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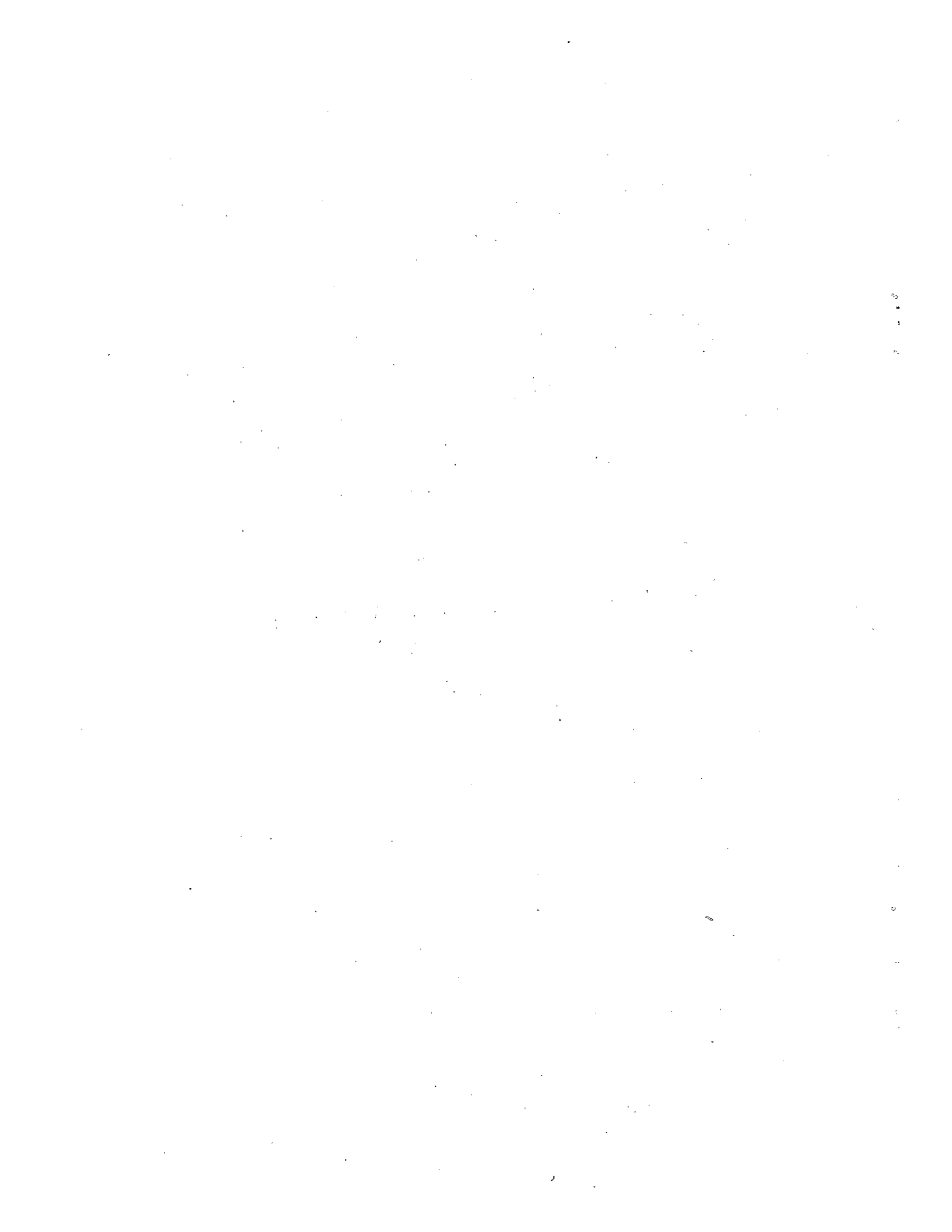
A SUMMARY

OF

THE STUDY ON THE ECONOMIC DEVELOPMENT OF ECUADOR

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BACKGROUND DOCUMENT FOR
ITEM 9 OF PROVISIONAL AGENDA



S U M M A R Y

I. General Considerations

1. Ecuador has all of the characteristics of an under-developed country; a high percentage of its people are occupied in primary activities; primitive means are used with low productivity; and there is a high rate of growth of the population. In addition, characteristics peculiar to the country, particularly in its regional divisions as regards climate, ecology, natural resources and population, can be added. Although this situation could provide for varied production, it has not constituted a favourable factor for economic development due to the absence of communications which, in turn, have resulted in an unintegrated economy with an unbalanced rate of growth. The peculiarities of the population, accentuated by regional differences, together have resulted in a type of local isolation which has hindered the efforts made to improve the standard of living, distorting them into purely short-term projects.

2. The differences between the two major regions of the country are extremely marked. In the highlands, the very irregular land, which in part has been impoverished by the system of agriculture, proves insufficient for the needs of the population. In contrast, in the coastal area the available land is not only abundant, but actually requires a greater population for its development. Institutional factors, both psychological and social, hinder the indispensable migration of the inhabitants from the highlands to the coastal plains, where there are ample possibilities for agricultural production.

In both areas, the available capital is scarce, despite the energetic efforts of the government and public institutions. But a great deal remains to be done in the process of integrating these two major areas, as well as the various zones comprising them.

3. The slowness of the growth of Ecuador's economic development may also be attribute to conditions other than those of integrating its highly complex economy. Before the construction of the Panama Canal at the beginning of the century, Ecuador was almost entirely isolated and only

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appeared on the fringe of international trade. There was little interest on the part of foreign capital to invest in the South-American Continent, nor was there sufficient immigration from outside the Region, to stimulate foreign investments.

Ecuador first began to participate in international trade through the export of cocoa, which, for several decades, placed it in a privileged position, but, on the other hand, paved the way to the cultivation of this one crop alone. When diseases threatened the cocoa plantations, Ecuador was taken by surprise and was placed in a particularly weak position. This period was followed by one of disorganization, until efforts were directed towards a substitution of the decreasing exports of cocoa by other products. Successively, coffee, rice and bananas, without considering various other products for which there is only an intermittent demand, took the place of cocoa.

