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INDUSTRIALIZATION IN THE RELATIVELY LESS
DEVELOPED COUNTRIES

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I. THE PROBLEM

1. General considerations

The special situation of the least developed among the developing countries or those countries which are economically relatively less developed in the context of international economic relations has been the subject of increasing attention during the last decade. It is considered to be one of the most important problems in the restructuring of the world economy, and a key factor in the processes of regional and subregional co-operation and economic integration.

There is a widely held conviction that, because of conjunctural or structural deficiencies, a number of countries with relatively less developed economies have not been, and will not be in the new future, in a position to take full and equitable advantage of the effects of the measures and policies adopted or formulated at the international level in favour of the developing countries as a whole. This is expressly recognized in the International Development Strategy when it expresses the need to adopt special measures to assist the less developed countries to overcome their "particular disabilities" and provides for the adoption of measures and action programmes at the national, subregional and world levels with the participation, where pertinent, of international organizations and of the developed countries. Thus the international community has undertaken 1/ to make concerted efforts in the fields of trade, finance and technology aimed at strengthening the economies of the less developed countries.

The United Nations agencies have been participating actively in the discussion of this problem and in the search for adequate solutions for the relatively less developed countries. Since 1964, when UNCTAD I was held, up to the present time, these agencies have reached a number of agreements and adopted a series of resolutions on the subject, particularly in respect of the problem of identifying

1/ Resolution 2626 (XXV) of the United Nations General Assembly.

the countries which can be considered "least developed" and the concrete measures which can be taken in favour of these countries.

With respect to the identification of those countries considered "least developed", a list of 25 countries (16 African countries, 8 Asian countries and 1 Latin American country) which form the "hard core", "whatever classification criterion is used" 2/ has been approved and recommended by the Development Planning Committee. In its report the Committee recognized the difficulties of establishing objective classification criteria and the arbitrariness of grouping the developing economies into two major categories, in view of the many-faceted complexity of economic and social development. At the same time it drew attention to the possibility of accepting different concepts of what could be considered "relatively less developed" each one of which could correspond "to a different sphere of action or to the situation of a given region".

The need to deal with the least developed areas through concerted programmes of global, sectoral, and regional scope was likewise ratified in the meetings of the Group of 77 3/ and of the Non-Aligned Countries.4/ Various international organizations such as the regional economic commissions, the United Nations Development Programme, UNIDO, the international financial institutions, and intergovernmental agencies have also adopted measures within their respective spheres of influence to assist the least developed countries and co-ordinate their activities within the framework of the International Development Strategy.

2/ See the report on the Seventh Session of the Development Planning Committee, document E/4990, New York, 1971.

3/ Particularly at the Lima Meeting in 1971, at which a clear political position was adopted, stress being placed on the imperative need for the developing countries to take an active part in the adoption of decisions on the orientation and characteristics of international co-operation, and mention being made of the undesirability that unilateral action should be taken in this respect by the industrialized countries on the basis of discriminatory formulas which can lead to unrest and friction between the former. (See document MM/77/II/R.2/Add.19.)

4/ Georgetown Conference, 1972 and Algiers Conference, 1973.

International agreement has been reached within a relatively short period on the urgent need to provide assistance to the relatively less developed areas through special treatment.

Another aspect which has been made clear is that the special treatment should not be limited to the 25 countries which make up the "hard core" of the least developed countries, but should be extended to other countries which lag behind their respective regions and subregions and/or are disadvantaged in respect of specific problems.

2. The concept of relatively less developed countries in the region

Several attempts have been made in the Latin American region using different economic and social indicators to define the countries which can be considered relatively less developed. The ECLA secretariat has been working in this field and has examined the main factors which impede or obstruct the growth of the countries, taking into consideration both the levels of economic and social development achieved and, particularly, the "capacity" or "potential" of each country for reaching higher levels,^{5/} but a satisfactory solution has still not been found.

The studies carried out show how difficult it is to quantify some aspects which are of special importance in the future development of the least developed countries, such as their natural resources potential, the capacity of their economic and social system to absorb and create new technology, the presence or lack of social and political institutions, and their economic, cultural and political dependence on the exterior. It has also become clear that underdevelopment is produced by many and varied economic, social and political factors which must be subjected to in-depth analysis in each case. In some of the countries, the persistence of

^{5/} The preliminary results of these studies were submitted at the CECLA expert meeting held in Bogotá in March 1972. At this meeting it was agreed that the ECLA secretariat should continue to study this complex problem.

forms of organization which are characteristic of traditional societies has slowed down the achievement of important advances in production and income. In others, the exhaustion of growth patterns - through the lack of resources and the smallness of markets, or through the resistance to change within the national entity - explains the interruption or lack of dynamism in the development process. In addition to obstacles of this kind, the population explosion has compounded the difficulties.

In view of the complexity of the problem and the urgent need for adopting measures and policies in favour of the least developed countries, the regional agencies have adopted pragmatic criteria in the various integration instruments which they have promoted. The guiding principle has been to help the least developed countries of the region to turn to good account the potential advantages stemming from the integration schemes in which they participate, by applying differential treatment to enable them to achieve common objectives and obtain a fair share of the benefits.

The integration systems themselves have defined the relatively less developed countries within their respective areas. The Treaty of Montevideo contains the first provisions for granting benefits and special advantages to the least developed countries. Provision is also made for collective action aimed at promoting programmes of financial and technical assistance in favour of these countries 6/ (Bolivia, Ecuador and Paraguay). At a later date, LAFTA granted Uruguay the tax concessions usually reserved for the relatively less developed countries, owing to that country's difficult economic situation.7/

6/ See Chapter VIII of the Treaty of Montevideo, 18 February 1960.

7/ LAFTA resolution 212 (VII), adopted at the Sixth Extraordinary Session of the Conference of Foreign Ministers (28 August to 2 September 1967, Asunción).

The Central American Common Market gave preferential treatment to Honduras and Nicaragua in some respects, and the Cartagena Agreement 8/ established preferential treatment for Bolivia and Ecuador, while CARIFTA, 9/ followed by the Caribbean Community, 10/ are considering special measures for the seven territories within this grouping.

As a result of various recommendations adopted by the Governments within the framework of ECLA, 11/ at the end of 1967 a meeting of high-level government representatives of the economically relatively less developed countries of the region was held in Guatemala to consider the problems facing those countries in the international and regional context, particularly in connexion with the economic integration processes being implemented in the Latin American area.

The ECLA secretariat convened to the Guatemala Conference the 16 countries generally considered in the region to be economically relatively less developed. The majority of them belong to one or more of the regional or subregional grouping:

<u>Countries</u>	<u>Integration groupings</u>
Bolivia	LAFTA and the Andean Group
Ecuador	LAFTA and the Andean Group
Paraguay	LAFTA
Uruguay	LAFTA
Costa Rica	Central American Common Market
El Salvador	Central American Common Market
Guatemala	Central American Common Market
Honduras	Central American Common Market

8/ Article 93 of the Cartagena Agreement.

9/ Article 39 (industrial development) and its annexes, the Agricultural Marketing Protocol, and the Oils and Fats Agreement.

10/ Agreement on the establishment of the Caribbean Community.

11/ Resolution 254 (XI)..

Nicaragua	Central American Common Market
Barbados	CARIFTA
Guyana	CARIFTA
Jamaica	CARIFTA
Trinidad and Tobago	CARIFTA
Haiti	
Panama	
Dominican Republic	

Of the 16 countries in question, 10 belong to two well-defined areas considered to be less developed economically: Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) and the Caribbean (Barbados, Guyana, Jamaica, Trinidad and Tobago). Haiti and the Dominican Republic are also located in the latter area, although they belong to neither of the two subregional groupings. Lastly, the remaining four countries - Bolivia, Ecuador, Paraguay and Uruguay - are in the South American area.

The following conclusions can be reached from the foregoing considerations:

(a) The term "less-developed" is essentially a relative and dynamic concept, defined on the basis of the peculiarities of each region or subregion;

(b) The basic characteristic of this condition is the lack of aptitude or potentiality of specific countries to take full advantage of the opportunities provided by regional and subregional integration or co-operation processes and international trade, and

(c) In some cases the concept corresponds not only to structural differences, but also to conjunctural situations.

