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SECOND UNITED NATIONS DEVELOPMENT DECADE

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Basic aspects of Latin American development strategy

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Introduction

ECLA AND THE SECOND UNITED NATIONS DEVELOPMENT DECADE

1. The United Nations is engaged in formulating an action programme to speed up the economic growth and social progress of the developing countries in the next decade. During this first Development Decade, marked progress has been made in identifying problems and in understanding the factors that hold back or distort the development process. Within the United Nations system, the resolutions of the General Assembly, the Economic and Social Council, the regional commissions and the specialized agencies have contained ideas, statements and proposals that certainly cover the fundamentals of the objectives that must be pursued, especially at the international level, to promote development for the two-thirds of mankind whose inadequate levels of living are only too well known. Moreover, there have been certain changes for the better in the policies of international agencies, and new bodies, UNCTAD for example, have been established to tackle specific problems, and have made a decisive contribution to efforts to identify and understand the problems.
2. When all these efforts - which are both intensive and wide-ranging - are compared with the trends of the world economy, however, their actual results give cause for a certain frustration and pessimism. The real results for the low-income countries have been negligible. The gap between them and the industrialized countries in terms of living conditions and rates of growth is reaching mammoth proportions. The feeling of frustration is becoming more acute because the developing countries have been unable to achieve any effective and concerted action, and because the developed countries have not evinced the necessary willingness to make policy changes and adopt decisions which will satisfy the legitimate interests and aspirations of the low-income countries. Their reluctance to do so is in sharp contrast to the speed with which the industrialized countries reach agreements which give an impressive impetus to their own economic expansion.

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3. Scientific and technological progress has made great strides in recent years, but it has concentrated the benefits of economic growth for the most part in the countries which already had the highest income levels - Japan and the socialist countries. In contrast, only a handful of developing countries have shared in this progress. The peripheral position of the vast majority is further accentuated by the fact that the developing countries have little or no influence on the major decisions in international financial and economic policy; and they benefit only indirectly.

4. Latin America has been no more fortunate than other developing areas in the world and in important respects is still relatively worse off than other countries on the periphery. Admittedly, the countries of the region were formerly in a better position than other developing areas: most of them won their independence during the first quarter of the nineteenth century; they appear to be better endowed with natural resources; and fifty years ago or more some of them were already remarkable for their thriving economies and high income levels. These countries, however, fell from their favoured position, and now all the countries of the region are on the periphery. Average per capita income in the region as a whole is one-seventh of that of the United States, one-fifth of that of Western Europe and probably less than half that of the Soviet Union, while the regional rate of growth is lower than in all these areas and even lower than in other developing countries.

5. Economically and technologically, Latin America is lagging further and further behind. The region is to all intents and purposes excluded from the development that is taking place in the great centres. It is not assimilating the scientific and technological advances flowing out of the great development centres, or disseminating them properly, either in its economic activities or throughout its economic space; nor is it making any scientific or technological progress of its own. And Latin America is thus in the position of becoming increasingly dependent, financially and politically, compared with the rest of the world, while at the same time declining in economic importance.

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6. This, then, raises the question of what the scope and nature of a United Nations action programme to promote development in the coming decade should be, and what part ECLA should play in carrying it out. These are topics that the Commission should consider at the Lima Conference. In suggesting this to Governments, the ECLA secretariat is not prompted by mere administrative considerations, but by a healthy desire to express its thoughts and its concern about the problems of development in Latin America and about the basic aspects of the strategy which must emerge from a consideration of the structural causes of the region's economic and social backwardness and of the prospects for the immediate future.

7. The lessons learned from the present decade must be used to prepare a more effective programme for the second Development Decade. It is now clear that there are four basic aspects to which consideration must be given: (a) the major decisions by countries with regard to the mobilization of domestic resources and the establishment of the institutional, economic and social framework needed for development; (b) the changes that must be made in international economic and trade policy to foster the progress of the developing countries; (c) international financial and technical assistance in carrying out national development plans; and (d), what kind of institutional organization and machinery will be required to give impetus to the action programme for the second Development Decade, assess how far the programme is meeting its objectives, evaluate problems and suggest practical solutions.

8. Hence, it is not enough just to establish development targets; the resources needed to meet the targets also have to be determined. Moreover - and this is the most urgent need of all - the industrialized countries must be prevailed upon to adopt specific measures at the international level, and the policies to be followed and the institutional, economic and social changes to be introduced in the developing countries must be pointed out.

9. During the nineteen-sixties, international and regional agencies have fixed over-all and individual targets for various aspects of economic and social development and made proposals on the most diverse topics.

The fact that there has been no proper cohesion between all these diverse

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targets and no real co-ordination of national planning has often led to allocations of resources and policy decisions in each particular country that have not always met the most urgent needs or led to investment in the most strategic and urgent areas.

10. The host of recommendations, agreements and commitments adopted within the United Nations, especially within UNCTAD, with a view to reorganizing trade and providing more effective external financial assistance for the development of the countries on the periphery, have not been translated into specific decisions involving changes in the policies which have made the position of the developing countries more and more precarious. It is very important, too, to examine the experience acquired in the regional programmes implemented during the current decade in connexion with the Alliance for Progress, because they represent the first attempt to organize international co-operation for development. We cannot but recognize now, nearly at the end of the nineteen-sixties, that, although some progress has been made in significant areas, the targets have not been achieved and social conflict and tension has increased because the fundamental internal and external problems of Latin American development, far from being close to solution, have become gradually worse.

11. Therefore, it would be pointless to formulate a programme for the second Development Decade that would do nothing more than fix new targets and make recommendations and proposals that would largely be a repetition of those already made. It is urgently necessary to attack the fundamental problems, present them clearly, and examine possible solutions and practical measures to achieve them. The targets which are eventually fixed will then be closely related to basic decisions in both the internal and the external spheres.

12. The first step must therefore be an examination of Latin America's experience so as to gain a deep understanding of the real nature and scope of the development problems it now faces; a detailed appraisal must be made of the economic and social effectiveness of the structural framework in which Latin America's development is taking place and of the policies that are being applied, on the basis of which the basic components of a new strategy can be determined.

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13. It might be argued that the United Nations action programme for the coming decade should focus mainly on the problems of external trade and international financial co-operation, since it is quite obvious that national policy decisions are exclusively within the purview of Governments. However, it must not be forgotten that the effectiveness of external co-operation and the advantages derived from any eventual expansion of trade will depend primarily on the decisions taken by each developing country. In this respect, the United Nations, and ECLA in particular, has an important part to play in supplying Governments with data and information on the basic philosophies underlying the development policies among which will have to choose those they wish to implement.

14. The ECLA secretariat is submitting a set of documents to the Commission at its thirteenth session which set out the initial conclusions reached in its efforts to re-evaluate the problems of Latin American development and to determine the main objectives of the strategy that should be adopted at the national, regional and international levels.

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Chapter I

EXPERIENCE IN THE PRESENT DECADE AND STRUCTURAL OBSTACLES
TO ECONOMIC AND SOCIAL DEVELOPMENT

A. EXPERIENCE IN THE PRESENT DECADE

1. Two things characterize Latin America's experience in the present decade. One is the advances made in important aspects of development policy, and the other, in contrast to this, is the sluggish pace of economic and social progress, to the extent that social unrest and conflict have been aggravated and the long-standing obstacles to economic growth have taken on new dimensions.
2. The salient developments in the nineteen-sixties include the advances made in economic and social research; the efforts to integrate development problems in a more fruitful inter-disciplinary context than in the past; a firmer and more widespread conviction of the need for institutional and structural changes; a greater understanding and practical knowledge of development problems; and the technical competence that has shown itself in Latin America as the first steps have been taken towards the organization of planning and the preparation of plans, notwithstanding the difficulties and lack of previous experience in this field.
3. Attention is drawn to the progress made in public sector planning, the firmer action in curbing inflation, the launching of agrarian reform programmes in some countries, and the extension of social services in respect of education, health and housing.
4. Outstanding developments at the regional level were the policy decisions which set in motion the regional integration processes and the institutions designed to promote development, including the Inter-American

Note: For want of information, Cuba and some of the other Caribbean countries are not considered in this document. Further, the analyses of development policy relate to the Latin American countries in general but not to Cuba, since the conceptual approaches are necessarily different because of Cuba's economic and social system.

Development Bank. Particularly significant was the co-ordinated action of the Latin American Governments in the discussions on foreign trade and financing, especially in relation to UNCTAD's activities.

5. The financial and technical co-operation programme of the Alliance for Progress was a highly important development in the external relations of the Latin American countries. This programme represented the first attempt by an organization to ensure the external co-operation required for national development plans. It gave impetus to planning, particularly in the early stages; it established economic and social development goals; and it encouraged the channelling of external resources towards the participating countries.

6. There is no denying these and other advances; but, instead of inspiring optimism, recognition of them brings with it a profound disquiet regarding the ultimate course of Latin American development. There is also a growing conviction that the economic and social effectiveness of the growth structure and of national economic and financial policies needs to be evaluated; and an awareness of the shortcomings of international co-operation and the severe limitations which the industrial countries' policy places on the development of the Latin American countries.

7. At the close of the decade, the Latin American economies are far from having established the basic institutions and structures that would ensure more stable economic and social progress. The changes required are going forward very slowly, or they are too timid or barely perceptible. The expected improvement in income distribution has not materialized. The economic growth rate of the region as a whole (4.8 per cent annually), although higher in certain years, such as 1968, averages less than the rate for the first fifteen years after the war. Further, the goal of raising the average per capita income by 2.5 per cent annually has not been achieved in a large group of countries comprising nearly 70 per cent of the population in the area covered by this programme of co-operation.

8. The external financial position of the Latin American countries is highly vulnerable and is becoming more so. Their indebtedness has more than doubled and service payments absorb an excessive proportion

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of their exports, to the point where remittances of profits and interest, and amortization and other payments on foreign capital, have come to represent over 35 per cent of the current value of exports of goods and services for the region as a whole.

9. A matter of grave concern is the frequency and the volume of private foreign investment in the acquisition of Latin American enterprises engaged in traditional economic, financial or other activities, without there being any technical or other justification for these foreign take-overs and the weakening of Latin American enterprises.

10. Regional economic integration is beset by difficulties, even though continuing progress has been made in the Central American area and steps have been taken to establish new subregional groupings.

11. It is not easy to generalize in Latin America because of the different stages of development and the wide range of economic and social structures to be found in the countries of the region. Some aggregate figures may be considered, however, since they are indicative of essential aspects of the economic and social situation prevailing in the Latin American countries. The precarious conditions they indicate may be worse than they really are in a few countries, but at the same time they err on the side of under-statement about the conditions prevailing in the rest.

12. The over-all magnitude of Latin America's economic and technological backwardness is reflected in the estimated figure for the average product per person employed, which is barely 1,400 dollars. This productivity ratio is one-quarter to one-sixth of that recorded in industrialized nations like the United States and the Western European countries. The low average is undoubtedly determined by the minimal productivity of the large proportion of the economically active population which may be regarded as structurally unemployed. The scale and nature of this backwardness stand out even more clearly, however, when they are considered in the light of the fact that probably less than 10 per cent of the labour force is employed in enterprises or units which may be termed relatively up to date in Latin America, and which produce about 50 per cent of total output, while at the other end of the scale one-third of total employed manpower accounts for possibly less than 10 per cent of the aggregate product.

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13. These differences in productivity levels, which were observable in the past between rural and urban activities, are becoming more and more pronounced in all economic sectors and are the result of the sharp disparities in the degree to which technical improvements have been introduced and become widespread, and economic activities have been modernized. It is common knowledge that in the more advanced industrialized economies there are also sizable disparities in the product per person employed in different economic activities, but in those countries they occur at much higher levels and are not so marked as they are in the Latin American countries, particularly in the rural subsistence sectors and marginal urban activities. Moreover, in the region they are linked to other factors that make up the stereotype of economic and social backwardness.

14. Productivity increases very slowly and very unequally in different sectors and even in different strata of the same economic activity. Thus, in the rural subsistence sectors and in various urban services, the product per employed person is virtually at a standstill or is even diminishing, on account of the pressure of surplus manpower. The picture is quite different in the industrial countries, where there is a tremendous dynamism which extends to all activities. The growth rate of Latin America's over-all productivity is half that of many industrialized countries, and even less than half that of Japan and some of the socialist countries. These disparities are particularly striking in the agricultural sector, whose backwardness is one of the most serious problems of Latin American development.

15. Productivity is a highly complex problem in Latin America. In the industrial countries, increases in productivity are constantly being favoured by the existence of broader and more diversified markets, and by the improved techniques which they themselves develop; in the developing countries, any long-term improvement depends fundamentally on capital formation, better manpower training and organization, the expansion of domestic markets, and access to external markets.

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16. The weakness of the Latin American economic process is apparent in its inability to absorb the working population in productive employment. This is undoubtedly due to the slackening of the economic growth rate since the mid-nineteen-fifties and the fact that the population growth rate is the highest in the world. Other factors which are bound up with the conditions and structures of the Latin American economies and the patterns of income distribution have had a particular influence on structural unemployment, as will be seen later in this document.

17. A study of the position in 1960, which no doubt gives a fairly accurate picture of the present situation, showed that 40 per cent of Latin America's economically active manpower was underemployed, openly unemployed, or employed in what are to all intents and purposes unproductive services. This section of the labour force included workers on sub-family agricultural units, artisan-type workers and the superfluous staff employed in trade and general services. If certain minimum levels of productivity are applied to this segment of the population, for example to that employed in agricultural family-type units and small-scale industry, it may be concluded that, in terms of unemployment equivalent, about one-quarter of the population working in the sector is unemployed. This represents the exceptionally high figure of nearly 25 million persons.

18. Almost half this unemployment equivalent is found in agriculture, more than one-quarter in trade and other services, including government, and nearly one-tenth in artisan-type industry and construction.

19. The low average product per person employed, the marked disparities in productivity in all economic activities and the scale of structural unemployment are three interrelated factors which account for the low average level of income prevailing in the region. Together with the other factors connected with income distribution, they also explain the extreme inequality in the distribution of income and, consequently, of consumption. Although there are appreciable differences between countries - Argentina having the highest income and the least inequitable income distribution - the over-all figures are useful in assessing the magnitude of the problem. In real terms, average per capita personal income is

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only about 410 dollars a year; but while for half the population per capita average is probably some 120 dollars, for the upper strata, representing 5 per cent of the population, it is 2,600 dollars.