4. The problem of the economic development of Ecuador is based upon relatively simple factors: a) inadequate utilization of available land and manpower, b) levels of consumption are low, leaving little or no margin for saving, and c) the high rate of increase in the population. On the other hand, agricultural production is very low compared with the possibilities through an extensive and adequate programme of utilization.

The solution to these fundamental problems lies in a better utilization of resources, and in an adjustment of the inadequate distribution of the factors of production. A complete structural reorganization will apparently be necessary in order to achieve the essential labour mobility, and the introduction of more advanced means of agricultural exploitation.

In the meanwhile, Ecuador will have to resort to every dynamic force at her disposal in order to facilitate this process and develop her economy. Of these dynamic forces, exports are the most important, and Ecuador is capable - and would be well advised to do so - of devoting the surplus manpower, which as already noted, exists in the highlands, to raising export production. This is particularly true, since the situation of Ecuador is in general the opposite of the other Latin-American countries, since the markets for her export products can very probably be amplified without affecting world prices.

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Ecuador has demonstrated in the past that the economy reacts with great elasticity to incentives from abroad, due to the availability of land and manpower. The full employment of these two factors, together with improved geographic distribution, constitute the most feasible means for acquiring the capital goods necessary to raise the standard of living of the population.

5. An increase in exports should be effected with a view to assuring an improved supply in consumer goods and greater relative and absolute investments. In order to increase exports, a preliminary solution might be to express such progress in terms of the capacity to import, even though it would involve a process of substituting imports. This would increase foreign exchange to pay for capital goods or to service foreign loans, which in turn would increase domestic saving.

6. There are natural, as well as social obstacles which hinder economic development of Ecuador. Among such natural obstacles is the relative isolation of the two major productive areas of the country. The need to establish adequate communications is imperative not only as a means of integrating the areas, but also to penetrate to new zones which could be used for an increase in agricultural production. To avoid confusion, it would be advisable to decide in advance, where the roads and railways should be constructed, and to adopt a domestic economic criterion without consideration of local or political interests.

Another natural obstacle, against which substantial progress has been made, is the effect of tropical diseases. Sanitary and health conditions in the coastal area have improved, despite the continued existence of yellow fever and malaria in certain areas, and which are still prevalent in the sub-tropical valleys of the highlands.

The principal social obstacle is the reluctance of the Indian population of the highlands to leave the land, despite the low yield obtained from arduous labour to work a soil, not only highly eroded, but also barely adequate for cultivation. This obstacle, according to direct observation, can only be overcome through the gradual establishment of a colonization programme designed primarily to utilize immense arable areas so far unexploited.

/Another social

Another social obstacle is "huasipungo" which, in its institutional requirements dealing with the inheritance of family holdings, tends to tie the population to ancestral lands in areas which are already overpopulated. This institution further aggravates the existing soil erosion, since the heirs generally receive the more unproductive portions of the holdings and are therefore obliged to devote an ever-increasing amount of effort to cultivation. It also discourages the introduction of improved techniques, due to the extremely low cost of labour, and thus hinders an appropriate distribution of arable soil, the teaching of new methods and the progress of higher real incomes in the rural sphere.

To a certain extent the taxation system of Ecuador can also be considered as an obstacle to economic development since it is based almost exclusively upon indirect taxation and a wide application.

The Labour Law, on the other hand, does not appear to hinder the establishment of industries or capital investment, as commonly supposed. A conclusion of the surveys conducted by the Economic Commission for Latin America, after prolonged research, is that the Labour Law will come into practical effect as economic development brings about an increase in standards of living and wages, and will neutralize the effects of certain maladjustments which appear during the early stages of industrialization.

There are other obstacles characteristic of the social pattern in Ecuador such as alcoholism, usury, contraband, tax evasion and a decided preference for land investments. But although these are usually definite obstacles to general progress, it is that same progress which will ultimately overcome them or at least slowly diminish their harmful effects.

7. As an indication of future expansion it is encouraging to note that Ecuador, in modifying its export structure, has managed to compensate the losses representing its decline in cocoa sales. But there still remains another serious problem, namely, that the value of per capita exports, which although it has quadrupled in less than 20 years, is one of the lowest in Latin America. The quantum of exports, between 1925-29 and 1945-49, only increased 36.5 per cent whereas the rate of growth in population for the same period was 62.6 per cent. Per capita exports thus declined by approximately 16 per cent.

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In fact, Ecuador's exports are more diversified today than 25 years ago since bananas, coffee, cocoa-- which has recovered substantially - and rice comprise 80 per cent of the total. Bananas, coffee and cocoa are certain to have a stable market demand, but rice can only be sure of an adequate sale when world prices are high or when protected by government subsidies. With regard to petroleum and straw hats (Panama hats), two other important export products, there is evidence of a gradual decline in the foreign demand. The domestic consumption of petroleum is gradually absorbing a higher proportion of the stationary production figures. Panama hat exports have suffered, since they did not take advantage of the favourable circumstances during the peak period between 1943-47. The remaining export products depend upon sporadic demand and only achieve importance when they are required as strategic raw materials. Such is the case of rubber, cascarilla (medicinal bark) balsa wood and copper ore, etc. Lastly, there are various new products, of little importance at present, but which could be increased and would diversify Ecuadorean exports even further, such as oils, oranges, various tropical fruits, pyrethrum, barbasco and certain hard fibres.

8. Another depressive problem accompanying the slow increase in exports has been the terms of trade. This has been unfavourable to Ecuador from the base period of 1920-29 - a time of relative prosperity - until 1946, owing to the prices of domestic products, since the basic period, rising more steeply than those for imported goods. In conjunction with increased exports, therefore, Ecuador has not been able to enjoy, during 1950-52, the benefits of the rapid rise in the capacity to import.

9. The quantum of imports has increased more than that of exports, although it has not surpassed the rate of population growth. But the most interesting feature is the redistribution which has taken place in Ecuador within the relatively declining quantum of imports, assisted by the selection made by exchange controls.

These changes in the composition of imports should be considered as evidence of the first steps in development, since the proportion of capital goods has increased at the expense of consumer goods. Even after

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deducting the purchases of oil-drilling equipment made by foreign enterprises, the proportion of capital goods imports to all imports was 40 per cent in 1948-50.

