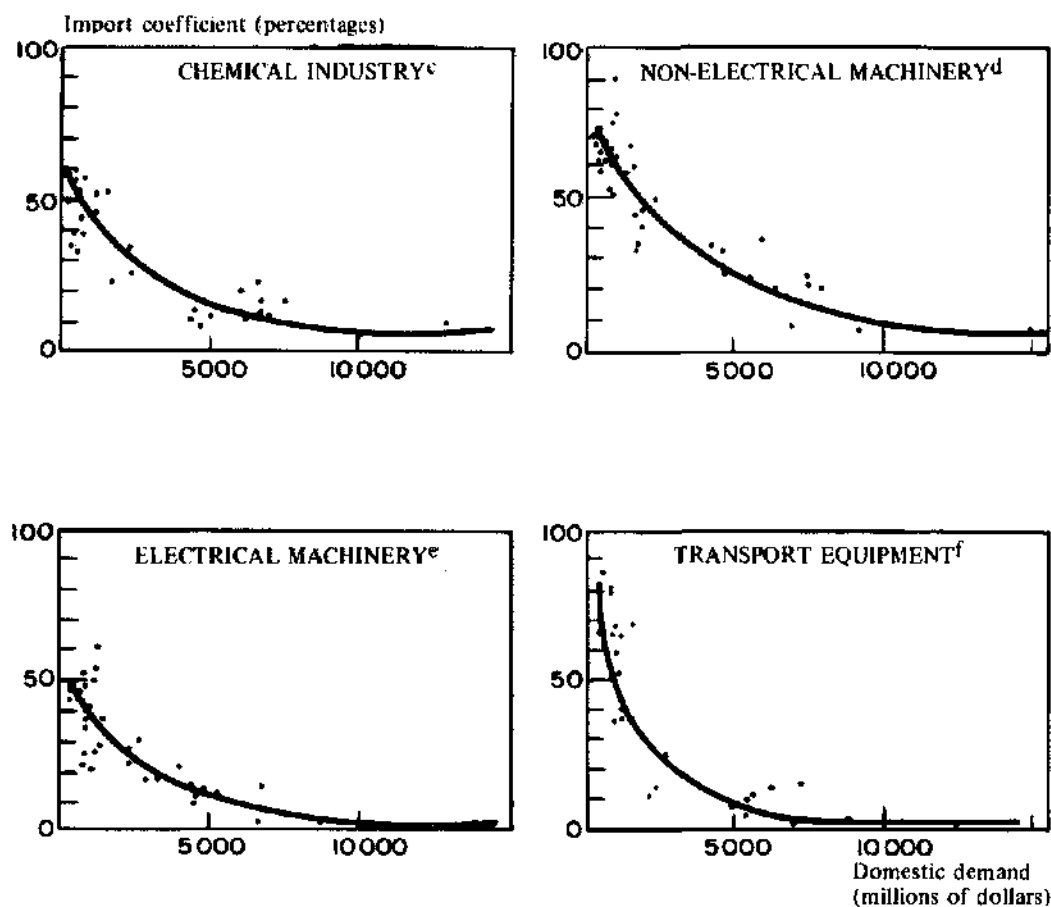
| Countries or groups of countries | Per capita gross domestic product | Per capita product of the goods-producing sectors | Per capita manufacturing product | Population |
|----------------------------------|-----------------------------------|---|----------------------------------|------------|
| Latin America (19 countries) | 1.0 | 1.0 | 1.0 | 1.00 |
| Argentina | 1.9 | 2.0 | 2.5 | 0.09 |
| Brazil | 0.8 | 0.8 | 0.8 | 0.36 |
| Mexico | 1.4 | 1.3 | 1.4 | 0.19 |
| Andean Group (6 countries) | 0.9 | 1.0 | 0.8 | 0.25 |
| West Germany | 6.2 | 7.1 | 10.8 | 0.22 |
| Belgium | 5.4 | 4.7 | 6.8 | 0.03 |
| Canada | 7.0 | 4.9 | 6.1 | 0.08 |
| Spain | 2.0 | 1.8 | 1.8 | 0.12 |
| United States | 8.2 | 6.0 | 8.8 | 0.74 |
| France | 5.8 | 6.1 | 8.3 | 0.18 |
| Italy | 3.2 | 3.2 | 4.3 | 0.18 |
| Japan | 4.0 | 4.1 | 5.8 | 0.38 |
| United Kingdom | 3.9 | 3.0 | 4.4 | 0.20 |
| Sweden | 7.6 | 6.0 | 8.0 | 0.03 |

Source: United Nations, *Monthly Bulletin of Statistics*, July 1975, and estimates of CEPAL and of the Latin American Demographic Centre (CELADE) for Latin America.

Note: The variables for the industrialized countries are expressed in current prices of the year 1972, while for Latin America they are in 1970 prices. The absolute values for Latin America in 1972 are as follows: gross domestic product, 680 dollars; product of the goods-producing sectors, 350 dollars; manufacturing product, 160 dollars; population, 282.2 million.

Figure 2
 OECD COUNTRIES:^a COEFFICIENT OF IMPORTS WITH RESPECT TO SIZE
 OF DOMESTIC DEMAND IN SOME INDUSTRIAL SECTORS,
 IN VARIOUS YEARS^b

(Natural scale)



Source: CEPAL, on the basis of OECD, *The Chemical Industry and The Engineering Industries in North America-Europe-Japan*, various issues.

^aExcluding the United States in all cases, since its domestic demand is excessively large compared with that of the other countries.

^bThe following formula was used: $\log M/D_i = a + b \log D_i + c (\log D_i)^2$.

^c $\log M/D_i = -0.4642 + 1.7523 \log D_i - 0.3511 (\log D_i)^2$ years 1963-1968-1970
 (0.7663) (0.1172) $R^2 = 0.8423$

^d $\log M/D_i = -1.9714 + 2.7685 \log D_i - 0.5039 (\log D_i)^2$ years 1966-1967-1969
 (0.5923) (0.0892) $R^2 = 0.8557$

^e $\log M/D_i = -4.2845 + 4.3063 \log D_i - 0.7796 (\log D_i)^2$ years 1966-1967-1969
 (0.7492) (0.1160) $R^2 = 0.8627$

^f $\log M/D_i = -0.0043 + 2.0896 \log D_i - 0.4972 (\log D_i)^2$ years 1966-1967-1969
 (1.6157) (0.2360) $R^2 = 0.9256$

exports are rising. In the OECD countries the economies are very open in order to be competitive. The system of preferences existing between these same countries also plays an important role. Thus, in the early stages of the operation of the European Economic Community the external tariff was much higher than the internal, so that the industries were able to produce on a regional scale; once this objective had been attained, they were in a position to compete in the outside world.

Another way of expressing the same phenomenon is afforded by the relation between the proportion of demand supplied by imports (import coefficient) and the domestic size of demand. The greater the size of a market, the lower the import coefficient can be. This in fact occurs in each of the major industrial sectors of the countries which can compete at the world level, as can be seen in figure 2. As the size of the national market increases, the need to import diminishes in relative terms, since the industries of each of these sectors can operate on a competitive basis with low costs and high efficiency, by virtue of the greater size of the national market, plus exports on a relatively more modest scale. The countries with smaller markets, however, have a high import coefficient to avoid producing goods under inefficient conditions. Because of the dimensions of their markets, the smaller countries of Europe, such as the Scandinavian countries, Switzerland, Belgium, the Netherlands, etc., have specialized in the production of certain goods in each sector and import other parts or goods pertaining to the same sector which they cannot produce on competitive terms.⁶

This specialization is reflected in a high proportion of exports in relation to

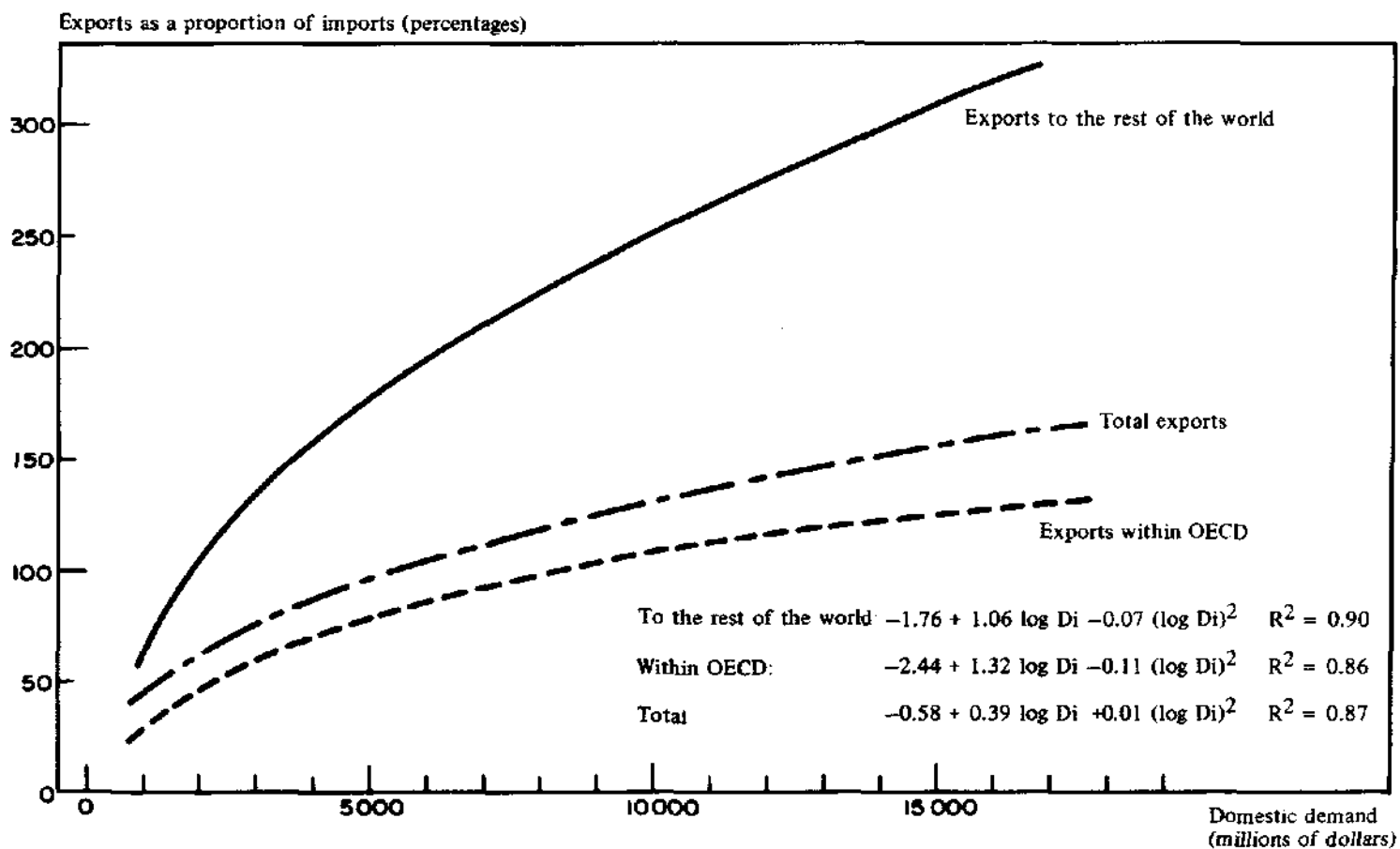
production, and of imports in relation to demand.