As can be seen, in contrast to what was done at the world level, the less developed countries were not defined in Latin America exclusively on the basis of economic and social indicators, since other characteristics have been taken into account, such as the relative position which the countries occupy within an integration process, their growth potential, and the limiting factors affecting

/their development.

their development. Thus, the group of relatively less developed countries includes some which have levels of income similar to or higher than those of other more advanced countries of the region. Also distinctive of the Latin American region is the fact that the identification of the least advanced economies has been explicitly accepted by the Governments and by various regional forums and agencies.

II. PRINCIPAL CHARACTERISTICS OF THE EVOLUTION OF THE LESS DEVELOPED COUNTRIES

1. Characteristics of the less developed economies of the region

(a) General aspects

With the object of measuring the importance of the group of relatively less developed countries in Latin America and of establishing a general frame of reference as regards their possibilities of future development, some distinctive features and structural problems common to them all are examined below.

The 16 countries which fall into the relatively less developed group represent a significant section of the regional economy as constituted by all the countries of the Latin American area.^{12/} In 1973 their total population amounted to 50 million inhabitants, in an area of 2.8 million km², that is, 17 per cent of the total population of the region and 19.6 per cent of the surface area. In the same year, their gross domestic product amounted to 17,631 million dollars (10.6 per cent of the total product of the region), of which the industrial product was 2,956 million dollars (6.9 per cent), while the value of their exports amounted to 4,913 million dollars and that of their imports to 5,243 million dollars (19 and 22 per cent respectively of the totals for the region).

The above figures show a relatively lower degree of economic development in these countries, and greater dependence on external trade.

^{12/} The Latin American region includes the 19 Latin American republics (excluding Cuba, because of the lack of data on this country) and the 5 English-speaking Caribbean countries which recently became independent (Barbados, Guyana, Jamaica and Trinidad and Tobago).

Side by side with countries where population density is high 13/ there are others whose territories are almost empty.14/ Generally speaking, the relatively less developed countries are characterized by rapid population growth, in a number of cases exceeding the Latin American average, and this fact intensifies the problems of insufficient resources in some countries, the difficulty of full absorption of the labour force, and in some other countries the problems of indigenous communities which have not yet been integrated into the national economic system.

The per capita gross domestic product of the group of relatively less developed countries amounted in 1973 to 353 dollars, which is equivalent to 62.4 per cent of the Latin American average (566 dollars) but only 58 per cent of that of the other countries of the region. It should be emphasized that the global figures cover a great variety of situations.

If a classification is made on the basis of the level of the per capita product (see table 1) the countries fall into three groups. The first of these has a per capita product ranging between 200 and 300 dollars (Bolivia, Honduras, the Dominican Republic and Guyana); the second, between 300 and 400 dollars (Paraguay, Ecuador, El Salvador, Nicaragua and Guatemala), and the third, more than 400 dollars (Barbados, Costa Rica, Jamaica, Trinidad and Tobago and Panama). Haiti is a special case with less than 100 dollars, while of the other extreme there is Uruguay, a country with economic and social indicators which correspond to a higher degree of development (see tables 2 and 3).

13/ In 1970, population density was 635 persons per km² in Barbados; 209 in Trinidad and Tobago; 188 in Haiti; 181 in Jamaica and 161 in El Salvador.

14/ In 1970 the density in Guyana was 3.5 persons per km²; in Bolivia 4.2 and in Paraguay 5.9.

Table 1

LATIN AMERICA: PER CAPITA GROSS DOMESTIC PRODUCT OF THE
RELATIVELY LESS DEVELOPED COUNTRIES

(Dollars at 1960 prices)

Country	1960	1965	1970	1973
<u>A. Less developed countries</u>	<u>273</u>	<u>294</u>	<u>323</u>	<u>353</u>
Haiti	96	84	81	87
<u>Group I</u>	<u>179</u>	<u>187</u>	<u>221</u>	<u>247</u>
Bolivia	144	161	195	210
Guyana	273	271	296	282
Honduras	181	193	211	216
Dominican Republic	203	197	245	299
<u>Group II</u>	<u>255</u>	<u>295</u>	<u>324</u>	<u>362</u>
Ecuador	261	288	319	388
El Salvador	253	301	315	324
Guatemala	268	301	344	383
Nicaragua	224	316	335	344
Paraguay	243	276	296	315
<u>Group III</u>	<u>420</u>	<u>485</u>	<u>570</u>	<u>600</u>
Barbados	300	342	462	470
Costa Rica	394	452	545	569
Jamaica	371	425	496	504
Panama	405	518	639	717
Trinidad and Tobago	608	636	678	702
Uruguay	692	678	715	681
<u>B. Other Latin American countries</u>	<u>412</u>	<u>466</u>	<u>540</u>	<u>609</u>
<u>C. Latin America as a whole</u>	<u>388</u>	<u>437</u>	<u>503</u>	<u>566</u>

Source: ECLA, on the basis of official statistics.

Table 2

LATIN AMERICA: GENERAL INDICATORS OF THE RELATIVELY LESS DEVELOPED COUNTRIES

	Total (thousands of km ²)	Area a/ (thousands of hectares)		Population b/ (thousands of persons) 1973	Gross domestic product c/ 1972 (millions of dollars at 1960 prices)			Foreign trade d/ 1973 (millions of dollars)	
		Agri- culture	Forest		Total	Agri- culture	Industry	Exports	Imports
A. Less developed countries	<u>2 774</u>	<u>67 210</u>	<u>124 220</u>	<u>50 077</u>	<u>16 649.8</u>	<u>3 861.8</u>	<u>2 768.7</u>	<u>4 913.1</u>	<u>5 243.0</u>
Haiti	28	870	700	5 603	478.5	231.0	65.9	52.1	79.0
Group I	<u>1 475</u>	<u>23 822</u>	<u>66 408</u>	<u>13 574</u>	<u>3 100.4</u>	<u>732.4</u>	<u>468.5</u>	<u>1 119.2</u>	<u>1 074.9</u>
Bolivia	1 099	14 414	47 000	5 144	1 000.4	210.1	134.9	276.4	249.5
Guyana	215	3 238	14 164	810	238.0	40.4	45.2	142.0	149.3
Honduras	112	4 236	3 019	2 830	620.7	214.1	88.0	260.8	241.8
Dominican Republic	49	1 934	2 225	4 790	1 241.3	267.8	200.4	440.0	434.3
Group II	<u>951</u>	<u>22 454</u>	<u>47 484</u>	<u>20 930</u>	<u>7 026.4</u>	<u>1 935.0</u>	<u>1 132.8</u>	<u>1 856.8</u>	<u>1 589.6</u>
Ecuador	284	6 015	14 845	6 650	2 296.5	592.2	390.1	582.8	481.9
El Salvador	21	1 247	240	3 864	1 194.7	324.5	204.0	380.0	321.5
Guatemala	109	2 522	5 400	5 781	2 031.4	558.9	267.3	440.0	397.0
Nicaragua	130	1 723	6 450	2 170	772.2	214.6	136.4	326.0	273.3
Paraguay	407	10 947	20 549	2 465	731.6	244.8	135.0	128.0	115.9
Group III	<u>142</u>	<u>4 410</u>	<u>9 060</u>	<u>6 980</u>	<u>4 070.8</u>	<u>578.5</u>	<u>692.9</u>	<u>1 565.9</u>	<u>2 250.4</u>
Barbados	(0.4)	30	-	261	125.0	10.0	12.5	43.5	154.0
Costa Rica	51	2 352	2 528	1 888	1 039.4	231.0	207.8	347.0	398.0
Jamaica	11	488	208	2 121	994.8	82.6	130.3	400.0	563.7
Panama	76	1 395	6 092	1 586	1 079.6	198.3	187.5	158.4	480.1
Trinidad and Tobago	5	145	232	1 124	832.0	56.6	154.8	617.0	654.6
Uruguay	178	15 654	568	2 990	1 973.7	384.9	408.6	319.1	249.1
B. Other countries	<u>17 125</u>	<u>1 012 411</u>	<u>816 618</u>	<u>244 392</u>	<u>135 298.6</u>	<u>19 565.3</u>	<u>35 819.7</u>	<u>21 011.4</u>	<u>18 345.4</u>
C. Latin America as a whole	<u>19 899</u>	<u>1 079 621</u>	<u>940 838</u>	<u>294 469</u>	<u>151 948.4</u>	<u>23 427.1</u>	<u>38 588.4</u>	<u>25 924.5</u>	<u>23 588.4</u>

a/ FAO, Production Yearbook, 1971.b/ CELADE, Boletín demográfico No 13, January 1974.

c/ ECLA, on the basis of official statistics, 1972.

d/ ECLA, Economic Survey of Latin America, 1973.