Three tendencies can be distinguished in consumer goods imports:

i) foodstuffs have been maintained in ratio to the growing population; ii) chemical products, metals and metal manufactures, fuels and lubricants, paper, paperboard and manufactures and durable consumer goods have all increased more than the population growth; iii) textiles, non-edible oils and fats, rubber and rubber manufactures, wood and wood manufactures, leather and hides, have decreased. This last group represents those commodities which have substituted domestic production for imports, an indication of the development of industrialization. The possibilities for future replacements of this nature are very great, even for textiles, although 70 per cent of the ready-made and woven goods are still imported.

10. The first census conducted by Ecuador in 1950 revealed a total of 3,202,757 inhabitants, 53 per cent of whom lived in the highlands, 40 per cent in the coastal plain, and another 2 per cent in areas of little or no importance. The population density in the highlands is above 26 persons per square kilometre, whereas in the lowlands it is only 19. This difference constitutes one of the fundamental problems of Ecuador since the population has been concentrated up to the present day in areas where there exist fewer possibilities for increasing agricultural production.

78 per cent of the population of Ecuador lives in rural areas, but urban centres, such as Guayaquil and Quito, have offered certain attractions and here the population growth is greater than that of the country as a whole.

The rate of cumulative growth, which was 2.75 per cent in 1950, is one of the highest in Latin America and its increase in recent years has been particularly due to the decrease in the death rate resulting from a progressive health programme.

The active population in 1950 amounted to 38.2 per cent of the total, but its distribution varies according to area, since 40.7 per cent live

/in the highlands

in the highlands and 34.8 per cent in the coastal plain. This difference is even greater if it is mentioned that the working day in the highlands is longer than that of the coastal plain. Thus the necessity is apparent for the highland farmer to compensate low productivity from the impoverished soil by a greater effort. It is of additional significance that the unemployed labour force of the highlands exerts some pressure upon the available labour force and thereby affects wages, maintaining them at low levels.

Education is not advanced in Ecuador, with some 50 per cent of the population illiterate, a proportion which in certain provinces with high Indian population, in some cases, rises as high as 60 per cent. Despite government efforts to encourage primary education, only 47 per cent of the children of school age are able to take advantage of the facilities.

From the ethnic position, it is estimated that 19 per cent of the highland population are of mixed race, Indians and mestizos who live like the Indians. A particular strain has appeared, peculiar to the coastal areas, generally called montuvio, resulting from a mixture of those of Indian, white and negroid blood.

The Indian in Ecuador is endowed with qualities which will assure him a useful place in the economic development of the country. He is industrious, resistant, and with a certain manual capacity, capable of imitating and applying techniques which are more advanced than those actually used.

As witnessed by participation in the institution generally called "Minga", the Ecuadorean Indian demonstrates a spirit of co-operation and an aptitude for collective work. However, it is to be regretted that alcoholism and the dissipation which is characteristic of their festivals, in addition to an excessive devotion to the land, are obstacles which prevent even moderate savings.

/II. Agricultural

II. Agricultural and Pastoral Development

1. Of a total of 30 million hectares only 4.5 per cent can be considered as under cultivation; another 4 per cent is made up of natural and artificial pasture lands, while the greater proportion (74 per cent) is covered with forest.

The coastal region has enormous possibilities for development in two ways: a) by means of the clearing of forests and irrigation, and b) through the introduction of improved techniques in the existing crops or those which could be introduced. In the highlands, only irrigation and improved techniques can be applied; the possibilities of extending the cultivable area would consist in the incorporation of plateaux which are at present given over to live-stock.

The potential land reserves of the coast are of the order of 7 million hectares including forests and sub-tropical valleys but their exploitation is dependent on the construction of communications. In the highlands, on the other hand, there are few areas of any importance which can be brought under cultivation; thus, the only course lies in the recovery of areas which have been more or less abandoned owing to erosion.

The Western Zone forms a reserve which will be opened up in the more distant future.

2. The main crops of the coastal area are cocoa, coffee, bananas, sugar-cane, oranges, pine-apples, and a number of other types of fruit. Annual crops include cotton, which is often grown as a permanent crop, rice, maize, beans, groundnuts, tobacco, manioc and various other products of domestic consumption. Of these, only cocoa and tobacco have decreased in area, being replaced by other products. The crops which have increased most are bananas, which rose from 2,000 hectares in 1925-30 to 45,000 hectares in 1950, and rice, which reached a maximum of 62,500 hectares in 1945-50, thus quadrupling its production of 15 years previously. Sugar-cane increased from about 7,000 hectares in 1930-34 to about 22,000 hectares in 1950. Coffee fell below the peak reached in 1941, with 62,500 hectares; the increase in production registered over the last few years is due more to the introduction of new methods of cultivation than to the /extension of the

extension of the area planted. For cotton, the area planted in 1951 was 39,000 hectares, i.e. 11,000 hectares more than 10 years previously.

Crops in the highlands are devoted almost entirely to domestic consumption. The main products are maize and barley, with just over 80,000 hectares for each; wheat, with 46,000 hectares; potatoes, with 26,000 hectares and sugar-cane (mainly for the manufacture of "country" sugar - panela - and aguardiente) with 21,000 hectares. The entire area of land which can readily be cultivated has been utilized in the high Andes valleys, and thus any increase in cultivable areas must come from the sub-tropical zones of the highlands or from irrigation works in the hot dry valleys. Some areas previously given over to live-stock have recently been brought under cultivation by introducing potatoes, barley, beans and a number of fodder crops into these upland areas.

3. Agricultural, pastoral and forest production for 1950 has been calculated at about 1,922 million sucres, 62 per cent of which comes from the coastal region and 38 per cent from the highlands. It has also been established that per capita production is 58 per cent lower in the highlands than in the coastal region, which confirms the poverty of resources of the former. Productivity varies to the same degree, since in 1950 a worker who produced 3,580 sucres in the coastal area was only able to produce 1,310 sucres in the highlands. A comparison of the production per hectare under cultivation in both regions, also leads to the conclusion that the highlands form a zone of marginal cultivation as compared with the coastal region.

