LATIN AMERICAN EXPORTS OF MANUFACTURES:
EXPERIENCES AND PROBLEMS
This document has not yet been discussed internally and therefore does not represent ECIA's views.
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CHAPTER I

Purpose of this study

The purpose of this paper is to gather the experience of the case studies on Argentine, Brazil, Colombia and Mexico, and expand it as far as possible in the light of the experience of Latin America as a whole in the development of exports of manufactured goods.

An attempt has been made to present the findings in synthetic form, based on the case studies of the above countries. Those studies were carried out on the basis of a common agenda. However, the nature of the problems and the information available in each country differed; consequently, the different subjects were not necessarily analysed in the same way in all the studies.

When results are expressed in overall terms, they should be taken to reflect the predominant, or most frequent or outstanding features in the comparative experience of Latin America, and in the understanding that they contain the bases common to any generalization.

The background studies have constituted open investigations to identify the dependency relationships which explain the course of exports of manufactures in the countries reviewed. The overall experience furthermore makes it possible to state clearly a number of problems for the future.

Chapter II deals with the behaviour of Latin American exports of manufactures and the overall experience gained; Chapter III deals with experience concerning instruments and institutions.
Based on both these chapters, and taking into account also the general experience of Latin American development and problems of international trade, Chapter IV contains a "Preliminary Agenda of topics for discussion concerning a policy for exports of manufactures". Essentially, this chapter raises some conceptual problems referring not only to that specific policy, but also to certain factors of a more general nature which affect regional integration and co-operation, as well as international trade and development.
CHAPTER II

THE BEHAVIOUR OF LATIN AMERICAN EXPORTS OF MANUFACTURES AND OVERALL EXPERIENCES WHICH IT SUGGESTS

1. The value of Latin American exports of manufactures in 1974 amounted to US$ 7,365 million. In 1965 it was US$ 950 million. It therefore grew almost 8 times during that period.

This expansion was significant. Its value was equivalent to over 80 per cent of the deficit in current account in the balance of payment of the region. Without it, the use of external savings would have been almost double the actual figure, or else the product would not have been able to grow at a rate of almost 6 per cent per year, or both variables would have shown losses. Therefore, Latin America stepped up its exports of manufactures when it became evident that it could no longer rely on traditional exports.

But this expansion, although large, was not sufficient. The balance in current account in the balance of payment for the four countries considered as a whole was structural and increasingly negative, according to the records.

Latin American exports of manufactures accounted for 1.3 per cent of the world total in 1974 and their main industrial buyers were the United States, the EEC and Japan.

1/ Appendix I - tables 1 to 3.
2/ Appendix I - table 4. In 1960 it was 0.4 per cent.
3/ Appendix I - table 5.
2. The cumulative rate of growth in physical volume was of the order of 10 per cent per annum during the past decade up to 1974, which is considerably higher than the growth of almost 6 per cent of the total GDP during the period. This means that exports of manufactures played an active and positive role in the expansion of the economy of Latin America as a whole.

3. In recent years, exports of manufactured and semi-manufactured products represented practically one fourth of total exports. Of those, exports of manufactures proper amounted to 50 per cent, and this proportion has shown a growing trend.

The proportion of the manufacturing trade in the sphere of integration systems is one third of total exports of manufactures from Latin America; but this proportion shows a declining trend as a result of the opening of certain countries to trade with countries outside the region.

\[\text{In 1965-64 the growth was 6.2 per cent; in 1975, 2.6 per cent. This makes an annual rate of growth of 5.8 per cent for the decade (see "Economic Survey of Latin America - 1973 and 1975"). Figures for 1975 are preliminary.}\]
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<td>820</td>
<td>250</td>
<td>2175</td>
<td>7365</td>
</tr>
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<td></td>
<td>current</td>
<td></td>
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<td></td>
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<td>...</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Argentina</td>
<td>%</td>
<td>17</td>
<td>31</td>
<td>33</td>
<td>43</td>
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<tr>
<td>- Brazil</td>
<td>%</td>
<td>32</td>
<td>46</td>
<td>54</td>
<td>25</td>
</tr>
<tr>
<td>- Colombia</td>
<td>%</td>
<td>25</td>
<td>29</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>- Mexico</td>
<td>%</td>
<td>5</td>
<td>15</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

a/ Manufactures includes semi-manufactured and manufactured products, according to UNCTAD (excluding partially refined petroleum, petroleum derivatives and non-ferrous metals).

b/ Some items refer to five-year periods. In these cases, the figures in this column cover a period of 4 years (1970/1974).

c/ 1973

Source: UNIA.
4. The role of exports of manufactures in this process can be judged from several angles.

5. Conceptually, the experience in Latin America has shown that in the long term the rate of growth of the GDP is basically a variable that depends on the rate of growth of exports, given upper bounds for substitution-effect and for external indebtedness that can be assumed.

6. It is advisable to consider these aspects further. It is necessary that the GDP should have not only an "accelerated" but also a "sufficient" growth. "Accelerated growth explains one variable by another. It should be sufficient to meet economic, social, technological and even political requirements (employment, distribution, level of power and prestige in the international system, certain technological growth, etc.). Depending on the sufficiency level, a lower bound is generated for the required expansion of the GDP, and the higher the ambition in the list of requests that the GDP must meet, the higher will be the lower bound.

Usable external savings are obviously upper bounded. Exports of basic commodities also, in the light of what has been happening - with the exception of petroleum and other non-renewable resources; with the reservation that, as regards food, if countries outside the region with food shortages have the capacity to pay, there could be a large jump in the demand.

\[1/\] This point is discussed in detail in the Study on Exports of Manufactures in Argentina.
Given levels of the GDP required as a minimum, of external savings which at
least can be used, and of basic products which at most can be exported, there
remain substitution and exports of manufactures as linked variables at the
global level. Their relationship lies in the fact that the upper bound of
substitution possible marks the lower bound of exports of manufactures
necessary; and, reciprocally, the upper bound of exports of manufactures
possible marks the minimum bound of substitution necessary. 1/

From the above, several conclusions may be drawn. On the one hand, since
production/substitution/exports are linked variables 2/, protection/monetation
are two linked sets of instruments, with this the strategy of exports of
manufactures from Latin America began years ago, when the active substi-
tution process began, and remained conditioned by it. Furthermore, for the
future, since substitution is not exhausted but has become more complex, it
will be necessary explicitly to incorporate exports to our substitution
programme.

ii. Substitution 3/ has been negative in the seventies in the countries
studied, and the imported content of exports of manufactured products has
been increasing.

1/ This point is discussed in detail in the Study on Exports of Manufactures
in Argentina.
2/ At the macro level in this analysis and, obviously, also at the level of
activities.
3/ Then the ratio of imports is maintained there would be neutral substitu-
tion; a drop implies positive substitution, and a rise negative substitu-
tion.
In the future there will be an increase in the demand for imports before substitution, and there will be a certain amount of substitution-effect which will absorb it in part. Both variables will depend on the style of development in the countries.

If Latin America follows a "consumerist" model — which implies sophisticated consumption, intensive renewal of capital goods and technology in line with such sophistication — it might incur in an increasingly negative substitution.

If, on the contrary, it spends more on basic goods for the lower-income population and its medium and high-income levels spend on culture rather than on sophistication, making full use of existing capital and technology, maximum use of maintenance and improving organization technology, there would conceivably be a possibility of a positive substitution with a high substitution-effect.

The first model would demand, as a minimum, a high level of exports of manufactures; in the second, the lower bound of such exports would be more viable.

5. As a global approximation², for the group of four countries studied, at prices in 1974 dollars and assuming that the GDP will grow at the rate of 6%...
per annum, the expansion of exports of manufactures required in 1980 was estimated in terms of the following hypotheses:

- The balance in current account in the balance of payments as a measure of usable external savings, with lower bounds equal to zero (in 1960 external savings are no longer used) and upper bounds equal to US$ 5,000 million (percent of the foreign debt begins).

- The growth rate of the volume of exports of basic products growing at alternative levels of 5, 10 and 20 per cent per annum. The lower bound represents, approximately, the historic rate of the volume of total exports of "developing market economies" at the world level in recent times. During the period of expansion of 1959/74 alone such economies expanded their total exports by slightly over 31 per annum.

- The substitution-effect with a lower bound of 20 per cent and an upper bound of 40 percent of the increase in value of total imports before substitution. Both these are conjectural values, since in 1969/74 the import rate was increasing.1/

1/ The large rise is influenced by the price-effect. Taking only the volume component, part of the rise in the rate is attributable to having changed the structure of imports by economic activities at destination, and the rest to a negative substitution-effect.
### Table II - 2

**ANNUAL GROWTH RATES OF GROWTH OF EXPORTS OF MANUFACTURES**


<table>
<thead>
<tr>
<th>Rate of growth of basic products (%)</th>
<th>Substitution-effect (%)</th>
<th>Balance of payments in current account (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>10</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>20</td>
<td>20</td>
<td>neg.</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>neg.</td>
</tr>
</tbody>
</table>

It is estimated that, in 1980, if trade in basic commodities, improving its historic behaviour, were to expand at a rate of 10% per annum from 1974, the balance of payments in current account would balance in the group of four countries on the basis of a 40 per cent substitution-effect associated with a 20 per cent annual expansion of exports of manufactures, and if only a 20 per cent substitution-effect in the physical volume were obtained, an annual growth of 23 percent in such exports would be required during the period 1974/80. In view of the 18 per cent growth in physical volume in recent five-
year periods, a rise of 20 or 25 per cent does not appear to be exaggerated, although external prospects suggest that it might be difficult to obtain.

On the contrary, if the expansion of exports of basic products were to continue at the historic rate of the order of 6 per cent - taking into account the recession in 1975 and that other recessions in world demand might occur in the future - with a substitution-effect and with the ambition of paying the foreign debt at the rate of US $5,000 millions a year, it would lead to unusually high rates of growth in the physical volume of exports of manufactures, of over 30 per cent per annum.

b. Furthermore, an explosive increase in exports of manufactures requires "someone" to achieve it. This would pose with greater crudeness than until now the problem of speed in constituting national industrial/exporting firms, as any delay in strengthening such firms would only leave a vacuum which would be increasingly filled by transnational companies. 1/

The possibility of substitution and of exports of manufactures - these being linked variables - therefore depends, to a large extent, on the style of development in Latin America. This is an essential conclusion.

c. These results suggest several ideas, placed in the frame of reference of the general analysis being made of Latin America in the past few decades. It is stressed that, for the time being, the reasoning is based on the physical volume.

1/ Or not filled, in which case either the necessary product would not be achieved or indebtedness would increase, or both.
i. It appears to be primarily necessary to continue exporting basic commodities at a high rate, even as a partial mechanism for financing the substitution process which, in turn, is required ultimately to export manufactures.

ii. It also appears that cooperation between the countries to engage in substitution at the regional level be delayed much longer if it is really desired to maintain a rate of growth of the product which, even at the 6 per cent level, is not sufficient, at least to generate employment to the extent required.

iii. Substitution at the regional level is, in turn, supplemented by the fact that high expansion rates require a larger proportion of intra-regional trade. And this suggests that roads should be developed for industrialization and trade, planned within the sphere of LACEN and of the subregional integration systems. In any event, it will be necessary to cooperate in setting up a system of regional trade with certain planned components, even if integration is not sought as a higher operation.

iv. Furthermore, and also related to the problem of financing, which will be considered later in greater detail, the results suggest that it is not only a matter of maximizing exports of manufactures but also the actual value of the mathematical expectation of foreign exchange income generated by such exports. This can be that terms of payment in financing exports be upper bounded and risks minimized, since an expansion of exports that require financing at a much higher rate than that of the GDP will very strongly and rapidly influence the domestic monetary balance of the countries.
v. It is also necessary to "prepare" the economies for exporting at such a high rate without affecting the balance of the power to decide in the external sector more than it is already affected.

vi. Such a level of expansion implies entering into given economic spheres, the destination of exports thereby becoming a variable of the utmost political and social relevance in the process. This leads to the proposition that the role of Latin American integration and cooperation should be reappraised from that perspective, and without delay.

vii. Concurrently, and related to the foregoing, it also suggests that it would be useful if the countries as a whole were to devise a strategy of external financing and extra-regional trade that would give each of them greater bargaining power, uniting their efforts to reach certain basic definitions.

viii. Finally, it all means that the countries that have not already done so must decide on the "style" of their long-term development, and this also without delay and minimizing vacillation in this field, otherwise their external commitments will decide for them.