It is thus to be expected that, within each of these basic industrial sectors, the total generated by exports of some goods would be similar to that represented by imports of those which are not manufactured by domestic industry. If this occurred it would be very important, as it would make competitive production compatible with a diversified production structure including the different types of metal-transforming and chemical products that are so important for development. If the relation between the exports and imports of each of the above-mentioned sectors in the OECD countries is observed, it can be seen that in each of them there is in fact this equivalence between imports and exports, and in every case the situation of the countries becomes more favourable as the magnitude of domestic demand increases. The larger countries are in a better position to produce these types of goods internally; thus their requirements respecting imports of goods from each sector are proportionally less, and are more than offset by exports.

In a small country, on the other hand, import requirements are proportionally greater in relation to demand and may not be totally counterbalanced by exports of goods from the same sector, since the national market is not large enough to promote domestic

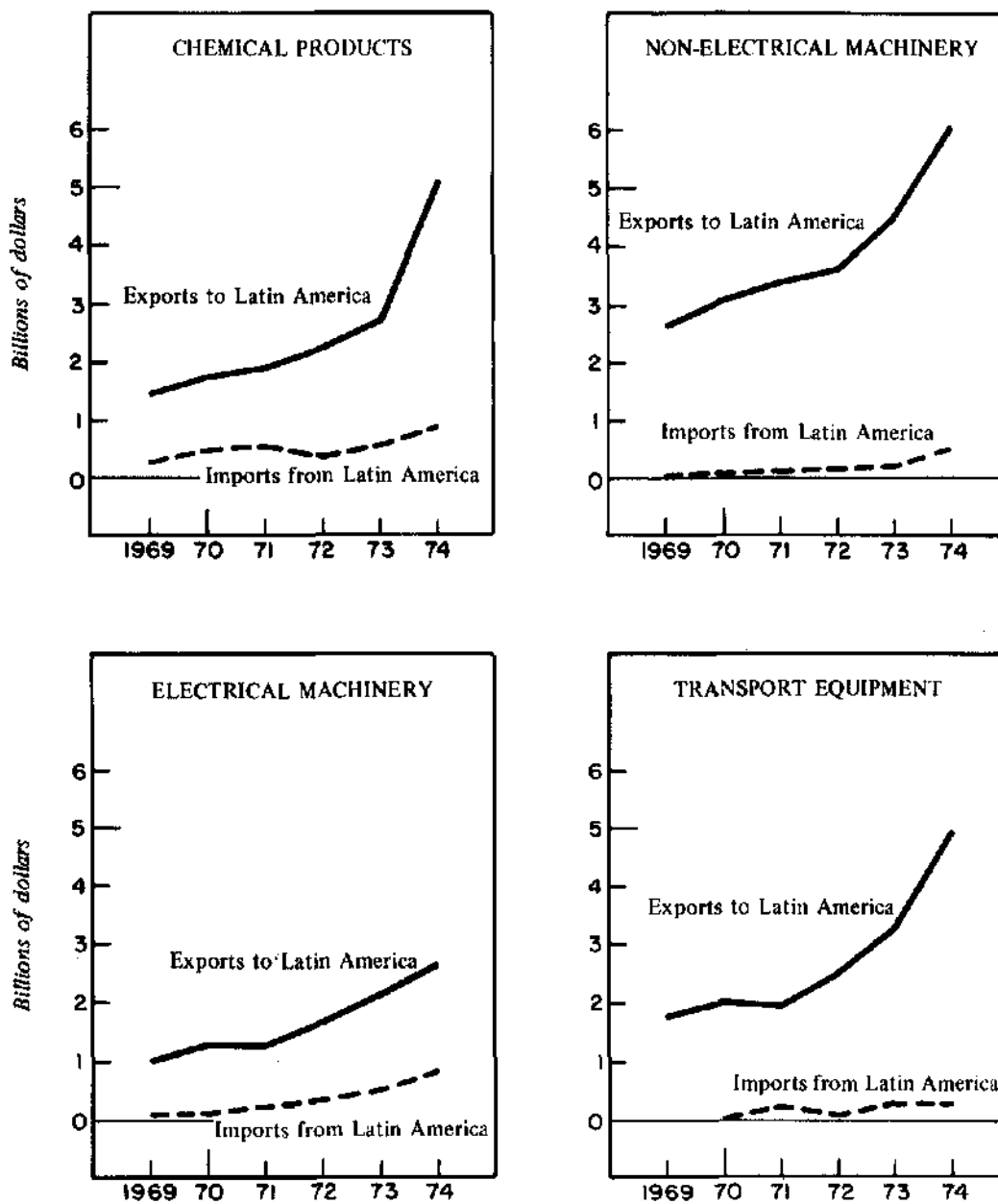
⁶The size of demand is not of course the only determinant of the possibilities of industrial progress. The availability of other factors —including skilled labour— is also an important element. However, the size of demand conditions specialization and the possibilities of tackling industries of these types.

Figure 3
 OECD COUNTRIES: PATTERN OF EXPORTS AS A PROPORTION OF IMPORTS IN RELATION TO
 DOMESTIC DEMAND IN THE CHEMICAL INDUSTRY, 1971



Source: CEPAL estimates, on the basis of OECD, *The Chemical Industry, 1971/1972*, Paris, 1973.

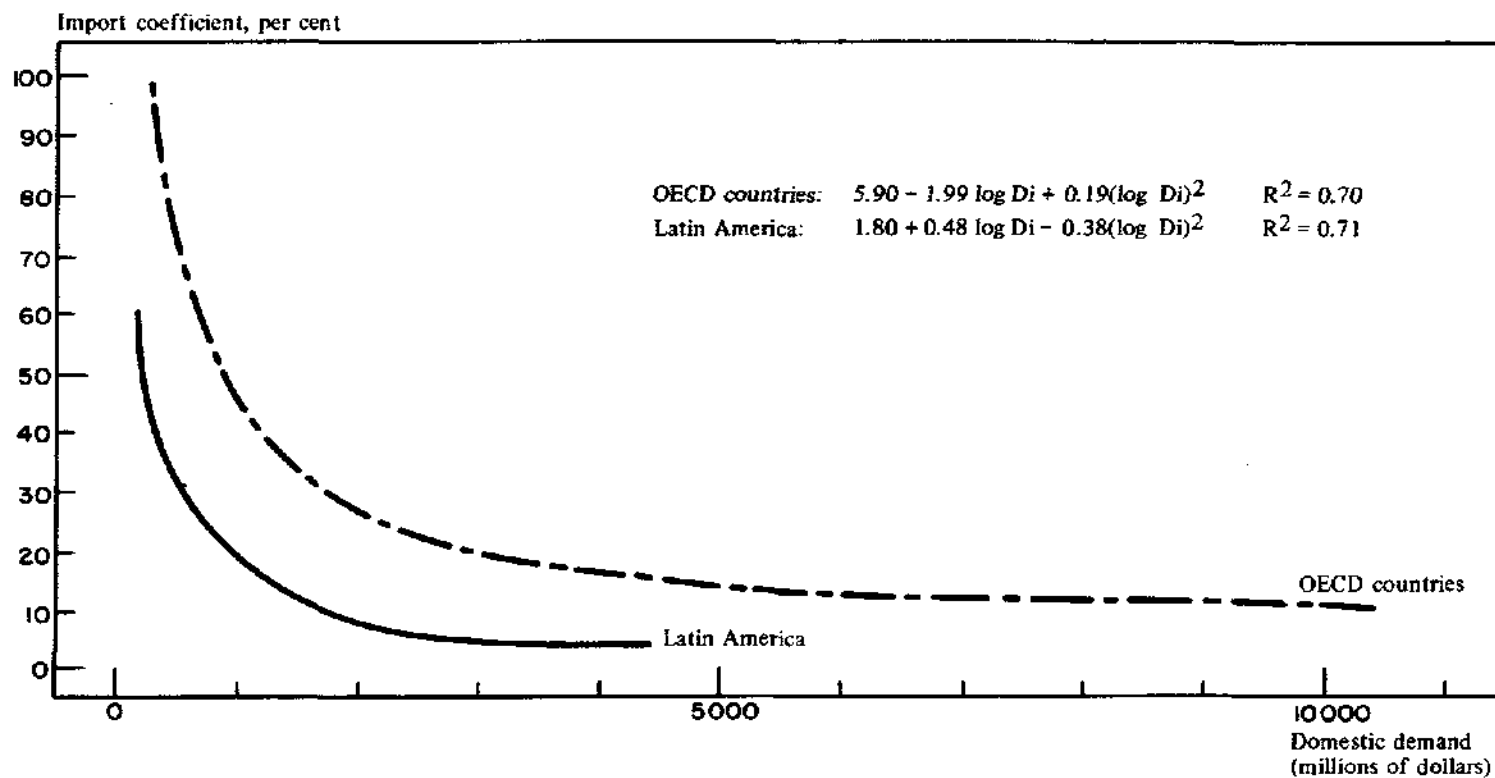
Figure 4
 TRADE BALANCES OF THE OECD COUNTRIES WITH LATIN AMERICA IN
 SOME INDUSTRIAL SECTORS, 1969-1974



Source: CEPAL, on the basis of OECD, *Trade by Commodities. Market Summaries: Exports*, series C, Vol. 1, various issues.

Figure 5
 OECD COUNTRIES AND LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY OF TRANSPORT EQUIPMENT
 IN RELATION TO THE DOMESTIC DEMAND OF THE SAME INDUSTRIAL SECTOR^a

(Natural scale)



Source: CEPAL estimates, based on OECD, *The Engineering Industries, 1969/1970*, volume I, Paris, 1971.

^aOECD figures for 1969, Latin American figures for 1970.

production to the required extent. Figure 3, shows that for countries which trade in competitive conditions, such as those of the OECD, a correlation exists between the size of national demand and the proportion of exports to imports in the chemical industries.⁷ The bigger the country, the larger are its exports in comparison to imports. It can also be seen in figure 3 that the OECD countries have a consistent tendency to export more to the developing countries than they import from them, a disadvantageous situation for the latter which must be remedied, since as matters stand the developing world is helping the industrialized countries to step up their industrial development, and, in particular, allowing the smaller OECD countries to obtain partial compensation for their unfavourable position in trade with the larger countries of the Organization.