4. As regards the development of production in each region, the available information enables it to be established with a fair degree of accuracy, that a) the agricultural production of the coastal zone has not been able to attain the levels of 1925 and still less those of the previous decade, i.e. the cocoa boom; considerable extensions in the area of other crops have not been sufficient to fill the gap left by cocoa; and b) that agricultural production in the highlands is undergoing a phase of stagnation. This, in actual fact, is equivalent to a decline, taking into account the growth of the population, which would seem to be corroborated by the rise in the imports of a number of basic foodstuffs, such as wheat.

/5. The lack

5. The lack of development in agricultural production may be explained in various ways. Technical factors include defective management of the soil, which has led to erosion; the extremely limited use of fertilizers; the lack of control of plant and animal diseases; the small use of improved varieties of seed; the negligible degree of mechanization; and the unintelligent and primitive conditions of livestock management. Factors arising out of the structure of society itself include the distribution of farmlands; the systems of land tenure; the methods of rewarding agricultural labour for work done; the system of granting uncultivated lands; the lack of agricultural credits and the inadequacy of irrigation works. Added to these is the lack of adequate communications in more than half of the agricultural areas of the country.

As regards the management of the soil and water supplies, it may be said that no attempt has been made to conserve the acid or alkaline properties of the land under cultivation, with the inevitable consequence of the destruction of the organic matter of the soil. Considerable destruction is wrought in the coastal area by the indiscriminate use of fire in bringing land into cultivation. The ploughing up of unvegetated soils situated on steep slopes accentuates the process of erosion. Plantations of coffee, bananas and cotton and annual crops are planted "down the slope" instead of following the contour lines. The practice of green-manuring, i.e. ploughing in the weeds to increase the organic content of the soil, is unknown.

The problem of erosion is certainly much more serious in the highlands than in the coastal region, owing to the fact that lands have been cultivated for a considerably longer time as well as to the broken-up topography.

The rotation of crops is another little-known practice which would help to retard the process of impoverishing the soil. The same applies to the use of fertilizers; the system practised in the highlands of using sheep manure is extremely primitive and leads to the loss of the greater part of the fertilizing power owing to the exposure of the fertilizer to the atmosphere. Chemical fertilizers are beginning to be employed, but on a very inadequate scale.

6. Plant diseases are extremely prevalent in Ecuador, particularly in the wet, tropical regions. In addition to "monilla" Monilia rorey and witchbroom disease, which reduced cocoa production by two-thirds, there are an enormous number of insects, parasites and viruses which attack the various crops. The cultivation of banana in its newfound prosperity, is threatened by "sigatoka" Mycosphaerella musicola and Cercospora musae and panama disease. Measures of disease control are not yet in force, although during the last few years direct action on the part of the authorities and of a number of importing firms have led to the limited use of certain insecticides, which has awakened some interest in the subject.

7. As regards mechanization, Ecuador is one of the Latin-American countries where this has been least practised, although efforts are now being made to make up for lost ground. In point of fact, just as in transport the farm-cart stage is passing into the lorry stage, so the use of oxen in agriculture is being replaced by tractors. The degree of mechanization is still small as compared with the possibilities and present requirements. The ratio of machinery is that of one tractor per 677 hectares, excluding permanent crops where mechanization cannot be readily applied. The existence of a large number of small properties, the scarcity of skilled tractor drivers and mechanics, the lack of long-term credit and the unfavourable topography of a large part of the country have been unfavourable factors in the wide-spread use of agricultural machinery.

8. As regards agricultural research, few countries in Latin America have initiated such a large number of well-intentioned projects as Ecuador. Unfortunately, lack of resources and persistence of effort, together with the extremely wide field of action involved, have prevented the desired results being achieved. Part of the progress made has been due to private activity but the strongest and most persistent efforts have been made by the Government itself.

A number of experimental stations have been established since 1920, but the majority of these have had a short life. Acclimatization, soils, reforestation, fertilization experiments, seed selection and disease control, have not as a rule advanced very far. However, some of the results obtained make it clear that, with better yields from crops or in

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the breeding of live-stock, Ecuador offers ample scope for the application of improved agricultural and pastoral technique.

9. Although complete data on the irrigated areas of the country is lacking and an inventory of the areas which could be opened up to irrigation has not been made, it may nevertheless be stated that Ecuador could bring about 400,000 hectares more under irrigation than at present.

The principal existing projects are being undertaken by the Caja Nacional de Riego, which has also started work on the irrigation of a further 36,000 hectares, as well as having drawn up plans for a further 38,500 hectares and made a preliminary survey of another 50,000 hectares.

The whole of the highlands and at least a third of the coastal region are areas of insufficient rainfall. Irrigation would not only enable new zones to be opened up to cultivation but would also increase the yields from the present arable area. Increases in production of from 3 to 7 times the normal production have been obtained from irrigated areas. Irrigation can also be a decisive factor in plans for the conservation and rehabilitation of soils, as well as leading to a substantial increase in pastoral production through the cultivation of artificial pastures on irrigated lands.

10. The agrarian system of the country as regards division of property, system of land tenure and of labour constitutes yet another reason for the lack of progress in agricultural and pastoral production.

The main land-holding system consists of privately owned properties. Small-holdings are worked by their proprietors, those of medium size by the proprietors with the help of non-resident labourers, and the large properties by the agents of the proprietors, who are usually absentee landlords. There are also collective properties in the Indian communities and co-operative efforts are also being made in this field.

Property is very unequally distributed. From the official statistics on properties which are taxed it appears that just over 1,100 estates, representing less than 1 per cent of the total, comprise 40 per cent of the total value of the entire properties of the country, while 100,600 properties, i.e. 92 per cent of the total, possess only 32 per cent of the overall value.

A dual problem exists in the highlands in the concentration of property and the splitting up of the small holdings. This distribution, whose social effects are obvious, also has serious economic consequences, since the large estates are only partially exploited, while the small holdings are completely exploited without being able to provide sufficient subsistence to keep the family unit together.