The style of development is a pattern of change which, applied to the "initial state" or current state of the countries, leads them to a certain "ultimate state". Consequently, the countries will of necessity have to decide first on the attributes of the society they want, i.e., a "model", and subsequently, or in an iterative process, decide on the style which constitutes their strategy of change, i.e., of integrated social development.
The integration of "modus" and "style" constitutes a "project", in the terminology currently in use. It is not unimportant that an external restriction should suggest the need for national projects and, perhaps, a Latin American project; since, in the recent past, dominant exogenous factors have influenced and, to a certain extent, set the style of development of many countries.

It is a well-known fact that the style usually called "consumist" becomes impossible to finance in the long term, and that the Latin American countries imported this style which is not suited to their possibilities. The results suggest that it is impossible to think that this style can be financed by exports of basic products and, with additional exports of manufactures. Exogenous limitations therefore make it necessary for them to define their own projects.

The fact is that, in the long term, structurally indebted under development is not the master of its own style.

It would appear that the group of four countries studied cannot delay much longer in attempting their own styles compatible with their financing capacity at the level of the economy as a whole, in terms of models of the "ultimate"...

1/ The formulation of an interdisciplinary Latin American Project as a result of the integration of model and style, in various combined alternatives, was proposed in a lecture given at ADE, Buenos Aires, in August 1974 (see "Proyecto Nacional 7 funciones del empresario", Argumento, No.35, ADE-UNIVES, Argentina).
state" of society, in which national efforts should be joined to regional co-operation far more actively than at present.\footnote{To work with more exact magnitudes it will be necessary to await completion of the data being processed by ECIA, as mentioned earlier.}

6. Thus far, certain terms of trade have been considered constant in the reasoning used; however, their variation should also be taken into account.

With respect to 1974, in 1975 Latin America as a whole lost US$ 3,000 million due to the effect of the drop in export prices, plus US$ 3,800 million due to the effect of the rise in import prices, which makes a total of US$ 6,800 million.\footnote{This is one method of calculating the effect of the alternative on the traditional terms of trade observed in the national accounts.} The increase in exports of manufactures in that year would have offset almost one third of that effect. If the structure of the terms of trade in 1975/76 continues – as can be assumed in view of the prices of petroleum and other non-reproducible resources, and of the fact that industrial countries will continue to export their own inflation – this price-effect would, of itself, push up the lower bound for exports of manufactures mentioned in the previous section, which was calculated at 1974 prices.

This is sufficient reason for Latin America to seek its own optima, taking duly into account the future course of the physical volume of the demand and
of the relative prices of the goods it chooses to export. From a certain angle, this also means accommodating its supplies better to the world demand and, particularly, to the regional demand. As regards the regional market, all the above suggests that the style of development in each of the countries of the region would not be entirely independent of the style adopted by the rest.

7. There is thus a circular relationship. On the one hand, exports of manufactures become an important exogenous factor on which depends the rate of growth of the GDP once given the export of basic products; on the other, the magnitude and the nature of such exports depend on the style of development.

And, concurrently, the possibilities of such exports depend on the manner in which Latin America becomes inserted in world trade and on the manner in which it envisages its own intra-regional trade. We shall return to this later.

8. Furthermore, insofar as they are a restriction, exports tend to be dominant in the strict sense of the word. In effect, it no longer seems to

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1/ The trend in export prices had grown and, as a result, in 1970/74 almost 50 per cent of the increment in the value exported with respect to that of the previous five-year period was accounted for by price-effect. This constitutes a warning to the effect that every effort should be made to increase the physical volume of exports of manufactures, especially if, on the one hand, inflation continues in the industrial countries; and if, on the other, the relative prices of basic commodities excluding petroleum continued to be low. In the fourth quarter of 1975, average prices of basic products were 20 per cent higher than in 1973, but 54 per cent lower than those of 1974. (ECIA: International commodity markets in 1975, April 1975, mimeo).
be appropriate or easy for Latin America to continue to increase its indebtedness at the historical rate of recent years, while the socio-political requirement of growth is imperative.

This singular - and really historical - convergence, which hardens both the upper bound of external savings and the lower bound of the product, and which occurs together with the hardening of the possibilities of exporting basic products, contributes to make exports of manufactures a dominant restriction. It is therefore all the more important that they should be sufficiently flexible to increases, since the minimum achievement requested of them is a goal that must be attained at all events, and all the more strictly when the adverse effect of the terms of trade is greatest.

9. The case studies of the countries covered by this project agree on the fact that they are aware that the rate of growth of the GDP depends, in a significant measure, on the expansion of exports of manufactures. Consequently, all the countries assign importance to such exports in their development strategies.

Furthermore, the four countries studied showed that there was instability, and in some cases, a chronic deficit in the balance of payments. This caused many adverse consequences. In Argentina, it was an important factor in causing the pattern of growth to show a typical "stop-go" behaviour. In Brazil it has already influenced the rate of growth. In Colombia, effects have been felt, including political effects. In Mexico it has caused a strong need for an inflow of foreign capital, thus aggravating the medium-
term problem.\footnote{1} In all cases this led to the regulation of imports, which impaired the internal adjustment process, the rationalization of foreign trade, and the possibility of exporting manufactures. Also, in all cases it was necessary to maintain a protection which implies a cost-effect that is prejudicial to exports of manufactures.

In the face of this experience, there is in the national policy of all countries considered a purpose of industrialization which entered in the policy more strongly than a mere preference, and which demands that exports of manufactures be increased, not only owing to the need to generate the capacity to finance the expenditure in foreign currency implied by industrialization, but also to work on an appropriate scale, to maximize the ratio of utilization and use\footnote{2} and to achieve a proper adjustment of the physical balance of goods. It is therefore appropriate for exports to tend more and more to be, as already mentioned, a variable considered in the design of new investment projects and in the improvement of existing capacity.

\footnote{1} These consequences are evaluated in the respective studies. In practice, it may be said that all negative effects are felt in all countries, including a number of effects not mentioned in the text.

\footnote{2} The concept of ratio of use of installed capacity is used here as, for example, the ratio of plant-hours actually used to the maximum technically possible use; and of the ratio of utilization as the ratio of real production to the production technically obtainable at the actual level of use. Thus, the ratio of use depends substantially on the number of shifts and on the days worked per year; and the utilization ratio is a function of the efficacy of the organization of production and of its technology. The instruments of conduction are therefore different for both ratios, although they are related.
10. It is clear, furthermore, that exports and substitution are linked variables, not only in a macroeconomic system in which physical growth and the external sector are in harmony, such as that described but also linked at the empirical level of each activity.

a. Latin America began to export traditional manufactures and only incorporated exports of metal-mechanical manufactures and chemical products in a significant measure once it had substituted them. There was a sort of "product cycle" which increasingly incorporated learning, through the substitution process, and also due to the effect of the local capacity to introduce adaptive and creative innovations.

So far, the experience of the countries studied indicates, coincidentally, that substitution was the necessary antecedent to the ultimate exportation of non-traditional manufactures; but that the substitution process was not sufficiently selective or efficient to facilitate exports of the substituted products and, furthermore, as already mentioned, that this led to negative substitution.

Thus, while the increase of exports of manufactures served to reduce external vulnerability, at the same time it led to a hardening in the demand for imports. This hardening became greater as the technology embodied in the goods became more complex, the process having taken place parallel to its level of sophistication and to the entry of new goods to the market. This experience is very valuable from several viewpoints.
b. The experience leads to disregarding the idea that substitution is exhaus ted, an opinion often voiced during the past few years. Quite the contrary, it is not only evident that the process is not exhausted but has become more complex, and that the countries should continue to substitute with a high degree of efficiency, not only by the appearance of new products and improvement of the existing ones, but also to maintain at least the historic ratios of imported supplies.

Preserving a natural level of substitution at the macro level therefore makes it necessary not only to overcome the effect of the rise resulting from the larger imported content of substitution, which is technologically more complex and intrinsically more sophisticated and, in any case, new—the weight of which in industry as a whole increases—but also to continue substituting traditional goods, efficiently. 1/

All the country studies coincide as regards the existence of the purpose of improving the efficiency of substitution processes.

c. This experience also leads to the conclusion that, if production/substitution/export are integrated in a single context of policy, that context must be developed activity by activity, and consequently, it is concluded that this conceptual set 2/ must also constitute a single operative set; i.e., of ex-ante policy which must be developed at the level of each

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1/ The former implies a rise in the overall ratio due to the effect of the increased weight of activities that have a higher density of imports, although the unit ratios of imports by activities do not change. The latter is the effect of the increase in such unit ratios due to sophistication-effect, in general economic, and specifically tech

The distribution of markets and sales among branches of transnational corporations, and the integration processes with planned substitution also have the effect of a rise in imports due to specialization-effect.

2/ Production, substitution and export, conceived as fields of policy, within which the protection and promotion of exports are sets of instruments.
activity, although the implementation of the policy may not ex-post have unity of conduction. And also, that such unity of conduction in actual practice is an inescapable requirement if the process is to be acceptably efficient.

d. It also implies that, strictly speaking, "promotion" of exports cannot be considered a purpose of policy, but that "conduction" of a univocal process should be considered as such. From the studies of the countries, it can be inferred that the ability to export manufactures depends on a certain critical mass of embodied technology in relation to the world technological frontier of the product, and that this incorporation of technology, in turn, depends on the capability of the industrial process. The instruments of industrial, technological, financial and other policies are decisive, and what is specifically "promotion" is thus one among the various sets of instruments required. The problem is, then essentially, one of conduction and not of promotion.

e. Furthermore, to the extent that production/substitution/export require univocal conduction activity by activity, the process must necessarily be selective.

In the countries studied there is a growing awareness that a certain amount of selectivity is inescapable; although the prevailing economic policies in the past few years have only weakly responded to this requirement so far. In several cases there is some selectivity in relatively global terms, but still without tying the "performance" of certain activities to univocal
criteria of selective conduction. In others, as in the automotive industry in Mexico, activities are considered more specifically.

11. Those policy components raise a more general question of economic policy.

a. It is usual in economic policy to consider fields of policy (monetary, fiscal, and the like). The decisions adopted in the different fields affect individual activities in a manner that is not necessarily harmonious or directed to precise goals; and this dispersion of influence goes hand in hand with institutional dispersion — to the extent that different entities are responsible for managing different sets of instruments — and with the relative lack of really operative annual plans.

Which should be the attribute of the first order for the conduction of policy: the field of policy or the activity? From the standpoint of conduction of exports in general, and manufactures in particular, a true and very precise "economic engineering" approach, by activities, is required.

b. The other question raised in this paragraph is that of conduction with yearly operation plans. Can the "performance" — achievements and behaviour — of exports of manufactures required for the future be attained if conduction is not based on really operative yearly plans? It is believed that it cannot; and this is another matter that requires further detailed consideration.

c. Since operativeness of the plans depends largely on their being formulated and implemented with adequate participation, in the case of conduction
"with" planning, what form should such participation take to ensure that exports of manufactures will give the full performance that the countries require of them?