20. Consumption in the low-income strata comprising half the population represents only two-tenths of total consumption, while three-tenths are absorbed by the upper 5 per cent. In other words, while the bulk of the population subsists under the unsatisfactory material and cultural living conditions shown by these indexes, a relatively small proportion has attained a level and range of consumption similar to those found in countries with much higher incomes. Although these figures cover differences in income and consumption between the countries of the region, in some of which these disparities may be less pronounced, and although they are the result of preliminary estimates based only on the incomplete data available, there is no doubt that they indicate orders of magnitude that bear out the seriousness of Latin America's economic and social problem.

B. THE STRUCTURAL CAUSES OF THE LACK OF
ECONOMIC AND SOCIAL DYNAMISM

1. The lessons of the nineteen-sixties have again shown that the basic causes of Latin America's economic and social backwardness are deeply rooted in the operation and structure of the economy. Unless something is done to remedy them, it will be impossible to speed up the process of development and achieve a more equitable pattern of income distribution which will, after a reasonable lapse of time, enable the "other half" of the Latin American people to join actively in the production process, appreciably improve their living conditions and find a place in an effective plan for social development.

2. In this paper it is not proposed to enter into a detailed description of the economic, social and institutional factors that are blocking the development of the Latin American countries. Some of these will be discussed in the documents presented at the thirteenth session of the Commission, in which an account will also be given of the different situations that reflect the varying stages of economic development reached by the Latin American countries. It is useful, however, to draw attention to the more generalized structural factors, even though they differ in degree from one country to another.

(a) Economic development, capital formation and income distribution

3. For economic and social development, the essentials are an immediate increase in the product per economically active person and a structure which is capable of absorbing manpower while stepping up the growth rate of productivity and income, especially in the social sectors which are lagging behind. These aims can be achieved only by accelerating capital formation, spreading modern technical know-how and introducing more efficient forms of production, training the labour force and ensuring that resources are allocated for specific economic and social ends.

4. In Latin America aggregate capital formation is relatively low. During the nineteen-sixties the coefficient of gross fixed investment has been 17 per cent, which is less than in countries with a higher growth rate. Given the average level of income in the region, this coefficient

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is fairly high, but there is such a high concentration of income in the upper social strata that the coefficient could have been much higher were it not for the high consumption levels in those strata. Moreover, if the high relative prices of capital goods compared with consumer goods are adjusted, and investment is calculated at its true value, the gross investment coefficient will probably not be more than 12 per cent.

5. This coefficient would seem to indicate that the capital-output ratio is more favourable in Latin America than in other developing areas. It signifies an average historical gross marginal ratio of 2.5, whereas it has actually been over 3 on many occasions. While this index undoubtedly reflects the general shortage of capital resources in relation to the labour force, it has also been influenced by the distorted economic structure in Latin America, in which a large proportion of the social product derives from the abnormally high absorption of surplus manpower in trade, financial services and other general services, including government activities.

6. Apart from the shortage of capital, there is another fundamental problem connected with its sectoral distribution, that is, with the structure of investment. The large proportion accounted for by consumption in the high-income groups has an impact on demand for goods which come into the category of luxury items in comparison with the average living level of the vast majority of the people, particularly in so far as durable consumer goods are concerned. This distribution of resources limits the subsequent extension and magnitude of the potential social effects which the development process should be producing at the stage it has reached in Latin America. It is essentially a cumulative process in which the concentration of income stimulates demand for certain items and keeps demand for consumer goods low in the poorer population groups.

7. The resources which are directly or indirectly assigned to satisfying the needs of the high-income groups reduce the amount available for

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investment in the traditional industries producing consumer goods in popular demand and for increasing the social services which should be provided by the State, namely, food, clothing, housing and education. They also curtail production and imports of essential intermediate and capital goods, which would raise productivity in the more backward sectors of the economy and permit more manpower to be employed.

8. The establishment of durable consumer goods industries, which have been very dynamic, especially in the countries with a more advanced industrial sector, has undoubtedly had a multiplier effect on other economic activities to one extent or another, depending on the proportion of domestically-produced inputs used, and has created a wide variety of new lines of activity, with the resulting effects on the industrial experience of the Latin American countries. However, the point at issue here is whether the potential economic and social effects would not have been greater if such resources had been earmarked for the other purposes envisaged or for building up an industrial structure capable of competing on foreign markets by developing exports of manufactures and semi-manufactures.

9. If those resources had been used in other ways, as suggested, they would have provided the national economies with a broader base for expansion, made income distribution more equitable and helped to eliminate, or at least ease, the external bottleneck with which the process of development is confronted.

(b) Agricultural production

10. The institutional, social and economic conditions prevailing in the agricultural sector are one of the most formidable obstacles that Latin American development has had to face. In spite of the shift of population towards the towns, a large proportion of the structural unemployment that exists is still found in rural areas, and this added to low wage levels, keeps the annual per capita income of two-thirds of the economically active rural population down to the tiny sum of 275 dollars.

11. In recent years, the growth rate of the agricultural sector has shown signs of quickening. However, it has not done so sufficiently to satisfy domestic demand although this has been increasing very slowly on a par with income, and the inflexibility of agricultural production has often created inflationary tensions that have reduced real wages. Moreover, opportunities of developing certain exports have been lost, and large quantities of agricultural commodities, which could have been made available by expanding production locally or at least in the region, have to be imported.

12. Because of its very nature and magnitude the economic and social problem of agriculture is a built-in and significant part of the problem of Latin American development as a whole. Its fundamental causes are well known: the land tenure system, technological backwardness, low productivity and the small volume of investment. The land reform programmes launched in various countries have met with serious obstacles and opposition of different kinds. More far-reaching, generalized and prompt action must be taken to sweep these obstacles away, since only in this way can rural income be raised and its distribution improved, and the national economies fired with greater dynamism.

(c) Import-saving industrialization

13. The industrial growth that has been taking place in Latin America is representative of the great development drive of the last ten years or so, and has played a decisive part in shaping the economic and social structure of the Latin American countries. Much experience, knowledge and familiarity with industrial questions have been gained thereby. It is clear that these countries now have a much sounder foundation on which to build up a more efficient economic and social development policy. This must be recognized even though the process of industrial development may be attacked from every angle; and these attacks are, in fact, justified, since it obviously has defects that are obstructing the future development of the Latin American economies.

14. Indiscriminate import substitution under the shelter of exaggeratedly high tariff protection has led to extensive industrialization which, at its present stage, is characterized by a distorted structure of production that is both costly and inefficient in some vital aspects. An attempt
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has been made to produce the goods that are most desirable from the standpoint of the national or foreign private entrepreneur in the light of market requirements. Durable consumer goods industries have thus been developed, in the more advanced countries in particular, instead of strengthening strategic development activities such as steelmaking, and the chemical, petrochemical and machinery and equipment industries. The establishment of a large number of plants of inadequate sizes meant that capital has been squandered and productivity kept down. Where economies of scale could be meaningful, they have not been achieved, and much of the capacity is under-utilized. Lack of specialization in industrial plants keeps costs up. Traditional family-type management is another barrier to the modernization of enterprises. Their technical shortcomings have thus been compounded with financial weakness, particularly in the inflation-ridden countries. These, then, are the factors that partly explain why more and more Latin American firms are passing into foreign hands.

15. This type of industrial structure has been determined by the lack of an industrial policy with clear-cut development goals, and the restriction of output to national markets. It will be no easy task to rectify it, and gradually introduce a climate of competition into Latin American industry which will lead to greater efficiency in the use of the resources and production capacity available. This may be done much more easily if a fresh impetus is given to industrial development, which seems to have been flagging in the last few years. In the context of a development strategy, two things are clearly essential: to strengthen national markets and to make industry export-oriented. The absorption of redundant labour in productive activities, a policy of income redistribution and a programme of land reform will immediately contribute to the former. Integration and the sale of industrial goods outside the region will bring with them the advantages of a broader market and the incentives for continuing the process of import substitution in a more efficient way.

/(d) External

(d) External structural factors

16. The origin and nature of the external bottleneck in the Latin American countries, and the way it makes the development process undynamic and vulnerable are common knowledge. A policy centred largely on import substitution, and the want of effective measures to make the necessary adjustments to produce a structure of economic growth that would be geared to the more dynamic international trade activities, keep these countries dependent on primary commodities and their traditional markets, with all the limitations and instability that this implies.

17. For obvious reasons, import substitution has failed to remedy the chronic deficit in the balance of payments and has established external relations that are extremely inelastic in that they have been confined to essential intermediate goods and capital goods, although more flexible conditions do exist, especially in the countries that have made least progress with import substitution. External borrowing, the other method that has been used, has made the situation even more inflexible and has increased the vulnerability and dependence of the Latin American economies because of the tremendous burden placed on them by financial servicing and the close connexion that has been established between the growth rate and external indebtedness. Things have now come to such a pass that, if their external capital inflow were to diminish, many countries would be faced with an insoluble problem, since, in order to service their external debts and investment, they would have to slash imports to an impossibly low level.

18. Although export income has been growing more vigorously in recent years, as, for instance, in 1968, the external bottleneck is still very much in evidence. It is all too well known that the economic growth rate of many countries would have been much higher, even with current policies, if there had been no such obstacle. This is confirmed by the improvement in the growth rate achieved by those countries which have had fewer external difficulties to grapple with, and by immediate response of the growth rate in every country when there is an expansion at exports or of external purchasing power, except, of course, when stabilization policies are being applied.

19. It may not be out of place to go further into certain aspects of the influence of the external bottleneck on economic trends, namely, its repercussions on the mobilization of domestic savings. When the potential trade gap is greater than the potential domestic savings gap and a country has to borrow to cover its balance-of-payments deficit, it is highly probable, as Latin American experience has so often demonstrated, that the economy will eventually adapt itself by creating idle capacity or reducing the domestic saving coefficient. In both cases, domestic resources are squandered and future development is undermined by the burden of debt servicing. Adjustments of this kind are even more undesirable when the relative increase in consumption takes place, as it is most likely to do, in response to the pressure of demand from the high-income groups, thus accentuating the concentration of resources in certain lines of durable consumer goods production and widening the consumption gap between those groups and the lower income strata. The results are similar when the potential savings gap is closed by external loans, even if the export and import situation happens to be more favourable. This does not suggest that external contributions are unnecessary or prejudicial. What must be made clear is that an effective policy is needed to ensure that any such resources fulfil their true purpose of facilitating the mobilization of domestic resources for productive ends, and that the only sound and lasting remedy for the external bottleneck is essentially to develop exports.

20. The magnitude of the bottleneck, in terms of the share of imports, depends on the uses to which imports are put and the general efficiency of the production system. A change in the structure of production and consumption as the result of a new policy, and more efficient direct and indirect utilization of imports, such as machinery and equipment, would narrow the current and potential gaps that cause the bottleneck. In many cases, the bottleneck could be reduced, but it might even become tighter. This possibility is particularly important, since estimates of the potential trade gap are generally based on historical ratios between imports, on the one hand, and consumption, investment and the

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product, on the other. In other words, the magnitude of the potential gap partly corresponds to a specific economic structure and can be altered to the extent that a new policy modifies that structure.

21. It should be pointed out, however, that, as will be seen in chapter II, despite any saving in imports that may be achieved, it will be extremely difficult to speed up the economic and social development of Latin America if the external bottleneck is not removed. There are two main reasons for this: (a) prospects for commodity exports, which bring in more than 90 per cent of the region's export income, are frankly unfavourable; and (b) import requirements of essential intermediate goods and capital goods will increase considerably, during the early stages at least, because of the importance of external supplies. The efforts that must be made to mobilize domestic resources will thus largely be thwarted unless external accounts, and exports in particular, take a more favourable course. Hence, it is vitally important for development policy to promote industrial exports and accelerate the integration process without delay regardless of any steps that may be taken to increase potential earnings from primary commodities and to obtain satisfactory terms for external financing.

Chapter II

PROSPECTS AND POSSIBILITIES FOR ECONOMIC DEVELOPMENT IN THE COMING DECADE 1/

An analysis of projections of the prospects for economic growth will help to give a more comprehensive picture of some of the important points raised in the preceding chapter relating to the structural causes of the economic and social backwardness of the region, and to provide criteria on the basis of which the nature of the problem can be identified more precisely and the basic objectives of development policy and strategy can be defined. The projections cover three fundamental components of the growth rate: (a) the mobilization of domestic resources, with special emphasis on savings needs; (b) external trade requirements; and (c) external financing. The chapter ends with an examination of the effect of the growth rate on the problem of structural employment.

A. THE POTENTIAL DOMESTIC SAVINGS GAP

1. Technical studies of eighteen Latin American countries show that, despite the high concentration of income distribution in certain strata, not enough savings are being generated to raise the current economic growth rate to any significant extent. Unfortunately, an analysis of this kind inevitably has serious limitations, since no studies exist showing the sources of savings, their outlets, or their movements and uses in Latin America. Hence, any analysis has to be based on the savings that eventually become investment capital. Nevertheless, despite these limitations, it is useful to discuss this topic because of its important implications for development policy.

1/ The document entitled "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831) contains the basic analysis and technical information relating to the topics discussed in this chapter.

2. It might be expected that as income increases the savings coefficient would rise and thus speed up the rate of capital formation. This does not appear to be the case in Latin America. It is clear that the external bottleneck, as a result of a number of factors, makes it difficult to use domestic savings productively, but other components of the economic and social structure are also responsible for the phenomenon. Recent experience in Latin America includes cases in which a relatively high growth rate, stimulated by external financing, has been accompanied by an increase in investment and in the domestic savings coefficient. This is a favourable pattern of development, since the external debt then has the effect of strengthening productive capacity and of multiplying domestic resources, gradually leading to a self-sustaining growth rate. This is the exception to the rule, however, and in many countries this process has not led to any significant rise in the savings coefficient. The most striking examples of a rise in the ratio of savings to the total gross domestic product are found in special circumstances in which stabilization policies lead to an improvement in the balance of payments because of cutbacks in imports, or in which there is an exceptionally large increase in export receipts.