Table 3

LATIN AMERICA: ECONOMIC INDICATORS OF THE RELATIVELY
LESS DEVELOPED COUNTRIES

	Per capita gross domestic product a/ 1973	Percentage share of agricultural product in GDP 1973	Degree of industrial- ization 1973	Urban population b/ (%) 1970	Agri- cultural employ- ment (%) 1970
A. Less developed countries	<u>353</u>	<u>23.2</u>	<u>16.8</u>	<u>26.8</u>	<u>55.2</u>
Haiti	87	48.3	14.0	7.0	79.0
<u>Group I</u>	<u>247</u>	<u>23.6</u>	<u>15.0</u>	<u>22.4</u>	<u>52.2</u>
Bolivia	210	21.0	13.7	22.7	55.0
Guyana	282	17.0	11.4	13.9	36.0
Honduras	216	34.5	14.9	15.6	66.9
Dominican Republic	299	21.6	15.8	27.7	59.8
<u>Group II</u>	<u>362</u>	<u>27.5</u>	<u>16.3</u>	<u>24.0</u>	<u>56.5</u>
Ecuador	388	26.8	16.6	32.9	51.1
El Salvador	324	27.2	17.8	18.1	56.1
Guatemala	383	27.5	13.1	17.7	64.7
Nicaragua	344	27.8	19.7	25.3	56.0
Paraguay	315	33.5	18.4	22.5	52.5
<u>Group III</u>	<u>600</u>	<u>14.2</u>	<u>17.3</u>	<u>40.9</u>	<u>32.4</u>
Barbados	470	8.0	11.9	41.0	24.0
Costa Rica	569	23.1	20.6	32.2	49.3
Jamaica	504	8.3	14.5	32.0	39.0
Panama	717	18.4	17.0	37.5	43.9
Trinidad and Tobago	702	6.8	17.8	49.0	21.0
Uruguay	681	17.5	20.8	70.2	16.6
B. Other countries	<u>609</u>	<u>14.5</u>	<u>26.7</u>	<u>44.2</u>	<u>41.0</u>
C. Latin America as a whole	<u>566</u>	<u>15.4</u>	<u>25.2</u>	<u>41.2</u>	<u>43.4</u>

Source: ECLA, on the basis of official statistics.

a/ Dollars at 1960 prices.

b/ ECLA, Economic Survey of Latin America, 1973.

c/ ECLA, Economic Survey of Latin America, 1970.

/Another aspect

Another aspect which should be taken into consideration when analysing the situation of the less developed countries is that the joint market of the 16 countries is somewhere between that of Venezuela and that of Argentina in size, taking into account the population and the level of the per capita product. The Central American Common Market approximates in size to that of Peru, and the market of the Caribbean Community is similar to that of Uruguay. In turn, the present size of the market of the whole Latin American geographical area is somewhat similar to that of the United Kingdom, France or the Federal Republic of Germany.

(b) Other common characteristics

Agricultural activity is of major importance in the economies of the relatively less developed countries. In eleven of these countries, containing four-fifths of the total population of this category, the contribution of the agricultural sector is on average, more than 30 per cent of the gross domestic product, while in Haiti it is more than 50 per cent and in Honduras more than 40 per cent. In these eleven countries, moreover, almost two-thirds of the active population on average is engaged in agricultural activity. In the remaining five countries the average contribution of the agricultural sector to the gross domestic product is 18 per cent, and one-third of the active population, on average, is engaged in this sector.

The growth of the agricultural sector has been slow, with average rates hardly exceeding that of population growth, and in some countries, owing to the fact that exports of agricultural products increased at higher rates, it is to be assumed that the internal supply of food has actually deteriorated in per capita terms. This lack of dynamism in the sector has been a very strong influence in intensifying the degree of imbalance in the labour market and in the balance-of-payments situation, as well as hindering the expansion of domestic demand, which is an essential prerequisite for industrial expansion.

/Other features

Other features of agriculture in the relatively less developed countries are low productivity, subsistence levels of income, low rates of saving, limited acceptance of technological innovations and new cultivation methods, and a high concentration of property.

Another major characteristic of the economies of the relatively less developed countries is the predominance of the external sector as a generator of dynamic impulses. These countries are to a larger or smaller degree, small export economies whose functioning depends on the sale on the international markets of a few primary products which represent the quasi-totality of their export income. However, such income, is generally insufficient to finance the growing imports that such economies require.

The real importance of the external disequilibria in the relatively less developed countries is the depressive effect they have on the levels of domestic activity, mainly through the reduction of investments. To offset this, recourse is had to foreign credit, and the foreign debt and the resulting debt servicing rise to critical levels, thus leading to a further characteristic of these countries: their external dependence and vulnerability.

The relatively less developed countries are also generally characterized by a low level of industrialization, a weak economic and social infrastructure, a negative balance-of-payments situation, limited State participation in economic development, inadequate exploitation of their natural resources, and a narrow market.

(c) Structural heterogeneity

The common characteristics and problems mentioned above are not experienced to the same degree in all the countries, nor do they give rise to identical repercussions. Tables 2, 3 and 4 present various general, economic and social indicators which show the heterogeneity that exists in the group of less developed countries.

Thus, for example, there are big differences in their economic development in general and their industrial development in particular.

Table 4

LATIN AMERICA: RELATIVE SITUATION OF THE LESS DEVELOPED COUNTRIES ON
THE BASIS OF SELECTED GENERAL INDICATORS

		Relatively less developed countries	Other countries of the region	Total Latin America
1. Population				
1960	Millions of persons	35	170	205
	Percentage	17.1	82.9	100.0
1965	Millions of persons	40	196	236
	Percentage	16.9	83.1	100.0
1970	Millions of persons	46	225	271
	Percentage	17.0	83.0	100.0
1973	Millions of persons	50	244	294
	Percentage	17.0	83.0	100.0
2. Gross domestic product				
1960	Millions of dollars at 1960 prices	9 558.4	69 976.0	79 534.4
	Percentage	12.0	88.0	100.0
1965	Millions of dollars at 1960 prices	11 752.5	91 430.4	103 222.9
	Percentage	11.4	88.6	100.0
1970	Millions of dollars at 1960 prices	14 852.8	121 441.4	136 294.2
	Percentage	10.9	89.1	100.0
1973	Millions of dollars at 1960 prices	17 631.0	148 700.8	166 331.8
	Percentage	10.6	89.4	100.0
3. Industrial product				
1960	Millions of dollars at 1960 prices	1 411.1	15 698.0	17 109.1
	Percentage	8.2	91.8	100.0
1965	Millions of dollars at 1960 prices	1 852.0	21 506.5	23 358.5
	Percentage	7.9	92.1	100.0
1970	Millions of dollars at 1960 prices	2 523.7	30 710.6	33 234.3
	Percentage	7.6	92.4	100.0
1973	Millions of dollars at 1960 prices	2 956.0	39 642.5	42 598.5
	Percentage	6.9	93.1	100.0
4. Value of exports				
1960	Millions of dollars at current prices	2 181	6 929	9 110
	Percentage	23.9	76.1	100.0
1965	Millions of dollars at current prices	2 264	8 846	11 110
	Percentage	20.4	79.6	100.0
1970	Millions of dollars at current prices	3 260	11 632	14 892
	Percentage	21.9	78.1	100.0
1973	Millions of dollars at current prices	4 913	21 011	25 924
	Percentage	19.0	81.0	100.0
5. Value of imports				
1960	Millions of dollars at current prices	2 009	6 349	8 358
	Percentage	24.0	76.0	100.0
1965	Millions of dollars at current prices	3 010	6 929	9 939
	Percentage	30.3	69.7	100.0
1970	Millions of dollars at current prices	4 382	11 101	15 483
	Percentage	28.3	71.7	100.0
1973	Millions of dollars at current prices	5 243	18 345	23 588
	Percentage	22.2	77.8	100.0

Sources: For population: CELADE, *Boletín demográfico* N° 13, January 1974; for GDP and Industrial Product: ECLA, on the basis of official figures; United Nations, *Yearbook of International Trade Statistics*, 1966, for figures on imports and exports for 1960, and *Monthly Bulletin of Statistics*, July 1973, for 1965 and 1970 figures; ECLA, *Economic Survey of Latin America, 1973*, for 1973 import and export figures.