The system of rewarding labour for work done is also somewhat archaic. A large proportion of the farm labourers (usually Indians) do not receive their wages in money but are given instead the use of a plot of land on an estate, for whose proprietor they must work four days a week. In other cases, labour is given in return for produce, benefits in kind, or grazing or watering rights. The usual characteristic of the labour systems prevailing in Ecuador is payment through the use of land. In many cases labour is thus obtained almost free from cost.

11. Cattle raising is one of the most relatively progressive activities in Ecuador. The increase of milch cattle in the highlands has been the result of the reorganization of the herds, which have been improved by the introduction of pure-blooded, high-quality stock. Sheep production, on the other hand, has continued to develop in a primitive fashion and without showing any signs of improvement worthy of mention.

In the coastal region, the main obstacle preventing the development of cattle-raising has been overcome, thanks to successful pest and disease control and the crossing of cattle with Zebu and "Marons-suiza" stock.

The most important question which still remains to be solved is that of fodder. As far as the coastal region is concerned, the solution would appear to lie in the creation of artificial pastures whose production could be utilized part of the year in the introduction of vegetable fodder crops, in the extension of the area under maize and in the rotation of crops. In the highlands, there is the possibility of increasing the supplies of fodder by the transformation of natural pastures into artificial pastures and by rational methods of soil management. The upland plateaux offer good prospects in this respect.

Hog raising, which is quite well developed throughout the country owing to the importance of lard in the basic diet of the population, gives satisfactory yields, but could be improved by taking more energetic measures against the diseases to which this type of live-stock is subject, mainly hog cholera.

III. Mineral Resources

1. Ecuador cannot be considered as primarily a mining country. Its subsoil, which has not been fully prospected, has led to small-scale working of gold, silver, copper, sulphur and coal. The large mining companies, financed by foreign capital, have been interested in petroleum and gold, although the only foreign company working the latter mineral abandoned its concession in 1950.

Gold output (from veins and washing processes) has varied during the last twenty years from a maximum of 114,000 troy ounces in 1940 to a minimum of 12,600 in 1951.

Most of the other mineral resources in Ecuador are of a somewhat marginal character and are only worked as by-products of gold mining.

Some hopes are based on the coal deposits at Biblián and the sulphur deposits at Tixán. The former is still being prospected while the latter is in the stage of preliminary working.

2. Petroleum extraction, which has been carried on since 1918, is of greater importance. Most of the wells at present operating are situated on the Santa Elena peninsula in the province of Guayás. Maximum production was reached in 1944, with 460,000 cubic metres.

The search for petroleum in the area east of the Andes, which was carried out by two important foreign enterprises, proved ineffectual. A total of about 44,000,000 dollars was invested in this project up to 1950, when operations ceased.

Most of the petroleum output is consumed within the country. One of the main problems for the Government of Ecuador is that, while the output is practically stationary, domestic consumption is growing at an increased rate. It is anticipated that by 1960 Ecuador will become a net importer of petroleum unless further oil bearing areas are discovered.

IV. Industrial Development

1. Industrial activity is still of minor importance in Ecuador. There are two basic considerations limiting its expansion; lack of capital and the small size of the domestic market.

The existing industries have been established with the primary objective of satisfying the elementary requirements of the population.

/The main

The main types are thus food and textile manufactures, which together absorb 60 per cent of the industrial labour force and 66 per cent of the capital invested in manufacturing. The third place is occupied by chemical and pharmaceutical products; this industry is of recent growth, and has not only succeeded in meeting the requirements of the domestic market, but has also devoted part of its production to exports.

With the exception of cement, bricks and a number of metal working enterprises, the entire industry of Ecuador is dedicated to producing consumer goods.

Industrial activity in the highlands can be considered as the result of a slow transformation of handicrafts, which survive from the colonial period. In contrast, the industry of the coastal region is of relatively recent origin, and the factor of capital plays an important part in its structure, while in the highlands manpower has been the principal element.

Industry is concentrated in the two main urban centres, Guayaquil and Quito. The raw material used is generally of domestic origin, except in the coastal region, where it is often easier to import them from abroad. Examples are the wheat for the flour mills and barley for the breweries.

The satisfaction of domestic consumption, which is the main objective of industry in Ecuador, has been entirely achieved in some activities. Nevertheless, there are many industries, such as textiles, the manufacture of paper and paperboard, glass and chinaware, which only cover part of the demand.

The industry of the country requires a relatively high degree of protection, together with exchange control, in order to be established on a firm basis.

2. The food industry is the largest, but there is nevertheless a wide field for the production of foodstuffs which at present depend upon overseas supply. This is due to the lack of progress in agricultural production in the highlands, while that of the coastal region is more devoted to export products.

The volume and proportion of imports of foodstuffs, beverages and tobacco has not changed during the last 25 years. There has, however, been a certain amount of substitution by domestic production, due to the development of industry in Ecuador. There has been a relative and absolute

/decrease in

decrease in the imports of oils and fats and beverages. Wheat flour, on the other hand, has increased in importance, and continues to be the most critical of all the imported food products. The establishment of a new flour mill, in the coastal region in 1952, has so far only led to a substitution of flour imports by those of wheat.

Brewing provides a curious example. Although there is a surplus of barley in the highlands, which is exported to Colombia, although illegally, the brewing industry of the coastal region entirely uses imported barley.

The possibilities of increasing and diversifying the foodstuffs industries, as well as those for beverages and tobacco, are extremely great, but would require large amounts of capital, which at this stage would perhaps be better invested in the development of export products.

3. The establishment and development of the textile industry was due to a number of favourable factors, such as the existence of basic raw materials, a plentiful supply of skilled labour, and a relatively big and uncritical market. The conquest of the domestic market was also favoured by high customs tariffs. However, there is still a large field for further development since seventy per cent of all textile imports are made up of ready-made clothing and materials.

The textile industry is almost centred exclusively in the highlands for the historic reasons already mentioned. The extreme cheapness of labour tends to act as a brake to technical progress, although, as shown by previous studies undertaken by the Economic Commission for Latin America, the modernization of the textile plants, plus a higher degree of organization, would reduce costs and lead to a wider market.

4. The chemical industry in Ecuador is almost entirely represented by the manufacture of pharmaceutical products. With the exception of caustic soda, which is produced domestically on a small scale, Ecuador depends entirely for its basic chemical products upon supplies from abroad. It is proposed to produce sulphuric acid with sulphur from the Tixán mines.