3. Generally speaking, it may be said that because of external factors, the consumption pattern of the high-income groups, or the extremely low income level of the vast mass of the population, two facts stand out as being significant for future economic development. First, the savings-investment process does not have the flexibility in Latin America that it has in the industrialized countries; and, secondly, it cannot be said that the process is self-sustaining in the sense that an increase in income, even if the result of external financing, automatically leads to increases in the savings coefficient. This depends on structural changes and on deliberate action rather than on the free interplay of the variables involved.

4. Turning to the analysis of growth rates and savings trends in eighteen countries, the projections for the nineteen-seventies show that if the ratio of savings to investment remains unchanged, the amount of domestic savings generated in sixteen countries will not be sufficient to finance the investment needed to sustain an annual growth rate of

6 per cent. In 1975, eight of these countries are expected to have a savings gap of between 10 and 30 per cent of gross fixed investment; six a gap of 30 to 40 per cent, and two of more than 40 per cent. In the region as a whole, the savings gap is expected to total some 5,600 million dollars in 1975 and 7,200 million in 1980, representing in each case more than one-fifth of the value of total investment. These amounts are equal to the amount of net external financing that will probably be needed to sustain an annual growth rate of 6 per cent. The sheer size of the problems stemming from these potential savings gaps is evident if it is remembered that the maximum amount of external financing received by the region as a whole has not exceeded 2,000 million dollars in recent years. It should be noted, however, that two or three countries account for a large proportion of the totals, and that the estimates, which relate to investment trends and not to the amount of savings that may actually be generated in these countries, in some cases exaggerate the actual size of the potential savings gap.

5. Assuming a growth rate of 6.5 per cent, seventeen countries are expected to have savings gaps totalling some 8,000 million dollars in 1975 and 11,000 million in 1980, representing in each case close to one-fourth of the total value of investment in these countries. Assuming a 7 per cent growth rate, all countries of the region would have potential savings gaps, which would total some 10,500 million dollars in 1975, or 27 per cent of the value of investment. In brief, irrespective of the effect of disparities in the distribution of the savings gap between countries and of technical errors in compiling the figures, these estimates do give an idea of the huge problem involved in mobilizing domestic resources in order to speed up economic growth.

6. In many cases the savings gap is greater than the balance-of-payments deficit resulting from the trade gap, as will be seen in a later section. Moreover, the gaps are more pronounced in the initial stages of speeding up the growth rate. It is important to remember that if, in these hypothetical circumstances, the savings gap were to be covered by external financing in order to attain the growth target fixed, the economy would adjust itself by stimulating imports over and above anticipated requirements.

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Moreover, it is most likely that there would be an increase in imports of luxury or non-essential consumer goods or the inputs would take the place of goods which might be domestically produced. In addition, a policy of this kind would tend to act as a disincentive to export expansion programmes.

7. This analysis is more than a mere academic exercise. A careful examination of trends in several countries of the region would show cases in which restricting the potential growth rate has more effect on domestic than on external factors. Moreover, at least part of the external financing used is needed, not because of a lack of capacity to import but because of the lack of savings for investment. In such cases the external debt functions more as a substitute for domestic saving than as an essential complement to it.

8. Two variables must be considered in order to assess the possibilities and alternative ways of reducing the potential savings gap: one is the capital-output ratio, which determines the amount of investment, and the other is the ratio of savings to income, which provides the bulk of the resources for domestic financing. The first point to be considered is the possibility of reducing the bulk of investment through raising the capital-output ratio.

9. Much is to be gained by making more efficient use of capital, and this should become a basic objective of development policy. There is idle capacity in several branches of industry; there can be considerable increases in productivity and production in the agricultural sector without any need for heavy capital investment; a well-designed policy for investment and the replacement of machinery, and the adoption of technologies more in line with the Latin American productive process and environment, all these are general points which show the great potential of increased efficiency. In addition, a change in the productive structure could save capital, while the new economic and social environment established by development policy would encourage the direct employment of labour in rural and urban areas in capital-saving construction and public works of various kinds.

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10. Nevertheless, these large savings will probably not be enough to offset the relatively greater increase in the amount of investment required to speed up economic growth and social development. The infrastructure must be expanded in such fields as energy, transport and communications, which have long lead times and low capital-output ratios. The same is true for housing construction and the expansion of public services. It must also be remembered that producing essential intermediate goods and capital goods requires modern methods of production and comparatively more capital. Hence, it may well be that the current aggregate capital-output ratio will remain the same or even rise over the long term, given a different and more efficient structure.

11. Furthermore, if the capital-output ratio for the economy as a whole is lowered, this should not be taken as a sign that there is less need for savings, but as evidence that the rate of growth can be speeded up even further, in which case, as is clear from the projections, there would again be a savings gap.

12. In brief, in terms of the savings gap, the possibility of speeding up the growth rate depends on how efficiently capital is allocated and used and on the comprehensiveness of institutional reform and the effectiveness of the policies required to increase the amount of investment capital. A relatively large increase is needed in the investment coefficient in order to change matters. For example, the savings coefficient, which now stands at 16 per cent for the region as a whole, would have to rise to 20 or 24 per cent to sustain an annual growth rate of 6 or 7 per cent. In no case can it be expected that this increase would be financed from external borrowing. Quite apart from the feasibility or rationality of such a course, suffice it to recall that, even in the years when it was at its maximum, net external financing was never as much as 2 per cent of the product. In the final analysis, speeding up economic and social development will require restraints on personal consumption, at least in the initial stages, the brunt of which will be borne by the high-income groups. Hence, the possibility of significantly raising the growth rate depends upon the feasibility and comprehensiveness of the policies adopted.

B. THE POTENTIAL TRADE AND BALANCE-OF-PAYMENTS GAPS

1. The other basic factor to be considered in this evaluation of the projected growth rate relates to foreign trade needs and, in particular, the economy's ability to finance the minimum amount of imports required to attain specific growth targets. This analysis is therefore based on three main variables: projected exports, import requirements and service payments on the external debt and foreign investment. In broad outline, the study of the group of eighteen countries shows that, under present conditions, unless there are substantial changes in world economic and trade policy, or active export promotion programmes are carried out at the national level, current foreign exchange receipts will increase much more slowly than imports, resulting in sizable potential deficits in relation to the growth targets of 6 to 7 per cent under consideration. This situation becomes worse if account is taken of the interest and returns on the debt and foreign investment, because of the size of the potential balance-of-payments gaps. The most striking conclusions drawn from the technical analysis undertaken are given below.

2. Latin America's export prospects are frankly unfavourable. The analysis of each of the eighteen countries indicates that, unless radical changes are introduced in the international economic and trade policy of the major industrial centres and in national policies, the growth of Latin America's exports will slacken in the next decade, and foreign exchange earnings will drop even further if the terms of trade continue to deteriorate. Under existing conditions, it seems reasonable to consider three possibilities for exports: a relatively low annual growth of 3.2 per cent for the region as a whole, a more favourable rate of 4.7 per cent, and an intermediate rate of 3.7 per cent.

3. These three alternative possibilities are based on present trends, an evaluation of the prospects for the various exports in each country, and the promotion programmes at present under way. The most favourable assumption relates precisely to the results that might be expected from those deliberate policies. It must be emphasized, however, that these assumptions do not take into account the ultimate effects that might

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derive from a more rapid development of regional trade or from radical changes in the flows of primary and industrial products to traditional markets, socialist countries or other developing areas, since the aim here is rather to evaluate the potential foreign trade gap in relation to the prospects envisaged for what have hitherto constituted the predominating trade flows and patterns.

4. A rise in the economic growth rate would call for a substantial increase in imports, especially in the initial stage, because of the necessary expansion of investment with a high import content. Imports of intermediate products in the region as a whole amount to about 5 per cent of internal income, and external purchases of machinery, equipment and other goods destined for capital formation absorb 20 per cent of total investment. Thus, if the past trends of the various import items are projected in relation to the product and internal investment on the basis of an over-all growth rate of 6 per cent, it will be seen that the value of imports would grow at an average rate of 5.3 per cent, and if the product rose 7 per cent in the next decade, imports would increase by 6.2 per cent annually.

5. A comparison of the intermediate assumption for export projections (3.7 per cent) with import needs corresponding to a growth of 6 per cent for the domestic product shows that, by 1975, fifteen of the eighteen countries studied would have a potential trade gap of 1,600 million dollars. By 1980 the gap would have increased to some 2,800 million dollars for sixteen countries. If, for purposes of illustration, consideration is given to the assumption that those trade gaps would be completely covered by increased borrowing under the same conditions as those ruling at present, the resulting potential balance-of-payments deficit would be 3,800 million dollars in 1975 and 6,600 million in 1980. The size of the problem represented by these deficits can be appreciated if it is recalled that the highest balance-of-payments deficit recorded in the last few years was about 2,000 million dollars. These estimates show the exceptionally heavy burden represented by external servicing, even without computing the amortization of the present and possible future debts.

6. The analysis also shows that, of the seventeen countries that would present balance-of-payments deficits in 1975, only four would have a deficit of less than 10 per cent of export income, in eight the proportion would range from 10 to 40 per cent, and in five it would be more than 50 per cent. These proportions would follow an unfavourable upward trend up to 1980, since the potential balance-of-payments deficit tends to grow more rapidly than export earnings.

7. The great influence of exports in determining the potential deficit is revealed by a comparison of external income on the most favourable assumption (4.7 per cent) with import requirements corresponding to the growth target of 6 per cent. In this case a trade gap would occur in only nine countries in 1975 (700 million dollars) and in eleven countries in 1980 (1,600 million dollars). The remaining countries would show a potential surplus which would exceed those deficits. If the potential profit and interest payments on the deficits and the cumulative debt were computed, the balance-of-payments deficit would increase to about 1,600 and 3,600 million dollars, respectively. The growth of exports by 1 per cent more per year would considerably reduce the potential deficit and in this case holds out brighter prospects for a more dynamic economy. In other words, the more favourable export assumption implies the feasibility of a significantly higher growth rate for the domestic product than that deriving from the past trend. Naturally, this inference must be taken only as a general indication, since the projections for each country would have to be examined to provide a basis for more specific conclusions.

8. The effect of a projected over-all growth rate of 7 per cent in relation to the most favourable rate of expansion of exports must now be considered. The potential trade gap would extend to fifteen countries in 1975, amounting to about 2,900 million dollars, and to sixteen countries in 1980, totalling a little over 5,000 million dollars. Only three countries would account for 70 per cent of that gap, however. These gaps would double if account is taken of actual and potential interest and profit payments on investment and on the external debt that would eventually be incurred. Once again service payments (even without counting amortization) show the extent to which they are instrumental

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in limiting ultimate economic growth. It must now be determined what are the main assumptions and possibilities that would reduce such gaps to tolerable proportions. In principle, there are three points on which to work: imports, exports and servicing.

9. It does not seem feasible, in principle, to accentuate import substitution, thereby reducing import needs, particularly if the process continues to be confined to domestic markets; this is not on account of technical difficulties but because of the greater economic efficiency required in each country's industrial development. Obviously, however, fairly extensive saving is possible in respect of imports, especially of goods which are directly or indirectly destined for luxury or deferrable consumption and which in one way or another contribute to the potential gap projected on the basis of past trends. It would not be feasible, however, to curb imports of essential intermediate products or capital goods, particularly in the first stage of speeding up economic activity. Moreover, situations might well arise where it was necessary to increase external supplies of popular consumer goods over and above those projected. These limitations of import substitution are, of course, much more severe in the case of the small- and medium-sized countries of the region.

10. The expansion of exports clearly represents the soundest and most effective structural solution. The projections show the considerable importance of the growth of exports in reducing the potential gap, because of its effects on the trade balance and servicing. With a larger volume of exports it may be expected that the growth rate will be higher and that conditions for a more efficient industrial policy may be established. In this respect, external financing is not an alternative to the expansion of exports. The latter is an essential objective and the former a supplementary recourse. The possibilities of increasing export earnings depend on the specific results that may be obtained from international action in the field of primary products, and on the ability of the Latin American countries to break into world trade in manufactures. Regional integration once again emerges as the fundamental instrument of national development because of the immediate contribution it can make towards bridging the trade gap and achieving a more rational structure of the Latin American economies, by enabling import substitution to continue in a broader market and exports to expand through reciprocal trade.

C. PROSPECTS FOR THE GROWTH RATE AND
TREND OF STRUCTURAL UNEMPLOYMENT

1. The following general conclusions can be drawn from the analysis of the projections described in the previous sections: (a) unless the necessary structural changes are made to mobilize investment resources on a bigger scale, it will be clearly impossible to make any significant improvement in the present rate of growth; (b) a technically feasible growth target of 7 per cent for the regional domestic product in the next decade would entail radical changes in economic policy and the production structure if personal consumption is to be prevented from expanding; (c) this limitation could apply only to consumption in the higher income groups; (d) the possibilities of achieving a more dynamic rate of this kind will depend on the rapid growth of export income; (e) the expansion of regional trade through the integration process now under way and other agreements that may be concluded offers immediate possibilities of achieving the specified development objectives more easily; (f) contributions of external resources are needed, especially to solve the problem of the potential external deficit; and (g) external financial co-operation of this kind will have to be given on highly favourable terms because of the heavy debts borne by the Latin American countries.

2. This analysis should be rounded off by a few words on the future trend of structural unemployment, which has reached such alarming proportions that it has to be a key issue in every development strategy. During the next decade, the labour force will be increasing more rapidly than in the nineteen-sixties. It is estimated that the annual growth rate of the economically active population in the region as a whole will rise from 2.8 to 3 per cent. In a large number of small countries this rate will be as high as 3.5 per cent, and only in Argentina and Uruguay will the growth of the labour force be relatively small. Hence, it may be said in general that if the rate of economic growth continues to be the same as in the past, the problem of structural unemployment will become even more acute and will assume extremely serious proportions because of its social repercussions.

3. Some very broad analyses indicate that if the increase in the labour force is to be absorbed into productive activities, it will be imperative to have a growth rate of 3 to 4 per cent per capita, depending on the country concerned. Even this would be too little for dealing with the arrears of /structural unemployment,

structural unemployment, which have been estimated as equal to a quarter of the economically active population in the region as a whole. From an over-all appraisal of a rather conjectural nature, it has been assumed that with a growth rate of nearly 6.5 per cent it would just be possible to absorb an annual increase of 4 per cent in the labour force, and thus keep absolute structural unemployment to its present level. If this unemployment is to be done away with by the end of the next decade, with given productivity levels, there must be sufficient economic growth to provide employment for an additional 5.5 per cent yearly. This would entail an annual increase of no less than 8 per cent in the domestic product. These are, of course, global estimates whose only purpose is to give an idea of the magnitude of the problem, and they are based on hypotheses that must be tailored to the conditions prevailing in each country and to the findings of a more precise analysis of the alternatives that will present themselves as the economic structure evolves, with particular attention to the possible effects of land reform on the retention of a larger number of economically active persons in agriculture and the impact on employment of a change in the structure of demand associated with a redistribution of income.