/The same

The same is true of their size, their endowment with natural resources, their population density, their foreign trade situation, their levels of income and their social and political conditions.

Their structural heterogeneity can be appreciated from table 5. Only three of the countries of the group are similar in size, agricultural area, income and degree of urbanization: Bolivia, Guyana and Paraguay. Three others - Barbados, Jamaica and Trinidad and Tobago - have similar levels of income, agricultural area, size, urbanization and dependence on foreign trade. In general, however, the differences between the 16 countries are pronounced and varied.

It must also be borne in mind that almost half of them are small islands (5) or landlocked countries, (2) which implies a natural disadvantage and makes their economic development more difficult.

2. Recent evolution of the less developed economies

(a) Overall evolution

Since on this occasion it is not possible to examine the trends of each of the 16 relatively less developed countries of the region in depth, particularly as regards their industrial development, mention is made only of some common features which reflect their backwardness with respect to other countries of the region.

The group of less developed countries showed a marked increase in their global rate of development during the 1970s and in the past 5 years (see table 6). However, much of the progress achieved was due to conjunctural factors or international conditions which favoured export products but in no way guaranteed self-sustained development in those countries which particularly benefited from them. Also, in the case of the Central American countries progress was stimulated by the subregional integration process.

Table 5

LATIN AMERICAN GEOGRAPHICAL AREA: STRUCTURAL HETEROGENEITY OF THE RELATIVELY LESS DEVELOPED COUNTRIES

Per capita GDP	With respect to Latin American average	Per capita agricultural area					
		Countries of more than 200 000 km ²		Countries between 50 000 and 200 000 km ²		Countries of less than 50 000 km ²	
		More than 1.53 ha	Less than 1.53 ha	More than 1.53 ha	Less than 1.53 ha	More than 1.53 ha	Less than 1.53 ha
More than 400 dollars	Greater degree of urbanization <u>a/</u>			Uruguay			Trinidad and Tobago Jamaica Barbados
	Lesser degree of urbanization <u>a/</u>				Panama Costa Rica		
	Greater dependence on foreign trade <u>b/</u>				Panama Costa Rica		Jamaica Trinidad and Tobago Barbados
	Less dependence on foreign trade <u>b/</u>			Uruguay			
Between 300 and 400 dollars	Greater degree of urbanization <u>a/</u>		Ecuador				El Salvador
	Lesser degree of urbanization <u>a/</u>				Guatemala Nicaragua		
	Greater dependence on foreign trade <u>b/</u>				Nicaragua		El Salvador
	Less dependence on foreign trade <u>b/</u>		Ecuador		Guatemala		
Less than 300 dollars	Greater degree of urbanization <u>a/</u>						
	Lesser degree of urbanization <u>a/</u>	Bolivia Paraguay Guyana		Honduras			Dominican Republic Haiti
	Greater dependence on foreign trade <u>b/</u>	Bolivia Guyana		Honduras			Dominican Republic
	Less dependence on foreign trade <u>b/</u>	Paraguay					Haiti

a/ Average for Latin America: 44 per cent in 1970.

b/ Point of reference: Import coefficient of the Latin American countries as a whole (26 per cent).

Table 6

LATIN AMERICA: OVERALL AND INDUSTRIAL GROWTH RATES IN THE RELATIVELY LESS DEVELOPED COUNTRIES

(Cumulative annual rates)

Country	1960-1965			1965-1970			1970-1973		
	Overall rate	Industrial rate	Growth ratio <u>a/</u>	Overall rate	Industrial rate	Growth ratio <u>a/</u>	Overall rate	Industrial rate	Growth ratio <u>a/</u>
A. <u>Less developed countries</u>	<u>4.2</u>	<u>5.6</u>	<u>1.33</u>	<u>4.8</u>	<u>6.4</u>	<u>1.33</u>	<u>5.9</u>	<u>5.4</u>	<u>0.92</u>
Haiti	-0.6	-1.0	-1.60	1.8	4.4	2.44	5.1	6.8	1.33
Group I <u>b/</u>	3.8	3.9	1.03	6.4	9.0	1.41	6.8	9.5	1.40
Group II <u>c/</u>	6.0	8.1	1.35	5.1	6.6	1.29	7.0	7.0	1.00
Group III <u>d/</u>	5.8	8.9	1.53	5.8	7.9	1.36	4.2	4.2	1.00
Uruguay	0.8	0.6	0.75	2.3	2.4	1.04	-0.5	-0.8	-1.60
B. <u>Other countries e/</u>	<u>5.5</u>	<u>6.5</u>	<u>1.18</u>	<u>5.8</u>	<u>7.4</u>	<u>1.28</u>	<u>7.0</u>	<u>8.9</u>	<u>1.27</u>
C. <u>Latin America f/</u>	<u>5.4</u>	<u>6.4</u>	<u>1.19</u>	<u>5.7</u>	<u>7.3</u>	<u>1.28</u>	<u>6.9</u>	<u>8.7</u>	<u>1.26</u>

Source: ECLA, on the basis of official statistics.

a/ Ratio of industrial growth to the growth of the economy as a whole or elasticity of industrial growth.b/ Bolivia, Guyana, Honduras and the Dominican Republic.c/ Ecuador, El Salvador, Guatemala, Nicaragua and Paraguay.d/ Barbados, Costa Rica, Jamaica, Panama and Trinidad and Tobago.e/ Argentina, Brazil, Colombia, Chile, Mexico, Peru and Venezuela.f/ Owing to lack of data, Cuba is not included.

In spite of the favourable factors which influenced the acceleration of the rate of growth in the relatively less developed countries, there is evidence that the gap which separates these economies from the more advanced ones of the region is widening in both absolute and relative terms, since in the same period the latter showed higher global rates of growth (see table 6). Thus, whereas the per capita product of the former increased from 273 dollars in 1960 to 353 dollars in 1973 (29.3 per cent), that of the latter rose from 412 dollars to 609 (47.8 per cent) (see table 1). Likewise, the less developed countries' share in the generation of the gross domestic product of the region fell from 12 per cent in 1960 to 10.6 per cent in 1973 (see table 4).

Another aspect of the relatively less developed countries which is of special significance is that they are generally open economies which are extremely vulnerable to fluctuations in the prices of their basic export products in international markets. A few primary products account for the quasi-totality of their external income, and in general the production and marketing of these is handled by large transnational companies.

If the export/import coefficients of these economies are compared with those of others in the region it can be seen that the latter are practically twice as high.

Furthermore, in the less developed countries there is a great imbalance between the growth of exports and that of imports. Whereas the former rose by 125.3 per cent between 1960 and 1973, the latter increased by 161 per cent.

The long-standing slow growth of agricultural production, the inadequate development of the economic and social infrastructure, the low rates of investment, and the growing external debt are other important characteristics which have been associated with the recent evolution of the relatively less developed countries.

(b) Evolution of the industrial sector

The industrial product of the group of relatively less developed countries amounted in 1973 to 2,956 million dollars, or 6.9 per cent of the total product of the region. This ratio was lower than that of 1960, which was 8.2 per cent. The per capita industrial product rose from 40.30 dollars in 1960 to 59.10 in 1973, which represents an increase of 46.7 per cent, whereas in the other countries of the region the increase for the same period was from 92.30 dollars to 162.50 dollars, i.e., 76.1 per cent (see table 4).