In the case of Latin America, figure 4 makes it plain that in the chemical and metal-transforming sectors, imports from OECD countries are very high and exports to them are almost non-existent. In 1973 some 45 per cent of the OECD countries' total exports to Latin America consisted of metal-transforming products, while 95 per cent of their imports from the region were primary commodities.

(d) Relation between market size and foreign trade in Latin America

What is the situation of the Latin American countries in respect of the relation between the size of their

⁷A similar situation is found in the metal-transforming industries, where, although the statistical correlation is less stable, a clear relation can be noted between the size of the national markets and the ratio between the totals of imports and exports.

national markets and the foreign trade of their metal-transforming and chemical sectors?

From figure 5 it can be seen that the transport equipment industries of Latin America as a whole also show the relation noted in the OECD countries between import coefficient and market size: the largest countries of the region need to import proportionally less to function with a degree of efficiency similar to that of the smaller countries. But it is likewise clearly apparent that the Latin American curve is consistently lower than that of the OECD countries; that is, the import coefficients in Latin America fall short of those which would be appropriate to the sizes of its markets if they functioned competitively. This is due to the fact that in the Latin American countries industry is highly protected and has a low level of efficiency. Furthermore, since integration among the Latin American countries is almost non-existent today, the size of each national market, and not that of the regional market, is what determines the coefficient in competitive trade.

Thus, for example, in 1972 the Brazilian market for transport equipment was slightly larger than that of Italy in 1969; but the proportion of demand supplied by imports was 11.2 per cent, as against 25 per cent in Italy. In 1972 the size of the chemical products market in Spain and Argentina was very similar, but the import coefficient in the former was 17.5 per cent and in the latter, 9.5 per cent. In the same year, domestic demand for non-electrical machinery in Mexico was much the same as in the Netherlands in 1969, but while the Mexican import coefficient was 52 per cent, that of the Netherlands amounted to 68 per cent. Similarly, there are important differen-

ces in costs between the Latin American and OECD countries.

So what would happen if Latin America were considered as a whole, that is, as a single integrated market for the operation and development of these sectors? Taking into account the size of the region's market, the import coefficient could be much lower than it is at present, and even then these sectors would function competitively at the international level, that is, in much better conditions than at present. Of course in this case each individual country would have a higher import coefficient than at present, since in addition to imports from the rest of the world there would be those obtained from other Latin American countries. It may be recalled that total Latin American demand for non-electrical machinery was equivalent in 1972 to that of West Germany in 1969, but that the import coefficient for the region as a whole amounted to around 44 per cent, while that of Germany was only 24 per cent.

In the OECD countries there is also a relation between exports, production and

demand; in fact an import-production-export cycle exists, which reflects the economic vitality of these countries in importing to export. In contrast, the low export production coefficient reflects the backwardness of the Latin American countries which do not export all that they should in order to produce competitively in accordance with their size.

In Latin America there is not yet a well-established export pattern. Exports of manufactures are developing steadily but are still not very systematic and are well below imports of industrial goods. Several countries of the region, and particularly those of greater economic size—which are precisely those whose exports reach a proportionally higher total, although their volume of production is similar to that of some European countries—have a very low export/production coefficient. The gross value of output of transport equipment in Argentina and Brazil in 1972-1973 was similar to the corresponding figure for Italy in 1969, but the export coefficient was only about 3 per cent, whereas in Italy it was 40 per cent.

2.

Future outlook

As was seen in the preceding section, great strides have been made in the industry and trade of the Latin American countries over the last few quinquennia: the growth rates of exports have been significantly higher than in the past, the degree of competitiveness of industry has gradually improved and protection policies have been rationalized.

These changes have not been intensive enough, however, to prevail over

some of the fundamental development handicaps of the Latin American countries. From the end of the 1960s onwards it was increasingly felt that the external bottleneck problems chronically afflicting these countries had greatly decreased in importance. During 1973 and the first half of 1974 this impression was strengthened by the short-lived increase in the prices of many raw materials. In the second half of 1974, however, events made it plain that these

hopes of growth without major external obstacles were merely an illusion. During that year and in 1975 heavy trade deficits were shown; in the latter year, the non-petroleum-exporting countries of Latin America, taken together, had a trade-balance deficit of 11,000 million dollars, equivalent to 44 per cent of their exports. They met this situation with very high short-term foreign borrowing, which greatly increased the impact of debt-servicing on the balance of payments. The deficit on current account of these same countries amounted to 16 400 million dollars, that is, 66 per cent of exports.⁸

In these circumstances, the discussion on possible development strategies and policy options has been resumed in many countries.

The reduction of the growth rate experienced in 1975 as a result of the difficulties of the external sector cannot be considered as a valid policy option for the forthcoming years, but must be seen as a temporary situation which must be overcome as soon as possible. Were such a reduction to be prolonged, it would seriously jeopardize the possibilities of overcoming the domestic problems of marginality, unemployment and inequitable income distribution, and would aggravate the social and political tensions which are already causing great concern to the governments of the region.

It is therefore necessary to devise an industrialization and foreign trade strategy which would make a sufficiently high and steady growth rate viable and would thus complement the internal employment and income distribution policies needed to overcome those problems.

⁸ CEPAL, *Economic Survey of Latin America 1975*, E/CEPAL/1014, mimeographed version, June 1976.

The economic forces and policy orientations in the countries of the region, have combined two elements in varying proportions: the export of manufactures from existing sectors, and import substitution through the promotion of some of the industries which have been lagging behind. Development policies have been devised on the basis of one or other of these elements as if they were mutually exclusive options.

When the emphasis is placed on the export of manufactures—the course followed up to now by some Latin American countries—the aim is to establish a competitive economy which would permit specialization in exports from certain branches of industry on which the development effort was to be concentrated. There would thus be an open import policy, with very low protection *vis-à-vis* the rest of Latin America and the world at large. These industries which did not prove competitive by the criterion of international prices would be likely to undergo transformation or to cease production, and a purely supplementary role would be assigned to regional integration and co-operation. In keeping with what was said in discussing the relation between market size and proportion of exports in the developed countries, even the economically largest countries of Latin America would have to export a very high proportion of their output in order to be able to produce new intermediate and capital goods on competitive terms. The smaller countries would have to export most of the output of many of their sectors in order to attain scales of production comparable to international standards. Thus the establishment of new industries would essentially depend on the external markets, which would mean that the risk would be very high. All this suggests that increases in exports

would derive more from industries already in existence than from genuinely new economic activities which by their growth would help to overcome the backwardness of the domestic production structure. The diversification of foreign trade, which would make it possible to lessen the predominance of primary products in exports, would not, however, prevent exports from continuing to be based on a limited variety of traditional industries, whose products would not be among those in which world trade is growing most rapidly.

The policy which lays the emphasis on import substitution also aims at continuing a course followed up to now by some countries of the region. It seeks to overcome the shortcomings of the industrial structure in the countries concerned through progress in the backward metal-transforming and chemical sectors, but to that end has to rely mainly on each national market alone, together with some supplementary exports on a small scale. Even without reverting to the policies which were followed until the mid-sixties, the degree of protection would probably have to be high for a long period, and the production of many goods would only be possible in inefficient conditions; the role assigned to regional co-operation with a view to this development of industry and trade would also be limited.

If these two alternatives, instead of being regarded as mutually exclusive, were combined, the results would be a third and different option which would depart substantially from the lines of policy so far followed by all the Latin American countries. It would consist in a policy of co-operation at the Latin American level, implemented through formal integration agreements and complementary arrangements which would allow each country to specialize

on the basis of the regional market with the aim of branching out abroad to conquer foreign markets. The support which the regional market would give to the development of each industrial sector would make it possible to reduce external protection and compete in an increasingly widening range of sectors and products, in a broad and energetic combination of exports of manufactures with import substitution and the incorporation of new sectors. Thus the establishment of new sectors for the production of capital goods and basic intermediate goods would be undertaken not only to meet the need for import substitution in each domestic market but also to export to the Latin American and world markets. Exports would not be augmented mainly by goods from existing industries, as is now the case, but also by the products of new industries which in turn would take the place of imports. The diversification of the trade structure would be a great deal more radical than in the case of the other options, and industrial export and import substitution policies would be much more rationally and genuinely harmonized and combined.

All these policy measures should go hand in hand with the broadening of the domestic market, a vigorous impulse being given to employment and income redistribution, in order to incorporate the sectors that are marginal today. These domestic policies, which are outside the scope of the present paper, should have a central role in development strategy.

Two hypotheses will be considered in the rest of this paper in order to analyse the possible repercussions of the various policy options. The first, in the nature of a prognosis, assumes that the policy orientations and forces which have been operating in the countries of

the region will continue to do so. Although it postulates exports of manufactures and import substitution, it assumes that both would be carried out without the support of regional co-operation or the market of the Latin American countries in the aggregate. In this way import substitution and exports of manufactures would benefit different manufacturing sectors. Substitution would take place in respect of capital and intermediate goods, in each national market, and with little or no export trade. Exports would come from sectors already in existence in the domestic production structure. Import substitution and the export of manufactures would be undertaken in various sectors at the same time, but would not be combined

in any one sector. The results of this hypothesis are summarized in section 3 below.

The second hypothesis postulates a significant change in current trends and a policy with very different bases from those of the prognosis hypothesis: it is assumed that the Latin American countries would agree to put into effect a resolute regional co-operation policy aimed at the industrial development of the metal-transforming and chemical sectors, which would effectively combine the export of manufactures with import substitution in each of these sectors and would give vigorous impetus to exports of goods produced by sectors already in existence. This second hypothesis will be considered in section 4 below.

3.

Where are the currently operative forces leading?

Supposing that the forces which have been in play, and which seem likely to predominate over the next few years in view of the current policy orientations, continue to operate; that the policy changes which are already being implemented and those which are clearly on the way are brought to completion; and that the trends visible in the world economy produce their effect; what influence would all this have on the structure of the economy and evolution of the Latin American countries up to the middle of the next decade?⁹ That is the question we shall now consider.

In respect of imports, we have assumed that the rate of substitution in each sector will continue to evolve in accordance with the trends recently observed; this would mean that in industries whose current development

plans continued to be applied and improved, import coefficients would maintain their downward movement; in cases in which a policy of greater liberalization of imports have contributed, in recent years, to an increase in import coefficients, we have assumed stabilization at their current level. We have also posited changes in the structure of domestic demand resem-

⁹ For this exercise a ten-year period has been taken, as it seems suitable for identifying the effects of a particular policy orientation. However, in order to interpret the results of the analysis correctly, this period should not be considered as rigorously exact but as an approximate time-span starting when the new orientations begin to take effect (after the stage of preparation and implementation of decisions and new projects) and ending in the second half of the following decade.

