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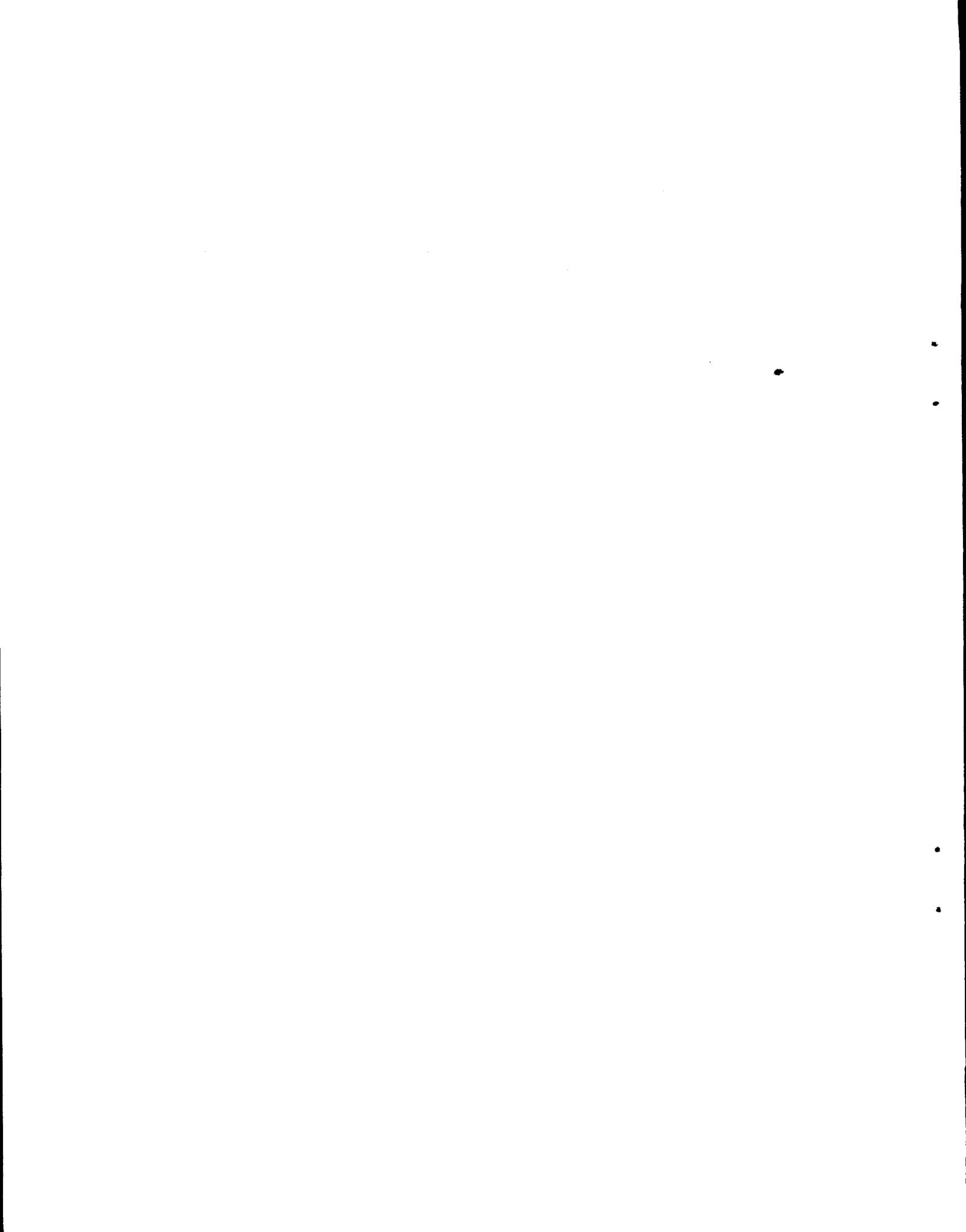
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LATIN AMERICAN DEVELOPMENT IN THE 1980s