In 1973, the degree of industrialization of the less developed countries, measured as the ratio of the industrial product to the gross domestic product, was only 16.8 per cent, compared with 26.7 per cent in the other countries of the region. Half of the former countries have degrees of industrialization lower than 17 per cent, i.e., they are more or less at a pre-industrial stage. None of the less developed countries is up to the Latin American average, and they are much further below the rate of the other countries of the region (see table 7).

The ratio of industrial growth to that of the overall economy - the elasticity of industrial growth - maintained a relatively satisfactory level during the past decade, but in the early years of this decade it has been observed that the industrial sector is growing slower than the economy as a whole: in other words, it has lost its dynamism (see table 6).

The information given in the previous paragraphs shows that the gap in industrial development between the less developed countries and the other countries of the region has widened between 1960 and 1973.

Foreign trade in industrial products also shows an unfavourable balance, for whereas imports of manufactures represent approximately 90 per cent of the total imports of these countries, their exports of manufactures are insignificant.

Table 7

LATIN AMERICA: DEGREE OF INDUSTRIALIZATION OF THE RELATIVELY
LESS DEVELOPED COUNTRIES

Countries	1960	1965	1970	1973
<u>A. Less developed countries</u>	<u>14.8</u>	<u>15.8</u>	<u>17.0</u>	<u>16.8</u>
Haiti	12.0	11.7	13.2	14.0
<u>Group I</u>	<u>12.3</u>	<u>12.3</u>	<u>14.0</u>	<u>15.0</u>
Honduras	11.2	12.4	13.6	14.9
Guyana	10.3	11.9	11.1	11.4
Dominican Republic	10.1	11.5	15.1	15.8
<u>Group II</u>	<u>13.8</u>	<u>15.2</u>	<u>16.3</u>	<u>16.3</u>
Ecuador	15.6	16.5	16.8	16.6
El Salvador	13.5	16.3	17.2	17.8
Guatemala	10.8	11.8	13.2	13.1
Nicaragua	13.6	16.4	19.7	19.7
Paraguay	16.7	17.6	18.8	18.4
<u>Group III</u>	<u>13.6</u>	<u>15.7</u>	<u>17.3</u>	<u>17.3</u>
Barbados	8.3	10.3	10.8	11.9
Costa Rica	16.2	17.5	19.7	20.6
Jamaica	13.6	15.2	14.6	14.5
Panama	12.8	15.6	17.2	17.0
Trinidad and Tobago	12.5	15.2	18.9	17.8
Uruguay	21.2	20.8	21.0	20.8
<u>B. Other Latin American countries</u>	<u>22.4</u>	<u>23.5</u>	<u>25.3</u>	<u>26.7</u>
<u>C. Latin America</u>	<u>21.7</u>	<u>22.6</u>	<u>24.5</u>	<u>25.9</u>

Source: ECLA, on the basis of official statistics.

The main tendencies in the industrial evolution of the relatively less developed countries, and the structure of production they have succeeded in establishing, show that these countries have generally been using the same industrial development model as that applied by the other Latin American countries, the weakness and effecteness of which are now clear. In general, they have followed the model based on extensive import substitution tending to satisfy the needs of the high-income minority groups.

Rather than having a coherent industrialization policy, the relatively less developed countries have merely taken isolated measures to stimulate the establishment of certain industries, without adequate linking up with general economic policy. Thus, for example, excessive tariff protection has led to the installation of high-cost and low-productivity activities, or the granting of liberal tax concessions to foreign capital has resulted in the establishment of modern factories which constitute veritable enclaves in the national economies and bring little or no benefit to general development: indeed, in many cases they increase external dependence, since the country has to import the inputs required for their operation.

The potential of the domestic market and the possibilities of economies of scale and specialization have therefore been thrown away. Furthermore, import substitution industry tends to be located near consumer centres, thus accelerating the process of concentration of economic activity and population.

The general picture presented by industry in the relatively less developed countries, with a few exceptions in certain branches, and certain countries, is broadly characterized by low productivity; external dependence on imported inputs and technology; monopolistic or oligopolistic features in many of its branches; predominance of family operation in some branches; the use of out-of-date equipment and machinery; weakness of the entrepreneurial sector; failure to apply modern systems and methods of production and control; inadequate standards of occupational health; poor marketing methods and scarcity of skilled manpower, particularly at the middle levels. The degree and intensity of each of these characteristics varies from country to country, and from one industrial branch to another.

III. SOME ISSUES REGARDING THE INDUSTRIAL DEVELOPMENT STRATEGY

1. Industrial development strategy

(a) Global aspects

As may be seen from the general background given very briefly in the preceding chapters, the problems of economic and social development in general and industrialization in particular display still greater complications in the case of the relatively less developed countries. For this reason it is not possible to speak of a common development strategy for all of them, and it is necessary to formulate differentiated strategies giving adequate consideration to the peculiarities of each one of them in the context of the principal development variables.

It is the responsibility of the relatively less developed countries themselves to promote changes in their social and economic structures; to define strategies which contain the elements necessary to ensure the most effective mobilization of all their domestic resources, and to make a coherent whole of their efforts in this direction through planning.

In order to facilitate this complex and difficult task, however, the assistance of the international community will be indispensable, and this should be granted on a preferential basis as provided for in the International Development Strategy and in the Declaration on the Establishment of a New International Economic Order. These countries will also have to implement joint action through regional and subregional integration machinery to overcome their structural weaknesses. In this respect, joint subregional programmes seem to be one of the most promising ways.

The foregoing implies the introduction of fundamental changes in international relations, with special measures in favour of the relatively less developed countries. If this is not done, there is bound to be a widening of the gap not only between the latter countries and the industrialized countries, but also between them and the more

/advanced developing

advanced developing countries. The structural weaknesses and disequilibria displayed by the less developed countries are of such magnitude that only intense and sustained action by the international community can avoid the continued deterioration of their relative situation.

In order to define a suitable development strategy it will be necessary first of all to do an extraordinary amount of work in each of the relatively less developed countries with a view to analysing the real characteristics of their underdevelopment so as to determine the underlying economic, social and political causes. This will only be possible through a multi-disciplinary effort aimed at unravelling the tangled web of economic and social interrelations which make up the economy's present structure. It should not be forgotten in any circumstances that the present situation is the result of a long historical process marked by pronounced economic and political dependence. An analysis of the type referred to above must explain the contradictions and major disequilibria which appear in different forms in those countries. This is not the place to dwell on this subject, but some of these may be mentioned purely by way of illustration.

In almost all of the relatively less developed countries there are high levels of open and disguised unemployment in the midst of an abundance of unexploited natural resources and unsatisfied basic social needs. All these countries have negative balance-of-payments situations, yet in the majority of them consumer habits are just like those of the advanced societies. In some cases they have arrived at the extreme of importing synthetic products which compete with their own exports. The international bargaining power of these countries is very limited, yet except in a few cases they have not shown sufficient interest in the regional or subregional integration movements or in the implementation of joint action to enable them to improve their position. In the majority of them, agriculture is the main economic sector, employing more than half of the active population, and the resources of the soil are in general abundant;

/but in

but in spite of this, agricultural growth has been chronically slow, consistently falling below the overall growth rate of the economy, and imports of foodstuffs have reached high levels. There are many more contradictions like these, and they must be clarified in order to gain an objective picture of the situation in each of the countries concerned.

In contrast to the discouraging outlook of the relatively less developed countries as regards their present situation and development tendencies, however, there are other facts which seem likely to improve their prospects substantially.

In the first place, the international situation is changing in favour of the relatively less developed countries. Every day there is greater understanding that their different structures and levels of development entitle them to special treatment both at the international level and also within regional and subregional integration movements. In the fields of international trade and of economic, financial and technical assistance, various measures and programmes have been adopted in recent years in favour of these countries. This action has been taken not only by the industrialized countries, but also by the more advanced developing countries, which have thus begun to show their solidarity with the less developed ones.^{15/}

The international community has become aware of the situation of the less developed countries and has undertaken to adopt measures in their favour, such as those which appear in the International Development Strategy,^{16/} the Declaration on the Establishment of a New International Economic Order ^{17/} and the Action Programme for the Establishment of a New International Economic Order.^{18/}

^{15/} The meetings of non-aligned countries held in Georgetown in 1972 and in Algiers in 1973 adopted declarations, action programmes, and special measures for the less developed countries.