The development of the pharmaceutical industry has been rapid, and as already pointed out, has achieved an exportable surplus for sale to various Latin-American markets, in spite of the fact that much of the raw materials are imported.

/5. Cement.

5. Cement, which is the only capital product of any importance manufactured in the country, began to be manufactured in 1934. At present, practically the whole of the consumption, which is growing at the rate of 4 per cent annually, is met by the domestic production, which has risen from 12,000 tons in 1934 to about 19,000 tons in 1952.

There is only one plant operating at present, located at Guayaquil, but plans are already in an advanced stage for establishing a second plant in the highlands, with a capacity of 50,000 tons. This would meet domestic requirements up to 1960, at the present rate of consumption increase.

6. The Panama hat industry, or rather, handicraft, is of considerable importance on account of the number of persons employed in it, i.e. about 100,000. From 1943 to 1947, this industry entered upon a boom period, occupying one of the first places among exports with 23 per cent of the total value. This was due to the fact that the principal market - the United States - was at that time free from any other competition. But, as soon as the international situation became more normal and hats from other sources began to reach the United States, the Ecuadorean product, which was higher in cost, lost a great deal of its importance, although it still retains a better comparative position than that obtaining before the Second World War.

The consequent crisis greatly affected production and prices, mainly in the provinces of Cañar and Azuay, where the main producing centres are situated. The Government took action by setting up the "Instituto de Recuperación Económica de las Provincias Azuayas" by fixing a special export rate of exchange and by endeavouring to promote the introduction of other types of economic activities in the two Provinces principally affected.

The long-term prospects are not very bright, and the only solution would seem to be a migration of the excess population from the southern highland provinces to the coastal region, where considerable possibilities for employment exist.

7. The problem of power in Ecuador consists of a rapidly increasing demand as against an extremely limited degree of development of the resources, which are plentiful but unexploited owing to lack of capital. At present, petroleum is the main source of power. However, as already pointed out, there are signs of a growing disparity between a practically static

/production and

production and a domestic demand which will, in a relatively short time, absorb the whole of the exportable surplus. The most commonly used fuel is lumber, but supplies are also limited; coal is only a remote possibility.

The answer to the problem lies in the utilization of the hydraulic resources of the country. Even though the full extent of these resources is not accurately known at present, the possibilities of installing hydro-electric plants on either side of the Central Andine Valley are very considerable.

The present production capacity for electric power is calculated at only 35,000 kilowatts, half of which is of thermic origin. New plants are under construction and the original ones are being amplified. Informed circles are of the opinion that 90 per cent of Ecuador's requirements, estimated at 45,000 kilowatts, could be produced by hydro-electric power.

At the projected rate of consumption in the two main cities, the present installed capacity must be approximately doubled by 1960. This would necessitate an investment of over 200 million sucres.

V. Capital Investment.

1. Considering the circumstances, Ecuador has, by means of imports, of capital goods, made great efforts in the way of capital investment. Nevertheless, the relatively small resources of foreign exchange and domestic savings have prevented any sizeable annual investment in such goods being made. The investment is equivalent to about 5 dollars per capita, one of the lowest in Latin America.

The import of capital goods is dependent upon external factors. Such imports, expressed in terms of 1937 prices, fell from 62 million sucres in 1928-29 to 10.5 million in 1932. There was then a recovery, which brought the total to 46 million sucres in 1937, a figure which supply difficulties during the Second World War reduced to 23 million in 1943. Since this date a further recovery has raised the figure to 95 million sucres in 1950, which is the latest year for which figures are available. If the intervening increase in population be taken into account, however, the 1950 import of capital goods per capita is about 20 per cent below the 1928-29 level.

/Nevertheless, it

Nevertheless, it should be emphasized that, owing to the substitution of imported goods by domestic production, 38 per cent of the 1950 imports were made up of capital goods, as against only 23 per cent in 1928-29.

The greatest increases in such imports were registered by agricultural machinery, industrial and transport equipment, whereas imports of building materials declined, being replaced by domestic commodities.

2. By adding the data for capital goods imports to those for domestic cement production, it has been possible to estimate the total investments of Ecuador. In terms of present day prices, the yearly average has risen almost ten times between 1928-29 and 1945-49, although if the effects of currency devaluation be taken into account, the present capital investment amounts to only 10 dollars per capita compared to 4 dollars twenty years ago. Such figures explain the slow rate of Ecuador's economic development. If a comparison is made between investments and prices, both of domestic and imported capital goods, it is apparent that it is only in the last five years (1945-49) that investments have risen higher than prices, or in other words, have shown a real increase.

3. Investments have tended to represent a relatively stable proportion of exports, even under the conditions of effective growth obtaining during the last few years, when the greater part of the exports were reinvested. This emphasizes the fact that there has been very little foreign investment of capital, and that only in the last few years have the terms of trade been favourable to Ecuador.

4. Nearly a third of the investments come from the Government and public corporations, while in 1943-46 this proportion was even greater (up to 60 per cent), owing to a large public works programme. Of the total expenditure of public funds, only 10 per cent was invested, although this proportion was increased considerably in 1946.

The majority of the public works undertaken consist of roads, which are constructed not only by the central Government, but by the provincial and municipal authorities as well. A progressively smaller proportion of public investment is controlled by the Government (50 per cent in 1945 as against 20 per cent in 1949).

The main feature of public investment in Ecuador is its dispersal over
/a wide field

a wide field. This is due to the predominance of local interests, leading to a less efficient use of the funds available. Loans from the Central Bank are of greater importance in financing public investments than sums accruing from taxes or foreign loans.

5. The most valuable source of savings consists in compulsory savings bank funds. However, for reasons which may readily be understood in a country where the means of the working class population are extremely limited, these banks are obliged to disburse the greater part of their resources to their own members in the form of building loans, etc. In spite of this element, there is a tendency to increase the amount of investment in fiduciary bonds and loans to commercial enterprises.