Table 5
LATIN AMERICA: PERCENTAGE STRUCTURE OF IMPORTS OF INDUSTRIAL GOODS

| Sectors of industry | Mid-1970s | | | Forecast for the mid-1980s ^a | | |
|---|----------------|----------------|-------|---|----------------|-------|
| | Intra-regional | Extra-regional | Total | Intra-regional | Extra-regional | Total |
| Traditional sectors | 24.3 | 9.7 | 11.0 | 14.6 | 6.5 | 7.0 |
| Intermediate sectors | 54.2 | 39.4 | 40.7 | 53.7 | 33.8 | 35.3 |
| Chemicals | 11.7 | 18.6 | 18.0 | 12.5 | 18.0 | 17.6 |
| Engineering industries | 21.5 | 50.9 | 48.3 | 31.7 | 59.7 | 57.7 |
| Non-electrical machinery | 13.8 | 23.2 | 22.4 | 22.5 | 32.2 | 31.5 |
| Electrical machinery | 2.6 | 9.6 | 9.0 | 4.4 | 13.1 | 12.4 |
| Transport equipment | 2.7 | 13.6 | 12.6 | 2.7 | 11.1 | 10.5 |
| Total for industry as a whole | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Subtotal for chemical products, electrical machinery, other machinery and transport equipment | 30.8 | 65.0 | 62.0 | 42.1 | 74.4 | 72.0 |

Source: CEPAL estimates.

^aHypothesis of an 8 per cent annual growth rate of the gross domestic product.

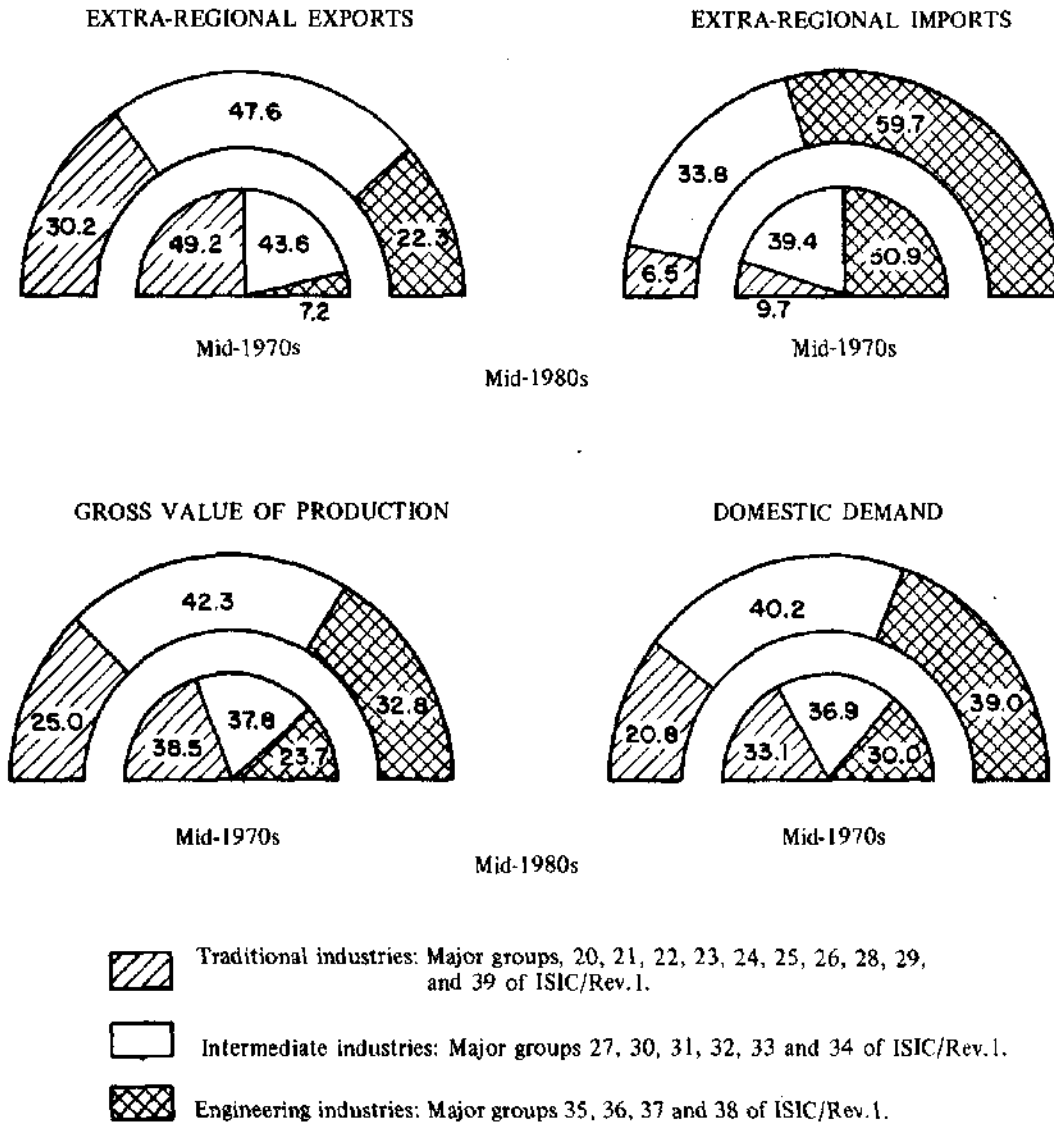
bling those recorded in the past, expressed in terms of sectoral elasticity coefficients similar to those of the last ten years.

For the purposes of this exercise, we have considered separately the behaviour pattern of each country's imports from Latin America separately from that of its imports from the rest of the world, taking into account both the different composition and the differing rates of development of the two categories of imports in recent years.

As regards exports, we have assumed that all the policies adopted and the expansion plans being formulated will be implemented and will have the favourable results envisaged.

With respect to primary commodities, we have considered the growth of world demand, the expansion of sales deriving from programmes to increase production in each country, and possible exports of new agricultural commodities. We have assumed that exports of manufactures will grow at a high rate, though slightly lower than the average annual rate for the last few years; that the share of exports of manufactures in the total will continue to increase until it doubles the present proportion in the middle of the next decade; that the effort to export manufactures begun in many Latin American countries in about 1965 will continue; and that the policies and programmes in force both in the

Figure 6
LATIN AMERICA: COMPARATIVE STRUCTURE OF EXPORTS, IMPORTS, GROSS
VALUE OF PRODUCTION AND DOMESTIC DEMAND IN THE MID-1970s
AND MID-1980s, BY INDUSTRIAL ORIGIN



Source: CEPAL estimates.

Table 6
**OECD COUNTRIES AND LATIN AMERICA: DEGREE OF COVERAGE
 OF EXTRA-REGIONAL IMPORTS BY EXPORTS TO
 THE REST OF THE WORLD**

(Percentages)

| Sectors | OECD countries in 1972 | Latin America | |
|---|------------------------------|---------------|------------------------|
| | | Mid-1970s | Mid-1980s ^a |
| <i>Traditional goods</i> | ... | 340 | 149 |
| Food | ... | 2 203 | 1 633 |
| Textiles | 103 | 109 | 165 |
| Clothes and footwear | 25 | 149 | 340 |
| Miscellaneous manufactures | ... | 15 | 8 |
| <i>Intermediate goods</i> | ... | 74 | 45 |
| Pulp and paper | 927 | 2 | 3 |
| Chemical products | 545 | 44 | 30 |
| Petroleum products | 17 | 153 | 71 |
| Metals | ... | 108 | 74 |
| <i>Metal manufactures and machinery</i> | 1 001 | 9 | 12 |
| Non-electrical machinery | 2 006 | 6 | 7 |
| Electrical machinery | 385 | 19 | 17 |
| Transport equipment | 1 605 | 9 | 12 |
| <i>Subtotals</i> | | | |
| Including petroleum exports | | | |
| Primary sector | ... | 340 | 175 |
| Manufacturing sector | ... | 67 | 32 |
| Total goods | 94 | 106 | 52 |
| Excluding petroleum exports | | | |
| Primary sector | ... | 126 | 49 |
| Manufacturing sector | ... | 57 | 33 |
| Total goods | ... | 69 | 34 |

Source: CEPAL estimates.

^aHypothesis of an 8 per cent annual growth rate of the gross domestic product.

major Latin American countries and in the countries of the Andean sub-region will have successful results.

Given these assumptions, total exports of goods and services to the rest of the world would grow at an annual rate of 6.7 per cent over the next 10 years.

If the growth rates of the product were the same as in the past, or slightly higher, and if the above assumptions were realized, machinery and metal manufactures and chemical products would continue to account for the lion's share of imports. The proportion represented by these goods in total imports of manufactures from outside the region would rise from the present 65 per cent to about 75 per cent within the next 10 years (see table 5). Therefore, the predominance of capital goods and basic intermediate products in Latin America's imports would be accentuated. The structure of imports would not improve and would reflect ever-increasing external dependence in terms of the operation and growth of the Latin American economies.

Intra-area trade would still continue to play a fairly limited role and to represent a small proportion of the total, not much higher than 10 per cent.

By the mid-1980s, 40 per cent of extraregional exports would be composed of primary commodities proper; to these should be added primary products with some degree of processing by the traditional industries. Exports of manufactured goods produced by non-traditional industries would double their share, reaching one-fifth of the total within 10 years, but although the proportion of these exports would increase appreciably, it would still be much lower than in mature economies (see figure 6).¹⁰

The composition of the exports and imports of the Latin American countries as a whole towards the middle of the next decade would continue to show considerable asymmetry, with the more advanced industries still playing a limited role in exports and imports consisting of essential goods. Latin America would continue to be dependent upon exports for which world demand is growing slowly, to finance rapidly increasing import requirements.

From a more thorough examination of the performance of extraregional exports and imports in some particularly important sectors of Latin American industry it may be observed that their respective shares would continue to be very different. It should be remembered that the OECD countries export various goods produced by each sector to a value approximately equal to or even higher than that of the goods they import. In Latin America, in contrast, exports of chemical products and capital goods represent a tiny fraction of the corresponding imports from the same sectors. According to the prognostical hypothesis under consideration, the same situation would still be found in Latin America in 10 years' time. Table 6 shows that in the mid-1960s the region's exports of machinery and metal manufactures represented only 9 per cent of its imports of these same goods; in 10 years'

¹⁰ Attention is drawn again to the footnote to table 1 regarding the different definitions that may be adopted to classify manufactures. In the present case a strict definition, much more so than UNCTAD's, is adopted and only manufactures produced by non-traditional sectors are considered. If goods produced by the more traditional industries (such as textiles, footwear, etc.) are added, the share of manufactures in total exports in the last few years is just over one-fifth.

time the proportion would reach only 12 per cent. It should be recalled that in recent years, the extra-regional exports of machinery and metal manufactures of the OECD countries as a whole amounted to 10 times their imports of these items.

This clearly shows that, according to the prognostical hypothesis, the basic structural shortcomings of the system of production and foreign trade, which are fundamental obstacles to sustained growth without bottlenecks, would persist in Latin America for a long time.