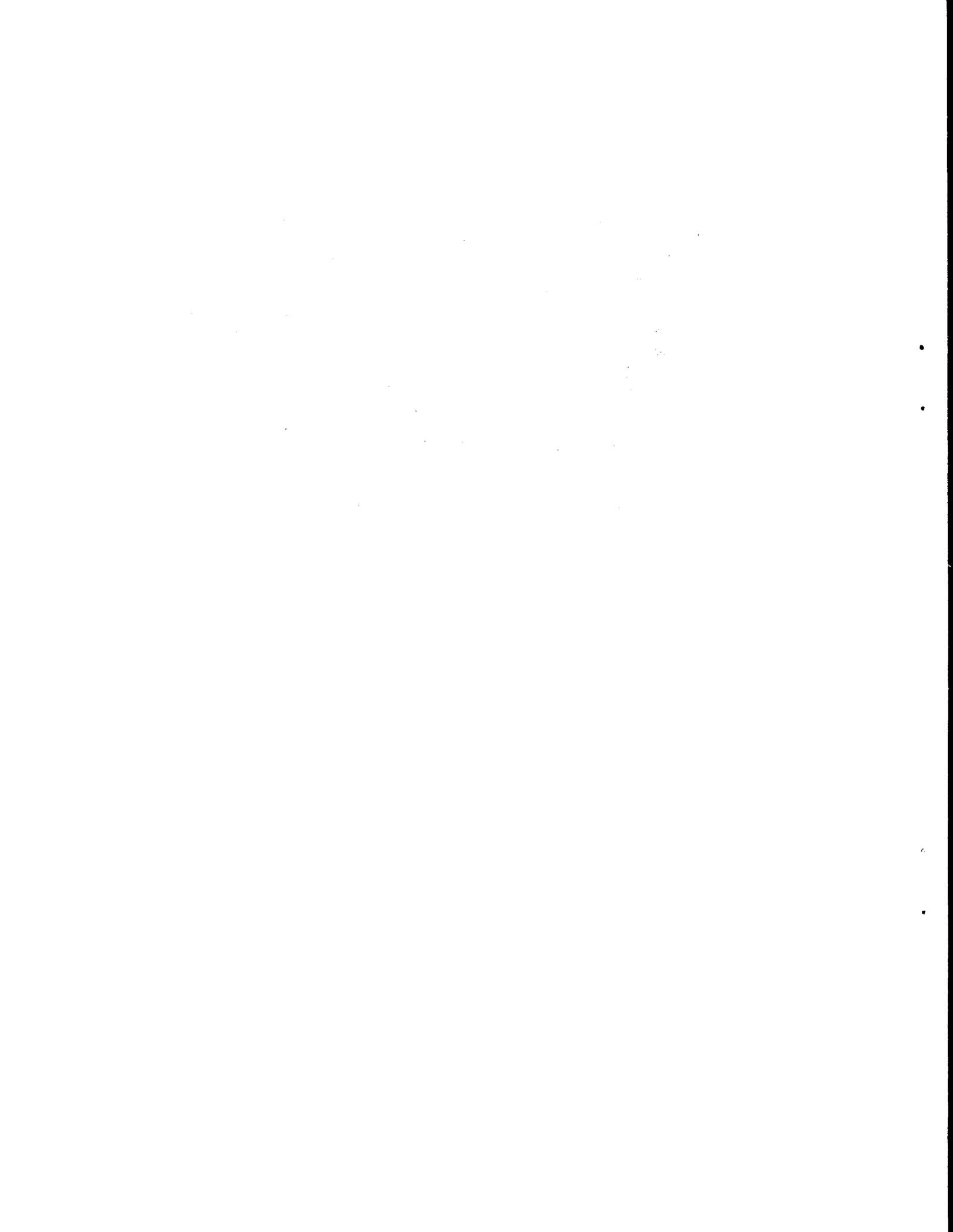


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## INTRODUCTION

1. The purpose of this study is to present a succinct appraisal of the central problems of development in Latin America and a global analysis of the strategies and policies which should be promoted to foster the economic and social progress of the countries of the region. It is difficult to achieve these aims in a satisfactory manner, on account of the variety of situations and prospects to be found in the region. It is not a fruitless effort, however, as it is evident that almost all the countries share major aspects of Latin American development problems which are of great significance for practical action, particularly those relating to the nature and structure of the socio-economic process underway and to the external relations of the countries of the region.

2. This variety of situations refers to the degree of economic development in terms of differences in per capita income and in the extent and integration of industrial development; the growth potential, which depends on a country's size and endowment with natural and human resources; the political and social conditions shaped by varying historical and cultural factors and the variety of circumstances in which the countries became sovereign States; differences in economic and social systems; and the varying degree of viability of strategies and policies even in countries with similar political and social conditions.