It is interesting to note how some of those factors have been developing in Latin America. Depending on the countries, deliberate promotion policies for exports of manufactures began in the fifties or early sixties; but, in general, the systems in their present form matured in the second half of the sixties. The Latin American countries were then faced with the alternative of exporting the manufactures which the countries had and could export, or those which their decision-makers wished to export. Obviously, they exported what they had. The companies that had most non-traditional manufactures and were more able to export them—because of their information, marketing and financing networks—were the transnational corporations, which obviously occupied the principal space in trade in products of the industries that were most dynamic due to both the elasticity of world demand and their technological level.

Concurrently, national companies were fast becoming export-minded during the past five years. This "prise de conscience" was obviously the beginning of the stable process of exports of manufactures at the company level, over and above exports engaged in as a commercial venture or to escape from a domestic recession. The existence of captive markets of transnational corporations obviously slowed down the "prise de confiance" process because it reduced export opportunities and affected the efficiency of the activities carried out by national companies.
At the same time, the problem of the structure of ownership of decisions began to arise, either with an ideological content in terms of "dependency", or as an objective problem, in terms of potential power of decision.

Up to the present time there has been a problem of relative speed in the action of national and transnational companies. The former having become export-minded and gone on to act accordingly and the latter with their long experience, it is not surprising that in this stage of the process there has been a greater relative expansion of transnational companies. And this acts a lower bound to the speed with which Latin American companies must be formed - without any option - with a really transnational decisional horizon and ability.

Latin America also incorporated to its learning process experiences with balance payments problems, with imperfect and negative substitution, with protection which affected exports through costs, although such protection is a prerequisite for the industrial production of the goods; with attempts to govern "with" planning; and with the sterility of partial approximations in economic policy. In this framework exports were promoted, incurring in different types of costs, among them fiscal costs which, as will be seen later, have reached the upper bound in a number of countries. And in this context, also, exports of manufactures are requested to show greater achievements and better behaviour, and certain export goals which are inescapably minima are evaluated. It is no longer a question of exporting only what they have but also what they want to export. And they want to export because they need to do so.
But, in the face of such national demands and of the national basic conditions described, the world recession of 1975 marks an adverse experience in external demand which, to some extent, had been forgotten after many years of sustained expansion. The conditions surrounding the world market also contribute to harden the possibilities, as we shall see later, at the same time that exports of manufactures are required to give a better “performance”.

Therefore, overcoming the problem concerning the role of exports of manufactures to incorporate the characteristics of national basic conditions and international surrounding conditions, the experience of the cases studied appears to suggest that “promotion” policies as such should be abandoned in favour of designing selective “conduction” policies, with planning and participation, by activities, integrating production/substitution/exports in a single context in design and in operation.

12. The foregoing remarks are of a general nature and, as such, are concerned with exports of manufactures as a variable of the economic field. Furthermore, the field of technological policy is conceived as a separate unit from economic policy; that is, as an entity with conceptual autonomy which makes precise requests of economic policy, to reach its own technological goals.
Technology is conceivable as a quasi-good, constituted essentially by a combination of know-how units carried by different elements (embodied in machinery, for example, or carried by other factors).

Exports of manufactures with the highest density of kh are those which appear to have the highest income-elasticity of world demand. The Latin American countries will be able to export such goods to countries outside the region provided the distance between their technological level and that of the world frontier does not exceed certain limits. This frontier is mobile, because all activities increasingly incorporate learning; but its velocity differs, depending on the activities and the time. This poses a problem of relative velocities: the lower the velocity at which the world technological frontier advances, and the higher the velocity of technological development of the Latin American countries in the same goods, the greater will be their relative capacity of competition due to technology-effect. There is a critical mass of such capacity of competition below which it is not possible to export, irrespective of the real effective rate of exchange. More important innovations which constitute milestones, usually...

1/ Jorge Sáboto proposes in various studies that it is a good. Política de tecnología; objetivos e instrumentos, mimeo, OAS, 1971, proposes that it is a "quasi-good" because, since it is immaterial, it can be capitalized and because it is not consumed or worn out with use, but enhanced. Sáboto's original approach has the great advantage that it permits working with technology in accordance with the usual criteria for conceptualizing the economy of current goods. The problem lies in measuring the units of know-how (or, more briefly, Kh units), which demands a system of measurement which, in the present state of knowledge, is conceivably as conventional as that which at the time gave rise to the metre, the litre, or other units now universally accepted.

2/ Transactions in technology give rise to measurable benefits and costs; and some approximations have been made of a balance of payments of such technological transactions with firms abroad.
produced in industrial centres, reduce the export possibilities of the countries of the region; and these must persevere in systematically accumulating Kh, under their own technological optima, to maintain their critical mass of capacity of competition.

Until now, the countries studied have exported predominantly to the Latin American region those of their goods which have the highest density of technology. These are exports to countries that have a lower technological level than that of the exporters - the largest countries of the region. The opening of Brazilian trade towards Africa is also of this nature.

The outstanding features of technological policy in the countries studied show that this policy has not necessarily been managed in a systematic manner. This relative weakness in technological management has been an important factor of the negative substitution in the more advanced industries; and this has constituted one of the prices paid for the relatively rapid accumulation of Kh achieved in some countries.

The role of exports vis-a-vis the requirements of technological policy in the future is manifold. On the one hand, it will be necessary to sell the Kh which the virtual supply of technology offers; but this will only be possible within the limits set by a certain capacity of competition due to technology-effect. On the other hand, substitution must be advised concerning which constellations of Kh are suitable for such exports, so that substitution will also include exporting - basically without special support - the same products as those being substituted. Ultimately, it is one of the instruments of technological policy proper.
13. The role of exports of manufactures must also be judged from the standpoint of the capacity of decision and action of the countries, as already mentioned.

Depending on who exports, the structure of that capacity assumes different characteristics. Conceivably, there is a lower bound to participation of national decisions in exports of manufactures, and exports in future must also take this restriction into account.

14. The foregoing points propose different angles for judging the role of exports of manufactures; among others, overall development; their integration with production and substitution; their role as an instrument of overall economic policy; their connection with technological policy, and with the structure of the capacity of decision. This is certainly an incomplete list, but it affords useful criteria for judging the achievements and behaviour of Latin American exports of manufactures.

15. The following additional aspects concerning the behaviour of exports of manufactures in Latin America as a whole are of interest:

a. The importance of trade between the different integration systems¹ has decreased lately. In 1970 such trade represented 39 per cent of Latin American exports of manufactures, and in 1974 it had dropped to only 31 per cent. Of decisive influence in this regard were the events that took place in

¹ The systems considered are IAPES, the Andean Pact, the OAS, and CARIFEA/CARICOM.
LAFIA, in which system only Argentina continued to expand intra-regional trade, since Brazil determinedly opened its doors to trade outside the region, and the Mexican "maquila" did the same.

Intra-regional exports of non-liberalized goods grew - at least in LAFIA - more than those of liberalized goods; and there is a fairly general opinion that non-liberalized exports are, in part, an indirect consequence of the integration process itself. In fact, many countries have tended not to undertake multilateral commitments whose consequences they cannot control; but they have worked through bilateral channels and even through informal integration channels, thus generating trade. 1/ 

b. There has been an interesting pattern of trade by type of industrial goods. In 1974, 42 per cent of Latin American exports to all destinations represented traditional goods and 33 per cent, metal-mechanical products.

1/ Inter-Latin American trade networks have expanded, partly as a result of a natural historical process, and partly due to the effect of integration mechanisms; also, due to the effect of the numerous sectoral meetings held within the context of the various integration mechanisms, and partly also to the effect of the action of transnational corporations in the area. It is hoped that Latin American transnational companies will contribute to this same process with increasing vigour.
Table II - 3

LATIN AMERICA: RELEVANT INDICATORS OF EXPORTS
OF MANUFACTURES BY TYPE OF GOODS

<table>
<thead>
<tr>
<th>Concept</th>
<th>Unit</th>
<th>Traditional</th>
<th>Intermediate</th>
<th>Metal</th>
<th>Mechanical</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Structure of total exports of manufactures by type of goods (1974)</td>
<td>%</td>
<td>42</td>
<td>21</td>
<td>33</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>2. The same structure in trade within integration systems (1974)</td>
<td>%</td>
<td>22</td>
<td>30</td>
<td>45</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>(1961)</td>
<td>%</td>
<td>53</td>
<td>23</td>
<td>19</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>3. The same structure in exports from Latin America to the rest of the world (1974)</td>
<td>%</td>
<td>51</td>
<td>17</td>
<td>23</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>(1961)</td>
<td>%</td>
<td>56</td>
<td>31</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>4. Rates of growth of exports of manufactures in 1970/74</td>
<td>% c.a.</td>
<td>35</td>
<td>31</td>
<td>42</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35</td>
<td>31</td>
<td>42</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Between integration systems</td>
<td></td>
<td>19</td>
<td>30</td>
<td>35</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>To the rest of the world</td>
<td></td>
<td>41</td>
<td>33</td>
<td>48</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>
But in exports to countries outside integration systems traditional manufactures predominated (51 per cent), while within such systems the metal-mechanical industries prevailed (43 per cent). This is logical. The area has prime markets for capital and metal-mechanical goods; and intra-regional trade serves to learn, and thereafter go out and face the stiffer competition outside the area.

The opposite occurs in traditional manufactures, which are traditional precisely because they afford comparative advantages generally derived from the raw materials, from the relatively higher density of labour - including less skilled labour - per unit of production, and the lower relative wages in international currency. Such manufactures are primarily exported to countries outside the region.

The structure described was achieved, approximately, in the past fifteen years, after a change in the structure which consisted in increasing trade between integration systems in metal-mechanical and intermediate industries, reducing the proportion of traditional industries. But at the same time, in trade with the "rest of the world" there was, to a certain extent, a shift from exports of intermediate industries to those of metal-mechanical products, due to the action of some countries.

c. The content of technology embodied in the goods in this trade is measured conventionally.\(^1\) Assigning arbitrary weights to the different types of

\(^1\) Although some attempts have been made to measure objectively and conventionally the quantity of know-how contained in alternative technologies, no system of accounting for "K units" has yet been devised. Such a system is necessary. An arbitrary measurement is introduced in the text.
goods (1 to traditional goods; 2 to intermediate goods, and 3 to metal-mechanical goods), the average value, weighted by the structure of trade in 1961, gave 1.7, and in 1974, 2.2, for trade between integration systems, and 1.5 and 1.8, respectively, for exports to the "rest of the world". This would mean - always estimated on this arbitrary basis - that while the technological content of exports to the rest of the world increased in 1974, this content appeared comparable to the technological content of exports within integration systems in 1961; and that the main technological progress of exports of manufactures was made in intra-regional trade.\(^1\)

\(^{1}\) However, within the sphere of integration systems, the countries with larger markets export relatively more metal-mechanical products; those with medium-sized markets, intermediate goods; and those with smaller markets, traditional goods. In the consolidated trade with the rest of the world, traditional manufactured predominate. In other words, the industrial world is to Latin America as a whole, what the larger countries of the area are to the countries with smaller markets.

In fact, the countries that export more metal-mechanical goods are those with larger economies. For Argentina, Brazil and Mexico together, in 1974, this does not take into account the ultimate effects of metal-mechanical exports as regards services required, domestic technological replication, or the demand arising from similar technologies in the importing country, apart from other effects of inter-connection between the economies, resulting from the process.
58 per cent of exports to IaFTA countries consisted of this type of goods; and this, plus other converging indexes, would appear to show the existence of a new process of international distribution of labour, repeated on a regional scale, which should be studied in greater detail.

Vis-a-vis this process, which has a significant inertia, the Andean Pact constitutes a conscious, planned attempt to revert it. In 1974, intra-Andean exports consisted of 52 per cent intermediate goods and 22 per cent metal-mechanical goods; and if the momentum of the early years of the Andean Pact were to continue, there should be a change of structure towards trade in metal-mechanical goods, as occurred in IaFTA, but with a different conception.