^{16/} General Assembly resolution 2626 (XXV).

^{17/} General Assembly resolution 3201 (S-VI).

^{18/} General Assembly resolution 3202 (S-VI).

Secondly, the less developed countries have already begun undertaking economic studies and research in various areas, which, together with the advance in planning techniques, will enable them to implement more rational development programmes in the future. The experience of the more developed countries of the region will be of great use to them and will prevent them from repeating some of the mistakes made by those countries.

Thirdly, progress in integration movements in the region opens up new prospects and possibilities for the relatively less developed countries. Only Haiti, the Dominican Republic and Panama remain outside these movements. Furthermore, the region is trying to establish a Latin American Common Market in the not too distant future.

The evolution of the Central American Common Market clearly shows that integration is a stimulus to industrialization, for whereas in the decade preceding the inception of the Common Market the level of industrialization rose from 12.2 per cent in 1950 to only 13.9 in 1960, it rose to 17 per cent by 1967 and 18.3 per cent by 1973, in spite of political difficulties which caused disturbances in the operation of this machinery. The integration process of the Central American countries has not only raised the overall rate of growth but has also simultaneously produced important changes in the production structure.

The establishment of the Caribbean Community, for its part, opens up new development possibilities for the countries of this subregion through the establishment of industries producing for the common market and some specializing in production for export.

Finally, the energy and food crises facing the international community has some aspects which could turn out to be additional incentives for the relatively less developed countries. The prices of raw materials have taken a favourable turn on international markets and have brought about an improvement in the terms of trade in the majority of the developing countries. This favourable economic situation should be used to the full by the favoured countries, and particularly the less developed ones, in order to reduce the gap separating them from the more advanced ones.

(b) Lines of the strategy

As stated previously, it is not possible to formulate a common development strategy for the relatively less developed countries as a whole: it is necessary to design different strategies based on the characteristics and problems which are peculiar to those countries, and the potential of each one of them. Because of this, no specific strategies of particular significance for the relatively less developed countries can be suggested, especially as regards industrialization.

The objectives of the industrial sector must correspond to those of the overall strategy. Since the main aim of the latter is accelerated economic growth and the transformation of the production and social structures, an industrial development strategy should stress these two fundamental aspects.

In other words, it must be borne in mind that it is not only a question of achieving accelerated economic growth: such growth must also be in keeping with the socio-political objectives established. Just as important as growth itself, and perhaps even more so, is the achievement of a new society in which the aspirations of the individual and of the community coincide and are adequately satisfied.

Industrialization implies a profound cultural and social change brought about through modern technology, the training of labour, the formation of entrepreneurial capacity, and the creation of habits of organization and discipline among the workers. It is an inherently complex process which requires a large-scale mobilization of national resources and has to be carried out as a duly integrated part of the general planning effort if the best results are to be obtained.

The allocation of the resources between the manufacturing sector and the other economic activities, as well as between the different branches of the industrial sector itself, should be in keeping with the major socio-economic objectives laid down in the overall strategy.

The industrial development strategy must satisfy the special conditions of each of the less developed countries. It must establish the most suitable combination of the available and potential resources (materials, human, and financial) with the potential demand for

/manufactured products

manufactured products in the domestic, regional, and international markets and with the possibilities of financing the expansion of the industrial base and the creation of new activities. Moreover, industrialization cannot be carried out independently of the development of the other sectors of the national economy, particularly agriculture and the infrastructure.

In the first stage, agro-industrial development and the creation of diversified export activities may prove to be the key elements for giving an impulse to economic growth.

In this sense, instead of aiming at the simultaneous development of the various sectors of the economy it might be possible to obtain better results by concentrating efforts on those sectors which could make possible a more rapid increase in the overall development rate or on those which offer comparative advantages with respect to the other countries of the region and the international market. It is a matter of implementing a specialized form of industrial development which simultaneously pursues a substantial increase in the manufacturing product and a substantial inflow or saving of foreign exchange.

2. The main paths to industrial development

Generally speaking, there are three main paths to industrialization:

- (a) The expansion of the domestic market.
- (b) Import substitution.
- (c) The export of manufactures.

The analysis of the viability of these paths will have to be carried out for each of the countries when the strategy is formulated, and these paths will surely be found to have different connotations, depending on the special characteristics of the countries and the objectives of their respective overall strategies. However, a few suggestions are given below which may be valid for the majority of them.

(a) Expansion of the domestic market

The narrowness of the markets of the relatively less developed countries is becoming more pronounced because of various factors of a structural nature, such as inequitable distribution of income; imbalance

/in regional

in regional development; economic concentration around the capital; and the existence of great masses of the population which are incorporated neither in economic activity nor in the market. As has been graphically pointed out by the Latin American Institute for Economic and Social Planning - ILPES - these factors constitute internal economic frontiers.^{19/} Breaking them down implies a widening of domestic markets which is reflected mainly in a strong increase in demand for foodstuffs and industrial products.

Agro-industrial development can be very important in the breaking down of internal frontiers, by generating a substantial increase in rural income, creating new rural occupations, and contributing to a more rational spatial distribution of economic activity.

Although more than half of the population of the relatively less developed countries is rural, the demand for industrial products depends to great extent on the possibilities of employment in the agricultural sector. Since, in addition, there is an abundant supply of land in the majority of these countries, it would seem logical that the main efforts should be concentrated on agricultural development, so that a better and wider base for industrialization can be created gradually. Placing emphasis on agricultural development does not in any way imply that industrialization should be relegated to the background, but it does recognize the need to put an end to the slow and irregular development of the primary sector, since this has a slowed down general and industrial development in the majority of these countries. Neither does it mean that it is necessary to abandon any specific type of industrialization, for it will always be possible and even advantageous to establish both industries with comparative advantage which can compete favourably in the region and industries based on the use of national raw materials which can provide substitutes for imports under favourable conditions, particularly if such imports originate outside the Latin American geographical area.

^{19/} "Consideraciones sobre la estrategia de industrialización de América Latina", Cuaderno Nº 2, Serie II, 1967.

/Moreover, industrialization.

Moreover, industrialization which does not pay sufficient attention to agriculture may lead to the creation of dual economies, with isolated modern industrial islands whose effect on the general economy is likely to be limited or non-existent.

An overall agricultural policy should aim at a substantial increase in the standard of living of the rural population, while at the same time it should guarantee urban areas an elastic supply of foodstuffs and create a focal point for diversified exports and high technology. A natural consequence of a policy of this type will be the expansion of the domestic market for essential manufactured products and for industrial equipment and inputs for agriculture.

For the reasons given above, it is of special importance for the less developed countries to seek a suitable balance in the development of these two sectors.

The majority of the less developed countries are in a position to achieve a rapid increase in agricultural production and productivity. On one hand, there are possibilities of substituting imports of foodstuffs and agricultural raw materials for industry; on the other, there are the possibilities of supplying certain agricultural products to the other countries of the area in the place of the large and costly imports from other areas.^{20/} Finally, there is also a promising field for certain agricultural products on the international market, particularly in the case of such items as beef, wool, tinned fruit and vegetables, citrus fruit, etc.

In turn, agricultural development and the introduction of more technology into farming will create additional demand for industrial inputs, particularly in the chemical industry (fertilizers, pesticides, fungicides), engineering (agricultural machinery and implements, spare parts, nails, wire, tools) and construction (cement, iron, building materials).

^{20/} See ECLA, Los países de menor desarrollo económico relativo y el sector agropecuario (ST/ECLA/Conf.29/L.3). This study shows that the total imports from outside the area of nine LAFTA countries (excluding Bolivia and Venezuela) amounted to 550 million dollars in 1964.

In the initial stages of development, when the agricultural sector is very large and the industrial sector very small, as in the majority of the relatively less developed countries, the achievement of an agricultural growth rate higher than the rate of increase of population broadens the base for the industrialization process.

To sum up, it can be said that specialized agro-industrial development could be the right way for many of the less developed countries to achieve rapid growth in the short term. By integrating farms with agriculturally-based industries and with industries supplying agricultural needs, it is possible to establish a chain of intersectoral relations which can stimulate general economic development in the early stages and create the appropriate base for industrialization.