These problems would also be reflected in the persistence of the chronic propensity to systematic trade and balance-of-payments deficits, which, far from being overcome, is more likely to be accentuated in the next 10 years.

Let us briefly examine this point. As the product grows, the structure of demand changes, since requirements in terms of goods with a higher import content expand more rapidly,¹¹ so that imports tend to increase faster than the gross domestic product. Moreover, if economic growth accelerates—i.e., if the growth rate of the product rises—the ratio of the growth of imports to that of the product becomes even higher. In fact, from the mid-1960s up to the present time,¹ with the Latin American product growing at an annual rate of 6.3 per cent, imports increased by 8.4 per cent annually, or 1.34 times faster than the product. A simple exercise shows that if the assumptions regarding the performance of the economy referred to at the beginning of this section were maintained, and if the aim were to attain

a growth rate of around 8 per cent for the Latin American countries,¹² the ratio of the growth rate of imports to that of the product would be about 1.7, which means that imports would have to increase by over 13 per cent annually. This growth rate of around 8 per cent for the product is approximately the rate established as a target for the Second United Nations Development Decade. It is also similar to that required in order to be able to deal successfully with the problems of redundant manpower and marginality in the countries of the region.¹³

If such were the evolution of imports and if exports were to grow in the manner described above, it would not be feasible to obtain the historical growth rate of 6.3 per cent for the product, since in that case the trade deficit would amount to about half the value of exports, which is obviously unrealistic. It would be even more impossible to attain growth rates for the product similar to the targets for the Second United Nations Development Decade, since in this case the trade deficit would be much greater still in proportion to exports. On the basis of these same assumptions, if an attempt were made to keep the trade deficit within manageable proportions, the economic growth rate that would be feasible for the Latin American countries as a whole would be no higher than just under 5 per cent annually in the period considered. Clearly, this rate would be

¹¹ See J. Ayza, G. Fichet and N. González, *América Latina, integración económica y sustitución de importaciones*, CEPAL, Fondo de Cultura Económica, Mexico, 1975.

¹² The annual rate of 7.7 per cent estimated for Latin America is based on the growth targets for each country established in the respective development plans. This rate has been used in the projections for both the prognosis and the co-operation programme.

¹³ See Raúl Prebisch, *Change and Development*, IDB, Washington, D.C., 1970.

insufficient for dealing with the serious economic and social problems affecting the various countries.

In short, the continuance and intensification of the present industrial development and foreign trade model would bring Latin America to a dead end, with an increasingly limited growth rate and an accentuation of the basic structural shortcomings hitherto obser-

ved. It is desirable, therefore, to examine a different hypothesis not only postulating a higher growth rate but also assigning regional economic co-operation a fundamental role in the spheres of trade and industry, with a view to developing the basic sectors manufacturing capital goods and chemical products.

4.

A new form of Latin American participation in the world economy

(a) *The role of regional co-operation in industry and trade*

A different form of participation for Latin America in world trade and industry is an essential requisite for ensuring dynamic development, facilitating the attainment of full employment with better manpower training, and obtaining a fairer distribution of income, while at the same time achieving a structural change in the economy that will enable it to grow steadily, unhampered by constant bottlenecks. A strategy with these fundamental objectives must be the framework for external policies, the new role of Latin America in the world economy, and regional co-operation in industry and trade, which will be more specifically considered here.

A major component of such a policy is the sustained growth of exports of manufactures both from existing sectors and from new sectors which at the same time would substitute domestic production for imports. This would permit industrial establishments, plants and enterprises to reduce their costs and improve the quality of their products, as well as to achieve the economic and

financial capacity necessary for a more creative and autochthonous adaptation of their technology, and for the improvement of their bargaining power. In this way, the industries of the region, particularly those owned by Latin American capital and confined to the narrow sphere of domestic markets composed of minority sectors of the population, could overcome the present disadvantages.

Exports of manufactures must also contribute to the development of a group of industrial sectors which will gradually constitute an adequate manufacturing infrastructure. It is not enough to develop only some sectors of industry, virtually isolated from the rest of the economy, producing almost exclusively for export to other regions, and thus constituting new examples of enclaves; rather, an industrial network should be promoted through which exports will in addition produce effects that will make themselves felt in the rest of the economy, help to increase the product in other sectors supplying inputs or capital goods, and facilitate the dissemination of technology and the improvement of quality in a wide range

of production activities. A mature economy of which exports of manufactures are a substantial component specializes in the production of certain goods in each sector, but at the same time carries on a number of activities which are supplementary to its export activities proper. In addition to essentially manufacturing industries, it is also necessary to establish an infrastructure comprising energy, transport and efficient services that will contribute to the satisfactory development of all activities directly or indirectly associated with exports.

Industrial development in conjunction with a thriving foreign trade requires economic units of adequate size and potential. This means that the countries of the region, as well as seeking to specialize, should promote close co-operation in the production and trade areas. Such a policy is analysed below.

(b) What kind of regional co-operation policy could be adopted?

The hypothesis of a new industrial and trade policy, which was introduced in summarized form in section 2, will be developed here.

Let us suppose that the Latin American countries adopt a regional programme for industrial and trade co-operation aimed at developing, on the basis of their joint market, a group of key industries producing chemicals, electrical and non-electrical machinery and transport equipment. Of course, none of the countries would abandon the industries they already have in these sectors, but they would each co-ordinate the production increase that should take place in the future. Installed production capacity would be gradually rationalized with a view to improving its competitive

potentialities and achieving a certain degree of specialization.

A regional co-operation programme in the fields of industry and trade requires a clearly-defined scientific and technological policy, which would include among its basic objectives the satisfaction of industrial development needs. Since the resources available to the countries in the field of science and technology are very limited, it is essential to establish priorities and guidelines for their use in harmony with those needs. As the aim would be to establish an industry which could compete at the world level with the help of the regional market, basic elements that would have to be taken into account in order to attain that goal would be the introduction of technological innovations and the reduction of costs. Better advantage could be taken of the countries' individual efforts if in respect of technology too a policy of specialization and regional co-operation were adopted that would take into consideration the objectives and guiding principles of the region and of each individual country.

This co-operation, effected through formal integration processes and supplementary measures, would presuppose a more selective and specialized industrial development policy implemented along such lines that sectors of great industrial and technological importance for the regional market would be developed in each and all of the Latin American countries. Since industries would be established to meet the needs of the regional market instead of those of each separate domestic market, their costs and investment requirements would be commensurate with the larger size of the regional market. In each case, as much progress would be made as was possible

in internationally competitive conditions, in line with the behaviour of the import and export coefficients indicated above for the OECD countries which trade on a competitive footing in the world market.

Thus, Latin American industrial development policy at the regional level could in these new sectors combine the substitution of domestic production for imports from the rest of the world with extra-regional exports of manufactures, since the new plants would operate in conditions enabling them to compete on a world basis. The region as a whole and each individual country would go in for specialization within each of the sectors under discussion. Import and export coefficients in the advanced industries might be a great deal lower for Latin America as a whole than they would be for each of the national markets operating singly; however, each individual country would have a much higher trade coefficient, since in addition to trade with the rest of the world there would be the vigorous regional trade created by increased specialization.

Current extra-regional imports in the four sectors covered by the regional co-operation policy (the chemical, electrical machinery, other machinery, and transport equipment industries) still represent approximately 65 per cent of total imports of manufactured goods. If the past and present trends were to continue, they would constitute about 75 per cent of that total by the mid-1980s (see table 5). In other words, these sectors primarily producing basic intermediate products and capital goods are not only of great importance for the structure of industry and investment, but they also exercise a decisive influence on present and future imports.

It will also be recalled¹⁴ that for each of these sectors the import

coefficients are still high, even in the Latin American countries which have made most progress in industrialization, as will be seen in table 7. The situation is even clearer in the case of specific goods or small groups of goods. For example, in investment goods in the sector producing machinery other than electrical, various stages of advancement in the production process may be distinguished, depending on the degree of technological complexity. The production of simple machinery (pumps, elevators and compressors) has made great strides, even in the medium-sized countries. As regards the production of machine-tools, experience shows a predominance of import substitution in the case of multipurpose machines which are more suitable for maintenance and for use in general workshops. The manufacture of more complex machinery of key importance for development and capital formation, such as specialized machines, is in its infancy, even in the larger and more advanced countries of Latin America.¹⁵ Progress in the production of these specialized machines calls for a better knowledge of the technology of the sector in which they are to be used, and capacity for creative adaptation so as to be able to introduce innovations and compete.

Another aspect of the problem which makes it necessary to take particular care in evaluating the advances made in production concerns the prices

¹⁴ See J. Ayza, G. Fichet and N. González, *op. cit.*, particularly the figures in the annex, which show the evolution of import coefficients, at the sectoral level and by country, between 1950 and 1970.

¹⁵ Instituto de Planejamento Econômico e social, *A Indústria de Máquinas-Ferramenta no Brasil*, Brasília, 1974.

Table 7
**LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY IN RELATION
 TO TOTAL DEMAND IN THE MID-1970s**

(Percentages)

| <i>Sector</i> | <i>Relatively more developed countries</i> | <i>Countries with insufficient markets</i> | <i>Relatively less developed countries</i> |
|--------------------------|--|--|--|
| Chemicals | 15.8 | 35.7 | 73.6 |
| Non-electrical machinery | 43.3 | 77.1 | 90.7 |
| Electrical machinery | 21.8 | 41.3 | 78.5 |
| Transport equipment | 12.7 | 40.9 | 82.0 |

Source: CEPAL estimates.

of domestically-produced machines compared with those of machines imported from outside the region. Owing to the protection which has prevailed hitherto, the prices of those manufactured locally are higher than the international prices and, therefore, the proportion of total demand covered by domestic production appears higher than it actually is.

The conclusions are fairly clear: technology and market size play a fundamental role in the possible future progress of the metal-transforming industries. It will necessarily be linked with the production of capital goods, which have a powerful impact on the balance of payments and on the possibilities of freeing investment from the external bottleneck. Hitherto, import substitution in these industries has been markedly "consumer-type"; it is only in recent years that a start has been made on the production of more investment goods, and among these more headway has been made in the production of simple goods than of those with a more

important role in development. Demand for the latter is growing very rapidly; in consequence, despite all that has been achieved in import substitution, the external bottleneck, far from being eased, is being aggravated.