4. These projections, although conjectural, state the great problem of Latin American development in unequivocal terms. On the one hand, there are the heavy limitations placed on economic growth by the potential savings and balance-of-payments gaps, and, on the other, there is the urgent need to speed up such growth by finding productive employment for a rapidly growing labour force and for dealing with the extensive structural unemployment that has accumulated.

5. Obviously, if present trends persist, and it proves impossible to reduce the potential balance-of-payments gap or to apply a policy that would radically alter the mobilization of financial and real domestic resources during the next decade, unemployment will increase and income distribution will become even more inequitable, thus adding to the vast numbers of people who live in such deplorable conditions today. This will happen even if the Latin American economy continues to grow at its present tempo. The prospects may of course vary from country to country, since the problem of employment will be less critical in some, but in others it will be more acute than the over-all figures for the region would suggest.

Chapter III

ESSENTIAL FEATURES OF DEVELOPMENT POLICY

A. GENERAL APPROACH

(a) The main objectives of development strategy

1. It is impossible to envisage a standard development strategy and policy for the Latin American countries. This cannot be done even for each of the traditional groups of countries (large, medium-sized and small) which are generally considered in the analysis, because there are considerable differences between the countries which they comprise. Nevertheless, just as structural development problems and obstacles were identified as prevailing, in differing degrees, in the region, it is also possible to define essential features of development strategy which are fairly broadly applicable, although their practical implementation would depend on the particular conditions existing in the countries of the region and on the decisions of their Governments.
2. Latin American development strategy should have three essential objectives. The first, of course, is to accelerate economic growth and productivity in a more consistent and permanent way than in the past; the second, which is a must because of the situations prevailing in the countries of the region, is to solve the problem of structural unemployment and the productive absorption of the rapidly expanding labour force; and the third, which is more directly related to social aims, is the redistribution of income. A fourth objective, while partly implicit in the first three, deserves special consideration: that economic growth should be aimed at correcting the pronounced disequilibria and disparities in the regional distribution of production and income within the actual geographical context of the national economies.
3. It might be thought that these objectives were interrelated and that the stepping up of economic growth, for example, would suffice to solve the employment problem, improve the distribution of income and promote integration of the national economies. Such reciprocal relationships

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undoubtedly do exist, but their effects are dispersed over time, and they fail to acquire the necessary dynamism and scope owing to the serious nature of those problems. Moreover, as has been seen in reviewing the internal obstacles to development, there are factors inherent in the structure of the Latin American economies which limit the economic and social effects of the evolution of those structures. What is more, unless an adequate strategy is adopted in tune with the peculiar conditions prevailing in the various countries, the results of attaining those objectives may be incompatible instead of supporting one another. This fact is illustrated below.

4. The productive absorption of redundant manpower and of the additions to the labour force deriving from population growth does not depend exclusively upon the rate of economic growth. Other vital factors are the structure of that growth, the sectoral and regional allocation of investment, and production techniques in so far as the participation of capital and manpower is concerned. Thus, the objective of raising productivity may, to some extent be incompatible with the employment aims. An income redistribution policy which results in the expansion of total public and private consumption may weaken the ultimate rate of economic growth and create acute inflationary pressures unless proper attention has been paid to the formation of production capacity or steps have been taken to correct the structural factors limiting production in specific activities, as in agriculture. Likewise, the acceleration of the growth rate, left to the free play of the forces implicit in the present economic structure, may continue accentuating the regional disparities and the unequal distribution of income. Further, it might so happen that deliberate regional development aims were not compatible, in a given period, with the over-all objective of attaining maximum growth in that period. In short, to make these different essential objectives compatible is the problem that must now receive full consideration in national planning. Some aspects of this subject are dealt with later.

5. It is outside the scope of this document to determine the economic growth target that Latin America may attain in the next decade. It is impossible to do so on the basis of a general analysis such as this; it

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cannot be done without making a more specific study of the conditions and prospects in each individual country. Moreover, the rate of growth will depend on how intensive and far-reaching are the measures it is decided to adopt to remove the internal structural obstacles and on how successfully the problem of the external bottleneck can be solved. Broadly speaking, the analysis of projections has provided useful criteria for clarifying this problem. It shows, on the one hand, the severe obstacles represented by the potential savings and foreign trade gaps and, on the other, the need for a vigorous and large-scale drive to absorb the labour force. If an attempt was made to put forward a general estimate, in the light of these data, regarding the growth target for Latin America in the next decade, two considerations would be relevant. First, a growth rate of less than 6 per cent would be unjustifiable, since several countries have already achieved such a rate and the region as a whole came near to it in some years, such as 1968. Secondly, if the employment problem is taken into account, the target should be higher for many countries; but in evaluating the structural factors and especially the external bottleneck, it may be concluded that a target of 7 per cent for the region as a whole would perhaps be the best working hypothesis, although it might prove somewhat ambitious for several countries.

6. Consideration should, however, be given to the region's economic and technological backwardness and to the serious nature of the social problems that threaten to become even more serious for half the Latin American population. The question must be asked whether, in view of this situation, the second Development Decade should not be translated, in essence, into a firm determination on the part of the Latin American countries and a specific commitment on the part of the industrial countries and the international community to adopt the major decisions that will enable Latin America to double its aggregate income by the end of the next decade, through the full utilization of its resources and a more equitable distribution of income among the different social strata.

7. There is one important aspect of strategy which relates to the movement of the growth rate overtime. It is usually suggested that the rate should be raised in stages, starting from the current regional level of 4.8 per cent and moving up gradually until a specific target rate is attained at the end of a fairly long period. A more effective alternative, however, would be to speed up the tempo of economic activity, which for the sake of convenience and brevity can be referred as to the growth rate, as soon as possible. There are two reasons for doing this: first, the urgent need to give employment to the vast mass of labour available, and, secondly, the fact that the increase in the growth rate brought about by higher employment and other factors makes it easier to institute the changes, structural reforms and adjustments that are needed, particularly with respect to income redistribution. A strategy of this kind will be easier to implement precisely because the labour force is larger, because of the significant and immediate effect of action to increase productivity and efficiency, and because of the large amount of idle capacity existing in the essential and consumer goods sectors. Admittedly, the implementation of this strategy would require external financial assistance, most of which would have to come in the initial stages unless the external bottleneck is eliminated or eased.

8. A rapid acceleration of the economic growth rate to approach the annual targets of 6 or 7 per cent requires, of course, a considerable increase in investment. The ratio of investment to the gross domestic product will have to rise from 16 per cent to 20 or 23 per cent or more. Development of this intensity can only be achieved by holding down consumption. This raises the problem of the specific possibilities of achieving the other essential objective of development strategy, namely, income redistribution and a substantial improvement in the level of living of Latin America's population, especially the poorer half which is merely eking out a subsistence living. The basic solution can only be found in cutting down severely the consumption of the high-income groups.

9. It may be appropriate to illustrate this alternative with some figures, which do not claim in any way to represent a quantitative programme. For example, taking an over-all growth rate of 6 per cent, it is possible

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that the poorer half of the population would increase its per capita consumption by 4.2 per cent annually, while the middle-income groups would increase theirs more slowly. If this happened, the consumption of the high-income strata would contract initially and then, after a certain period of time, begin to return to its former level. On this assumption, the poorer half of the population of the region would raise its present annual per capita consumption of 150 dollars to 300 dollars by the end of a seventeen-year period, while the middle-income groups would need twenty years to double their current consumption. If, however, average per capita income grew by 7 per cent annually, it would be possible for the poorer half of the population to increase its consumption more rapidly, and for the middle- and high-income groups to do so as well.^{1/}

10. Taking another alternative, with a per capita growth rate approaching 4 per cent, the poorer half of the population would improve its per capita consumption by 4.7 per cent annually, while that of the richer half would increase at 2 per cent annually, or more, depending on the over-all growth rate. On this assumption, the poorer half of the population could double its consumption within fifteen years.^{2/} In other words, the higher the economic growth rate, the easier it will be to provide productive employment for the labour force and to raise the level of consumption, and also the more feasible it will be to carry out the process of income redistribution referred to above.

11. Hence, it is clear that austerity programmes or restraints on consumption affecting the high-income groups are basically designed to increase the productive capacity of the economy. This is in no way an attempt to make a merely nominal redistribution of income - which in the final analysis would not achieve its objective - but to mobilize the potential resources that exist as a result of the high concentration of personal income and transform them into investment.

^{1/} See Raúl Prebisch, Towards a dynamic development policy for Latin America (United Nations publication, Sales N°: 64.II.G.4).

^{2/} See "El desarrollo agrícola de América Latina" (E/CN.12/829).

12. The immediate effect of this kind of income redistribution policy would be a change in the structure of demand, since demand for mass consumption goods would increase relatively more rapidly. On the last assumption taken, the over-all consumption of the low-income groups would grow by 7.8 per cent annually, their consumption of agricultural goods by 5.6 per cent, and of non-agricultural goods and services by 8.9 per cent, while the over-all consumption of the remainder of the population would rise at slightly over 5 per cent annually. Hence it is clear that there have to be changes in the structure of production and in the way resources are allocated to the various sectors.

13. This kind of process, which affects the structure of demand, would have two effects of special significance: it would broaden domestic markets, creating strong incentives for the expansion of industrial and agricultural production, and as the structure of production changed another very important factor for the absorption of labour would be added to the growth rate, since it is well known that the traditional industries are the most highly labour-intensive.

14. The process would also influence the composition or at least the distribution of imports, although, as seen in the preceding chapter, there would certainly be a considerable increase in the need for imports of essential and capital goods. This again means that these essential objectives of development strategy are dependent to a large extent on covering the potential balance-of-payments deficit, and hence that external financial assistance, especially in the initial stages, is of vital importance.

(b) The basic instruments of the strategy

1. The major decisions and basic instruments which form part of a strategy can have but one purpose: the removal of the internal and external structural factors and the establishment of the basic institutional conditions that will enable the economic and social system to attain its production, employment and income redistribution objectives. Moreover, the nature, scope and force of those decisions cannot but be proportional to the magnitude of the problems that must be confronted and to the severity with which those structural factors are cramping the economic and social growth power of the Latin American countries.
2. In the general approach to the essential objectives of the strategy, it is clear that the mobilization of internal resources must be a fundamental element of the strategy. Such mobilization has two complementary purposes: to increase investment resources on the basis of the saving potential afforded by the high concentration of income, and to channel the real existing and potential resources towards the shaping of a new economic structure that will provide the necessary conditions for a better distribution of real income; in other words, to bridge the potential savings gap shown by the projections, to put productive reserves to active use, to increase the supply of essential production goods, and to direct these resources towards the expansion of capital formation, particularly in public or private activities on which the basic objective of raising the population's levels of living depend. This mobilization of real and financial resources must also help towards achieving the aim of expanding exports of manufactures, as described later in this paper.
3. Agrarian reform is another key piece in this strategy. More than half the existing structural unemployment and the lowest per capita income levels are found in the rural sector, and many countries will be faced with the need to retain a larger proportion of the active population in these areas. Further, the objective of improving the living conditions of the urban and rural population calls for a rapid increase and diversification of agricultural production, which is impossible as long as the present low levels of productivity and the structural factors

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associated with the existing system of land use and tenure persist. Land reform is therefore the key instrument for accomplishing the economic and social changes required by development in rural areas and in society as a whole. It has three complementary aims: to raise agricultural production and productivity, to redistribute rural income by distributing land, facilitating access to it and raising wages, and to help solve the problem of structural unemployment.^{1/}

4. The enormous amount of structural unemployment in Latin America and the expected increase in the labour force in the next decade bring employment policy into focus as another important element of development strategy. Because of the changes that must occur in the over-all composition of demand and because of the desired expansion of exports, it is only logical that the accelerated growth of investment and production, agrarian reform, and the new structure that must be shaped for the Latin American economy will result in a greater absorption of the labour force. It will be necessary, however, to apply an efficient policy for the use of capital that will make it possible to attain the prime objectives of productive employment and maximum levels of production. Consequently, the limitations and possibilities of production techniques will have to be considered in relation to the participation of capital and labour resources, and a policy will have to be framed accordingly. This policy must envisage the external aspects of the selective assimilation of technologies and their adaptation in order to make the best possible use of domestic resources, and it must provide for the promotion of technological research in the countries themselves. Moreover, the scope of the policy must go far beyond the mere consideration of these technological questions; it must also tackle the problem of absorbing manpower directly in specific activities, such as different infrastructure works in the rural areas and the construction of dwellings in urban districts. This subject is referred to again below.

^{1/} See "Agricultural development in Latin America" (E/CN.12/829).

5. Among the questions that cannot be ignored in devising this strategy are the regional aspects of development within the context of the national economies themselves. The concentration of production and income in particular areas, especially in the big metropolitan centres, and the backwardness that still persists, mainly in the rural areas, are well-known problems. It is clear, therefore, that the mobilization of resources, agrarian reform, employment problems and aims of income redistribution will have to be considered in regional terms. What is more, as is discussed later, it is impossible to devise a national development strategy without the help of an analytical scheme offering possibilities of evaluating different proposals for the regional, urban and rural physiognomy and structure of the national economy. Furthermore, the need to promote the countries' internal economic and social integration demands a regional development strategy within the context of an over-all strategy.

6. As has already been said, the strategy must be given specific instruments for removing the structural factors which hamper development. It is now time to identify the kind of action and procedures required to remove the external bottleneck; in other words, to seek ways of covering the potential trade and balance-of-payments deficits shown in the analysis of projections, and of making the Latin American economies less vulnerable in the external sector. This subject is dealt with later in the present document. Here, merely with the purpose of completing an over-all view of the strategic elements, it must be noted that the basic instrument of external action can only be the expansion of exports and, in particular, the promotion of exports of manufactures and semi-manufactures. Latin America's experience in the last few decades, and especially in recent years, is very clear, in the sense that it is impossible to go on solving its problems by borrowing, which is only a temporary alleviation of the external bottleneck.