6. The Corporación de Fomento (Development Corporation) was established in 1949 with the object of providing means through which investments in the field of economic development could be made. Its original purpose could not, however, be fulfilled owing to the curtailment of its resources in 1950; moreover, local considerations also succeeded in exerting their influence on its investments, and would thus have led to a dispersal of its funds on too many unco-ordinated projects. At present there is a tendency to concentrate investments to a greater degree than hitherto, and to liquidate part of those made more or less injudiciously.

7. Little can be said about private investments owing to lack of adequate data; for instance, no figures are available for building. As regards commercial investments, a special enquiry into the books of private limited liability companies has elicited the following facts:

- i) Immovable property shows a marked increase, doubling between 1946 and 1949;
- ii) this increase has been financed mainly by the companies' own funds, a small proportion coming from credit;
- iii) a considerable proportion of profits (42 per cent) has been re-invested;
- iv) firms in the highlands are more conservative in this respect than those of the coastal area.

8. Official credit facilities, distributed through the various development banks, have assisted the process of economic expansion to a certain degree. Over 50 per cent of such resources have been devoted to
/agriculture,

agriculture, 13 per cent to live-stock and 17 per cent to industry. Unfortunately, the limited period for short-term credit, together with the restricted funds available, have prevented this factor from fully carrying out its function as an investment agency.

FINAL CONSIDERATIONS

1. Ecuador has one of the lowest per capita export coefficients among the Latin-American countries. As long as this situation continues, the rate of economic growth will necessarily continue to be slow and standards of living retarded. Fortunately the country is endowed with ample possibilities for increasing its export production, as demonstrated during the cocoa crisis mentioned earlier.

An increase in per capita exports would also result in an expansion of capital goods imports, which are at present relatively low, despite the fact that a fairly high proportion - 38 per cent of all imports - was imported during recent years. It is evident that while there still remains a need for greater imports, this proportion of capital goods is not likely to rise. Nor can they be increased until the rate of exports surpasses the growth of the population.

At the same time technical progress, accompanied by an increase in productivity as well as in the standard of living in the country - both exclusively dependent upon an increase in the per capita supply of capital - also are intimately related with the increased rate of exports over population, mentioned above.

In the case of other countries, such as Brazil, low per capita exports are also in evidence, but owing to the existence of a wide and ever-expanding market, as well as adequate available resources, they have succeeded in achieving a steady expansion of those capital means which are so essential to their economic development.

Unfortunately, in the case of Ecuador there is no alternative. Only through a continued increase of exports will the fundamental investment problem be solved.

On the other hand, the size of Ecuador's economy is such that increases in exports can be effected without causing serious repercussions to prices on the international market. This is a distinct advantage over other larger countries which are also faced with a need for expansion. Quite frequently the demand on international markets imposes limits upon exports, which often cannot be overcome without seriously affecting prices. It is this lack of sufficient foreign incentive which generally promotes progressive domestic industrialization within a country.

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2. It is not the purpose of this study, however, to advocate that the economic development of Ecuador should be based exclusively upon exports. The country has already widened its industrial progress, resulting in a reduction of certain imports of consumer goods, and it is indispensable that this process, in addition to fostering domestic development, be continued so as to preserve the equilibrium in balance of payments. As in the majority of the countries of Latin America, Ecuador has had periodical adverse balances. These must be corrected both through increased exports as well as through the substitution of imports by domestically produced goods, if such other factors as already exist within the country, capable of attracting foreign capital, are to be strengthened.

It is well known that the development of a country is accompanied by a rise in per capita income, resulting in rapid increases in certain imports. New disequilibriums invariably result if these are not reduced through a protective policy of replacing them by domestic production -- as in the case of foodstuffs. A very simple example illustrates this process. If Ecuador's present imports are to continue expanding at the same rate as that witnessed since 1935, total imports for 1960 would amount to 850 million sucres, calculated at 1950 prices. This assumes that the same rate of import substitution which has occurred since 1935 would be continued.^{1/} If imports had not been substituted, their expansion would have been even greater. On the other hand, a conservative estimate of exports for 1960 would be 1,000 million sucres, also at 1950 prices, amounting to a total increase of 54 per cent over 1945-49, and a per capita increase of 7 per cent.^{2/} Should there occur a 15 per cent drop in the relatively high export prices, they would equal imports. Therefore, if sufficient changes in the economic structure of Ecuador are not effected, with reference to additional import substitution by domestic production, the chronic disequilibrium in the balance of payments will recur.

It should be noted that in the desire to maintain the future equilibrium, it is not sufficient that exports and imports be merely balanced, but that efforts be made to obtain a sufficient margin to allow for an accumulation of foreign capital, thus stimulating economic development.

^{1/} Imports calculated at c.i.f. prices due to a 20 per cent surcharge imposed by Customs over f.o.b. prices.

^{2/} It should be noted that the results of the calculation of this increase by five-year periods, rather than the 25 years from 1935-60, are higher than normal, but these are perhaps more accurate in the light of rates of increase experienced in 1952.

3. In the study of development problems of Latin America there has been evolved a gradual understanding of the limited and complementary nature characterizing foreign investments. Their real purpose is to stimulate rapid increases in per capita incomes so that corresponding increases in consumption and savings may be effected. Only if the tendency to save is fortified will the country attain a level of development where foreign investments can be reduced, or entirely eliminated.

4. Per capita income is not necessarily increased by investments but through the effects of increased production, resulting from increased investments. But productivity can also be obtained through a direct improvement in productive means. Here again, the possibilities in Ecuador are limitless, as demonstrated by the radical improvements in primitive and rudimentary techniques of soil cultivation by a few progressive farmers.

At the risk of repetition, it must be reiterated that the lack of adequate technological research, together with the propagation of its results, constitute fundamental problems in the economic development of the country. Nor is sufficient effort made to take advantage of the technical conclusions reached abroad and which might partially be adopted in Ecuador. During the last thirty years there have been many interesting projects which have not accomplished their desired aims because they have not been fully pursued and have also lacked the resources mentioned earlier. The crisis in cocoa surprised Ecuador which did not possess the technical means to combat the pests. The present situation regarding bananas shows that, despite the serious repercussions it might have on the future development of production - the cultivation of bananas having very considerable possibilities - little or nothing has been accomplished as yet to awaken public opinion to the necessity for urgent measures to stimulate production.