3. The effort is further complicated by the substantial changes taking place in objective socio-economic circumstances, the national policies and the regional and international setting, and particularly in fundamental aspects of trends in the developed countries which in one way or another affect the Latin American countries; by the instability and uncertainty stemming from those changes; and by the problems of the availability and rising cost of essential goods such as petroleum which are central to an entire stage of technological progress and of industrial civilization and, favourably or unfavourably, and to a varying extent, affect the countries of the region. Finally, it becomes even more complex on account of the simultaneous action of exogenous factors which, while not new, have become more significant in the present setting; this is true in recent years of the unevenness of world agricultural production, affected by adverse weather conditions.

4. The situation is also imbued with a certain climate or feeling of frustration at both the national and the regional and international levels. The impression used to exist that the stability and rapid growth of the world economy and the favourable trends in the Western countries and in Eastern Europe following the war were largely due to sound decisions regarding the institutional and functional organization of the world economy and to the progress made by economic science and policy which had succeeded in programming or guiding the successful management of national economies and of mutual economic, financial and technological relations among countries. This is no doubt quite true. It is nonetheless true, however, that the events which have taken place in the course of the 1970s

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appear to demonstrate that this expansion of the world economy and the economic growth of the Western industrial countries was attributable not only to experience and to the programming of economic policy but also to favourable conditions for the exploitation and supply at relatively low cost of basic resources such as oil, which their technological development enabled them to use. A similar line of reasoning could be applied, although perhaps more on an interrogative level, with regard to the economic growth of the socialist countries, although the circumstances and experience are different as may be easily understood. Nevertheless, it is well known that limitations in the availability of human resources explain at least some of the present slackening in the economic growth rate of those countries.

5. Clearly, then, the problems under consideration go beyond the methodological field. At the more general level, they are related to the conditions of viability of a style of development which has spread very rapidly in the industrial countries and which is being absorbed by the developing world, raising a serious question as to the structural or conjunctural nature of the present economic and political crisis. At the more specific level with which this document is concerned, the above-mentioned heterogeneity also raises problems for the appraisal and formulation of strategies and policies. Mention may be made of the following:

(i) It is not easy to put forward specific judgements or proposals on development policies which are really valid for all the developing countries. In this connexion, the studies based on statistical data or information referring to a region as a whole tend to reflect the situations and problems of a few large or medium-sized countries, at the expense of the others;

(ii) Substantial differences in economic and social systems also lead to noteworthy differences in the scope and forms of institutions and in the measures which can be applied in practice;

(iii) The general political system and the degree of organization and participation of the different socio-economic sectors have a great effect on power relations and thus on the formulation and instrumentation of policies;

(iv) The participation of foreign investment and the context of external relations may thwart the fully justified aim of national independence in the management of economic affairs; and

(v) Differences in economic and demographic size and in resource endowment have immediate repercussions on the structure of economic growth and the impact of policies.

6. A problem of particular importance which presents many of these distinctive features is that of the strategies and policies which may be formulated for the large and small countries of Latin America. Obviously, the structure of economic growth and the degree of diversification and integration will vary significantly in the two cases, and standard prescriptions in this field will be meaningless. Furthermore, it is fully recognized by the economic integration agreements concluded in the region

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that the small countries, described as being relatively less developed in economic terms, need special or preferential treatment; the same consideration applies to the countries described as having insufficient markets. In this connexion, it is considered that economic integration is precisely what will provide those countries with more favourable conditions for integral development than they could achieve in bilateral relations or in the world market. Again, at the international level these differences have been introduced not only with respect to the relatively less developed countries but also with respect to those suffering from particular balance-of-payments problems and island or landlocked countries.

7. In these circumstances, the analysis must be placed at a level of some generalization. Nevertheless, major problems shared by all the countries obviously do exist, and therefore it is possible to undertake a comprehensive review of the more striking aspects of these and other problems and of their future course, while making the necessary references to peculiar events or circumstances.

8. The study of Latin American development in the 1980s undertaken in this document is concerned with three central tasks. Firstly, it seeks to carry out an economic and social appraisal of the development process, focussing in particular on the identification of current problems; this appraisal leads to the basic conclusion that it is essential to reorient development strategies and policies. Secondly, it considers the elements of this new orientation in the context of an integral, organic approach, indicating certain targets and objectives which Latin America should set itself for the forthcoming decade, particularly in the economic field. Thirdly, it considers more specifically and in great detail the general guidelines for economic and social policy at the global and sectoral levels, and the main aspects of external economic policy and regional co-operation. In short, this study aims to help governments in the preparation of a regional action programme which would help to instrument the new International Development Strategy at the regional level. This would have the effect of integrating national and regional aspects more satisfactorily with the international proposals of the new Strategy.