7. Given Latin America's high degree of dependence on imports of essential and capital goods, and the inadequate rise to be expected in the growth rate of its exports, external financial assistance will be required as long as export receipts remain stagnant. Therefore, over-all

/development strategy

development strategy must also comprise a policy for external financial assistance that will define what international action is necessary, and the means that are most suitable, to ensure that such assistance fulfils the specific purpose of spurring on the economic process to meet the objectives mentioned above. This policy will have to take account of three basic points: first, promoting inflows of the necessary external resources; secondly, ensuring that such resources are not, as often happens in Latin America, a substitute for potential domestic resources; and thirdly, developing a policy under which growth will gradually become independent of external financing as a result of export expansion and an increase in the domestic saving coefficient.

8. The various forms of economic integration in Latin America constitute another basic instrument of development strategy. Integration can have an immediate effect, as it is already having quite a significant extent in Central America - and also, with some difficulties but with signs of promise, within LAFTA - in helping to close the potential trade gap. Moreover, the expansion of Latin America's external market will offer genuine possibilities of progress towards a more efficient process of industrialization. Efforts to promote integration must continue. Given well-designed national policies in which all these various aspects are properly co-ordinated, economic integration is not incompatible with the basic objectives of national development strategy nor with all the other policies through which this strategy is put into effect. On the contrary, it is an essential and extremely effective concomitant of these policies. While there is no point in repeating the proposals that have been made in recent years, it should be noted that direct action is the best way of promoting integration, for example, physical integration through transport and communications, regional programmes among neighbouring states, ... multinational projects, water basin development, and development programmes involving several countries. In addition, there is a need for a reappraisal of the problems and obstacles encountered in integration in the light of recent experience. The ECLA secretariat is working on this task and hopes, in conjunction with the integration organizations, to put forward some suggestions in the near future.

9. To sum up, development strategy comprises four basic instruments of a general character: mobilization of domestic resources, agrarian reform, employment policy, and regional policy in the national sphere; and three instruments relating to the external sector: export expansion - especially exports of manufactures - external financial assistance, and Latin American regional economic integration. The function of national planning is to co-ordinate action and to determine the comparative weight of each of these instruments in the light of a country's particular circumstances. Because of the somewhat limited scope of the present document, development strategy will not be examined in relation to economic sectors or social questions, or in relation to the very important activities of the public sector. Some of these points are covered in the other documents submitted to the Commission at the present session, while others are a specific component of the secretariat's work programme.

(c) Vulnerability and dependence in the external sector

10. A development strategy for Latin America must lay down specific objectives and measures to eliminate the region's extreme vulnerability and dependence in the external sector, which hamper and restrict its development. While it would be beyond the scope of the present document to go into this topic because of its diversity and also because it involves political decisions which are within the purview of States, some points should be noted which relate more directly to the economic, financial and technological matters discussed here. First, Latin American development must be based mainly on Latin America's own capacity, and the effectiveness of the policy and strategy adopted, to mobilize the region's own resources. As noted above, external borrowing is admissible only in so far as it is complementary, and there must be a firm determination to free the future growth rate from its dependence on external assistance; otherwise, development will be at the mercy of changing circumstances and of all the various political and international financial factors that affect the flow of external resources. In this respect, the multilateralization of financial assistance for development projects

/is of

is of primary importance. Secondly, Latin America's virtually complete dependence on imported technology makes it very difficult to use resources efficiently. It is therefore necessary to study suitable ways and means of introducing new technology selectively and adapting it to fit local conditions and the domestic resources available, and to initiate a regional policy for technological research. Thirdly, Latin America's high degree of dependence on imports of essential and capital goods is another limiting factor that can be overcome only through an expansion of production and trade.

11. It will be difficult fully to achieve these and other objectives that affect Latin America's ability to strengthen its development and make it self-sustained if each country acts in isolation, despite the great potential of the larger countries of the region. Stronger and more concerted action must be taken at the international level to promote Latin America's interests, and to solve the enormous problems of the introduction and stimulation of technological progress and the expansion of production, within the framework of effective regional co-operation and a community of interests. Hence, this reappraisal of the problems and obstacles encountered in regional integration is urgently necessary because, as integration becomes more firmly established, Latin America will be able to make its presence felt and to realize its development potential within the community of nations.

B. EMPLOYMENT AND TECHNOLOGICAL PROGRESS

1. An examination of the production structure in Latin America, where possibly not more than 10 per cent of the labour force is employed in activities with forms of production and organization that may be regarded as relatively modern, will reveal the complexity and magnitude of the problem of absorbing the structural unemployment and rapidly-increasing labour force that are the by-product of population growth. In the interests of economic development, it is obviously essential to assimilate the economically active population into a dynamic process of growth at reasonable levels of productivity which will subsequently be raised by the workings of that process. If Latin America is not to fall even further behind economically and technologically, it must absorb technical advances with increasing rapidity and disseminate them in every sector of economic activity throughout the region.

2. This raises two closely interrelated problems: the need to increase capital formation and to devise a policy that would make for the incorporation of technical advances and their dissemination in the backward sectors, while achieving the employment objectives which are a key piece in the strategy envisaged. The first aspect has already been considered; it remains to point out that, the conditions now prevailing in Latin America, the basic premise must be that the greater the mobilization of potential investment resources, the greater will be the possibilities of progressing technologically and raising productivity. However, this will not immediately change the terms in which the problem of a shortage of capital combined with a huge volume of available labour presents itself today.

3. From a broad standpoint, it may be said that the absorption of the labour force into productive activities depends on four factors: (a) the dynamic growth of investment and production in general; (b) the sectoral and regional pattern of growth; (c) production technologies, from the point of view of the capital-labour ratio in different economic activities; (d) the specific measures that should be taken to draw labour into specific rural and urban activities.

4. The development strategy outlined will be favourable for these factors. The mobilization of domestic resources will raise the growth rates of investment and production well above their present levels. Land reform, as indicated later, will contribute very substantially to solving the problem of structural unemployment in rural areas, and, in a number of countries, a larger proportion of the increase in the economically active population will have to be retained in the rural areas. The changes that will take place in the structure of demand as a result of the anticipated redistribution of income will necessitate a more rapid increase in agricultural production and in the production of goods and services in mass demand, which will have to come about through activities that are technically relatively labour-intensive. The expansion in the output of capital goods will also boost the demand for skilled labour, which will be of greater significance than is generally thought. Moreover, the possibilities of employment will increase appreciably with the expansion of exports of industrial goods and reciprocal trade, which are the other strategic factors involved.

5. Nevertheless, the technological choices that may be offered within the context of the new structure of production will have to be analysed with a view to deciding on a specific policy for the allocation of capital resources in relation to the productive absorption of labour. In spite of the vital importance of this problem for the developing countries, little attention has been paid to it thus far, either in analyses or in practical action. All that can be done, therefore, is to set forth some general estimates. In principle, great possibilities may be discerned for improving efficiency and productivity while absorbing manpower, without entailing substantial investment. Such technological possibilities are to be found mainly in agriculture, construction and a wide range of services. The problem seems to be more difficult to solve in industry.

6. There are some key industrial sectors of the economy in which great technological progress is accompanied by a high capital intensity. This is true, for example, of industries using continuous processes, such as chemicals, steelmaking and non-ferrous metallurgy. In these and other

/activities, technical

activities, technical progress raises the minimum scales of production. It is quite different in the case of a great many activities in which manufacturing plays an important part. The metal-transforming, textile and consumer goods industries, for instance, are characterized by a wider variety of equipment, slower technological development, and possibilities of choosing more labour-intensive and capital-saving techniques. In practice, however, these opportunities are not turned to account. The investment incentives, credit terms, low real interest rates, over-valuation of the currency and other factors prompt enterprises, whether public or private, to use highly capital-intensive techniques.

7. There is another particularly important factor limiting the choice of techniques: the dependence on external supplies of capital goods, and on the assimilation of external know-how. In the industrial countries, unceasing technological progress goes hand in hand with a very high level of capital intensity, and those techniques often relate to an environment and a supply of natural resources which are very different from those prevailing in developing countries. Nevertheless, their introduction is encouraged by programmes of aid and by systems of external financing, which, moreover, involve very high costs.

8. These general comments show that, while serious limitations exist, there are also significant possibilities. There appears to be quite a broad field for making progress in the introduction of new technology and raising productivity in the more backward sectors of the economy without necessarily hampering the attainment of certain general employment objectives. It must be remembered, of course, that new technology cannot be introduced into all sectors or activities in the same way, either because of physical limitations or because of the actual mechanics of the process. Hence, increases in productivity in a particular sector may displace labour or curtail its absorption, and this means that the process must promote a dynamic increase in investment in order to prevent unemployment. It is natural that the high-income groups in areas where technology is advancing rapidly will have a propensity to increase their consumption and that the concentration of income will promote demand for certain goods, thus absorbing resources that might otherwise be used

/to extend

to extend the areas which provide the greater employment opportunities. This is where development strategy should come in, through a policy that reaps the benefits of increases in productivity, by holding down consumption of luxury goods and promoting savings in order to increase the amount of investment resources available to absorb labour in other areas.

9. In brief, this is a problem of overwhelming importance for the kind of development strategy that it is urgently necessary to implant in Latin America. In the light of what has been said above, three conclusions can be drawn: (a) certain activities relating to the production of intermediate and capital goods and to the expansion of exports of manufactures will have to be given priority attention on a scale and with amounts of capital consonant with technological progress; (b) there are many activities in which a well-designed policy could lead to better use of capital and greater absorption of labour; (c) solutions to the problem must be viewed within the context of national planning so that other important factors are borne in mind. Moreover, technological research will have to be intensified in Latin America, while policy will have to consider, inter alia, how to adapt imported technology to local conditions and how to stimulate original research. For this to be done, co-operation among the countries of the region and the implementation of joint programmes will be of vital importance, given the general similarity of the circumstances of the different countries and of the problems that have to be tackled.

C. REGIONAL ASPECTS OF DEVELOPMENT POLICY

1. A close study must be made of the regional aspects of national development. In recent years there has been a growing concern with technical factors and practical action. Several countries are carrying out large-scale regional development projects and a fund of experience and know-how is being built up. The most important thing is to work out clear conceptual definitions of regional problems so as to pinpoint the key elements in development strategy. As regards the practical tools for strategy implementation, it may be argued that these cannot be constructed until the regional objectives related to the economic and social integration of the countries themselves have been studied. Over-all national development plans are obviously weak in this respect. Progress was first made in analysing the productive structure of the economic development process, and the model must now be supplemented by an analysis of the regional structures.
2. It is essential to translate the major strategy objectives into regional terms, and to go beyond the traditional divisions between urban and rural, agricultural and non-agricultural, so as to study the economic and social structures of the different regions in a country, of the metropolitan areas and of the big and small towns. It is also necessary to see how the goals of greater production, the absorption of the economically active population and the redistribution of income fit into that picture; how national resources are to be mobilized, land reform carried out, production techniques applied, export trade expanded and Latin American integration speeded up, and what the effect of all these measures will be. When development problems are considered in relation to the geographical location of economic activity, strategy will acquire a more vital significance and will enter more deeply into the future economic and social image of the Latin American countries.
3. It is essential to know whether the economic growth that is envisaged will be taking place in the existing areas and centres, thereby adding to the concentration of resources and exacerbating the disparities, and whether the march of Latin American integration will lead to more

/balanced regional

balanced regional development within the countries themselves. Finally, it is imperative to formulate a definite regional policy in order to determine the basic features of transport and communications policy and of the siting and distribution of electric power production.

4. Although uniform principles cannot be laid down for a regional policy covering all the countries in the region, there are some common aspects that may be brought out. If the domestic and foreign factors which have in the past determined the physiognomy of the Latin American economies are discounted, it is obvious that the concentration of resources in particular areas is justifiable in the early stages of a development process as a means of taking advantage of the favourable conditions that determine productivity. However, it would not be advisable to allow this concentration to continue unless the following two conditions were fulfilled: that the resources concentrated in such areas would be more productive than if they were located elsewhere, and that the areas in question are capable of activating the rest of the system so that a growing number of people can achieve specified levels of productivity and income.

5. In Latin America, and in its big metropolitan areas in particular, external economies have noticeably declined. There is a tremendously high urban concentration, even compared with the more developed countries. The exceptionally rapid population growth as a result of intensive migration from the country to the towns, has outpaced the capacity of the public services and is raising the per capita costs of the infrastructure. Under these conditions, the advantages perceived from an evaluation of an investment project may well be cancelled out by the growing social costs of any further expansion of the major centres. Moreover, these centres have only a limited ability to energize the rest of the system, or are unable to do so to the extent that it so urgently requires. In addition to all this, there is the problem created in those very centres by the accumulation of structural unemployment. There are several explanations for the lack of dynamism. One general reason is that when people are absorbed into economic activities in a particular centre, even if they are unproductive services, they naturally tend to raise the level

/of consumption,

of consumption, and the high concentration of income increases the demand for new goods with the result that the increment in productivity is only partly transformed into investment resources, which are largely appropriated by the centre itself.

6. It is therefore in keeping with the strategy outlined above that there should be a well-conceived policy to capture some of the increase in productivity so as to swell investment in other areas, as dictated by the rational principles that derive from a regional policy in the context of over-all national development. This is not an easy problem to tackle, and generalizations are hazardous. In the last analysis, the solution must be viewed in a comprehensive and long-term perspective. An immediate shift in investment might signify a lower over-all rate of growth than would be obtainable if it were left alone, since regional programmes need heavy infrastructural investment with fairly long lead times. However, the over-all growth of the economy would no doubt eventually be higher than it would otherwise have been.

7. What is more, regional programmes obviously have a beneficial effect on employment and income distribution, and represent a decisive step towards the economic and social development and integration of the Latin American countries. The new centres would become foci of growth whose dynamic influence would spread far and wide to other areas as yet untouched. Considerations of national policy or social desiderata may, of course, take precedence over economic criteria in this field, but the latter must always be borne in mind so that the most effective solution can be found through this process of decision-making.