Given the basic conditions imposed by the integration machinery and by other governmental and bilateral mechanisms, the prime movers in the IaFTA process were the tariff reductions, the action of transnational corporations, and a growing action on the part of Latin American companies through informal integration channels. In the Andean Pact it is basically the substitution industries, planned at the regional level. In IaFTA, with certain political reluctance on the part of the governments; in the Andean Pact - at least during a certain stage - with explicit political support, notwithstanding the difficulties. If both systems persist - and taking into account the difference in the size of the markets - within a few years, experience will make it possible to evaluate the benefits, costs and velocities of both types of impulses.
More recently it has been found that the rapid growth of the purchasing power of exports in the early seventies has given way to the traditional reality of adverse terms of trade, and not only due to the effect of the price of petroleum; that the illusion of a quick virtual self-financing of the current account in the Latin American balance of payments has passed; that the countries that are not oil producers have fallen into a much deeper external structural problem than was imaginable barely five years ago; that, in general, the higher per capita income of the region is increasingly causing it to be excluded from the international financial co-operation mechanisms, and that it is becoming more and more difficult to move from the historical, closely protected stage of national industrialization to the conquest of markets outside the region if the fact that the region is the prime market for manufactures is forgotten. Within the framework of a world market with inflation and recession, the adverse volume-effect on trade with third countries is increased, due to the structural external deficit, in addition to which there is a price-effect which also appears to exceed that of the present juncture. Latin America's foreign debt, gradually increased until 1973 to consume investment in a socially unjust manner and distorting it.

1/ See: Gérard Fichet and Norberto González; Cooperación regional y desarrollo: una propuesta de política latinoamericana para la industria y el comercio (April 1976, mimeo). See also a previous study by Gérard Fichet: "La exportación de manufacturas latinoamericanas" (Cuadernos del IIEES, Series II, No. 15, 1972).

2/ The unequal distribution of income generates a sophisticated demand of the higher income levels which is met with protected substitution, and distorting the structure of industrial production and of the investment to generate it.
But since 1974 the deficit in current account reached a peak which suggests there is no longer a "ceiling" for any length of time to persevere in the consumism followed until then.

f. All the foregoing also contributes to increase limitations to the viability of autarkic national development, and makes it compulsory to re-appraise the need for co-operation, even for the countries of the area that have the largest markets. It has been found at the level of four industries in particular that, aside from the known scale-effect — which, for small scales, not only makes it impossible to produce at competitive costs but also to generate technologies properly — the goods of larger scale industries with more technological density are those in which the rate of world demand grows much faster; that the greater the size of country, the greater is the balance of trade; that the smaller the country, the smaller is its relative demand for imports of such goods; that, consequently, the smaller the national market the greater is the need to export; that the smaller the country, the more does it require a certain amount of specialization, and still more if it does not possess petroleum; that the concrete possibility of such specialization largely depends not only on the technology the country possesses, but also on the ownership of patents and trade marks and on its capacity to set up its export network for such manufactures; that there is a cycle made up of imports/substitution/production/exports which demands that a high degree of efficiency and a unified treatment of these fields in

1/ Chemical products, electrical and non-electrical machinery and transport equipment.
the economic policy for each activity converge at all levels; and that a low export-industrial production ratio is an indication of relative economic backwardness.

From the above findings a number of useful inferences may be drawn to judge the behaviour of Latin American exports of manufactures required in the future, and its relationship with regional co-operation and integration.

g. The above questions give rise to further observations.

ECIA has insisted on the need to deal with substitution at the regional level and in a planned manner in Latin America, and the regional demand for imports would be relatively dynamic, due to the fact that its expected rate of growth, according to the projections, will be higher than that of other areas. Consequently, it is advisable to consider Latin America as a priority destination for exports of manufactures of the countries of the region, aside from the other advantageous factors summarized above.

1. What are, then, the alternatives for the future of exports in the area? Is it possible to follow pure strategies, such as indiscriminate liberalization, or strong protection of national production and, consequently, strong encouragement of exports, or should a mixed strategy be followed? On what basic values would such a strategy be based? What would have to be optimized at national levels or at the level of the area as a whole, and with what restrictions?

ii. In the early sixties a reply had already been given to the effect that, due to the effects of scale, of technological diffusion, of size of markets and capacity of competition, a hypothesis of Latin American integration was preferable, reasoning at the level of the region as a whole, and in terms of the benefits of integration. The LAFTA experience showed that such benefits were achieved to a large extent; that the larger economies obtained the most benefits, notwithstanding which they developed a growing political reluctance to assume multilateral commitments; that optimization continued at the national level rather than at the level of the area, although accepting certain regional restrictions; that in the absence of a system of minima to regulate the behaviour of the actors, transnational corporations filled the decisional vacuum caused by the weaker commercial, financial and technological strength of Latin American companies; that there was more effective progress where, as in the financial field, there was no alternative of competition or where co-operation was the only viable alternative; and that the Andean countries, convinced of the need for integration, and in the face of the reluctance of the countries with larger markets in matters such as programmed industrialization, chose that road, and established special mechanisms. Subregional systems - including also the CACM and CARIFIA/CAICOM - thus appeared in the historical itinerary as a factor of acceleration of regional integration and cooperation mounted on the inertia of regional integration as a whole.1/ 

1/ Conceiving the components of a parabola which expresses Latin American integration, the ordinate to origin would be given by history; the inertia, by the overall integration processes, and the acceleration, by the subregional and bilateral agreements.
iii. A number of subsequent studies showed that without integration - or at least without certain co-operation - there are no alternatives, and the recent recession of the extra-regional market made this fact still more evident. Other studies show that continuation of the historical trend makes it impossible to finance the rate of growth of the GDP required to put an end to unemployment and marginality during the next decade. That a vigorous sub-regional process of industrial and commercial integration is preferable to doing nothing at all in the region, and that integration and co-operation in Latin America as a whole are the best solution, particularly for the smaller countries, not only in terms of overall external financing but also - at least - of development, technology, costs, quality, distribution of the fruits of effort and employment.

Assuming the concerted development of mechanical and chemical industries to take advantage of the size of the regional market, with certain forms of technological specialization and co-operation, with selective national industrial development policies, and installing new plants capable of competing internationally, there would be a vigorous regional trade; there would be a certain specialization, not only of countries but also of the region as a whole vis-à-vis the countries outside the region; external protection could be reduced, and, concurrently, the cost of promotion; and the absolute and relative importance of purchases outside the region would be reduced.

The ECLA study now in preparation must be awaited.
As a result, there would be, ex-post, positive net substitution at the regional level, because the region itself would be in a better position to develop creative technology, or at least to adapt extra-regional technology more successfully and at a lower cost. 1

Latin American exports of manufactured products of traditional industries would continue to expand to some extent in extra-regional markets provided the demand, the protection and the discrimination of industrial countries, or the development of the countries associated to them permit it. 2 And this with great vulnerability, at least as regards the cycle of the industrial world. But the demand of these traditional goods has less relative income-elasticity. The goods of dynamic industries, which have a higher income-elasticity, particularly capital goods, have their prime natural market in the region.

iv. The experience is therefore instructive. In assuming basically the value "competition" without introducing sufficient co-operation with planning,

1 These are the results of the study by G. Fichet and N. González referred to in a previous foot-note. In terms of the hypotheses of behaviour similar to that of the OECD adopted by that study, in 1985 the ratios of imported supplies of the demand of the four industrial sectors indicated as a whole, would be 29.7 or 30.9 per cent, depending on whether the historical inertia continues or whether a concerted industrialization programme is adopted. But in the case of inertia, 19.8 per cent would be supplies from outside the region, whereas with co-operation, such supplies would only amount to 9.1 per cent. Imported supplies from the region would therefore rise from 1.5 per cent of the demand in the case of inertia, to 11.8 per cent in the case of co-operation. The consolidated trade deficit would drop from US$ 49,000 million in the case of inertia - unfinanceable - to US$ 4,500 million in the case of co-operation.

2 Due to the effect of factors such as the Lomé Agreement, for instance.
opportunities for production and generation of income - with all their effects - were lost; there was only scant substitution at the national and regional level and mostly by transnational companies, at least in LAFTA; the intraregional liberalization strategy went as far as permitted by the fact that each country sought their optimum at the national level only, and the benefits of integration were obtained in a greater measure by the larger countries. Moreover, each country encouraged exports of manufactures by offering stimuli at the national level; consequently, in the opinion of experts, a certain amount of redundancy was created at consolidated levels, or else an undesired competition between stimuli.

In the face of this value "competition", the advantage of the value of "co-operation" has been demonstrated once again. Based on this basic value, the extreme strategy would be to programme all relevant industrialization in the area and the trade arising therefrom. A more accessible and more realistic mixed strategy would be to develop at the regional level a certain programmed industrialization - substituting and exporting to countries within and outside the region the same goods that are substituted - in those industrial activities in which the regional optimum with given national restrictions would produce an additional consolidated net benefit for the region as a whole.

This last solution would, by definition, give a higher cost-benefit ratio, as it would mean developing with a regional programme precisely those activities which produce largest benefits; and for these the associated costs - at least those of a fiscal and financial nature - would be lower, since
it would be possible to work with a lower level of protection with respect to countries outside the region; at higher levels of scale, technology, utilization and use, and without competition or redundancy of stimuli.

v. What should be optimized at the consolidated regional level? The reply is, what the countries prefer, be it the net balance of foreign currency, income-effect, employment-effect, the set of "forward" or "backward" effects, or any other functional.

vi. What should the restrictions be? There should be certain restrictions as regards external vulnerability and reliability, and additional restrictions imposed by each country. These might, for instance, take the form of lower bounds for the net balance in foreign currency, in such a way as to ensure an equitable basis in participation. But there should remain a sufficient "ceiling", so that the ambition to distribute everything before producing it does not become a game of restrictions which will again eliminate the space of solutions and prevent producing in practice.

Thus, competition would be inscribed as an attribute of the second order in a higher attribute of active cooperation, and planned at the regional level.

This is a technical account of what has happened in practice. The ambition to distribute before producing made each a dominant restriction, and, due to the action of dominant restrictions, the problem was over-determined and the space of solutions was eliminated. But, after all, they were political solutions and not only economic ones.
vii. The region as a whole would begin to function as such—i.e., as a consolidated region, as a single actor—in the world concert of nations, but conducting this practical experience in specific industries and in a gradual manner.

The fact that maintaining the historic inertia in the behaviour of foreign trade of these dynamic industries leads to imbalances of unfinanceable foreign currency suggests that adopting the co-operation alternative and, on this basis, strengthening the planned industrialization of specific activities is not a commercial or industrial adventure, but an option that must be evaluated at the level of concrete projects.

h. This outgoing towards Latin America for a joint production/substitution/export process is also justified by the drop in the region's capacity to penetrate in external markets for manufactures which has taken place in the past few years.\(^1\)

In fact, the expansion of total exports of manufactures from Latin America can be explained in terms of the algebraic sum of two effects: a demand-effect and a penetration-effect.\(^2\)

\(^1\) This drop is a reality for the region as a whole, although, of course, some countries may escape this rule.

\(^2\) World demand-effect is here defined as the result of applying the ratio of the increase in world demand to exports of the base year, and penetration-effect, as the result of applying to exports at the end of the period under review the difference between the ratio of Latin American exports to the world at large for the final year less the initial year of the period analysed. This form of calculation would to some extent over-value the penetration-effect; which, in principle, would not appear to be too important in view of the definition and, in practice, also measurement problems which affect the basic figures used. They are orders of magnitude of the effects.
In both exports to the world as a whole and exports to countries outside the region during the periods 1965/69 and 1969/74, approximately 50 per cent of the increase in total exports has been explained by the effect of the increment in the world demand, and the other 50 per cent by the penetration-effect in external markets. The causes of the greater penetration are many and should be sought in the increased capacity of competition; in the growing complementarity of the economies, as Latin American exports were adapted in a greater measure to the world demand for manufactures; in the action of transnational corporations which, in pursuing their own optimum, in practice are increasingly achieving complementarity; and, in part, in the effect of the integration mechanisms.¹

But it is essential to note that the significance of the penetration-effect was greatest in 1972, as in 1973 and 1974 there began a declining trend in both total trade and exports of manufactures to countries outside the region, and in 1975 it became negative.