9. Given the immediate aims of this document, it was not considered necessary to undertake here a detailed analysis of economic and social trends. It was preferred to present the conceptual conclusions of that analysis in relation to the problems as appraised at present. The aim is thus to relate more directly the analysis and diagnosis of current problems and their future trends with proposals on targets, objectives, strategies and policies which a new orientation of the development process should comprise. That is why preference has been given to tackling problems of a more general nature in the context of present developments, without seeking to round off the picture by describing the progress or advances made in various fields of economic and social development since the war. This has been done in lengthier documents presented by the secretariat on the occasion of the regional appraisals of the strategy followed during the Second United Nations Development Decade. Our purpose now is to look ahead on the basis of existing internal and external conditions, rather than to dwell on a description of the past.

## Chapter I

### I. THE CENTRAL PROBLEMS OF DEVELOPMENT

#### A. THE DEVELOPMENT PROCESS AND THE FORMATION OF EXTREMELY INEQUITABLE SOCIETIES

##### 1. Economic growth and social inequity

10. Latin America has obviously undergone a process of economic growth and social change of considerable importance since the war; it is equally true that the nature of that process has led and still leads to the shaping of highly inequitable societies. The forces of production have developed, increasing production capacity and the sectoral and technological transformation of the economy; the productivity of labour and of enterprises has been raised, leading to higher national income; but at the same time the differences and segmentation of society have been accentuated; unemployment and underemployment persist, and a large section of the population still lives in conditions of poverty and even of abject destitution. These and other factors restrict the active economic and social participation of the population and generate powerful sources of instability.

11. The more striking features of the style of development prevailing in the region may be seen in the socio-economic structure, characterized by a high concentration of wealth and income in small segments of the population; a large section of the population living in conditions of extreme poverty; and the often rapid growth of the middle social sectors, a fact with major economic, social and political consequences. Another particularly important feature of postwar development is the process of change which has taken place in agriculture and in its economic and social interrelationships with other activities. The development of a modern entrepreneurial sector and the spread of technological progress in agricultural production are altering the structure and functioning of rural society and integrating it more fully with the rest of the system, while at the same time increasing the differentiation between agro-industry and the traditional or peasant agricultural sector.

12. The determinant or inherent factors of these structures are essentially linked with the concentrative forces of the prevailing economic system, the private appropriation of the surplus and the degree to which it is used to increase ever more diversified superfluous consumption, as well as consumption investment, following the patterns of the industrial countries with a higher per capita income. In particular, this process is influenced by the concentration of the means of production and of land ownership, the rising share of production accounted for by the modern entrepreneurial sector, the growth of the liberal professions and the new employment structure which accompanies economic growth. This process is further accentuated by the high growth rate of the population and particularly of the labour force;

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and also by the lack of economic dynamism, although as the experience of many countries shows, its improvement is not alone a sufficient condition for changing the socio-economic structure to the desirable degree.

13. The latter structure is also related to the structure of intersectoral productivity; and within each sector it is characterized by the significant differences in the product per person employed and in the varying growth rate of that variable. It is also clearly linked with the institutional structure and the structure of power relations, and with the degree of participation of the various social groups: the power relations help to strengthen rather than remedy this inequitable, concentrative and exclusive process.

14. In these circumstances, there are no sufficiently dynamic factors which will spontaneously change the nature of the socio-economic process, at least within the required timespan for the solution of these problems in view of the importance of the social tensions they generate. Consequently, the possible effects of partial policies and measures are limited. The problem must be tackled through integral strategies and policies which lead to the creation of institutional and structural conditions aiming towards the reorientation of the development process to achieve specific social ends. The nature and magnitude of the issues to be tackled may be illustrated by the statistical indicators on income distribution, the extent of extreme poverty and the degree of occupation of the labour force.

## 2. Extremely unequal income distribution

15. The pronounced inequality in income distribution may be appreciated in the studies by the secretariat based on the latest figures available at the beginning of the 1970s for a group of ten countries. Despite the time which has elapsed, these figures may be considered as still representative of the fundamental aspects of the present situation.

16. These studies show that family income distribution varies appreciably from country to country. In general terms, the countries with a higher per capita product have less unequal structures in the family income distribution. This is more evident in the case of the size of the share received by the social group comprising the top 10% of families.

17. Interpolating the theoretical distribution corresponding to the set of these countries gives the following results for personal income distribution: (i) 10% of families account for 44% of total income; (ii) the bottom 40% of families receive only 8%; and (iii) the middle 50% of families receive the remaining 48% of income.