/D. THE

D. THE MOBILIZATION OF DOMESTIC RESOURCES ^{1/}

(a) The potential of real investment

1. Speeding up the pace of economic growth and absorbing structural unemployment will - as noted above - require an unusually large amount of real investment directed towards clearly defined ends. It has been estimated that gross fixed investment, which now stands at some 15,000 million dollars in the eighteen countries studied, will have to exceed 28,000 million dollars by 1975 if an average annual growth rate of 6 per cent is to be sustained, and 35,000 million dollars if the rate is to be 7 per cent.^{2/} These investment needs will have to be covered by increased industrial production and by imports.

2. Basic intermediate goods and capital goods production has been one of the most thriving sectors of industry in recent years. It will have to grow much faster still, however, to attain the targets considered in the present document, and this cannot be achieved unless the maximum possible amount of resources is channelled towards the production of such goods. This means that the installation of capacity for the production of certain types of non-essential or luxury goods for public and private consumption will have to be curtailed. It may even be necessary to consider the possibility of shifting the allocations of resources to some extent, for example, away from the production of consumer durables.

3. Studies show that the large and medium-sized Latin American countries could substantially increase their production of investment goods, and also of machinery and equipment. Even the smaller countries could increase production of some of these items. It is well known, however, that the production of capital and intermediate goods is seriously restricted by the size of markets, the amount of investment needed, or by technical requirements. A well-designed industrial policy would lay down guidelines for a rational allocation of resources in this area. Regional integration and subregional agreements have a very important part to play in placing Latin America in

^{1/} See "Mobilización de recursos internos" (E/CN.12/827)

^{2/} See "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831 and Add. 1).

a better position to increase its production of essential intermediate goods, equipment and machinery. The recent figures for trade in manufactures - which include some capital goods - among the LAFTA countries, while still comparatively low, are a promising indication of what may be achieved in the future.

4. Despite the progress that must be made in the domestic production of capital goods, and the impetus to development provided by integration, it is clear that Latin America will need a relatively large volume of imports especially during the first half of the coming decade, if it is to implement a development policy that is likely to attain the desired goals. It must be borne in mind that imports of various types of capital goods and of some basic intermediate goods for capital formation account for roughly 20 per cent of the value of investment. While this proportion is somewhat lower in Argentina, Brazil and Mexico, it is higher in the majority of the less developed countries. The share of imports in the production of machinery and equipment is much higher, ranging from 30 to 80 per cent or more, depending on the degree of development of the country concerned, the average for the region as a whole being approximately 40 per cent. These figures show how very vulnerable Latin America's development is and how much any policy to mobilize resources depends on external factors.

5. Two conclusions can be drawn from a comparison of the high import content of real investment with the large potential balance-of-payments deficits: (a) that import policy must complement an over-all domestic policy that assigns resources to productive and useful investment strictly in terms of development objectives; and (b) that, since the minimum of imports of essential and capital goods create a trade gap, external financial assistance is imperative.

(b) Mobilizing idle capacity

6. Statistics indicate that there is idle capacity in various branches of industry, especially those producing essential intermediate goods and consumer goods, in some cases on a considerable scale. Irrespective of the reasons for this - limited power supplies, shortage of complementary goods, or institutional factors relating to the organization and management

/of enterprises

of enterprises - it is evident that Latin America cannot afford to let these resources go to waste. If idle capacity exists because of limitations in demand or shortages of complementary goods, raising the growth rate of the economy will tend to take up the slack. On the other hand, if it is due to institutional or organizational factors in either the public or the private sector, development policy will have to include appropriate measures to overcome these obstacles. Using installed productive capacity to the fullest extent possible, which might even be done by increasing the number of work shifts, would help to raise the capital-output ratio and have a direct effect on the absorption of unemployed labour.

(c) Mobilizing the labour force

7. The estimates of structural unemployment considered earlier indicate that there is a vast reservoir of manpower available which could be tapped to increase production and investment. Without going into the details, which would involve consideration of the specific circumstances of individual countries, some general points are worthy of note. Naturally enough, the absorption of manpower will depend, in principle, on economic expansion and on the practical results of a policy for the utilization of capital and the adoption of production techniques that will avoid making manpower redundant whenever possible without holding down efficiency and productivity. It has been found that, generally speaking, the rate of growth would have to be at least 6.5 per cent to prevent increases in structural unemployment, and perhaps as much as 8 per cent in order to absorb structural unemployment gradually, at differing levels of productivity, over the coming decade. It may be appropriate at this point to consider some aspects of the absorptive potential of certain economic sectors.

8. First in importance is the absorptive capacity of agriculture, because nearly half the structural unemployment is in this sector, and also because it is essential in many countries for agriculture to increase its capacity to absorb future increases in the labour force. This capacity mainly depends on the availability of land, methods of cultivation and production techniques. With regard to land, the research done by the Inter-American Committee for Agricultural Development (CIDA) is particularly enlightening. The following conclusion was reached in a study of six

/countries: if

countries: if, in minifundia areas, land and labour factors were suitably reappointed, the number of workers would have to fall from 4.4 million to 700,000. In contrast, if the same labour-land ratio that exists in minifundia areas were to be applied to half the land belonging to large estates, the ownership of which is highly concentrated, 25 million members of the labour force could be absorbed.

9. Improving the low levels of living of the Latin American population will require an expansion of the cultivated area, increases in production for domestic consumption, and diversification of agricultural production.^{3/} This would result in higher levels of productive employment, especially with respect to structural unemployment. There must be no delay in initiating an examination of agricultural production technology as it relates to the rational use of land, labour and capital to promote greater absorption of manpower thanks to efficient operation and rising productivity. While it is urgently necessary to modernize farming methods and increase productivity, a mechanization that frees labour from certain activities may be a waste of capital if the resulting unemployment is not absorbed by other activities or if machinery is not used to capacity. This is in no way an attempt to lay down rigid rules, but rather to draw attention to the need to formulate policies that take account of the type of crops, the size of farms, the various techniques applicable to given circumstances and population pressures on the land, which vary widely from country to country, and even within a single country. This topic has been given virtually no study in Latin America, especially as it relates to development strategy. Public works, such as opening up virgin land, and building access roads and irrigation works, provide many opportunities for the direct employment of rural manpower. Lastly, all these aspects of the use of production techniques and the efficiency of the rural economy should be properly planned within agrarian reform programmes.

10. With respect to non-agricultural activities, the main possibilities for absorbing manpower reside in mobilizing idle capacity, increasing new investment, and selecting methods of production bearing in mind the employment opportunities they provide. An economic growth rate approaching 7 per cent annually would require a considerable increase, as noted earlier, in

3/ See "El desarrollo agrícola de América Latina" (E/CN.12/829).
/investment and

investment and infrastructure, since basic services would have to expand at the same or a higher rate, while industrial activities would probably have to grow by 10 per cent annually. Furthermore, any policy that is aimed primarily at improving the living conditions of the lowest income groups must promote the development of production in traditional activities and housing construction, both of which are highly labour-intensive. Similarly, expanding social services with the same aim in view would stimulate the absorption of the structural unemployment existing in the government sector.

(d) The saving potential

11. A policy which is aimed at the redistribution of income in order to improve the material and cultural conditions in which the mass of the population lives and which is essentially based on the mobilization of national resources, must determine precisely what institutional reforms and what economic, financial and tax measures will promote a sustained and relatively regular mobilization of those resources. It is imperative to prevent that process from leading to an inflationary spiral which might create serious social disruption and culminate in the failure to attain the objectives of development policy.

12. It must be borne in mind that among the masses the drive towards a more diversified pattern of consumption, stimulated by the habits of the high-income social groups, is as strong as it is legitimate. An essential feature of the above policy must be to establish the conditions and means which will encourage the saving needed to finance the expansion of investment. If large segments of the population harnessed themselves to the saving effort, the result would undoubtedly be a powerful impetus towards increased consumption.

13. It is therefore necessary to plan the mobilization of potential saving resources along with the mobilization of capital and labour resources. Little is known about the structures of the sources of saving, or about the uses of saving in private enterprise, the public sector and the various social sectors. The lack of research on this question is reflected in the weakness of national development plans with respect to monetary and

/financial policy.

financial policy. Two factors may be noted in relation to the present saving capacity: (a) more savings are probably generated than are actually invested; and (b) the total savings in the middle-income and even in the quite low-income sectors of the population are fairly substantial. They are associated with specific areas of investment, such as the construction of dwellings, with social security programmes, especially when they are first introduced, and with various kinds of personal insurance. Moreover, the habit of saving is spreading, as is shown by the volume of deposits in banks, and savings banks in many countries.

14. As stated previously, the present volume of savings measured in relation to investment, is larger than that indicated by the saving coefficient of about 16 per cent recorded for the region as a whole. Several important factors combine to reduce this volume through the saving and investment process. While inflation may in some cases have contributed to forced saving temporarily and at a high social cost, it has had a pernicious effect on the saving-investment process, as is borne out by experience in many countries. Domestic production of durable consumer goods has led, moreover, to the development of promotion and financing machinery which tends to absorb a sizable margin of resources that might have provided capital essential activities. Another influential factor has been the effort to replace capital and intermediate goods, since, although there is no denying the positive aspects of this trend, the higher cost of the domestically produced goods, undoubtedly entails a reduction in the real value of savings. Lastly, the severe external bottleneck affecting most of the Latin American countries, and in particular, the deterioration in the terms of trade, have had adverse repercussions on domestic income, the capacity to save and the possibility of adequately financing the import component of investment.

15. Therefore, present savings could undoubtedly be better utilized through a policy designed to reduce the external bottleneck, plan and import substitution with an eye to reducing costs, rationalize public

/expenditure, thus

expenditure, thus increasing its efficiency and curtailing unnecessary or deferrable consumption, promote greater financial stability, organize capital markets, and adopt measures for channelling resources into productive investment for economic and social purposes. This would not suffice, however; a considerable increase is required in potential investment resources, and there are potential savings that must be mobilized. These resources would have to come mainly from the high-income groups, without of course excluding the contribution to be expected from the population at large as a result of the better conditions obtained through development. The potential savings that can be mobilized immediately are found precisely in the income concentrated in the upper strata, which account for probably three-tenths of total consumption. What must be done, therefore, is to apply an effective policy that will act simultaneously on demand and supply, so that the resources absorbed by those consumption patterns - notably durable manufactures and a certain category of housing construction - will be reduced or at least restricted.^{4/}

(e) The function of external financial co-operation in the mobilization of resources

16. Considering that the Latin American economies are heavily dependent for essential goods on external supplies and that the export prospects are unfavourable, it is necessary to secure external financial co-operation if the goals of stepping up investment and promoting the productive absorption of the labour force are to be achieved. This financial co-operation cannot be even a partial substitute for the mobilization of domestic resources, nor can it represent an alternative to the expansion and diversification of exports. Its fundamental role is precisely to facilitate the mobilization of internal resources, by helping to provide the import component required until such time as domestic production can be expanded for export or for viable import substitution.

^{4/} See "Mobilización de recursos internos" (E/CN.12/827).

17. If external financial co-operation fulfills this specific function, its effects are of vital importance. An illustration of this point will not be out of place here. If, for example, the direct import content of investment was assumed to be 20 per cent, which is the figure recorded for the region as a whole, and this component was essential and complementary, 100 additional net external financing units utilized in promoting investment would stimulate an actual mobilization of internal resources equal to 400 units, with the consequent effects on employment. This multiplier effect would logically increase as the complementary import component of investment diminished. In other words, the rate of growth and the absorption of manpower can be appreciably accelerated through complementary external financing, but only provided that domestic policy promotes the mobilization of the additional domestic savings required. This is the big problem to be resolved by development strategy and policy if a rational absorption of external financing is to be achieved. It is also necessary, however, for the domestic saving coefficient to grow, so that the rate of economic growth can ultimately become independent of continuing external indebtedness. Otherwise, the rate will slacken once again when through the well-known process the net contribution of external resources is cancelled out, or when, for other reasons, contributions from external sources are reduced.

E. THE POPULATION PROBLEM

(a) Population trends and projections

1. The population of Latin America has been multiplying at an amazing speed over the last fifty years. Its annual growth rate, which was only 1.8 per cent at the beginning of the century, has now risen to 2.88 per cent. If this rate continues, the population will increase by 95 million to a total of 379 million for the region as a whole by the end of the nineteen-seventies. The factors underlying this process are, as is only too well known, the development of health care and medical discoveries, which have reduced mortality while leaving the birth rate relatively high.
2. The demographic process is far from uniform in all the Latin American countries. In some, such as Argentina and Uruguay, growth is slow, and the urban population is very large. In others, like Bolivia and Haiti, with lower income levels, high mortality is still keeping growth down. But in the majority of countries, which account for more than 80 per cent of the total population, the population increase is over 3 per cent annually and the rural population constitutes more than 40 per cent of the total.
3. This population trend is very important for development policy and has its own special characteristics in Latin America. If the region is considered as a whole, it will be seen that average population density is low, that the ratio of population to resources is rather better in other areas, and, what is highly significant, that the geographical distribution of the population is extremely uneven. Major urban centres and certain rural areas are heavily populated, while vast tracts of land in the interior are almost uninhabited.
4. It is only in two countries, which achieved a relatively high income level a long time ago, that the process of urbanization has been accompanied by a reduction in the birth rate. This has also occurred in Cuba, and is beginning to be seen in Chile.

/Elsewhere, the

5. Elsewhere the population is growing even more rapidly despite intensive urbanization in the last twenty years. This can be attributed to the large numbers of people living in rural areas, where the birth rate is higher, and to the failure of migrants to the towns to adapt themselves in any real sense to the living conditions, customs and habits of the urban population. It is also due to the fact that the people's knowledge of and ability to obtain the means of birth control is limited for want of information and resources. Moreover, it is unlikely that the process of urbanization will influence the birth rate in as relatively short a time as it succeeded in lowering mortality.