The Latin American co-operation programme presented in this study would therefore consist in the concerted development of the metal-transforming and chemical industries, making full use of the regional market. Both the individual Latin American countries and the region as a whole would seek to attain for each of these sectors trade coefficients similar to those of open and competitive economies like the countries of the OECD. In view of the relatively small size of the domestic markets, each country's trade with Latin America would be highly intensive as a result of specialized progress in these sectors; however, as indicated above, each country would import and export goods produced by each of these sectors, thereby diversifying its production and trade structures. Thanks to the larger

size of the regional market, the extra-regional trade coefficients of Latin America as a whole would, in contrast, be much lower, without loss of efficiency. On the other hand, the region as a whole would also gradually achieve a certain degree of specialization within each sector *vis-à-vis* the outside world, and would move towards applying a low level of protection, similar to that of open economies as in the OECD. This lower protection would be assigned to the new sectors from the outset, while that established for existing production would gradually approach the same levels.

This means that the coefficient of imports from the rest of the world would tend to diminish, so that imports would be kept within limits which could be covered by exports and a reasonable amount of external financing. The coefficient of each country's imports from the rest of the region would tend to rise, and these larger intra-regional imports would be paid for with more intra-regional exports. Altogether, the total import coefficient would increase for each country.

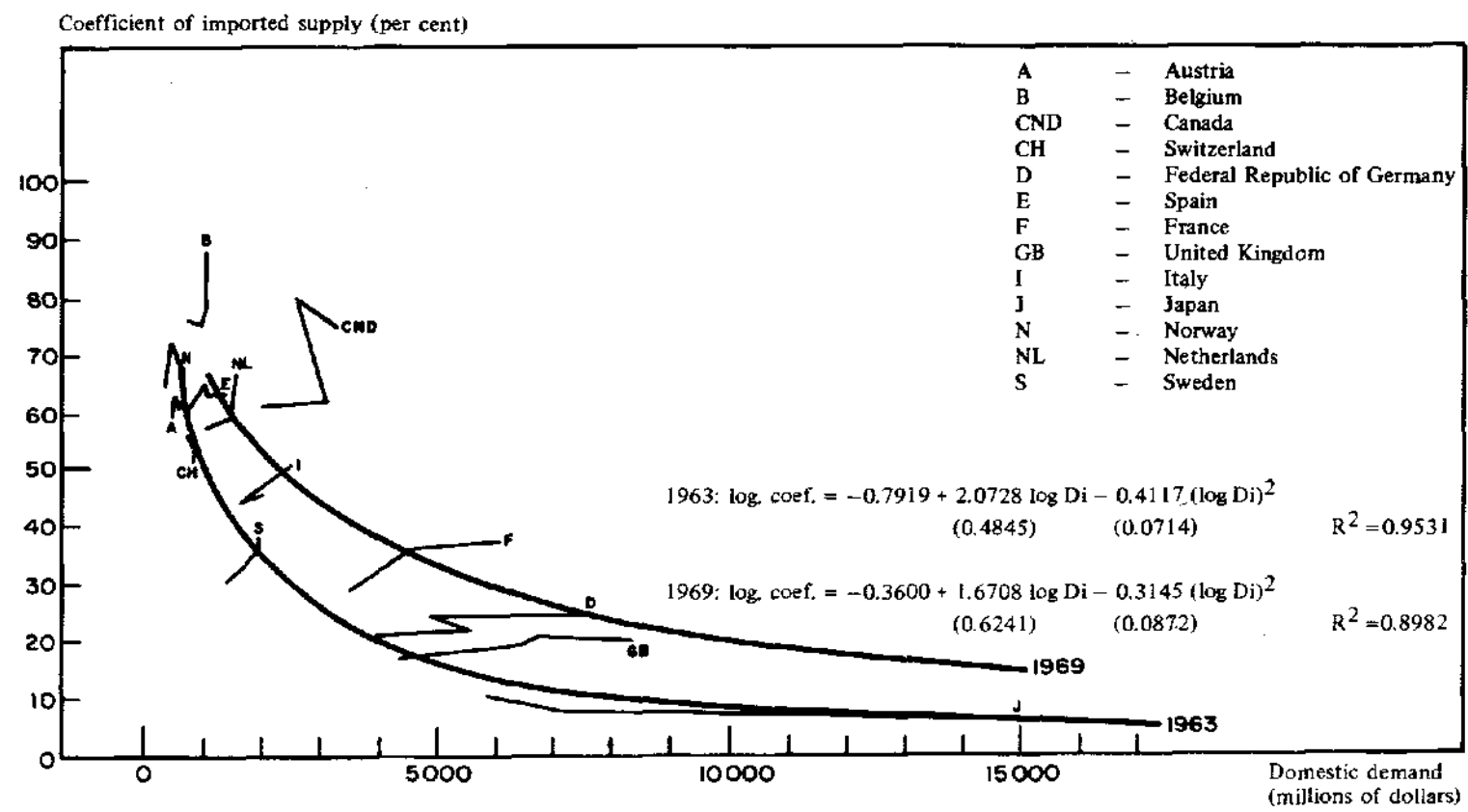
The trade coefficients of the larger OECD countries have followed a different trend from those of the smaller countries. Figure 7 shows the change in the import coefficients in the non-electrical machinery sector of each OECD country over the period 1963-1969. It may be observed that the import coefficients for the larger countries (Federal Republic of Germany, France, United Kingdom and Japan) did not increase, but rather remained fairly stable during the period, while the scale of domestic demand increased with the growth process. In contrast, the coefficients for the smaller countries (all the rest included in figure 7) rose sharply, even though domestic demand expan-

ded. This would be explained by the fact that competition with the larger countries compels the rest to intensify their specialization, devoting themselves more thoroughly to the production of certain goods within each sector, and trading more and more vigorously with third countries. It will also be seen from figure 7, therefore, that the curve showing the relationship between the size of each domestic market and the import coefficient gradually shifts in time, taking on a form which reflects this different evolution in the various countries according to the magnitude of their domestic demand.

In preparing the regional programme for Latin America it has been assumed that the countries of the region would follow a similar trend, approximating to the trade coefficients (and, therefore, the degrees of specialization) of the mature economies, in accordance with the size of the market of each country and of the region as a whole.

It should be noted that at the present time the trade coefficient of each of the Latin American countries is lower than it would be if the economy were as open as that of an OECD country. (See Figure 8.) However, the trade coefficient of Latin America as a whole is higher than it would be with respect to the outside world if the region operated as a single integrated market; in that case and in accordance with the trends corresponding to the OECD countries, the size of the regional market would make it possible to reduce the import coefficient while maintaining international competitiveness. Today, when only a limited degree of regional integration exists, each of the Latin American economies is, in practice, more integrated with economies of developed countries than with the rest of the region. Since Latin America does not

Figure 7
 OECD COUNTRIES: COEFFICIENT OF IMPORTED SUPPLY IN RELATION TO DEMAND FOR NON-ELECTRICAL MACHINERY, 1963, 1966, 1967 AND 1969



Source: CEPAL estimates, on the basis of OECD, *The Engineering Industries in 1963-1970*, vol. I, 1971.

function as a single large market, intra-regional trade is on a very small scale, and most of the imports, especially of products of the metal-transforming and chemical industries, come from outside the area. Thus the possibilities of reducing the trade coefficient are determined by the size of each national market. This programme, in contrast, assumes that due advantage is taken of the size of the regional market and thus that the relative importance of extra-regional imports would tend to diminish, while on the other hand that of intra-regional imports would increase as a result of the regional co-operation policy. Thus each country's overall trade coefficient would rise very substantially, and at the same time the trade coefficient of the region as a whole in respect of the exterior would diminish considerably, in accordance with the trend corresponding to the OECD countries, up to the middle of the next decade.

These are the lines on which the regional co-operation programme has been formulated; the ten years it covers, however, might prove insufficient to overcome Latin America's current technological backwardness entirely. Although it is implicitly assumed that in carrying out this industrial and trade co-operation the region would make a special effort to bring its economic and technological potential nearer to that of the OECD countries, it would probably be unable to make up the whole of its leeway. Thus in preparing the programme it has been assumed that at the end of the ten years there would still be a difference, although proportionally much smaller than at present, between the Latin American countries and developed OECD countries with econo-

mies similar in size to those of the region. This would mean that Latin America would have to import from the rest of the world a higher proportion of goods than would correspond to the size of its market, so as to be able to incorporate the new goods created by technical progress, which the Latin American countries would not be able to produce for lack of innovatory capacity. For this reason it has been assumed in the projections made that in the region as a whole, the import coefficients of the sectors included in the programme would be somewhat higher at the end of the period than they would have been if the economy had developed exactly like an OECD economy, in accordance with the size of its market.

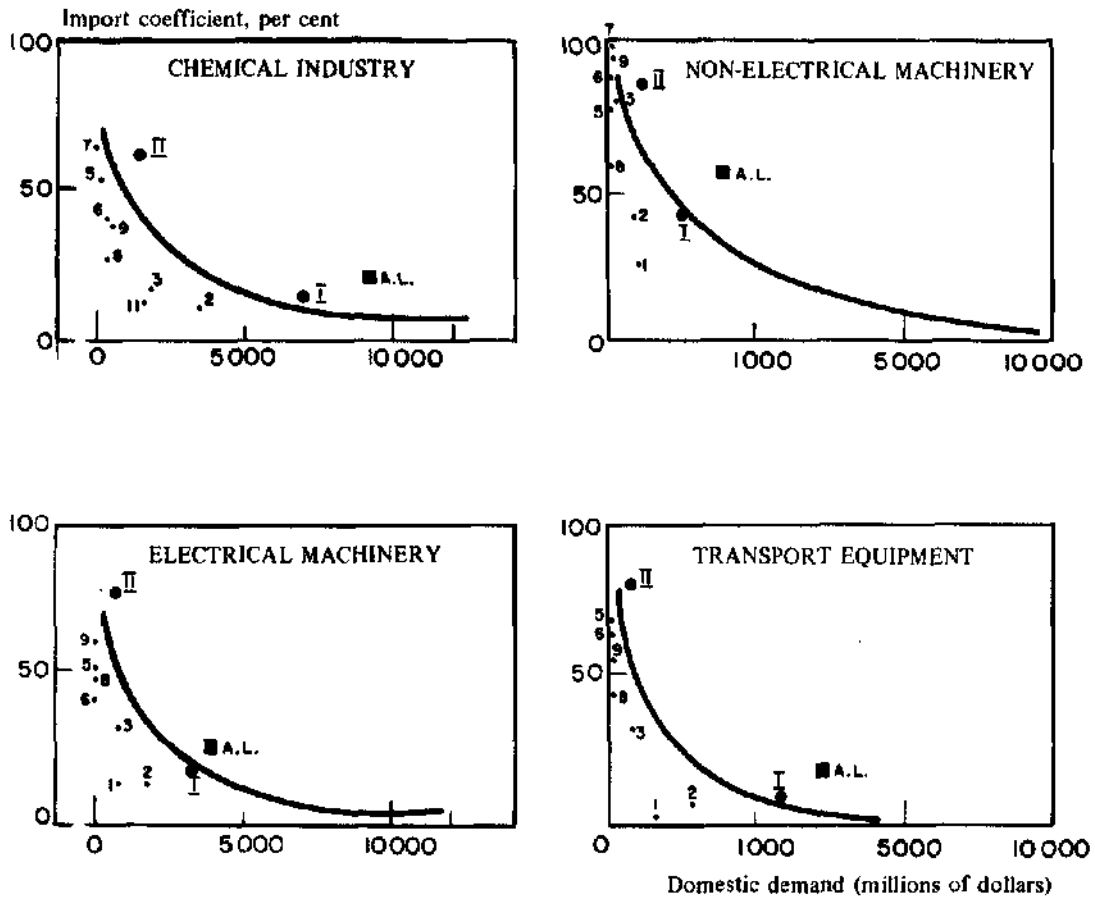
This would probably mean that the intra-regional trade and the real degree of integration between the Latin American countries in the sectors covered by the programme would be somewhat lower than would be necessary to achieve rather closer linkage with economies of greater technical capacity; at all events, however, the degree of co-operation for development and the intensity of real integration in these sectors would be much greater than at present, as will be seen later in the context of the projection of intra-regional trade.