18. Although there are no complete studies on this question, it is broadly estimated that in most cases tax policies and access to and distribution of State services, as well as other specific measures, do not appreciably alter these distribution patterns. On the contrary, a good part of such services and other subsidies largely end up benefiting the middle or upper strata.

19. In any event, it may be seen that the dynamism and characteristics of the economic process are fundamentally influenced by a small section of the population which receives a large proportion of income. Thus, for example, the 20% of families with high incomes account for between 55% and 65% of total personal income.

20. These forms of inequality in themselves represent situations of extreme inequity and profound social instability, and this is aggravated by the high proportion of the population whose income is not sufficient to meet their basic needs.

### 3. The magnitude and extent of poverty

21. According to studies by the secretariat on the basis of data for the early 1970s, 40% of families in the region were living in poverty, in that their income was not enough to cover a budget of essential needs. This figure would then have amounted to 110 million people, and in the best of cases this absolute figure will have remained the same. As the percentage varies from country to country, in some the relative size of poverty is smaller and in others much higher than this average. Obviously, the countries with higher per capita income or a less unequal distribution have a smaller proportion of their population below the poverty line.

22. The proportion of poor families is much greater in rural areas, accounting for almost two thirds of all the poor. The remaining third is to be found in the peripheral urban shantytowns; they consist of landless workers, members of families living from subsistence farming and underemployed low-skill wage-earners. In the urban areas, these families are connected with personal services and trade; they comprise own-account workers and unemployed or underemployed persons with very low incomes.

23. The seriousness of these situations is all the more patent bearing in mind that the families living in destitution, in other words, those whose incomes are not enough to cover the expenditure required to receive an adequate diet, represent 20% of the total population and about half the poor population. Naturally, here again the percentage varies from country to country.

### 4. The problem of unemployment

24. As is all too well known, these poverty situations are connected with unemployment and underemployment. It is estimated that in the region as a whole unemployment and underemployment affect the equivalent of 28% of the economically active population. It is highly probable that the situation has worsened since the mid-1970s on account of the slackening economic growth rate in many countries. Open unemployment is very high in many countries, affecting a relatively constant proportion of the labour force, estimated at about 6% for the region as a whole. Much larger is the size of the population which is underemployed or receives an income below a pre-established minimum. This is estimated at 22%, more than half of whom live in rural areas. Naturally, the structure of poverty situations is to some extent similar to that of unemployment.

## 5. Final considerations

25. A central topic which should be studied is that of the relations between the economic growth process, the distribution of income, situations of poverty and the level of employment. The information on these subjects in the region is only partial. However, bearing in mind the many studies made of the interrelations of these variables in Latin America and other regions, some conclusions may be advanced.

26. In the early stages of economic development the personal distribution of income in the economy as a whole tends to be concentrated, the share of the social groups in the lower levels declining while the proportion of income received by the upper income groups and some of the middle upper groups increases. At more advanced stages, the proportion of income received by the lower levels tends to rise; in other words, their average income rises more than the average income of society as a whole.

27. This may be explained, inter alia, by the changes taking place in the employment structure and wages during the economic growth process. In that process a major role is played by the degree of inequality or concentration in each of the economic sectors, the differences in average income in each sector and the size of the corresponding active population. In Latin America, it might be expected that with the drop in the relative importance of the active population connected with agriculture the proportion of income received by the lower strata (40% of the total population, for example) should tend to rise. Apparently, however, this is not happening.

28. The explanation may be found in the following aspects: (i) in each sector the distribution tends to become concentrated because of the changes resulting from the modernization process and the persistence of a large amount of redundant labour; (ii) the income gap between the different sectors, and particularly between the agricultural sector and other activities, has not declined or at least not a sufficient extent to influence the global distribution; and (iii) while the proportion of the active population in the agricultural sector is declining, at the same time the high proportion of the active population in the traditional or peasant agricultural sector is increasing or remaining the same, and emigration from rural zones helps to increase or maintain the large proportion of the urban active population in marginal activities, with low productivity and very low incomes.

29. Thus, there prevails a strong structural rigidity towards any policy aimed at improving the distribution, because the latter depends partly on a decline in the unemployed population or those underemployed with very low levels of productivity in traditional rural activities and in the marginal urban sectors. In other words, the proportion of employment in the sectors of rising productivity and higher remuneration must be increased. What is needed, therefore, is deliberate, appropriate political action and an accelerated economic growth rate, as well as greater training of the labour force.