6. There are, however, unmistakable signs that the population process will be passing through a transition period in the next decade. Trends in recent years and an analysis of projections to 1985 point to the following conclusions: (a) the growth rate of the population has been increasing at a slower pace in the last thirty years; from 2.37 in the nineteen-forties it rose to 2.80 in the nineteen-fifties and only to 2.88 in the present decade; (b) the projection of current trends indicates that the growth rate will not be more than 3 per cent in the next decade; (c) if these trends are assessed in relation to factors that may reduce the birth rate, the lowest hypothesis postulates a population growth rate of 2.7 to 2.8 per cent for the next fifteen years. If, on the other hand, birth rates remain high, the steady drop in the death rate will raise the population growth rate to 3.1 or 3.2 per cent during that period.^{1/}

7. In short, it appears that: (a) the trend of the economically active population during the next decade has already been determined and will be unaffected by the course of the birth rate in the next few years. The population will tend to grow rather more than before, at an over-all rate of 3 per cent for the region and of 3.5 per cent or even more in many countries; (b) the proportion of children and of the school-age population (up to fifteen years of age) may vary with the birth rate, although the anticipated decline in mortality will play an

^{1/} See "Social change and social development policy in Latin America" (E/CN.12/826).

important part in offsetting any reduction that may take place. It is only if the birth rate grows at the lowest possible rate in accordance with the most extreme hypothesis, that there will be a decrease of any appreciable size in this population group compared with the present trend; and (c) the growth rate of the total population may rise in those countries where mortality is still relatively high.

8. It is still too early to speculate about the influence that the spread of birth control practices may have on the trend of natality during the next ten years, and possibly the nineteen-eighties as well. So far, there have been indications of a policy of this kind in one or two cases only, but in at least one country - Argentina - a definite policy of population expansion has been officially decided upon. In any case, however, it appears that population rates would range between a minimum of 2.7 to 2.8 per cent and a maximum of 3.1 to 3.2 per cent, with broad variations among countries.

(b) Development policy and population

9. It is quite clear that the basic strategic problems of development policy, which were discussed earlier, cannot be allowed to depend upon natality trends in the next decade. No doubt, though, the implementation of the fundamental changes and reforms necessary for development will contribute to the process of population change which is beginning to make itself felt in Latin America. This can, of course, be strengthened by specific measures taken to give people the knowledge and means they require for effective family planning. It is obvious, however, that such measures cannot be taken on the assumption that a reduction in the birth rate which would be difficult to achieve in the next few years even if birth control becomes more widespread, would free resources and thus make the need for institutional reforms and the policy of mobilization envisaged rather less pressing than it is now. A reduction in the birth rate would, of course, improve the living levels and educational possibilities of young people much more rapidly, and would also help to raise the average consumption level of the population as a whole. But it must be remembered that the nature and magnitude of development problems in Latin America are such that the long-awaited economic explosion cannot be averted, or even conditioned, by the fact that the population explosion may die down in the next few years.

10. Now that the salient aspects have been brought out, it is useful to dwell further on some of the considerations expounded. It is obvious that the average level of per capita consumption could have been higher over the last twenty years or so if the birth rate had grown less rapidly. A decline in the birth rate will make it possible to achieve the essential objective of improving the living levels of the masses in a shorter space of time. This is particularly important for countries with a high rate of population growth. However the situation varies so much from one part of Latin America to another, that it does not lend itself to generalizations.

11. In any event, a population policy cannot be exclusively concerned with quantitative aspects. It must take into account problems relating to the distribution of population between rural and urban areas and between large and small towns. And, above all, it must concern itself with the qualitative aspects of the full economic and social integration of the people. By doing so, it will promote sound and responsible family planning as regards the number of children to have and other major economic, social and spiritual aspects of family life.

Chapter IV

FOREIGN TRADE POLICY AND EXTERNAL FINANCIAL CO-OPERATION ^{1/}

A. FOREIGN TRADE POLICY

(a) The lack of an effective foreign trade policy

1. Latin America has never had a vigorous foreign trade policy reflecting a clear conception of regional development. Confronted with balance-of-payments problems, the region has resorted to the easiest and most immediate solutions, namely, borrowing and import substitution, which have ended by aggravating the problems themselves. For want of such a conception, trade policy has been instrumental in determining an internal structure and a level of efficiency that are preventing the Latin American economies from developing further. It is obvious from its action in the international sphere that Latin America has not been strong enough to forestall or influence the adoption of decisions that have proved increasingly prejudicial to its interests, and that it has failed to act with the rapidity and vision necessary to adjust to the changes that have been taking place in international trade as a result of the economic and technological progress of the industrial centres.
2. The industrial countries have developed their trade to a remarkable extent by incorporating the new products created by the unceasing advance of technology and this helps them to diversify their patterns of consumption. Such trade has been a factor of paramount importance in their economic growth. Strangely enough, this trend of development has been accompanied by an upsurge in their production of major primary commodities, with the result that they have ousted Latin America from its traditional markets and placed difficulties in the way of its entering other areas. In varying degrees but to an ever-increasing extent, the industrial countries have now become major exporters of primary commodities. This is very

^{1/} Questions discussed in this chapter are dealt with in greater detail in document E/CN.12/816.

largely the consequence of a highly protectionist policy, of technological advances in methods of agricultural production which have led to a spectacular increase in the product (as against decline in the economically active population in rural areas), and of those countries' power to finance more costly exports.

3. The evolution of the Latin American economies has been entirely different. Great strides have been made in industrialization, although to different degrees in the large, medium and small countries. But the ensuing changes in the internal structure of production and improvement in the management of the economy have had virtually no effect on exports. Although hard-hit by the economic policy of the major centres, the technological innovations that herald new substitute products, and the low elasticity of demand, exports still consist in the main of primary commodities. In their foreign trade, the Latin American countries, even those with the most advanced industrial sectors, perpetuate the traditional pattern of the international division of labour, of which they have to bear the unhappy consequences.

4. These countries have preserved their ties with the traditional centres in an attempt at self-defence that has ultimately proved unfruitful for them. Owing to lack of vision or difficulties of other kinds, they have failed to diversify their commodity markets. They have not reacted promptly to the changing conditions of international trade, which would have undoubtedly compelled them to chart a more efficient and competitive course of industrialization. It is a well-known fact that the measures they might have taken to escape from this situation were severely curtailed by a certain group of interests. It is equally certain, however, that they have taken an isolated stance in their foreign trade in defence of a position that has gradually been undermined, and have failed to summon the energy and drive required for a sounder and more lasting solution.

(b) The basic objectives of trade policy

5. It would be unrealistic at this juncture to believe that, as the past encirclement of the Latin American economy is to be blamed for its present unsatisfactory situation, all that need now be done is to open up the markets, whereupon the spontaneous growth of exports or more

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competition at home would automatically lead to efficiency and a new economic drive forward. Foreign trade is a vital factor in development policy, but it would be going too far to say that it constitutes strategy itself, particularly in view of the pressing need to eliminate the internal structural factors that are impeding development. Nevertheless, there is no escaping the initial assumption that, unless the external bottleneck is removed, the mainspring of economic and social growth in the Latin American countries will be seriously weakened - and may become even weaker than in the past.

6. It is quite clear today that one of the main goals of foreign trade strategy must be the immediate promotion of exports of manufactures and semi-manufactures. There are three main reasons for diversifying exports in this direction: one, to increase export earnings so as to narrow the current and potential trade gaps; two, to lessen the external vulnerability of the Latin American economies; and, three, to meet the demands of modern industrial development more efficiently than in the past. Regional integration and other means of expanding trade in manufactures and semi-manufactures in Latin America are a decisive step that should be taken immediately to forge the new structure of foreign trade. The object of exporting industrial goods does not in any way mean that the region should be less active internationally in its efforts to improve the conditions and prospects for primary commodities, given their importance for the national economies and the fact that they account for more than 90 per cent of Latin America's export income.

7. If a comprehensive picture is painted of the essential elements and functions of foreign trade policy in the light of these views, the following broad objectives will emerge: (a) expansion of export income as the fundamental way of closing the potential trade gap; (b) reduction of external vulnerability; (c) development of trade with other areas in order to circumvent the limitations imposed by traditional markets; (d) acceleration of the integration movement; and (e) application of an import policy designed to promote greater efficiency in the countries' economic structure and process of growth through the rational allocation of resources. More specifically, this means ready access of primary

/commodities to

commodities to the industrialized countries, regulation of commodity markets, development of exports of manufactures and semi-manufactures, promotion of trade with the socialist countries and other developing areas, and the speeding up of the regional integration process.

(c) Commodity exports

8. The prospects for commodity exports are frankly unfavourable to judge from the current international trade situation. This applies to agricultural products in particular, and especially those from tropical zones. UNCTAD projections show that the aggregate growth rate of world commodity exports will not be more than 3 per cent yearly, and recent FAO studies foresee an increase of only about 2.6 per cent in Latin America's foreign sales of agricultural commodities.

9. Such low growth rates for primary exports pose two major problems for the development strategy envisaged. One is the limitations placed on the general process of economic growth by the trade gap, and the other the restrictions on the growth of production and income in the economic sectors concerned. It should be remembered, for instance, that agricultural exports represent 20 per cent of regional production, and the proportion is a good deal higher for some items. The same applies to minerals and fuels, domestic production of which sometimes goes almost entirely to foreign markets.

10. This creates conditions that hamper the absorption of manpower in productive activities and the achievement of the objectives that will lead to better distribution of income. Both aspects are of cardinal importance, especially in the agricultural sector, because of the gravity of the problem in the rural areas. If production in certain activities is largely contingent on external demand and this will be growing so slowly, any improvement in income distribution will depend more on what can be done to raise productivity in relation to the economically active population employed, on the extent to which income is redistributed in those same activities, and on the adjustments and transfers that can be made by the rest of the economy to help these sectors. The need to diversify production becomes increasingly urgent, and in extreme cases may even lead to the problem of the reassignment of resources.

11. Firm steps must therefore be taken at the international level to improve the prospects for exports of primary commodities. Efforts to achieve co-ordination must be redoubled so that Latin America's legitimate demands can be presented in a more effective way to the industrialized countries. It is more than necessary to consider the changes that should be made in Latin America's mode of action on the international plane and to analyse its experience of the last few years, particularly in the discussions and negotiations that have taken place in UNCTAD and GATT, since practical results have been few and far between, and it has proved impossible to prevent its position from deteriorating or to stop conditions that are prejudicial to Latin American trade from becoming consolidated and spreading.

12. The major objectives of the international action taken by the developing countries in matters of commodity trade have been established in UNCTAD. They are the regulation of world markets, easier access to the industrialized countries, market diversification, and the abolition of special preferences.

13. International commodity agreements and arrangements and the establishment of buffer stocks are the two main instruments for regulating the markets. Little has been achieved as far as the conclusion of commodity agreements is concerned, although there has been some progress, and this augurs better results in the future. There are no other means available, and all that is necessary is to understand that concerted action by the Latin American and other developing countries within the framework of the policy set forth by UNCTAD will lead to an increase in the number of agreements or to the extension of talks and their culmination in agreements of different kinds, depending on the characteristics of the products concerned. Those on coffee and sugar are highly encouraging examples of the development of theory and practice now that agreements of that kind are seen to be real instruments of market reorganization and planned action in the international sphere.

14. The establishment of buffer stocks is the other instrument for regulating markets. It is to be hoped that the text on buffer stocks approved by the UNCTAD Committee on Commodities at the end of 1968, which reveals some advances in the negotiations and a greater willingness on the part of international agencies to help finance such stocks, may lead to more effective action in the near future.

/15. At

15. At the second session of UNCTAD, no progress was made in regard to liberalizing trade and gaining access for primary commodities to the markets of industrialized countries. The situation has been worsening for some time with the increase in the restrictions, the protective tariffs and the development measures adopted by those countries. In this area, there are two clear-cut aims for the Latin American countries. As regards competitive products, specific commitments must be obtained giving them a specific share in the consumption or in the consumption increment of the industrialized countries. In the case of tropical commodities, the aim is mainly to obtain the removal of the barriers, restrictions and charges which limit their consumption in the developed countries, and the elimination of all the discriminatory treatment prejudicial to the Latin American States.

16. Several procedures have been suggested for the elimination or gradual absorption of the special preferences accorded by some developed countries to certain developing nations, particularly by the European Economic Community to the Associated States. Nothing has been achieved so far, and these preferences are being extended to other countries and products to the evident detriment of the Latin American region. The solution to this problem is complicated by the fact that the countries enjoying such preferences grant reverse preferences on imports from the developed countries with which they are associated. The Latin American States have already defined their policy on this question. They wholeheartedly support every kind of help that can be extended to the developing countries in the form of financial and technical co-operation, but they are opposed to any discriminatory treatment of these countries in the developed countries' markets. The fact that such treatment is still being applied is a source of concern to Latin America and tends to encourage moves to establish some kind of preferences between the Latin American countries and the United States.

17. There can be absolutely no doubt that Latin America must persist in seeking a lasting general solution, which can only be the liberalization of trade, since vertical arrangements that might lead to the establishment of regional blocs would ultimately injure vital interests bound up with

/these countries'

these countries' future development. The Latin American countries have maintained that commodity agreements may well be the best instrument for absorbing those special preferences. In their new form, these agreements envisage, inter alia, the marketing of products of different exporters at stable and fair prices; they may also provide for the establishment of buffer stocks, and for technical and financial assistance in the implementation of national programmes for diversifying production. Commodity agreements therefore seem an appropriate instrument for protecting the interests of the countries enjoying preferences in industrialized countries, which may even gain by the change.

18. The other aspect of the promotion of commodity exports is the geographical diversification of markets. This should be a fundamental aim of Latin American foreign trade policy. In essence, it consists in evading to some extent the restrictions imposed by the traditional markets of industrial countries and in achieving more stable and dynamic conditions for foreign trade. For example, Latin American exports to the United States show little momentum, notwithstanding the economic and financial co-operation programme that was launched in the present decade. Market diversification is required not only for primary products but also industrial exports for which new possibilities must be opened up. Consideration is therefore being given to the advisability of promoting the expansion of trade with the socialist countries and with other developing areas, and particularly to the necessity of accelerating the tempo of reciprocal trade in Latin America through regional and subregional integration, without excluding other agreements or programmes that may lead to the same result.

19. Some progress has been made in recent years in trade with the socialist countries, and the region is anxious to tighten those links. The practical difficulties involved are well known. New experiments and new forms of agreement and new credit arrangements suggest interesting possibilities which may be of key importance for the expansion of Latin American trade in view of the market potential of the socialist countries. The effect of introducing multilateral formulas in trade with that area would be felt immediately in increased trade.