(b) Import substitution

One of the most outstanding features of the economies of the less developed countries is their dependence on foreign trade, both as regards imports of goods and services which are not produced in the area (particularly capital goods and intermediate products) and as regards the export of a limited number of primary agricultural and mining products.

In 1973, the per capita foreign trade 21/ of these countries was 203 dollars, compared with 161 dollars in other countries in the area: i.e., 26.1 per cent higher. Such dependence is even more evident in the case of imports, the coefficient of which with respect to the gross domestic product is more than twice as high as that of other countries of the region: 29.7 per cent as against 12.3 per cent. Moreover, over the last decade the import coefficient of the relatively less developed countries has shown a tendency to increase, whereas the opposite is occurring in the remaining countries of the area (see table 4). This increase in imports has not always been due to the greater economic development needs of those countries, but has corresponded in certain cases to imports of foodstuffs and other

21/ Value of exports plus value of imports.

/consumer goods.

consumer goods. Furthermore, in these countries imports of consumer goods predominate over those of raw materials and capital goods, whereas in the other countries of the region the proportions are reversed.

The high import coefficient shows that the majority of the less developed countries are at a pre-industrial stage, and it suggests that there is considerable scope for import substitution. For this reason, there is a need for careful examination of the possibilities of import substitution as a means of promoting general development and industrialization.

The situation in this respect may vary considerably from one country to another. However, in the light of the experience which the more developed countries of the area have had in this field, there are some aspects which could be valid for all of them.

The process of Latin American industrialization has so far been based mainly on the dynamism imparted by import substitution. Such substitution has generally been carried out on the basis of easily-produced manufactured articles (non-durable consumer goods), followed up by durable consumer goods, intermediate goods, and capital goods. Although some scope still exists particularly in the field of intermediate and capital goods, the process has lost its drive in recent years, since the more easy stages of substitution have been exhausted and the new ones require more capital, a higher degree of technology, and larger scales of production. Import substitution has generally been implemented on the basis of strong government protection, which has made it possible, in many cases, to install small-scale inefficient industries operating at high costs and without incentives for technological change. Moreover, in several branches installed capacity is much higher than that required by the domestic market: a state of affairs which is quite unjustifiable in view of the scarcity of capital in the region.

At the beginning of the 1960s a tendency towards weakening of the substitutive industrialization process became evident in Latin America, leading to a conceptual review of this process which

/is now

is now well under way in the majority of the countries of the region. This is particularly valid for the less developed countries, for the analysis of their economic evolution shows that they have tried to follow the same substitution model which has already lost its impulse and is on the verge of exhaustion in the remaining countries of the region.

To avoid a repetition of the same errors and distortions it will be necessary to make radical changes in the orientation of the substitution process. Efforts must be made to prevent this process from being carried out on an "extensive" basis, from being directed mainly towards the satisfaction of the needs of high-income minority groups, and from being implemented through exaggerated and permanent protectionist policies.

Import substitution should be carried out in the relatively less developed countries on the basis of selective criteria, so as to permit the production only of those items where national production can compete in the domestic market with the industries of the region or subregion. For this, tariff protection must be temporary and must be gradually phased out. Preference should also be given to the production of inputs which are widely used in the other industries and whose manufacture would offer a greater number of jobs or would mean the introduction of processes and technologies likely to propel industrial development towards more complex activities in which the country would have greater comparative advantages. The substitution process should also seek to satisfy the needs of the majority sectors of the population, by producing mass-consumption articles in keeping with a suitable income distribution policy.

(c) Exports of manufactures

The other major path to industrialization, which has been given special importance in recent times, is the creation of export-oriented manufacturing activities to supply the subregional, regional or international market.

/Discussions have

Discussions have been held at the international level, particularly within the framework of UNCTAD, on a generalized non-reciprocal system of preferences directed mainly towards facilitating the export of manufactures and semimanufactures from the developing countries to the big markets in the industrialized nations.

There can be no doubt that the Generalized System of Preferences is a step forward in the field of foreign trade for the developing countries. The UNCTAD recommendations include the establishment of a generalized non-reciprocal and non-discriminatory system of preferences in favour of developing countries, the elimination or eradication of tariff and non-tariff barriers, the reclassification of some products to include them under more favourable tariff lists, and the elimination of restrictive trade practices.

In the case of the less developed countries, manufacturing activities are generally limited to the primary processing of agricultural or mineral products, and the export of manufactures or semimanufactures accounts for an insignificant part of their export income. Therefore, in order for these countries to obtain equitable benefits from the measures aimed at increasing and diversifying the export of manufactures and semimanufactures, the first thing to be done is to help them to set up export industries in fields where these countries could have comparative advantages. This requires intensive technical and financial assistance aimed at eliminating internal, institutional and structural obstacles to industrialization.

As already pointed out on repeated occasions, the relatively less developed countries will not be able to obtain equitable benefits unless they can enjoy the preferences offered under the generalized system for a longer period or at least for a period calculated from the date of their first substantial exports. The system should include agricultural products and processed and semiprocessed minerals, and in cases where safeguard measures and escape clauses are invoked these should not be applied to those countries save in exceptionally justifiable cases.

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The less developed countries have an abundant supply of natural resources. The availability of food products and non-processed minerals gives them some advantage as regards the possibility of embarking on the industrial processing of such products for export. The absence of competition in the earlier stages of productions could well turn out to be a comparative advantage in the more advanced stages of manufactures. This seems to be clear in the case of products which lose weight or perishable goods, many of which cannot be exported owing to the poor state of the internal transport system and the high cost of international transport.

Clear examples of this are the processing of minerals in Bolivia (tin, antimony, etc.) and in other countries, and the processing of foodstuffs (canned foods, concentrates, etc.).

Another favourable factor for exports although it may be only temporary, is the low cost of labour in the majority of the relatively less developed countries. On the other hand, it must not be forgotten that export industries imply stricter requirements as regards technology, quality, prices and capital resources. It is therefore necessary to adopt a suitable development policy for industrial exports, extending from the financing of the industries to marketing abroad and aiming at the improvement both of the export articles in terms of price and quality.

Regional and/or subregional economic integration is an important mechanism for backing up higher-level import substitution and the export of manufactures.

3. Policies and instruments

The decisions involved in a development strategy and the resultant lines of action have to be taken on the basis of the following: the identification of the structural and functional changes to be introduced in the economy and in the society; the choice of the instruments to be used to produce such changes; and the implementation of the requisite policies over a period of time in keeping with the changes that have to be made, and with the resources that can be mobilized for the purpose.

/Although the

Although the policies and instruments to be adopted by the relatively less developed countries will vary from one case to another, depending on the objectives that each industrial strategy lays down, there are some common elements which are of special significance and therefore have to be considered in the process of formulating such a strategy. Among these, mention may be made of the following:

(a) The role of the State

The State will, in the future, have to take a more active part in the industrialization process if it wishes to achieve high rates of growth. The public sector will have to be the moving force in the industrial development strategy. On the one hand, it will have to play the guiding role in the development of the economy, establishing policies and applying measures to stimulate production programmes and widening and improving the infrastructure of the country in accordance with the strategic objectives laid down. On the other, the State will have to take on active part in tasks such as the preparation and implementation of major strategic projects; the improvement of administrative machinery; the training of skilled manpower; export promotion; and the adaptation of institutional machinery to meet the growing demands of accelerated industrial development.

The main instrument to be used by the State will be that of planning, since a process which is so complex and so wide in scope cannot be left to the spontaneous initiative of the private sector, particularly in the relatively less developed countries where entrepreneurial capacity is usually rather weak.

(b) Specialization and polarization

In order to accelerate industrial development, to take advantage of economies of scale and external economies in the production process, and to increase inter-industry relations and the flow of manufactured products between the different regions of the country and to other countries, specialization and polarization criteria must be applied. These may be of different types in different less developed countries, depending on their special characteristics.

/Specialization enables

Specialization enables industrial development strategies to be designed both for the domestic market and the external one. In the first case, specialization will cover those industries which use national natural resources, have backward and forward linkages, and produce mass-consumption goods. In the second case, specialization should be based on the creation of industries which use agricultural or mineral inputs in the production of which the country may enjoy comparative advantages. In neither case should industries whose specialization could be based on the special skills of the labour force or on other favourable factors be overlooked.