Among other serious problems should figure the decapitalization resulting from the progressive deterioration of soil fertility caused by erosion. This deterioration, clearly visible on the hills and slopes of the highlands, is also accompanied by chemical erosion which, for the land in the coast region presents an equally serious hazard to future exports from Ecuador.

A solution to this problem might be found through a combination of local experience of techniques in Ecuador and the practical experience of the more progressive farmers, together with the technical progress achieved in other countries. This combination of knowledge could be applied not only to reach practical solutions, but to develop a necessary system for technological research within the country itself. International technical co-operation is available to Ecuador, and it is hoped that this report may provide a basis for a technical programme consisting of the various problems arranged in order of priorities.

Such investments as are made with regard to techniques, as well as in the field of training, will undoubtedly produce yields, in terms of planning economic development, of much greater value than those made in other fields, even though they prove difficult to evaluate and may not produce immediate concrete results.

5. The emphasis placed on the need for technical progress does not always mean that the country will invariably be receptive to such changes as are recommended. It must not be overlooked that the system of land tenure in Ecuador, particularly in the highlands, constitutes a formidable obstacle to technical progress and increased production. To further aggravate this situation is the fact that mere changes in land tenure practices will not necessarily be sufficient, especially in the highlands where the land, scarce and impoverished due to intensive cultivation and erosion, is inadequate to support the present population, particularly if the present methods of farm operation are continued. But it is no less certain that the relative lack of this factor is made more acute by the system of land tenure: a) large areas of available land frequently lie fallow and are uncultivated through inefficient crop rotation methods; b) agricultural labourers employed on large properties are only paid by the opportunity to cultivate small allotments, and these, as the population increases, are even further reduced in size; c) the high rate of population growth accentuates the already over-crowded conditions.

At the same time, mere redistribution far from solves the land problem; the parcelling of large properties, producing thereby a greater number of small holdings, merely multiplies the number of uneconomic production units.

/Based on

Based on various studies devoted to this subject, it appears that proper land distribution in the highlands requires a progressive population emigration to the lowlands, where many possibilities for industrial activity and future urban centres are available.

This observation by no means implies that a position is being taken upon the problem of agrarian reform in Ecuador - a subject which is outside the sphere of action of the Economic Commission for Latin America - nor that specific recommendations are being made. Reference has merely been made to an element of fundamental importance to Ecuador's economic development.

6. Some of the anachronisms prevailing in the highlands, both in the economic as well as the social fields, are clear evidence of the presence of pre-capitalistic production methods. The fact that the "huasipunguero" is obliged to render manual services to work for land-owners, without benefit of operating capital other than their own energies together with the existence of a great scarcity of other capital goods, clearly demonstrates the degree to which capital is required. Therefore, in order to achieve even the smallest measure of success, agricultural technical progress in the highlands requires the investment of sufficient capital, without which all other projected solutions can only achieve limited success. It is thus evident that the problem presents various aspects, the solutions for which are neither simple nor unilateral.

The reference made to the lack of capital suggests another of the basic problems confronting the development of Ecuador's economy. Only as a result of a substantial increase in saving will the situation be produced where short, medium and long-term credits will be available for agriculture, but it is obvious from experience not only in Ecuador but in other countries, that the possibilities of increasing savings through inflationary means are exceedingly slim, therefore other sources - equally scarce - must be utilized. Reference has been made to the use of accumulated social security reserves as a direct means for promoting production. It cannot be denied that agriculture should be considered among the first activities to receive such investments, although housing projects also deserve serious consideration. In the same light, possibilities were considered of obtaining savings and investments through increased taxation, which has

/undoubted merits

undoubted merits but limited results. It would appear that the present high rate of taxation in Ecuador will obviate the likelihood of direct State investment.

7. In view of these limited perspectives, the only remaining alternative is foreign investment, particularly since the general opinion agrees to the practical impossibility of increasing investments through a reduction in the already low levels of consumption of the population. If Ecuador should decide to accelerate the rate of its economic growth through the aid of foreign capital, the formulation of an economic development plan would undoubtedly be instrumental in achieving that purpose. A clear programme with simple aims and with an adequate co-ordination between investments and limited savings, is possible through the necessary collaboration of domestic technical resources and those of international organizations.

As in other Latin-American countries, such a programme must start from the basic and indispensable investments to development, those in the fields of transport and electric power. The geographic and economic division of the country into the highlands and lowlands as well as the need to incorporate new land for agricultural use, illustrate the importance of transport and communications, revealing the need for intensive research into them. It is to be hoped that the present investigations being realized in collaboration with the technical assistance of UNESCO, concerning hydro-electric potentialities, will serve to direct investments to such sources as prove to be the most promising and practical. Based on the present rate of increase of fuel consumption, and the absence of new oil fields, it is estimated that in eight years Ecuador will be transformed from an exporter of petroleum to an importer. It is therefore a matter of great importance that electric power sources should be developed. At the same time, it is equally essential that investment needs in the various production fields be clearly understood, together with a crystallization of those services proposed by the Government for increasing the rate of investment, and the necessary sums for research and training in techniques.

The sum of all these investments and its relationship to the probable total of domestic savings will allow an estimate of the required amount of foreign capital to reach the given rate of development.

Another serious obstacle to the proposed development programme is the

/lack of adequate

lack of adequate statistics, but it is suggested that the accuracy of the project can steadily improve the situation, so that the deficiencies are gradually corrected. Indeed, the programme in itself could constitute one of the more fundamental incentives for accomplishing this indispensable goal.

It should not be overlooked that the necessity for creating favourable public opinion to support this programme, as well as the assurance that a continuity in the proposed aims will be preserved, are also vital factors. As a result of their frequent interviews with public officials and prominent economists, the members of this study group were able to confirm that this view is gradually being accepted throughout Ecuador, despite the relatively small number of those who are in a position to view the overall economic problems, or who are equipped to foresee the future ramifications of development. If the present study has contributed to clarify or to further these convictions, it will have satisfied at least one of the principal aims of the Economic Commission for Latin America in its efforts to encourage economic development.