20. Latin America's trade with other developing areas is practically non-existent and a study should be made of the actual prospects in this field, at least for some primary commodities and for manufactured goods in general. Although the absence of traditional trade relations, geographical location, transport costs and other factors are undoubted obstacles to the creation of those new trade flows, some favourable prospects are also discernible. The industrial countries' support may have to be enlisted in carrying out such a programme, particularly in connexion with those items that are covered by aid to developing countries or that are promoted by means of subsidies or special concessions.

(d) Exports of manufactures and semi-manufactures

21. In the traditional structure of Latin American exports, manufactured products contribute only about 5 per cent of the region's total foreign exchange earnings.^{2/} During the present decade, exports of manufactures have expanded rapidly, at the rate of 10 per cent annually, although they are still below 800 million dollars in value. Over two-thirds of this increase is accounted for by intra-regional trade, which indicates, on the one hand, highly encouraging progress in regional integration and, on the other hand, the scant development of these exports to other areas. One thing that is somewhat surprising is that the more industrialized countries of the region have not shown more interest in the past in gaining access to the world market for manufactures, and that the measures adopted in recent years to promote these exports have produced such insignificant results, when some of the developing countries in other parts of the world have made good progress. Some concern is felt also about the future development of regional trade in manufactures, because the original stimulus came partly from circumstances deriving from the temporary contraction of domestic markets.

22. As stated earlier, exports of manufactures represent a vital element of a new Latin American development policy. Naturally, the amount and practical possibilities of such exports may differ from country to country;

^{2/} These exports include the products in sections 5, 6, 7 and 8 of the Standard International Trade Classification (SITC), excluding division 68 (non-ferrous metals).

but exports of manufactures should be the general aim of all the Latin American countries, both large and small. There is a great variety of manufactures, and in each case favourable conditions can always be found for promoting the export of particular industrial products. This is shown in the first studies carried out in co-operation with UNCTAD.

23. Changes have been taking place in the composition of trade in manufactures between the industrialized countries which may pave the way for increased participation by the developing countries. If the industrial countries speed up the process of specialization in the production of capital-intensive goods requiring a high degree of technology, the developing countries will be able to benefit from trade in more labour-intensive traditional manufactures and in goods which do not fit the specializations of the industrial countries or their scales of production. While Latin American industry must prepare itself to take advantage of these opportunities, its export policy for manufactures must not be aimed solely at achieving this dichotomy, particularly in view of the fact that it should gain much in growth and efficiency as a result of integration.

24. In the short term, the growth potential of exports of manufactures lies mainly in the goods produced by existing industries which are competitive in world markets, and especially goods produced by light industry, in which it may be assumed that Latin America has a certain comparative advantage. However, it is precisely this type of manufacture which is most protected in the developed countries (chiefly through progressive customs tariff scales), and hence the growth of such exports also depends on the developed countries' granting easier access to their markets, as called for in recommendations adopted by UNCTAD and GATT. In the long term, export expansion should not be confined to these manufactures since, unless suitable programmes and policies are adopted to promote the development of more complex industrial exports embodying more advanced technology, the Latin American countries will not only get little benefit from technological progress, but will have no share in the growth of the most dynamic sectors of world trade in manufactures.

25. To get the Latin American economies to export manufactures will not be an easy task because of the conditions and habits established by import-saving industry. Nevertheless, the experience that comes from regional integration, the multinational projects that are being developed, and the growing capacity and experience of industry - despite all its weaknesses - give good grounds for hope that, if energetic policies are put into effect, success will be achieved. In this respect, increasing trade in manufactures and gradually increasing competition within the region will strengthen Latin American industry and give it new opportunities to enter world markets.

26. It must not be forgotten that any preferences that the industrialized countries may grant will be worth nothing unless the countries of the region are in a position to take advantage of them. The lessons of regional integration are very instructive in this respect, since it has often been found that preferences alone do not promote new investment and increase trade in a larger and protected market. Moreover, margins of preference have gradually been reduced because of the liberalization of tariff among the industrialized countries. Hence, the incentives that preferences themselves provide will be less effective than was anticipated. This means that it will be more difficult for the Latin American countries to compete, and as time goes on their difficulties will increase because of the extraordinary dynamism of the industrialized countries' trade and also because of the ground gained by other developing countries.

27. This is an area in which there is a clear-cut need for national and international action to converge so that specific results can be achieved in exports of manufactures. At the national level, studies are needed of each country's prospects of expanding domestic production for export and of establishing new export-oriented industries. In this, and in studies of the market potential of the developed countries, international and regional agencies can provide very valuable technical assistance. In addition, efforts will have to be made to deal with the institutional problems connected with the organization and affecting the efficiency of national enterprises, to improve quality and reduce costs, to fix specific

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priorities for the allocation of resources in development plans, to consider the problems of exchange rates and regulations and the institutional and financial machinery required for subsidies - in a word, to develop a comprehensive export promotion and marketing policy.

28. At the international level three matters have to be tackled: (a) the tariff and non-tariff barriers restricting the access of manufactures to the markets of the industrialized countries; (b) the general preferences needed to promote exports of manufactures; and (c) the special preferences that affect Latin America's access to the markets of certain developed countries, especially the EEC countries.

29. The idea of a system of general preferences was accepted at UNCTAD and it is probable that agreement on this point will soon be reached. A number of different formulas have been considered and one of the important aspects still under discussion is the list of products to be covered by the system. The UNCTAD Special Committee on Preferences is awaiting proposals from the developed countries before continuing its negotiations. Care will have to be taken to see that the system of preferences adopted is not rendered ineffective by the application of non-tariff restrictions or the use of escape clauses. In actual fact, as noted above, owing to the process of trade liberalization, margins of preference have been reduced and the problem of access to the markets of the developed countries is now more a question of dealing with non-tariff restrictions and with a sliding scale of import tariffs, which rise steeply the more processing a product receives.

30. No progress has been made in eliminating special preferences, especially the EEC preferences for imports from the Associated States, which will tend to be consolidated and extended by the renegotiation of the Yaoundé Convention. This is a matter of justifiable concern to Latin America, not only because it discriminates between developing countries, but because it is an obstacle to the establishment of general preferences. In this connexion, the United States has stated that it will not support any system of general preferences as long as developing countries continue to grant reverse preferences to certain developed countries. Latin America must continue its efforts to establish a system

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of general and non-reciprocal preferences. The special EEC preferences should be absorbed into the general preferences system, and in this respect consideration might be given to formulas which would not affect the position of the Associated States. For example, the preferences for products which are not traded to any significant extent between the EEC and the Associated States should be included in the system of general preferences from the outset. Special preferences for other products, on the other hand, should be gradually eliminated over a reasonable period of time.

(e) Import policy

31. A rational import policy must be designed and implemented which will be in line with the essential aims of the development strategy. While there has been some recent progress, chiefly in the revision of tariffs, the general trend in Latin America has been one of over-all control of imports and drastic cutbacks in times of balance-of-payments crisis. In many cases, economic criteria, aimed at making more efficient use of foreign exchange, have been invoked to limit, for example, imports of luxury goods. But in the import substitution process set in motion by the demand for these goods on the domestic market, larger amounts of foreign exchange were required before long to finance imports of the intermediate and capital goods used directly or indirectly to produce the very goods that were supposed to have been restricted.

32. Careful planning, and increasing competition in the larger markets established by integration agreements and also from extra-regional trade flows, will be of great benefit in promoting efficiency and productivity in domestic production. Undeniably, as exports of goods, particularly manufactures, within the region and outside it increase, and as domestic economic activity gains momentum, Latin America will be in a better position to implement a more flexible import policy and a more selective tariff policy, governed by considerations of economic expediency. The experience of the industrialized countries and of developing countries whose external sector is more dynamic than that of Latin America indicates that much is to be gained by promoting some degree of specialization within the context of a growing diversification of economic activity.

33. It cannot be over-emphasized that import policy is the basic instrument for the implementation of over-all development strategy. Direct control measures, protection, the structure and level of tariffs, exchange regulations and the various forms of subsidy, must all meet the needs of integration and the promotion of exports of manufactures and also be in line with the over-all aim of building up a more efficient industry. The allocation of external resources through imports of goods must be directed towards achieving the essential objectives of increasing investment in production, and agrarian reform, which will raise employment and income levels, and redistribute income in accordance with each country's own economic and social goals.

B. EXTERNAL FINANCIAL CO-OPERATION

(a) General situation and objectives

1. Latin America's external financing position is extremely vulnerable. At the point now reached in the nineteen-sixties, the region's external indebtedness has more than doubled, but this has not resulted in a significant increase in the net balance of external funds. The gross inflow of capital under all heads has averaged some 2,800 million dollars annually for the region as a whole. If amortization is deducted, the net annual inflow of capital is reduced to about 1,600 million dollars, which is only some 200 million dollars more than Latin America's annual net inflows in the second half of the last decade. Remittances of profits and interest on foreign investment and the external debt, however, rose by an average of 450 million dollars annually in the present decade. Thus, in spite of the huge increase in capital inflows, the net contribution to the balance of payments, i.e., to the capacity to import goods and services, has been negative. Latin America taken as a whole has transferred abroad, in the form of amortization, interest and profits, more than its total gross inflows under all heads.

2. Excluding Venezuela - whose movements of funds to and from other countries are of a special character because of its petroleum investments - the trends in the region are somewhat less unfavourable, although they lead to much the same results. The increase in the gross inflow of capital has been considerable, and in 1968 is estimated to have exceeded 4,000 million dollars. When amortization is deducted, however, the net inflow is reduced to an annual average of about 1,700 million dollars for the period 1960-67. A comparison between this figure and the transfers of interest, profits and other remittances abroad, shows that the net contribution for the whole region has been only about 650 million dollars annually, while in the second half of the last decade it was approximately 520 million.

3. In some countries, the movement of funds in several years has been more unfavourable than in the situation described above. The net inflows of funds declined until they were converted into negative flows, and the

/balance-of-payments

balance-of-payments position was aggravated by the remittances of profits and the rise in interest payments as a result of cumulative borrowing. On the other hand, in another group of countries, which includes Mexico and many of the smaller States, the availability of foreign capital has boosted external purchasing power in recent years and had a favourable impact on investment and the rate of growth.

4. Notwithstanding these differences in degree, the balance-of-payments position is highly unsatisfactory, and this situation is to be found also in countries which showed positive balances in their movements of foreign funds, because they have increased their external borrowing in the last few years. In general, amortization, interest and profit payments have grown much faster than export earnings, and it is estimated that, for the region as a whole, such payments represent more than one-third of current income from exports of goods, and in some countries over 40 per cent.

5. To sum up, the region's financial position and prospects, in spite of some improvement in 1968, are decidedly unfavourable, and this has a very strong impact on Latin America's present situation, because it relies on those capital inflows to maintain the growth rate within the context of the policies it has been pursuing. The projections show that the availability of funds is likely to be severely reduced, and that the cost of financing is rising, not only because of the higher interest rates but also because of the recrudescence of tied loans, under the terms of which the funds must be used in specific areas and even spent on specific types of goods.

6. Latin America will never be able to lay the foundations for its development if it continues to deal with the external bottleneck by adopting palliatives such as increased external borrowing. Undoubtedly, the most positive and effective assistance the industrialized countries could and should give would be to adopt measures and change their policies so as to facilitate the access of Latin America's exports to their markets at stable and remunerative prices, and to give an immediate boost to its exports of manufactures and semi-manufactures. In the meantime, until these objectives are achieved, financial assistance will be required on terms and conditions that do not lead to the same crises as in the past;

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in other words, what is needed is an increase in the net flows of funds and services, and a decrease in the real cost of external financing.

7. The main objectives that should be set for international action in this respect have been defined in UNCTAD. In brief, they cover the commitments that the developed countries should make to increase their net transfers of resources, changes in the terms and conditions of aid, multilateralization, and the adjustment of servicing payments on the external debt at times of crisis. The various proposals on these points now under discussion are well known.

8. It cannot be over-emphasized, however, that two of the objectives which are of special significance to Latin America at present are, first, increasing the proportion of external financing which consists of aid and of long-term loans at low interest rates and with extended grace periods, and, secondly, providing more flexible conditions for adjustments in times of crisis. Another very important objective is to find a practical way to reduce the cost of tied loans and suppliers' credits - not only the cost of servicing but the cost of the goods supplied. A general objective should be the elimination of tied aid and of restrictions on the use of loans, so that credits can be used in different areas, and especially in Latin America, to support the integration process. It is a matter of justifiable concern that tied loans prejudice or even frustrate the possibilities of expanding intra-area trade.

9. In terms of over-all development strategy, the growing multilateralization of external financial assistance and the application of the principle that development plans should receive financing are of particular significance. Countries must be able to rely on receiving the basic external resources they have budgeted for in their plans, and on supplementary assistance to offset any disruptions caused by unexpected declines in export receipts or by other emergencies; these topics also have been considered in UNCTAD.

(b) Direct foreign investment

10. Mention has already been made of the concern aroused by the growing infiltration of foreign capital in commercial, industrial and financial activities, which is partly used to buy up or acquire shares in Latin American firms. The technical and other characteristics of these firms

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seldom make such take-overs justifiable, since neither the technological and organizational requirements nor even the volume of investment needed are beyond the powers of Latin American enterprise at its present stage of development.

11. This trend of events is liable to wreck the contribution which it is hoped that private foreign enterprise will make to Latin American economic development. The technical and financial co-operation that it can give is very important, particularly for encouraging the growth and efficiency of Latin American enterprise. Consequently, the Latin American countries must adopt well-defined policies in this respect. These policies should have two basic aims: first, the technical and financial strengthening of national enterprises, whether public or private, and of multinational Latin American enterprises forming part of the integration movement, and, secondly, the framing of a clear foreign investment policy. The fundamental ways in which foreign capital can co-operate are through the transfer of technical know-how, improvement of the organization and efficiency of enterprises, elimination of the impediments which cramp Latin American development and export promotion.

12. With these goals, national programmes should determine the areas in which external investment is needed and the ways in which technical know-how and modern forms of organization can be adopted and popularized. The Latin American countries will have to take co-ordinated action to win the co-operation and support of the industrialized countries and of foreign enterprises and investors for their national policies, for new modes of foreign capital participation whereby the investment would be gradually transferred to the national public or private sectors, and for other measures in the capital-exporting countries for the promotion and support of investment in developing countries. A special effort should be made to explore supplementary or alternative methods of transferring modern techniques and technological advances to the national economies and of ensuring their wide dissemination.