By reducing the extra-regional import coefficient of the region as a whole to a figure situated between the level which it might reach within a decade if the current inertia continued to prevail and that it would attain if this regional co-operation policy were applied, it is possible to determine the additional growth potential of Latin American industry in the metal-transforming and chemical sectors.

Figure 8

LATIN AMERICA: IMPORT COEFFICIENTS WITH RESPECT TO DOMESTIC DEMAND
IN SELECTED SECTORS OF INDUSTRY AND THEIR RELATIVE POSITION
WITH RESPECT TO THE REFERENCE CURVE OF THE OECD COUNTRIES

(Natural scale)



1. Argentina
2. Brazil
3. Mexico
- I. Total 3 countries
4. Bolivia
5. Chile
6. Colombia
7. Ecuador
8. Peru
9. Venezuela
- II. Total 6 countries
- A.L. Latin America

Source: CEPAL estimates.

Table 8

LATIN AMERICA: PROPORTION OF DEMAND SUPPLIED EXTERNALLY AND ANNUAL GROWTH RATES OF THE INDUSTRIAL SECTORS COVERED BY THE REGIONAL PROGRAMME OF INDUSTRIAL AND TRADE CO-OPERATION

(Percentages)

| Sector | Coefficients of imported supply of total demand ^a | | | Average annual growth rate of production | | |
|-----------------------------------|--|---------------------------------------|---------------------------------|--|---------------------------------------|---------------------------------|
| | In the mid-1970s | In the mid-1980s | | 1960-1970 ^b | In the mid-1980s | |
| | | Continuation of past trend (forecast) | Regional co-operation programme | | Continuation of past trend (forecast) | Regional co-operation programme |
| Chemical | 18.9 | 16.9 | 6.0 | 10.4 | 15.4 | 16.7 |
| Non-electrical machinery | 49.2 | 46.2 | 15.0 | 7.4 | 19.9 | 25.6 |
| Electrical machinery | 25.7 | 24.9 | 8.0 | 10.0 | 18.6 | 20.8 |
| Transport equipment | 18.2 | 18.9 | 1.0 | 9.9 | 12.7 | 14.2 |
| <i>Total manufacturing sector</i> | <i>16.2</i> | <i>19.2</i> | <i>9.1</i> | <i>6.7</i> | <i>11.8</i> | <i>13.0</i> |

Source: CEPAL estimates.

Note: The differences between the growth rates for the period 1960-1970 and the historical trends of the projections are due to the increase in the growth rate of the gross domestic product.

^aIncludes only imports from the rest of the world.

^bAt constant 1960 prices.

(c) *Effects of this policy*

The likely effects of this policy are shown in table 8. In the non-electrical machinery sector, for example, the coefficient of extra-regional imports with respect to total Latin American demand would pass from the current 49.2 per cent to 46.2 per cent by the middle of the next decade if past trends persist, but if the regional co-operation programme were applied the coefficient would drop to 15 per cent by the same date. The table also shows the great differences between these two hypotheses as regards the projected coeffi-

icients of imports by the region as a whole from the rest of the world.¹⁶ Similarly, the table shows that the growth rates of regional production in these ten years would differ considerably depending on whether the regional co-operation programme were applied or current trends persisted, especially in the group of non-electrical machinery industries.

¹⁶ For the hypothesis of the persistence of current trends, the projected import coefficient of Latin America as a whole is greater than in the mid-seventies, mainly because of the imports of petroleum which would have to be made.

Table 9
**LATIN AMERICA: IMPORTS OF GOODS AND NON-FINANCIAL SERVICES
 IN THE MID-1980s**

| | <i>Past trends (forecast)</i> | | | | <i>Regional co-operation programme</i> | | | |
|--|---------------------------------|-----------------------|-------------------------------|-----------------------|--|-----------------------|-----------------------------------|-----------------------|
| | <i>Billions of 1973 dollars</i> | | <i>Percentage composition</i> | | <i>Billions of 1973 dollars</i> | | <i>Percentage composition</i> | |
| | <i>Intra-regional</i> | <i>Extra-regional</i> | <i>Intra-regional</i> | <i>Extra-regional</i> | <i>Intra-regional</i> | <i>Extra-regional</i> | <i>Intra-regional^a</i> | <i>Extra-regional</i> |
| <i>Primary goods</i> ^b | 3.7 | 11.5 | 32.2 | 11.1 | 3.7 | 11.5 | 6.4 | 19.6 |
| <i>Manufactured goods</i> ^c | 6.7 | 84.9 | 58.3 | 81.9 | 52.6 | 40.1 | 91.7 | 68.2 |
| Chemicals | 0.9 | 15.3 | 7.8 | 14.8 | 16.0 | 5.4 | 27.9 | 9.2 |
| Non-electrical machinery | 1.5 | 27.3 | 13.0 | 26.4 | 17.1 | 8.9 | 29.8 | 15.1 |
| Electrical machinery | 0.3 | 11.1 | 2.7 | 10.7 | 7.5 | 3.6 | 13.1 | 6.1 |
| Transport equipment | 0.2 | 9.5 | 1.7 | 9.1 | 8.1 | 0.5 | 14.1 | 0.9 |
| <i>Subtotal</i> | (2.9) | (63.2) | (25.2) | (61.0) | (48.7) | (18.4) | (84.9) | (31.3) |
| <i>Non-financial services</i> | 1.1 | 7.2 | 9.5 | 7.0 | 1.1 | 7.2 | 1.9 | 12.2 |
| <i>Total goods and services</i> | 11.5 | 103.6 | 100.0 | 100.0 | 57.4 | 58.8 | 100.0 | 100.0 |

Source: CEPAL estimates.

^aThe intra-regional trade shown here is based on the hypothesis that the additional production would be distributed between the participating countries in proportion to the demand for these goods in each of them.

^bDivisions 01 to 19 of ISIC/Rev.1.

^cDivisions 20 to 39 of ISIC/Rev.1.

Table 9 shows the amounts and composition of imports (both intra-regional and extra-regional) for the two hypotheses. The extra-regional imports of the four sectors covered by the proposed co-operation would greatly diminish if the programme were applied and there would also be a significant change in the composition of imports, since the share of these sectors—which produce mainly intermediate and capital goods, so vital for the functioning of the economy and development—in the total purchases of goods and services from abroad would fall from 61.0 per cent to

31.3 per cent. This would mean a more favourable import structure, as its composition would not include such a large proportion of goods whose purchase abroad is difficult to restrict. Even so, imports of such goods from outside the region would still amount to a very significant absolute value, because Latin America would develop along the lines of an economy which was fairly open towards the exterior and would in no way tend to close its economy any more than was needed to allow it to attain a scale of market permitting the achievement of competitive efficiency.

As regards Latin America's possibilities of exporting goods from these four industries beyond the region, the discussion in section 2 on the behaviour of open, efficient and mature economies should be recalled. In that section it was shown that the OECD countries' exports of these types of products are similar in amount to their imports of similar goods. Since under the co-operation policy assumed here the Latin American countries would achieve a level of economic and technical efficiency and capacity not very far behind that of the developed countries, it can be supposed that this policy, likewise, would enable them at the end of the ten years, to export a volume of chemical products and capital goods similar to the figures shown in table 9 for their imports from the rest of the world.

Another aspect which calls for comment is the effect of the co-operation policy on intra-regional trade. Table 9 shows that this trade, including the reciprocal imports between the countries of each group and the trade between groups, would come to represent almost half the total imports of goods and services. Thus a high level of interdependence would gradually be attained, reflecting the increasing momentum that the co-operation itself could gain as integration became more effective. At the end of the ten years, the trade in chemical and mechanical goods as a whole within Latin America would represent 72 per cent of the total purchases of these products, i.e., a similar percentage to that achieved in the trade in these types of goods among the OECD countries, which amounted to 74 per cent in 1972. If the hypothesis which assumes no regional co-operation (section 3) is compared with the hypothesis assuming the application of a policy of intensive integration of the

countries, it can be seen that the global ratios of imported supply to internal Latin American demand in these four sectors, would not be very different at the end of the periods as table 10 shows. The main difference between the two hypotheses would lie in the geographical origin of these purchases. If past trends continue, the supply of these industrial sectors in the region as a whole would depend almost entirely on the exterior, with very little intra-regional trade. On the other hand, if Latin America operated as a highly integrated economy in competitive conditions similar to those prevailing internationally (thus needing a level of protection not much higher than that of the OECD countries) it could greatly lessen its external dependence and at the same time each country could begin to obtain high proportions of its needs from the rest of the region. The fact that this intra-regional trade would represent only about 10 per cent of total imports by 1985 if past trends continue, but almost 50 per cent under the co-operation policy, shows the vigorous impulse which can be provided by collaboration and negotiation between the Latin American countries.

The regional co-operation programme would also have very important effects in respect of the external bottleneck, as it would help to reduce the trade deficit with the rest of the world. If this policy were applied, the increased growth rate of the mechanical and chemical industries would make possible a very substantial reduction in the requirements for imports of these goods from outside the region and thus diminish by more than nine-tenths the deficit which would arise if the forces currently in operation persisted. This means that the co-operation policy would have such an impact on the

Table 10
LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY OF TOTAL DEMAND
(Percentages)

| Sector | Mid-1970s | | | Mid-1980s | | | | | |
|----------------------------|-------------|-------------------|----------------|----------------------------|-------------------|----------------|------------------------------------|-------------------|----------------|
| | Total | Rest of the world | Intra-regional | Continuation of past trend | | | Regional co-operation ^a | | |
| | | | | Total | Rest of the world | Intra-regional | Total | Rest of the world | Intra-regional |
| Chemical | 20.1 | 18.9 | 1.2 | 17.8 | 16.9 | 0.9 | 23.6 | 6.0 | 17.6 |
| Non-electrical machinery | 52.1 | 49.2 | 2.9 | 48.8 | 46.2 | 2.6 | 43.9 | 15.0 | 28.9 |
| Electrical machinery | 26.4 | 25.7 | 0.7 | 25.6 | 24.9 | 0.7 | 24.8 | 8.0 | 16.8 |
| Transport equipment | 18.5 | 18.2 | 0.3 | 19.3 | 18.9 | 0.4 | 17.1 | 1.0 | 16.1 |
| <i>Total manufacturing</i> | <i>17.8</i> | <i>16.2</i> | <i>1.6</i> | <i>20.7</i> | <i>19.2</i> | <i>1.5</i> | <i>20.9</i> | <i>9.1</i> | <i>11.8</i> |

Source: CEPAL estimates.