Consequently, it is not necessary for a formal recession to occur in the industrial world; deceleration of the demand is sufficient for Latin American exports of manufactures to be more deeply affected by penetration-effect than by the effect of the demand itself. And this is so notwithstanding the

¹ With respect to 1974, in 1975 the penetration-effect in the markets appears to be negative, even though the value of world trade continued to rise slightly, at a rate under 2 per cent, for all types of goods. According to data of UNCTAD IV, the physical volume of total world exports appears to have dropped 6 per cent, and the unit value to have risen 8 per cent. For developing market economies the drop in volume appears to have been 14 per cent, and the rise in prices 5 per cent.
small participation of Latin America in the external supply of manufactures of the industrial countries.

This would be a reasonably clear indication to exporting countries to "have greater confidence in Latin America" if it is desired to ensure a lower bound for penetration-effect. ¹/

¹/ Changes in income due to changes in the price structure in world trade have sufficiently affected the balance of payments as to give rise to a structural protectionism in many countries; and there appears to be no assurance that the fluctuation in volume which became evident in 1975 will not be repeated. In other words, reliability of the rate of future demand and of the fluctuation of the world economy dropped.

Under present conditions, the country studies evaluate as basic factors of access to markets outside the zone, the integrated capacity of competition - i.e., due to price-effect, technology-effect, marketing-effect, information-effect, political support-effect, etc.; the need of purchasers for supplies, and the supranational inter-industry relations established to a large extent by the action of transnational corporations.

In this context, the Generalized Systems of Preferences, although increasingly used by Latin American exporters, do not seem to be included in the list of "sine qua non" factors or of the causes leading to exports of manufactures. ²/

²/ Another problem, although related to it, is to ensure a minimum bound for the demand-effect.

²/ In some countries it is even suspected that applications are over-valued.
The country studies show that although the United States system seeks to diffuse the demand, it is contradictory inasmuch as it encourages efficiency, but penalizes it when the exporting country achieves it. The EEC system did not succeed in overcoming the effects of the depression of 1975; in the case of one country, the exports covered by the GSP grew less than those of other industrialized goods, and the EEC suspended the preferences on several occasions.

For the future, their significance appears to be further weakened by the convergence of the general reduction of protection negotiated in the GATT; the special preferences of the EEC agreed upon in London; the intra-regional operation of the EEC itself, and the addition of political limitations imposed by the 1974 U.S. Trade Act.

Reliability of both the rate of expansion and the fluctuation of the real world market, would therefore have no evident reason to be high, -insofar as the Latin American countries are concerned. Any change in the rate or in the fluctuation would proportionately affect medium-sized and small Latin American companies; i.e., the balance of the power of decision, at least in the external sector.

In view of the above, in the experience of all the countries studied, access is relatively reliable in regional systems. The multilateral agreements give the process inertia; and bilateral or plurilateral agreements, as well as crossed investments, add acceleration to it. The addition of programming for conducting the process - even though it be limited - would contribute powerfully to strengthen the scene and maximize reliability; and the .
liberate training of private and public "Latin American entrepeneurs", with a world-wide decisional horizon, and capable of optimizing at the regional level, would accelerate the presence of the actors required to make the structure of the power of decision compatible.

16. At the level of the four countries studied it has been found that:

a. The reasonably explicit overall goals of the policy for exports of manufactures in all countries have consisted in improving the balance of payments, contributing to industrialization (expressed as higher value added, greater use of installed capacity, or increased industrialization in general), and ceasing to depend on traditional exports. Some countries lay emphasis on achieving a greater internationalization of the economy and on the construction of networks of common interests (Brazil), or on achieving higher employment (Colombia and Mexico). In some cases, certain instrumental goals are included, such as the diversification of products and markets, increasing the capacity of competition, or rationalizing the use of non-renewable resources.

b. The physical volume of the purchasing power of exports of manufactures in the four countries is extremely sensitive to world inflation, taking into account that the industrial countries on average export their own inflation.
to the under-developed, and only adjust their exchange rates when trade between themselves is impaired. In fact, purchasing power, in terms of United States prices, had risen until 1973 and declined thereafter, and during the five-year period 1970/75 it grew at the manifestly insufficient rate of 2 per cent.  

c. Exports of manufactures appear to be more sensitive to the drop in external demand than to that of basic products. In 1975 their share in total exports dropped in all the countries studied.

d. In the expansion of the value of exports of manufactures in 1970/74, the "volume effect" explains around 35 to 40 per cent in Argentina and Brazil, and around 45 to slightly over 50 per cent in Mexico and Colombia.

e. The industrial policy defines the characteristics of exports. In 1973, Argentina, Brazil and Colombia exported over 50 per cent of manufactures proper, and Mexico, 80 per cent of semi-manufactures, due to "maquila"-effect.

f. Exports still represent a small proportion of industrial production, as a group, and in each country. They still do not have a strong "forward" and "backward" effect on the industrial structure.

\footnote{Appendix I, table 6.}

\footnote{Volume-effect is defined, as in the national accounts, as the difference between the volumes of the final year and the base year, valued at base-year prices. This implies under-valuation.}
g. Depending on their industrial origin, Argentina, Brazil and Colombia
exported over 50 per cent of traditional manufactures in the past few years;
and Mexico, over 50 per cent of metal-products, machinery and equipment, also
to a large extent due to the "maquila"-effect.  

h. There is a trend to diversify exports by products, but concentration is
still strong. The country studies have not found that the option between
diffusion and concentration of exports of manufactures has arisen from an
explicit overall strategic decision. On the one hand, the existence of
stimuli generates diversification; on the other, the fact that traditional
manufactures or those previously substituted are exported - under all the
conditions created by substitution - maintains a significant concentration.

i. Greater diversification by countries of destination is sought in all
cases, but the strategies differ. Argentina exports preferably to LAFTA;
Brazil diversifies its sales to LAFTA and increases the participation of
Japan and Africa; Colombia channels more trade towards the Andean Pact
countries; and Mexico reduces the proportion of its trade with the United
States and turns more towards the EEC and LAFTA.

j. The number of export flows (number of products by number of markets of
destination) grew significantly in almost all countries.

k. The presence of transnational companies is growing and decisive, particu-
larly in dynamic industries with relatively more sophisticated technology

\[1/\] Qualifying traditionality in terms of the ISIC. See Appendix I, table 7.
and greater concentration. The concentration of exporting companies tends to increase.

1. The positive factors that encourage exports of manufactures evaluated by the country studies are, in all cases, the existence of financial and fiscal stimuli, the action of transnational corporations, external demand, the possibilities afforded by LAFTA and the Andean Pact, and a gradual "prise de conscience" by national companies. In some cases, stress is laid on the very dynamic government effort (Brazil), on the signing of agreements granting special financing (Argentina), on the requirement that companies export to obtain entry benefits (Mexico), on the existence of idle capacity or of remnants of domestic recession, and on the national technological capability. 1/

2. The main problems affecting exports of manufactures evaluated in the studies are very significant. In general, they are: the relative weakness of national companies; the difficulties in operation of the smaller companies; the expensive and infrequent transportation; and the relative reliance on the access to markets outside the region remaining unchanged. In some cases, stress is laid on the weakness of the public sector due to a high rotation of decision-makers, the weak support given to the establishment of large national trading companies and export consortia, and the weak information system (Argentina); on the scarcity and high cost of raw materials, partly.

1/ Methods of verifying the dependency relationship are different depending on the studies, and range from the expert judgments to the use of econometric models.
as a result of the financial weakness of the public sector which slows down investment in basic industries politically reserved to national decision-makers (Mexico); on excessive placing of the responsibility for exporting on the private - particularly the external - sector; and, in general, on the problems inherent in the condition that one study defines as "peripheral-dependent, insufficiently selective, which operates at a high relative promotion cost."

n. The studies in general qualify as positive the effects of exports of manufactures on a number of variables such as the "forward" and "backward" effects on the inter-industrial structure; on the local replication of technological know-how embodied in exports; on the local creation of new technological know-how; on the productivity of the economy as a whole; on the overall income; on employment, and on distribution, by the double road of the overall income-effect and employment, although the stimuli increase the capital-entrepreneur factor remuneration which is relatively larger, as well as being external. In some cases, and as regards certain goods, some doubts have been expressed concerning the balance of foreign currency.

o. In the four countries, the capacity of competition due to price-effect, defined as the ratio of the rate of exchange index to that of domestic prices, dropped during the period 1969/75. The drop was more severe in Argentina (to approximately half) than in the rest of the countries (one third). The expansion of exports of manufactures was achieved by overcoming

\(^{2/}\) Appendix I, table 8.
this basic condition with fiscal and financial instruments which served to
correct this trend. These will be analysed later. Naturally, it would be
necessary to operate with relative capacity of competition indexes with
respect to purchasing and virtually competing countries. However, for the
time being it does not seem reasonable to say that there has been over-
valuation in the past few years; and for less in previous years, of

1/ The monetary dosage of the economies in 1969/75 was not associated with
inflation rates. Argentina systematically and unsuccessfully used monetary
restraint to combat inflation, reducing its liquidity ratio below the amount
corresponding to its per capita income level and to the development of its
financial markets, at least until 1973; and in 1974 it strongly increased
its liquidity and at the same time reduced its inter-annual rate of growth
of prices. Brazil gradually increased its liquidity level and its inflation
rate in the past few years. Colombia reduced its liquidity trend at the
same time that the trend in price growth increased. Mexico maintained its
monetary liquidity at a stable level but could not prevent acceleration of
inflation.

1/ In fact, in recent periods some countries appear to have touched a minimum
point in the level of capacity of competition due to price-effect, at least
for some exports; but this is not yet certain. It is not known either,
whether the national currencies were over-undervaluated before - not only in
the sixties but in previous decades - and if this constituted a disguised
subsidy to external savings in terms of national assets, with the many
consequences derived therefrom.

2/ In this text the liquidity ratio is defined as the ratio of private means of
payment plus official current accounts to the GDP. See Appendix I,
table 9.
In 1974, prices in the four countries analysed experienced rises ranging from 20 to 30 per cent.\(^1\)

With or without the contribution of external inflationary factors, in the countries studied inflation appears to be endemic; and concurrently with the "prise de conscience" of this fact, a policy of flexible adjustments in the rate of exchange, of the creeping type, has taken shape.

This experience is instructive. Brazil introduced its policy of flexible adjustments in 1958 and obtained more rapid results in exports of manufactures. Colombia adopted a similar policy about the same time, and also succeeded in expanding its minor exports. Argentina made larger adjustments until mid-1975, when a soaring inflation called for more frequent adjustments, and at the end of 1974 and beginning of 1975 essayed cancelling existing export contracts, apparently due to insufficiency of the real effective rate. Mexico adhered to its traditional fixed rate of exchange until mid-1976, and affected its balance of payments significantly.

Experience shows that, when there is a single exchange market, excessively generous fiscal stimuli can lead to over-invoicing of exports or to simulated transactions. And when there is an official exchange market and a free market with widely different rates, the difference between the two rates encourages under-invoicing of exports and export contraband; in which case, the stimulus operates to some extent as a dissuasive of spurious transactions by bringing the real rates closer.

\(^1\) The year 1975 is atypical for the analysis.
It will therefore be observed that stimuli have a "space of useful movement" which is bounded by the nature of exchange markets and the magnitude of the rates of exchange, apart from other bounds which will be considered later.