The polarization of certain manufacturing activities and industrial complexes should, above all, be aimed at taking full advantage of the external economies which some urban centres offer and the economic and technological interdependence established between the major complexes and auxiliary and complementary activities.

The strategic projects defined in the industrial sector should aim at the creation of large industrial complexes 22/ in accordance with a criterion of specialization. In view of the size of the complexes, their direct effects go beyond the regional framework and usually extend to the entire economy. Moreover, if they are properly located, they can lead to an appreciable widening of interindustry relations.

The number of complexes and their size will depend on the particular conditions in each country. However, it should be borne in mind that agro-industrial complexes and those manufacturing construction materials will have special significance for the domestic market, while for the export market chemical, petrochemical, and mineral-based industries may perhaps be of greatest interest. Finally, engineering complexes will provide support for the basic activities of the country.

22/ The term "industrial complex" means a group of industries located in a geographical space, sharing common infrastructural elements and having a given specialization.

(c) Conversion of artisan-type industry

The strategy will have to exercise special care in considering the role to be played by artisan-type industry in the future industrialization process, since it employs large numbers of workers and it is estimated that approximately 40 per cent of the industrial product is generated by this type of activity.

So far, a process of absorption of artisan-type industry by factory-type activities has been observed, but this process has been neither programmed nor directed, and has taken place as the result of the interplay of market forces. Fortunately, the situation is changing and in several countries attempts are being made to find rational solutions to this problem through the formulation of criteria and policies. It is generally considered that utilitarian artisan-type industry should be converted into small factory-type enterprises through technical and financial assistance programmes. On the other hand, it is realized that artistic craft activities can advantageously be developed and rationalized with a view to exploiting its export possibilities, which in some of the less developed countries may be of considerable value. It is also generally considered that training should be provided for workers displaced from artisan-type activities, so that they can learn skills for performing other jobs.

(d) Financing

In order to press forward with an accelerated industrialization process, the relatively less developed countries will have to make a great internal effort and cope with serious problems. It is out of the question to think that the great demands of industrial growth can be satisfied through a financing scheme similar to that used in the past.

Additional instruments and measures will have to be introduced into general economic policy to facilitate the transfer of resources from other sectors of the economy to manufacturing or to ensure a substantial increase in the rate of saving in this sector. The countries will also have to adopt measures to tap the economic surpluses which are at present being transferred abroad or which are being used on luxury consumer goods by minority groups.

/The State

The State must tap the economic surpluses mentioned above by reorganizing its credit policy and note issues, introducing a system of tax reform, ensuring greater participation in marketing (especially in foreign trade), rationalizing State enterprises, and establishing new State or mixed enterprises.

The relatively less developed countries will also have to make extensive use of external financial assistance to carry out their strategic projects, but this should not further increase their dependence: in other words, as far as possible they should make use of external financial assistance offered on preferential terms.

Up to a short while ago it was difficult to obtain funds from traditional sources of external credit for the development of natural resources, particularly minerals and hydrocarbons. Apart from the fact that this form of assistance was limited, it was customary for clauses to be included which restricted the use of the funds to the acquisition of machinery and equipment from the countries providing the credit. This situation is now changing, however, and the regional and subregional financial institutions - the Interamerican Development Bank, the Andean Development Corporation, the Central American Bank for Economic Integration and the Caribbean Bank - grant preferential treatment to relatively less developed countries. However, the funds available for these purposes are limited.

Venezuela has recently formulated a policy of financial assistance to help the countries of the region to carry out projects aimed at developing their natural resources. This policy is directed mainly at the relatively less developed countries.

This Venezuelan financial assistance aims at providing short-term relief from the balance-of-payments pressures which the petroleum-importing developing countries have suffered and at recycling the monetary income which is not being used immediately so as to relieve pressures on the economy and the international community. In keeping with this policy, Venezuela has purchased US\$ 500 million of World Bank bonds and has made a contribution of US\$ 500 million to the International Monetary Fund "oil facility".

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In the long term, the objectives are to promote Latin American integration and to recover for the countries of the continent the control of their resources. In keeping with this policy, trust funds have been set up in the financial institutions of the integration groups and in the Interamerican Development Bank.^{23/} These funds have been designed in such a way as to strengthen integration projects institutions, to offer better terms to the relatively less developed countries, and to channel credits towards the development of natural resources. They also open up possibilities for promoting multinational Latin American enterprises aimed at bringing the region's wealth once more under its control and securing the economic intergration of the Latin American countries.

Moreover, Venezuela is considering minority participation in the capital of various multinational enterprises in different countries of the region.

(e) Complementary supporting programmes

The implementation of the industrial development strategy must be complemented with supporting programmes of varied nature and scope, designed to assist the general development of manufacturing industry and the creation of favourable conditions for the efficient functioning of both public and private enterprises. These supporting programmes cannot be independent of each other: on the contrary, they must be co-ordinated and must concentrate on strategic projects and industrial branches allotted priority in the strategy and in the industrial development plans. The resources of every kind required to implement them, which are generally needed in large quantities, are usually scarce in the relatively less developed countries.

^{23/} The following trust funds have been set up: IDB: 500 million dollars in annual contributions of 100 million; ADC: 60 million dollars; Caribbean Bank: 25 million dollars; Central American Bank: 40 million dollars.

The supporting programmes for industrialization should be described in detail in the development plans stemming from the strategy. The following programmes may be given as examples: improvement of productivity; manpower training natural resources research; technological research in specialized areas, particularly for export industries; and quality control.

(f) International co-operation

In recent years important advances have been made in establishing systems of international collaboration designed to assist the relatively less developed countries in particular. The declaration of principles in the International Development Strategy and the Declaration on the Establishment of a New International Economic Order are the culmination of a lengthy process in which finally, although still subject to certain reservations and limitations, the international community has accepted responsibility for reducing the inequalities in well-being which separate the peoples of the world.

There are a number of elements in the present economic situation which favour the improvement of international co-operation systems and enable them to be extended to the relatively less developed countries.

A favourable climate has been created for studying, negotiating and formulating specific programmes with concrete measures, especially as regards technical assistance and financial aid.

The structural weaknesses in the economies of the relatively less developed countries and the reduced capacity for absorbing external aid characteristic of such economies call for the design of a special system of co-operation to guarantee that the assistance given is really effective and complements internal development policies. It will not be enough to grant isolated preferences or advantages, or simply to widen the scope of financial and technical assistance. It will be necessary to make very extensive efforts and to co-ordinate the measures of assistance of the industrialized countries with those of a regional nature, especially those which may be agreed upon within economic integration schemes. It is a question of changing international relations in favour of these countries.

/Likewise, the

Likewise, the more advanced countries in the region can lend considerable assistance to the relatively less developed countries in the field of economic, financial and technical co-operation. The integration machinery - multinational projects, border programmes, joint industrial programming, technological research, improvement of the regional infrastructure, and other action aimed at solving common economic and social problems - can help to reduce the gap with the less developed countries.

With respect to financial aid, the example of Venezuela should be followed. The aid provided by this country is to be used mainly for financing projects for the development of natural resources and for setting up multinational industrial enterprises. Venezuela has appealed to the other advanced countries of the region to make financial contributions to the funds in favour of the less developed countries.

As far as technical co-operation is concerned, the requirements of the relatively less developed countries are large and increasing, and often these countries are in no position to provide the counterpart funds usually required in these cases. For this reason, consideration should be given to the establishment of preferential machinery to free them from this obligation. This is particularly important because one of the most significant objectives of the development strategy is the improvement of the knowledge and technical capacity available in those countries. The experience acquired by some countries of the region in certain fields should also be used by the relatively less developed countries, but in order to make this possible, additional channels of information must be established between these countries.

It is important to emphasize that the co-operation which the more advanced countries of the region are giving or can give to the relatively less developed countries ought to be considered supplementary to the assistance which the latter receive from the industrialized countries and the international agencies. There should, of course, be some form of co-ordination between both types of action so as to avoid duplication of effort and waste of resources.24/

24/ The problem of international co-operation is discussed in another document.