^aAlso includes the allocation of benefits in accordance with sectoral demand.

external bottleneck that a growth rate of nearly 8 per cent a year over the next ten years could be perfectly feasible for Latin America as a whole since the effective trade deficit would be of very manageable size, and it would appear that it could be overcome by the net inflows of external financing.

(d) *Sub-regional and regional co-operation*

A final aspect to be considered is that of the geographical extension of co-operation within Latin America. Two hypotheses can be analysed. According to the first hypothesis, co-operation would be carried out exclusively between the countries of particular groups, so that strong ties of trade and

co-operation would exist between the members of each sub-regional group, but there would be very few links between groups: this is what has been happening to some extent in Latin America.

In the second hypothesis, co-operation would extend to all Latin America, and even if there were some more intensive processes of sub-regional integration, there would at the same time be strong links between the different processes. We must now ask ourselves whether the results would be similar or very different in each case.

In the case of co-operation limited to sub-regional spheres, progress would apparently be easier, as it would involve attempting to link fewer countries and those with a similar degree of development could be grouped together, thus

entailing fewer potential problems of imbalance. It may be seen from figure 8 that this co-operation could give considerably better results than if there were no sub-regional or regional co-operation; the figure shows that the import coefficients of these four sectors in each of the countries of the Andean sub-region are at present lower than would correspond to the size of each country's market if they operated as open and competitive economies; the market of the group of countries taken as a whole, however, would allow the average outward trade coefficient of the sub-region to be lower than at present, in similar conditions of specialization and competitiveness to those of the OECD countries. This is also true in the case of the three economically largest countries of Latin America (Argentina, Brazil and Mexico). Each of them, according to figure 8, currently has a lower import coefficient than would correspond to a competitive economy of similar size, but the grouping together of the three would create a size of market which would have a smaller import coefficient than they have at present. These two sub-regional groups, which are shown here merely by way of example, are of course chosen only to illustrate the kind of results that could be gained from such sub-regional schemes. It may be concluded from the foregoing that it is better that there should be co-operation, even within the limited context of sub-regional groups, than that there should be none, or very little, as has been the case up to now.

The same figure also shows that co-operation is far more beneficial if it is not only carried out within the restricted sphere of each of the sub-regional groups but also extended between them. It can also be seen that the extra-regional trade coefficient, in relation to the total size of the Latin American market and

on similar conditions of specialization and competitiveness as those found in the OECD countries, is considerably lower than that of each of the two sub-regional groups; thus, for example, in the case of non-electrical machinery, the import coefficients of a competitive economy in the Andean sub-region and in the group made up of the three largest countries of Latin America would be 62 per cent and 46 per cent respectively. For Latin America as a whole, however, according to the same assumption of a competitive economy, the import coefficient would be only 35 per cent.

It can thus be said that although co-operation limited to sub-regional groups is better than a situation of national isolation, it attains much more limited results than co-operation extending to all the Latin American countries, even if there continue to be very strong links within each group. The benefit of broad co-operation, of regional scope and not limited to sub-regions, is greater for the intermediate and small countries than for the large countries. This is clearly shown by the figures and is due to the fact that in the intermediate and small countries the market sizes are further away from the sizes recorded for the region as a whole.

If there are strong links within the sub-regions, and solid co-operation between them, it is necessary to promote the productive specialization of each of the sub-regions or each of the groups of countries with a similar level of development, so as to arrive at a balanced situation in which all of them attain results that satisfy them.

This raises the problem of establishing a balance between countries of initially unequal development which are seeking integration.

In the past, traditional instruments such as trade liberalization, common

external tariffs, free movement of factors, etc., have tended to accentuate the imbalances in distribution when applied indifferently to all the countries. If a policy of regional co-operation like that analysed above were implemented and the distribution of the new industries were left to the free play of the market forces, the countries which started in a more advantageous position would probably obtain a higher proportion of the net additional benefits.

The largest countries are most attractive when considering the location of a new industry, because they have a larger domestic market, a greater degree of industrialization with the accompanying infrastructure, greater capacity for domestic financing and foreign borrowing, more labour and managerial capacity, more developed technology, etc.

Another way of approaching this problem so as not to leave the situation at the mercy of the free play of the market forces would be to complement the system of markets with a policy aimed at securing a more equitable distribution of the benefits of this programme between the countries by modifying the initial disparities during the integration process.

The study of the balanced distribution of benefits raises theoretical and practical difficulties partly attributable to the fact that the approach to the problem is subject to circumstantial negotiations, appraisals and effects. The considerations involved are not only commercial, although the distribution can be expressed in each country in terms of foreign trade which is balanced both in global amounts and in structure. It is necessary to take into account, among other aspects, the effects of co-operation on the general development of each country, its production structure

and its possibilities of dealing more adequately with excess labour and marginality and alleviating the problem of the external bottleneck.

An adequate distribution of the benefits and costs of the programme cannot, of course, resolve the economic development problems of the less advanced countries unless it is complemented with a vigorous domestic effort. At all events, however, a policy aimed at securing regional balance is a very important element in the development of these countries.

(e) *Instruments for co-operation*

This study has discussed some of the main possible characteristics of a development strategy aimed at certain objectives of growth and transformation of the production structure. In order to carry out such a strategy, it would be necessary to apply instruments and policies which need to be analysed at length. Although such an analysis is outside the scope of this paper, it is worth noting some particularly important aspects.

One of the instruments for co-operation is the formation of multinational Latin American enterprises. There are various factors which may induce countries to undertake co-operation activities through multinational enterprises. These include taking advantage of economies of scale, of the improved efficiency deriving from specialization, of the economies gained in the provision of supplies domestically or in third countries, of the advantages of better and more adequate marketing in association with third countries, of the better conditions for securing technology and, in general, of the strengthening of the position of the countries and regional enterprises with respect to the trans-

national enterprises. Although the development of multinational Latin American enterprises is still a recent phenomenon, there are notable cases of entities of this nature and of associations between Latin American national enterprises for industrial production and for the exploitation of natural resources (mainly hydroelectric) or the operation of public services.¹⁷ In general, these ventures involve capital from only two countries, although in the Andean sub-region the activity of these enterprises has effects on the markets of other countries (sectoral programmes of industrial integration); such Latin American binational or plurinational enterprises can be mixed or totally private.

Other forms of governmental co-operation are also being developed in the region: the economic co-operation agreement signed in 1974 between Argentina and Uruguay; the general treaty of friendship, co-operation and trade, signed in 1975 between Brazil and Uruguay; the participation of Venezuela in the Andean Development Corporation, in the Central American Economic Integration Bank and the Caribbean Development Bank, and the special financial resources which it has provided for the Central American countries; the formation of the Union of Banana-Exporting Countries; and the programmes of export credit established in

Argentina and Brazil to facilitate their sales of machinery to other Latin American countries.

The treatment extended to transnational enterprises is also important in regional co-operation. The essential objectives are to increase the negotiating power of the Latin American countries, to fix norms of conduct which are compatible with the interests of these countries and acceptable to the transnational enterprises themselves, and to establish development plans to which the transnational enterprises should adopt their activities so as to better serve the long-term needs of the countries. The joint action would be more effective if it succeeded in establishing and enforcing a set of regional and national objectives to which the foreign firms should adhere, and negotiating specific agreements within the guidelines thus fixed. This would help the relations between the transnational enterprises and the Latin American countries to be more stable, as they would rest on a more satisfactory foundation.

Co-operation between developing countries, and in particular regional co-operation realized through integration schemes and complementary agreements, should serve as one of the instruments for securing a new role for Latin America in world industry and trade.

Bilateral agreements and agreements between limited groups of countries can be useful as instruments for securing the creation of a network of effective trade interrelations between the Latin American countries. Both types of agreements have limitations, however, because they do not provide scope for a sufficiently big expansion of trade and co-operation to enable industrial production to attain dimensions corresponding to large enough installations to permit it to compete at the world level. For this

¹⁷ In the infrastructural field, mention may be made of the hydroelectric plants at Itaipú (Brazil-Paraguay), Salto Grande (Argentina-Uruguay) and Yacireta-Apipé (Argentina-Paraguay). In transport, there is the *Flota Mercante Gran Colombiana*, the Caribbean Multination Shipping Company, and the construction of the trans-Amazon highway. Finally, in the industrial area, the Bolivian-Argentinian pesticide plant, the *Ecuadoriana de Atún* (Chile-Ecuador) and Monómeros Colombo-Venezolanos are worthy of note.

reason, these limited agreements must be considered in relation to broader schemes of co-operation between the Latin American countries.

The world economy is now ruled by large economic blocs, and there is no room in it for isolated countries or small groups of countries. Even the developed countries tend to combine in very large units—such as the EEC, which contains 9 countries—and to intensify the relations between blocs on multilateral bases. The markets of the Latin American countries, which are already limited because broad sectors of the population do not have access to them and because of the low average per capita income, are still much more isolated from each other. Because of this, the countries of the region have to limit their objectives even more than the shortage of available investment resources and their balance-of-payments restrictions would otherwise make necessary. The main part of the effort to overcome the problems of poverty and backwardness must be made by the developing countries themselves. In the next few years international financial co-operation must play an important role, but it can only be complementary to these internal efforts and cannot replace them or become the centre of the economic policies. The efforts at regional financial co-operation can contribute much, however, to maintaining the balance of payments, the systems of payments designed to

promote mutual trade, the financing of projects of common interest, and the heightening of the region's negotiating power abroad.

Side by side with its efforts to intensify regional co-operation, Latin America must participate actively in the creation of a new economic framework for development, through co-operation within the Third World. Within the context of collective autodependence, co-operation entails a great increase in the horizontal links between Third World countries in many aspects of economic activities. These links should be much more diversified and go far beyond traditional economic integration to include measures in the spheres of trade and industrial development, monetary policy, international financing, and technology.

A number of the instruments of Latin American co-operation—physical infrastructure projects, bilateral agreements between various countries, the creation of binational or plurinational enterprises, the exploration and exploitation of renewable and non-renewable resources, financial co-operation—would make it possible to put into effect the regional programme of industrial and trade co-operation referred to in section 4. It is only through decisions like these that the economic integration of Latin America can make progress, since they give the process coherence and rationality.