As a practical necessity, and independently of previous doctrinal preferences and even policies, all countries have finally come to inescapably realistic and flexible rates of exchange. This is an important experience for extrapolation to other countries - whether they are developing or at an intermediate level of industrialization - that wish to export manufactures.
Chapter III

SALIENT EXPERIENCES AND PROBLEMS RELATED TO THE INSTITUTIONS AND INSTRUMENTS OF EXPORTS OF MANUFACTURES POLICY

1. The previous chapter showed the need for certain basic conditions required for exports of manufactures to be carried on as a self-sustained process. These basic conditions are being built up by the countries of the region, particularly during the past decade, and are gradually incorporating learning to the institutional and instrumental structure.

2. In reference to institutions, the country studies show that there has been a trend to establish promotion agencies; and only in a few cases - in Brazil since 1972, and in Mexico for certain industries - is there a greater trend towards conduction of exports, starting from an industrial basis. But there is as yet no system "of conduction" fully included in the design and implementation of the policy, activity by activity, with adequate participation.

As a general rule, there is a good deal of institutional dispersion and promotion systems are open to whoever wishes to use them; this weakens the momentum required to build a system with sound national participation, and favours greater utilization of the advantages by transnational corporations. This type of consequences is envisaged as possible in the mechanisms put into operation by Brazil in 1972 in terms of special sectoral programmes, including those that seek the transfer of industries to the country. However, the establishment of an important trading company, with State action and participation, and the encouragement given to the establishment of national marketing companies in Brazil recently, seems to show that
there is a trend to seek a better equilibrium in the structure of the power of decision.

3. The fundamental question seems to be whether instruments of induction are sufficient to conduct the external sector - and exports in particular - or whether a more direct and catalytic action on the part of the Government is required to obtain a sound selective effect in terms of all the variables that have to be sought, since exports are a multipurpose instrument. This last solution seems to be taking shape, although in some countries institutional solutions for the conduction of the external sector follow after general doctrinal preferences.

Depending on the countries, the trend towards State action ranges from stimulating the private sector through public institutions which are administratively too weak to serve as catalysts (Argentina and, apparently, to a lesser extent, Colombia and Mexico) to a more active presence of the Government, including companies with government participation (Brazil).

Concern and action to reduce bureaucracy have been convergent in the countries; as well as administrative and diplomatic support; action in the fields of information, marketing, technical assistance and training, etc. The efficacy of the services has been varied. Particularly in information and direct action, the studies qualify institutional systems from relatively weak (Argentina) to relatively expeditious (Brazil).

As the studies were written by different authors and as there is no single objective pattern to judge all cases, these qualifications contain several biases and should be taken as general appraisals of independent experts.
Experience suggests that more government, with more capacity for action and a sound and efficient direction, has given best results, at least in terms of the volume of exports. In the case of one country, the advisability of establishing an External Sector Corporation has been suggested.  

4. Policy trends suggest that the cost of promotion is already felt, at least in taxes; that its effects are capitalized by national companies less than expected; that the need for more catalytic action—and sometimes more direct action—is recognized, in order to achieve greater national power of decision; and that to maintain realistic and flexible exchange rates and introduce correctors to help lower the price of virtual FOB supply of manufactures is a necessary though not sufficient basic condition; and that there is no alternative but to tackle the industrial and technological process rapidly and in depth.

The links between export of manufactures policy and the industrialization and technology policies are still not strong. This means that the countries studied so far export what they can and what they have, and not necessarily what they would like to export. This explains why at this stage the trend is to diffuse export flows in the form of generalized promotion, although with certain selectivity, depending on the countries.

Thus, in Argentina, the evaluation of industrial projects to obtain State

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1 As an agency with banking capacity plus the capacity of participation in the capital or of establishing companies, and others related to the direct and catalytic action of private enterprise.
advantages through investment, benefits when such projects include export programmes, to which the company commits itself by signing "contracts"; in Brazil, since 1972, new sets of stimuli are granted to export programmes starting from the industrial base; and in Mexico the use of manufacturing programmes in specific activities which contain mandatory export plans has been increasing.

It will be noted that these are steps in the right direction, but it is considered that they would require a more general decision of economic policy to conduct them by activities, so that the results in terms of exports may be more quickly achieved and more efficient, instead of overcoming the problem casuistically through the promotion of exports.

5. All the studies mention the fact that the dangers of indiscriminate promotion are recognized, particularly if it is over-generous, not only because of the possibility of distortion in the allocation of resources and the virtual application of countervailing duties, but also because of the cost in foreign currency it implies.

6. A trend is observed towards greater selectivity by products, using the product as an instrument for obtaining certain goals. Until now the countries have generally tended to lay stress mainly, although not exclusively, on value added, and in some cases this variable-goal has been quite explicit.

The general components of selectivity have either been contained in explicit regimes (Argentina, Colombia and Mexico) or the regulations contain few ex-
plicit elements of selectivity, although in practice it is applied (Brazil). \(^1\)

All the studies agree that the "performance" of selectivity can and should be improved.

7. The basic "stimuli" are fiscal and financial. In all studies these are defined as an essential prerequisite for exporting manufactures.

Furthermore, import regulations for inputs and capital goods, export regulations, and information, marketing, diplomatic action and other instruments are used. These last have been mentioned elsewhere in this study.

a. The financial instruments form part of basic world conditions which must be ratified in order to be able to export. The stimulus proper is contained in differential interest rates with respect to ordinary credit, or in real negative interest rates, or in the automaticity of the procedure for granting them. As a general rule real interest rates were negative, but not only in exports.

Some studies (Argentina) point out that, if the proportion of financed exports in the GDP were to increase significantly and if at the same time monetary restraint continued to be used to combat inflation, credit to the industrial/export sector would have a very high proportion in the annual increment of monetary flow, and suggests that the two policies are not compatible in the long run.

\(^1\) These are salient characteristics. Naturally all regimes contain both components in varying proportions, depending on the periods.
In all countries, credit granted for exports has served to prevent shortages of circulating capital in production for export. New advances include financing of investment, which is indispensable to the extent that it is desired to produce "for" export in a larger relative dimension.

As a rule, financial systems are managed flexibly, as befits their nature. Appraisal of the risks is performed according to banking standards, taking solvency as an attribute of the first order. However, it would appear that to the extent that a more unified conduction of the production/substitution/export process is implemented, rather than the mere promotion of exports, it will become increasingly necessary to grant credits for the programmes. There is already a glimmering of this process, and it appears that it would have to become generalized as an essential condition if the ambition to export is strong and, particularly, if a more efficient selectivity is desired.

b. Fiscal instruments have, basically, played the role of correctors of the rate of exchange and of the cost-effect of protection. In Argentina they have not succeeded in offsetting the adverse cost-effect of virtual supply in international currency, which the interplay of effective protection and exchange rate have introduced in industrial exports. In Brazil they appear to have done so. In the studies on Colombia and Mexico their corrective role is also mentioned.

Although the magnitude of the burden of protection and of the effect of the
capacity of competition index 1/ is not sufficiently precise, it was possible to establish that, in general terms, there has been no "subsidy" of exports, although this may have occurred in the case of some specific product.

In general, the use of these correctors has been generous, in view of the systematic reduction in the capacity of competition indexes, in order to increase diversification of exports of manufactured goods. Recently, in some countries (Argentina and Colombia) the importance of such stimuli was reduced; and Brazil tends to eliminate them, at least for some activities.

Experience showed that excessive generosity affects export prices in international currency and even leads to simulated exports when there is a single exchange market, as mentioned earlier.

For this instrument also there is an upper bound given by the fiscal balance. If the ratio of promoted exports in the GDP were to rise significantly, the efficiency of collections would have to improve (as appears to have occurred in Brazil) or else the burden of promotion would have to be borne more by the basic exchange rate — in which case the weight of protection would also fall more heavily on the exchange rate.

1/ In the reasoning of this document the index of capacity of competition of the exporting country is used, rather than the relative index obtained by considering also those of other countries that are virtual competitors and importers. This has been done because, for the present purpose, the profit or loss of third countries in terms of capacity of competition due to price-effect has no bearing on the analysis. Naturally, when applied to specific cases, the position of third countries as regards prices and exchange rates is important.
c. Imports of inputs embodied in exports of manufactures would appear to have been stimulated by the promotion regimes in Brazil (the draw-back is much used), Colombia (Plan Vallejo) and Mexico (fixed exchange rate), until there was a trend to correct this effect. The links with exports through preferential quotas appear to be more functional in Mexico since the exchange adjustment of 1976, but they are not more efficient than total programming of the activity. In Argentina the draw-back, an instrument which encourages the use of imported inputs — and is not efficient in its administration — has lost significance.

Thus, it has been observed that the handling not only of the pattern of substitute industrialization but also of the function of exported industrial production has in most cases over-dimensioned imports of inputs.

It is believed that only a policy implemented activity by activity, governing production/substitution/export in a univocal and planned manner, might cover this type of bias.

d. Regulation of exports, depending on the countries, has tended to clarify explicitly that it is possible to export, ensure national supplies, and particularly ensure that raw material that can be processed in the country will not be exported.

e. It therefore appears evident that a strong and successful export policy for manufactures could not ask financial and fiscal instruments to bear the burden of the overall correction of the exchange rate and of the effect of protection; and that, on the contrary, its role should basically be limited to two purposes: to confirm basic conditions and maximize their selective
Efficiency, in terms of sufficiently precise variable-goals acting as correctors.

Efficient selectivity is conceivable, on a first level abstraction, in terms of fixing certain goals and conceiving a set of products as instruments to attain those goals. The variable-goals might be: value added, employment, distribution in general, net balance of foreign currency, technology-effect, structure of the power of decision, type of insertion in world trade, structure of trade by destination, induced structure of production by regional origin, etc., and each goal will have certain lower and upper bounds and certain requirements of stability, reliability, etc.

The problem being thus stated, a reasonable ambition placed in terms of multiple goals demands exporting mostly what the country wants to export and not merely what it has; and makes it necessary to prepare the industrial and technological base, with all the attributes that it wants exports to have. Given the limited frontier of resources, objective analyses, as well as the experience obtained from the studies, suggest that it is necessary to set up a process of programming at top level, and to identify the optimum structure of exports by products and destinations to serve the set of goals and restrictions, finally evaluated at the top level of political power. This problem has a known technical solution. And to reach that

\[ \text{In this case, as in the other variables, of direct and indirect effects. This is a case of dynamic or linear programming, or of establishing priority relationships, at least.} \]
level of programming does not imply disregarding pragmatic experience but supplementing and orienting it.

On a second level of abstraction, knowing the optimum structure of exports by products and destination, there are a set of requests made on the basic conditions and the corrective instruments. The set of instruments is thus bounded and its features can be seen more precisely. Instead of following the historic process of creating the instrument and testing its efficacy and efficiency, the process would be supplemented with this method of identifying the characteristics required of the instrument once the minimum bounds of the efficacy and efficiency expected of each instrument are established, as well as a reasonably precise "work-load" for it.

With some differences, depending on the countries, the studies judge that the most efficient sets of instruments are those of a fiscal and financial type, as well as the agreements and instruments covering regional integration and co-operation areas. The efficacy of the information and marketing instruments is still judged to be poor.

Depending on their contribution to certain variables, the "forward" and "backward" effects on the industrial structure, the value added and, in certain cases, the destination of exports, would appear to be those obtained most often, and for the time being, achievements in the fields of region of origin of production, type of company, scale, and type of technology are not considered outstanding or sustained. The balance of export currency is understood to be positive, although there was negative substitution.
In some cases the employment-effect appears to be higher than in exports of traditional manufactures, which continue to have a decisive weight in total exports. Distribution-effect in general terms is positive, through the higher rate of the GDP which exports made it possible to finance, although, according to the direct recipients of the stimuli, a regressive effect was introduced in the distribution by income levels. In any case, it is doubtful whether exports of manufactures can be asked, as a priority matter, for a distribution-effect or, more specifically, an employment-effect, when the ratio of exports of manufactures is small and the proportion of employment generated by exports on total employment is also small; particularly when the foreign currency-effect has rather obvious precedence for Latin America, which has a huge carry-over debt and a large and increasing deficit in current account in the balance of payments.

In terms of power of decision, technology and external insertion, the effects are linked variables; and national achievements in this field have differed.

9. The studies judge the efficiency-cost-benefit ratio in non-identical terms and, in general, consider it positive, measured in terms of equivalent foreign currency, although it can be improved.

As a general rule, decisive policy criteria were based on maximizing the value of exports, but not the actual value of the mathematical expectation for exports of manufactured goods. Attempts were made to export as much as possible, tending to maximize export flows, although with some geographical preferences already mentioned. The cost-benefit ratio in terms
of foreign currency, considered at the product level, seems to have had certain participation as a criterion for the use of instruments, although not necessarily a decisive one.

Lower bounds to exports by products and/or markets were not generally used, although in a few cases some commitments were set for companies which are beneficiaries of stimuli.

b. Specialization as an instrument for maximizing efficiency outside of traditional manufactures has been sought in cases such as that of the "maquila" in Mexico and the setting up of the network of reciprocal interests with the industrial world by Brazil. Essentially, it seems that the country seeks to export more labour - which is qualified by the industrial activity itself at a higher level than if the activity did not exist - taking advantage of the its lower relative cost in international currency, and as a predominantly external actor and technology.1/ In fact, if a country reduces taxes on this form of work and grants preferential financing for it, it is establishing a sort of special "tax and credit paradise" or, in other words, the country would become a sort of free zone of the activity, and even financially privileged.

10. This raises the need to reconceptualize efficiency, according to the level at which one is working.

Until now, optimizing at the level of the country and qualifying efficiency at national levels, it would be sufficient for the chosen cost-benefit ratio

1/ The solutions of Taiwan, South Korea and Hong Kong - on another scale - would appear to be similar.
of an activity to be higher than one, to ensure positive efficiency and an indication to undertake that activity. But if it were true that the styles of development of Latin American countries are not completely independent each of the other, the efficacy ratios of the different countries would be linked and this also because a country's method of production gains markets which other countries might take advantage of. If such a policy were extended to all the countries of the region, Latin America would become a unique tax and credit paradise, set up by activities of transnational corporations, for using cheap labour. Is this the optimum option for Latin America?

Again, prior definition of the basic values that are to prevail in Latin America appears to be essential.

So far, the competitive alternative has been adopted. It prevailed historically; it was inherent in the use of preference margins in IAFTA; it resulted ex-post from the fact that each country continues to optimize at the national level and admitting only dominant national restrictions; it arose as a result of the fact that each country decided on its own to stimulate "its" exports of manufactures, and also of the fact that each country, acting independently, "captured" the new technology. Although speeches favoured co-operation, deeds brought about competition between the Latin American countries.

The price of that competitive attitude has been heavy, not only in terms of power of decision and economic waste, but particularly in having adopted
a sensorial/consumist style\textsuperscript{1} which is not financeable in the long term except with difficulty, and decidedly unfinanceable by most if not all the countries of the region.

If the co-operative alternative were adopted, it could be optimized at the level of the area and efficacy would increase for all the countries and for each individual country. Of course, in that case the efficacy functional might be positively different and incorporate the capacity to decide on the variables that express technological development and other socio-cultural variables which are naturally absent from a mere foreign currency ratio.

The glimmerings of co-operative alternative were implemented by complementarity agreements - mainly between the LAFTA countries having the largest markets, but always optimizing at the national level, largely with the catalytic presence of transnational corporations and rejecting planned industrialization, as a persistent policy. The Andean Pact, in optimizing at the area level, constituted a transformation-milestone, which is certainly encountering great instrumental difficulties, perhaps because national values continue to be fundamentally competitive.

It would certainly not be reasonable to expect the area to advance at the speed of the slowest country, nor that the struggle for distribution continues preventing concrete action from getting under way. But neither does it appear reasonable to waste opportunities of common benefit, or to encourage a competitive race between the countries of the region in order to grant more benefits, which would principally be enjoyed by companies from outside the region unless Latin American companies are exceptionally dynamic.

\textsuperscript{1} Sensorial inasmuch as it evaluates what enters through the senses. Since it is sensorial in the socio-cultural sphere, it is consumist in the economic sphere.
This is an important point to be evaluated, and the studies made have contributed useful material to clarify it.

11. Efficiency, whether at the national or regional level, should be reliable. This reliability depends not only on the intrinsic capability of the basic values and of the systems set up on them, but also on the way in which the rules of the game are respected in the system; i.e., on the disloyalties.

Until now, the competitive system has legally defined dumping and subsidies as disloyal practices. But these are by no means the only disloyalties committed. The sale of outdated technology, the use of factor prices, the dilution of investments, monopolistic practices, and a number of other actions are also disloyalties. For instance, when a developing country has purchased outdated technology up to a limit which absorbs the difference in labour costs in international currency, it has no other recourse but to grant "stimuli" if it wishes to export. Such stimuli have the outward form of a subsidy, but intrinsically their economic function is merely that of a corrector, which appears to be disloyal but is only offsetting a previous external disloyalty.

Should disloyalties incurred in international relations - and not only in trade itself - be incorporated gradually into a code as they are casuistically mapped? Or else, should an inventory be made now of all the disloyalties, before establishing rules of conduct that can be generalized, to penalize some of them? Logically, it would not be possible to adopt a decision concerning one component of a set without first considering all the
other components and their interactions with the first; as, otherwise, we should be dealing with consequences or formal appearances rather than with the underlying, substantive causes.

The experience of the cases analysed suggests that this type of approximation indicates the advisability of a complete restatement of the problem of disloyalties.
1. Purpose of this chapter

This chapter proposes some topics for discussion which it is believed should be clarified, either before the policy is designed - because they constitute the fundamental conditions of the problem of exports of manufactures or because they form part of the neighbourhood international conditions - or in connection with the policy, because they refer to the instruments it should use.

2. Some topics for discussion

a. Exports of manufactures, considered at a high level of abstraction, are a multipurpose instrument. As regards financing of the economy as a whole, they are, strictly speaking, a dominant restriction.

b. The political, technological, socio-cultural, environmental and institutional fields - at least - have their own optima and, consequently, make requests that the economic field must satisfy. There are, therefore, specific requests of a non-economic nature made to the behaviour of the external sector, in addition to economic requests proper.

c. Exports depend largely on the capacity of integrated competition defined as the result of the capacity of competition generated by the effect of prices, information, marketing, financing, capacity of decision and action, technology and political support, at least.
d. The dominance of the technology factor and its high relative international mobility make the context of the endowment of factors of individual countries very sensitive to the country's "capacity to capture" technology.

e. Production/substitution/export constitute linked variables, both in their conceptual aspect as the macro level, and the operational aspect at the level of specific activities.

f. The possibilities and forms of substitution depend on the style of development and limit those of the subsequent exports.

g. The style of development is an instrument to obtain a certain model; that is to say, a certain interconnected set of attributes of the society aspired, at the national, regional or world level.

h. Foreign trade is one of the basic mechanisms of insertion within supranational level models and styles.

i. The form of insertion in the supranational context forms part of the "national project" of each country, since it constitutes at least a basic condition, and/or a neighbourhood condition, and/or a restriction which in various aspects is dominant for national integrated social development.

j. Every insertion has a certain inertia. The insertions in the technological and commercial contexts, in a certain style of consumption and in a certain structure of ownership of decisions, have a strong and dominant inertia.
k. Styles and models - projects, in short - are based on basic values -
considered in the axiological sense. In relations between Latin American
countries, the essential choice lies in persevering in the value "competition"
prevailent today or in assuming a value "cooperation" in genuine
terms.

l. The value assumed for the intra-Latin American relationship must be
consistent with the option chosen for insertion in the context outside
the region.

m. The action of insertion and the project of each of the countries -
particularly the largest of the area - influence the options of the rest
as regards model and style; in other words, on their national projects.

n. Considering Latin America as a whole, there is a model and style re-
sulting from its integrated social activity which is influenced by many
factors, among them, by the form of external insertion. The fact of for-
mulating a version of a Latin American Project in explicit terms, at worst,
would do nothing more than show one more alternative, which would be a
useful frame of reference for a number of aspects, among others, the
behaviour of the external sector of each country.

c. As long as the countries with food shortages have not the purchasing
power to pay for their imports, the most dynamic world demand in the future
will be for non-traditional industrial production, of more sophisticated
technology. This has the highest relative import ratio in developing countries
in general, and Latin American countries in particular.
p. There are numerous disloyal practices in international relations; dumping and subsidies are not the only disloyalties.

q. The world market outside the region, in perspective, has become less reliable for Latin America, both as regards its rate of growth and its variability.

r. The space of solutions for exports in general, and exports of manufactures in particular, has stricter lower bounds, and less reliable upper bounds outside the region; exports are required by more exacting and precise selective economic and non-economic requests; the cost of leakages of design and implementation of the policy is very important; and it is essential to incorporate learning into the policy in a systematic manner. In view of this, it is an operational necessity to set up the external sector as a system in the strict sense of the word, free from the influence of pre-conceived doctrinal preferences.

s. A fundamental decision is to establish at what level to optimize, and at what level to accept restrictions (world, regional, sub-regional, or national in each case); and it is advisable that this be done in the most explicit manner possible.

t. There are activities for which the optima at supranational level (bilateral, subregional or regional) give higher results for each of the actor countries than the optima of purely national levels.
u. Latin America must identify its own optimum. This constitutes a political act that cannot be delegated to certain actors.

v. Latin America has, in its trade with industrial countries, a structural advantage in the cost of labour in international currency. If it can control the real cost of capital goods, of technology, and of entrepreneur-capital factor remuneration, and if it can capture technology suitable for world competition, it will have a favourable structural capacity of competition due to price-effect.

w. It is easier and more efficient to capture technology on the basis of regional co-operation.

x. The expected rate of growth of the GDP during the coming five-year periods is higher for Latin America than for countries outside the region.

y. The building of a network of intra-Latin American interests is a useful convergent instrument to improve intra-regional distribution in Latin America.

z. There is a lower bound to the national capacity of decision in everything that is significant and relevant. The external sector in general, foreign trade in particular, more specifically exports, and, concretely, exports of manufactures, insofar as concerns this study, have the attribute of being significant and relevant.

aa. There is a lower bound to the speed required to form the critical mass of national and Latin American capacity of decision and action. A deliberate
impulse to accelerate the formation of public and private entrepreneurs - Latin American optimizers, and with a world horizon of decision - would increase the speed with respect to that resulting from a purely spontaneous formative process such as has been followed until now.

bb. The countries need to "conduct" exports of manufacture. Promotion is only one of the partial instruments of conduction.

c. In extremes, the attribute of the first order of conduction is constituted either by successive approximations or by planning.

d. The use of planning with real operational value benefits the achievements and behaviours in the external sector in general, and in exports of manufactures in particular.

e. In mixed societies, genuine participation is required if planning is to have real operational value. This is specifically applicable to the external sector in general and to exports of manufactures in particular.

ff. Exports have a certain optimum diffusion and specialization structure which depends, among other factors, on the ownership of the technology and the trade marks, on international behaviour in the use of such legal ownership, on behaviour in respect of disloyalties, and on the relative mobility of the international and national technological frontier. It does not depend on preconceived doctrinal preferences.

g. Protection/promotion are linked variables. They are both partial sets of instruments and their characteristics depend to a large extent on the
optimum structure of trade.

hh. The basic exchange context must be realistic and flexible.

ii. The use of fiscal and financial promotion instruments is upper bounded; and the more the ratio of exports of manufactures in GDP grows, the sooner will the upper bound be reached.

jj. The establishment or adaptation of institutions should be structured once the goals, the instruments, and a certain optimum distribution of responsibilities are given.
Appendix 1

LATIN AMERICAN EXPORTS OF MANUFACTURES: EXPERIENCES AND PROBLEMS

SOME OVERALL STATISTICS
### Table AI-1

CONSOLIDATED BALANCE OF TRADE OF THE FOUR COUNTRIES STUDIED
(in millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>FOB Exports</th>
<th></th>
<th></th>
<th></th>
<th>FOB Imports</th>
<th></th>
<th></th>
<th></th>
<th>Balance of Trade FOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>1612</td>
<td>2311</td>
<td>608</td>
<td>1430</td>
<td>5961</td>
<td>1596</td>
<td>1903</td>
<td>61</td>
<td>1998</td>
</tr>
<tr>
<td>1970</td>
<td>1773</td>
<td>2739</td>
<td>743</td>
<td>1402</td>
<td>6677</td>
<td>1499</td>
<td>2207</td>
<td>746</td>
<td>2366</td>
</tr>
<tr>
<td>1971</td>
<td>1740</td>
<td>2904</td>
<td>708</td>
<td>1501</td>
<td>6863</td>
<td>1653</td>
<td>2347</td>
<td>815</td>
<td>2315</td>
</tr>
<tr>
<td>1972</td>
<td>1941</td>
<td>3991</td>
<td>674</td>
<td>1861</td>
<td>9667</td>
<td>1666</td>
<td>4232</td>
<td>746</td>
<td>2822</td>
</tr>
<tr>
<td>1973</td>
<td>3866</td>
<td>6199</td>
<td>1232</td>
<td>2631</td>
<td>13328</td>
<td>1978</td>
<td>6102</td>
<td>922</td>
<td>3986</td>
</tr>
<tr>
<td>1974</td>
<td>3931</td>
<td>7951</td>
<td>1509</td>
<td>3560</td>
<td>16951</td>
<td>3217</td>
<td>12635</td>
<td>1392</td>
<td>6254</td>
</tr>
<tr>
<td>1975</td>
<td>2446</td>
<td>8555</td>
<td>1520</td>
<td>2909</td>
<td>15530</td>
<td>3256</td>
<td>18170</td>
<td>1120</td>
<td>6387</td>
</tr>
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</table>

Source: International Financial Statistics
<table>
<thead>
<tr>
<th>Year</th>
<th>CIF Imports</th>
<th>Balance of Trade FOB/CIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>1576</td>
<td>2265</td>
</tr>
<tr>
<td>1970</td>
<td>1694</td>
<td>2319</td>
</tr>
<tr>
<td>1971</td>
<td>1868</td>
<td>3701</td>
</tr>
<tr>
<td>1972</td>
<td>1905</td>
<td>4783</td>
</tr>
<tr>
<td>1973</td>
<td>2235</td>
<td>6999</td>
</tr>
<tr>
<td>1974</td>
<td>2535</td>
<td>14162</td>
</tr>
<tr>
<td>1975</td>
<td>2666</td>
<td>13568</td>
</tr>
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</table>

Source: International Financial Statistics
Table AI - 2

BALANCE OF GOODS, SERVICES AND TRANSFERS
(in millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>-226</td>
<td>-336</td>
<td>-175</td>
<td>-596</td>
<td>-1333</td>
</tr>
<tr>
<td>1970</td>
<td>-159</td>
<td>-561</td>
<td>-293</td>
<td>-1076</td>
<td>-2089</td>
</tr>
<tr>
<td>1971</td>
<td>-388</td>
<td>-1317</td>
<td>-454</td>
<td>-846</td>
<td>-3005</td>
</tr>
<tr>
<td>1972</td>
<td>-223</td>
<td>-1490</td>
<td>-190</td>
<td>-916</td>
<td>-2819</td>
</tr>
<tr>
<td>1973</td>
<td>714</td>
<td>-1757</td>
<td>-55</td>
<td>-1415</td>
<td>-2513</td>
</tr>
<tr>
<td>1974</td>
<td>220</td>
<td>-7179</td>
<td>-350</td>
<td>-2876</td>
<td>-10185</td>
</tr>
<tr>
<td>1975</td>
<td>-1319</td>
<td>-6751</td>
<td>-178</td>
<td>-4056</td>
<td>-12304</td>
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</table>

Source: International Financial Statistics
## Table AI - 3

INTERNATIONAL RESERVES

(in millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>222</td>
<td>-481</td>
<td>-49</td>
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</tr>
<tr>
<td>1970</td>
<td>-134</td>
<td>-552</td>
<td>15</td>
<td>-83</td>
<td>-754</td>
</tr>
<tr>
<td>1971</td>
<td>398</td>
<td>-531</td>
<td>4</td>
<td>-177</td>
<td>-306</td>
</tr>
<tr>
<td>1972</td>
<td>-175</td>
<td>-2482</td>
<td>-122</td>
<td>-210</td>
<td>-2989</td>
</tr>
<tr>
<td>1973</td>
<td>-845</td>
<td>-2341</td>
<td>-172</td>
<td>-144</td>
<td>-3502</td>
</tr>
<tr>
<td>1974</td>
<td>57</td>
<td>984</td>
<td>91</td>
<td>-32</td>
<td>1100</td>
</tr>
<tr>
<td>1975</td>
<td>793</td>
<td>951</td>
<td>-125</td>
<td>-151</td>
<td>1468</td>
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</table>

Source: International Financial Statistics
<table>
<thead>
<tr>
<th>Year</th>
<th>World exports a/</th>
<th>Exports from Latin America</th>
<th>Exports from Argentina, Brazil, Colombia &amp; Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (millions of US$)</td>
<td>Share %</td>
<td>Value (millions of US$)</td>
</tr>
<tr>
<td>1960</td>
<td>70.150</td>
<td>255</td>
<td>0.36</td>
</tr>
<tr>
<td>1965</td>
<td>109.730</td>
<td>613</td>
<td>0.56</td>
</tr>
<tr>
<td>1969</td>
<td>164.950</td>
<td>1219</td>
<td>0.74</td>
</tr>
<tr>
<td>1970</td>
<td>190.030</td>
<td>1537</td>
<td>0.84</td>
</tr>
<tr>
<td>1971</td>
<td>215.940</td>
<td>1888</td>
<td>0.87</td>
</tr>
<tr>
<td>1972</td>
<td>258.760</td>
<td>2540</td>
<td>0.98</td>
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<tr>
<td>1973</td>
<td>346.660</td>
<td>3975</td>
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<td>1974</td>
<td>457.670</td>
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<td>1.30</td>
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</table>

Source: Monthly Bulletin of Statistics: Advance of Special table D, and ECLA.

a/ Includes exports of the 24 countries, excluding Cuba and Haiti.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total in millions of US$</th>
<th>Of these</th>
<th>Total in millions of US$</th>
<th>Of these</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total ind. countries</td>
<td>USA</td>
<td>EEC</td>
<td>Japan</td>
</tr>
<tr>
<td>1965</td>
<td>747</td>
<td>369</td>
<td>261</td>
<td>20</td>
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<td>1970</td>
<td>1,775</td>
<td>937</td>
<td>553</td>
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<tr>
<td>1971</td>
<td>2,136</td>
<td>1,110</td>
<td>651</td>
<td>52</td>
</tr>
<tr>
<td>1972</td>
<td>2,791</td>
<td>1,590</td>
<td>774</td>
<td>89</td>
</tr>
<tr>
<td>1973</td>
<td>4,285</td>
<td>2,280</td>
<td>1,245</td>
<td>214</td>
</tr>
</tbody>
</table>

Industrialized countries include: United States, Canada, Belgium, Luxembourg, France, Western Germany, Italy, Netherlands, United Kingdom, Denmark, Norway, Sweden, Australia, New Zealand, Portugal, Switzerland, Iceland, Ireland, Greece, Spain, Finland, Austria, Japan, Yugoslavia and Israel.

This refers to "developing countries in the Americas" and, for practical purposes, covers Latin America, with slight differences from year to year.

Source: Supplement to the World Trade Annual. Vol.II, UN Statistical Office. Compiled by the Statistical Division of ECLA.
Table AI - 6

VALUE AND PHYSICAL VOLUME* OF TOTAL EXPORTS OF THE FOUR COUNTRIES STUDIED
(in millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>World Export Prices 1970-100</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Physical</td>
<td>Value</td>
<td>Physical</td>
<td>Value</td>
<td>Physical</td>
</tr>
<tr>
<td>1969</td>
<td>94</td>
<td>1612</td>
<td>1715</td>
<td>2311</td>
<td>2459</td>
<td>508</td>
</tr>
<tr>
<td>1970</td>
<td>100</td>
<td>1773</td>
<td>1773</td>
<td>2739</td>
<td>2739</td>
<td>743</td>
</tr>
<tr>
<td>1971</td>
<td>104</td>
<td>1740</td>
<td>1673</td>
<td>2904</td>
<td>2792</td>
<td>708</td>
</tr>
<tr>
<td>1972</td>
<td>114</td>
<td>1941</td>
<td>1703</td>
<td>3991</td>
<td>3501</td>
<td>874</td>
</tr>
<tr>
<td>1973</td>
<td>140</td>
<td>3266</td>
<td>2333</td>
<td>6199</td>
<td>4428</td>
<td>1232</td>
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<td>3931</td>
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<td>219</td>
<td>2961</td>
<td>1350</td>
<td>8655</td>
<td>3962</td>
<td>1520</td>
</tr>
</tbody>
</table>

Source: International Financial Statistics

* Estimated from wholesale prices of United States industrial products.

* Provisional
Table AI - 8
INDEXES OF CAPACITY OF COMPETITION DUE TO PRICE-EFFECT

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>200</td>
<td>155</td>
<td>157</td>
<td>160</td>
</tr>
<tr>
<td>1970</td>
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<td>1971</td>
<td>167</td>
<td>139</td>
<td>153</td>
<td>146</td>
</tr>
<tr>
<td>1972</td>
<td>167</td>
<td>131</td>
<td>141</td>
<td>142</td>
</tr>
<tr>
<td>1973</td>
<td>127</td>
<td>116</td>
<td>120</td>
<td>123</td>
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<tr>
<td>1974</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1975</td>
<td>106</td>
<td>94</td>
<td>91</td>
<td>91</td>
</tr>
</tbody>
</table>

Source: International Financial Statistics. In view of possible differences between definitions in this publication and those of the national studies, there may be discrepancies in figures but not in trends. This source was adopted to ensure comparability. Prices used are wholesale.
Table AI - 9
LIQUIDITY RATIOS AND INCREASE IN IMPLICIT PRICES
FROM YEAR TO YEAR IN THE COUNTRIES CONSIDERED

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Liquidity in implicit prices</td>
<td>Variation in implicit prices</td>
<td>Liquidity in implicit prices</td>
<td>Variation in implicit prices</td>
</tr>
<tr>
<td>1970</td>
<td>17.4</td>
<td>10</td>
<td>15.5</td>
<td>16</td>
</tr>
<tr>
<td>1971</td>
<td>15.4</td>
<td>15</td>
<td>15.2</td>
<td>-</td>
</tr>
<tr>
<td>1972</td>
<td>12.2</td>
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</tr>
<tr>
<td>1973</td>
<td>13.8</td>
<td>60</td>
<td>16.7</td>
<td>19</td>
</tr>
<tr>
<td>1974</td>
<td>17.5</td>
<td>22</td>
<td>16.1</td>
<td>30</td>
</tr>
<tr>
<td>1975</td>
<td>17.2</td>
<td>190</td>
<td>16.9</td>
<td>27</td>
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</table>

Sources: International Financial Statistics (IMF) and Economic Studies of Latin America (ECLA).

Definitions: The liquidity ratio is the quotient of means of payment over gross domestic product at current prices. Means of payment figures are averages, at beginning and end of year, of currency in circulation plus private and official current accounts, and therefore exclude quasi-money. The variation in implicit prices is the percentage change in the index from year to year.