30. The proportion of the population living in poverty, in other words, receiving an income which is too small to meet a pre-established budget of essential goods, has in all probability tended to decline with the process of economic growth; however, the absolute size of that population has not necessarily declined, but in fact would appear to have increased, as may be inferred from some partial recent studies.

31. Two comments are called for here: firstly, this process is relatively slow, as has been verified in countries where economic growth has been comparatively strong; and secondly, a long-term analysis should include the concept of relative poverty, since from the standpoint of a social appraisal it is neither logical nor correct to assess the situation of a social sector in terms of an unchanging minimum income while per capita income of the other social groups is rising to a significant extent. The study should be rounded off by considering, for example, a poverty line which rises in a fixed proportion with average total income.

32. If this criterion is adopted, the foregoing conclusions can no longer be reached concerning the relative decline of poverty. Instead, it seems that according to historical data from some countries the average income of the upper strata is rising in both absolute and relative terms by much more than the average income of the social sectors in the lower strata. In other words, while the poor low-income sectors have benefited only to a meagre extent from the economic development process, the middle-upper and top income sectors have received the bulk of the rise in income stemming from economic development.

33. It is therefore clear that the indicator which reflects average per capita income trends for society as a whole is not a satisfactory indicator of the evolution of social welfare, as in the final analysis it tends rather to reflect the growth of income per capita or per person employed in the upper social strata. Other, more representative indexes of social welfare should be developed.

34. The question should now be raised of the region's experience in the field of employment. Unquestionably, judging by the size of unemployment and underemployment as well as by the extent and seriousness of poverty, it may be said to be far from satisfactory. This is the consequence of at least three major factors, namely: the relatively high growth rate of the economically active population, modernization and the incorporation of technological progress, and the pace of the economic growth.

35. The supply of labour has grown in most Latin American countries at an extremely high rate in comparison with the past experience of the industrialized countries. This is compounded by the large unemployed or underemployed population of active age. In these circumstances, the modernization process has proceeded by incorporating methods and techniques developed, at least hitherto, for situations with the typical endowment of resources and other factors of the developed countries, which are significantly different from the conditions prevailing in the region. These

/techniques continue

techniques continue to replace labour and increase capital density. The effects are obvious on the supply of jobs in the developing countries, where modern technology is adopted at a time when a very high proportion of the economically active population is linked with traditional activities in the rural sector and marginal or low-productivity activities in the peripheral urban sectors.

36. Despite the insistence on the need to create appropriate technology or adapt the techniques of the industrialized countries in the interests of a greater absorption of labour, powerful forces support the application of designs and processes available in the market or distributed by production enterprises. In these circumstances, the rate of economic growth must be much higher to bring about the necessary absorption of labour to avoid any worsening of employment problems, and higher still if the aim is also to improve the employment situation for society as a whole.

37. It is interesting to review some concrete aspects of this problem on the basis of the latest statistical data prepared by the Regional Employment Programme for Latin America and the Caribbean (PREALC). Employment in the organized sectors of modern urban activities has grown appreciably, perhaps at an annual rate twice that of the total growth of the economically active population. There has also been some slight growth in employment in entrepreneurial agriculture. However, the effect on total employment of the rapid rise of employment in the urban sectors and perhaps in the modern agricultural sector has been relatively limited due to the fact that much of the economically active population is connected with traditional or peasant agricultural activities and with the marginal sectors of urban activities.

## B. THE DROP IN THE ECONOMIC GROWTH RATE: RECOVERY AND INSTABILITY

### 1. Economic growth and external sector trends

38. In order to appreciate the conditions characterizing the economic development of the Latin American countries at the onset of the 1980s, and to appraise the nature of the problems to be faced, it is worth making a brief reference to the experience of the past decade. During that period, the economic growth of the Latin American countries varied considerably, with highly significant changes in rates and structures. The process was strikingly dynamic in some countries but comparatively slower in others, and broadly speaking the region passed from a boom period to one of particular weakness, followed in recent years by moderate recovery in a climate of great instability and uncertainty, particularly for the non-oil-exporting countries.

39. The growth rate of the region as a whole during the 1970s (somewhat less than 6% a year) shows that in practice the region continued with its past moderate dynamism, without the increase which might have been expected given the more favourable experience of the early years of the decade. This was the result of the fall in the growth rate after 1975; and despite the recovery in some years, 1975-1980 formed the period of lowest growth since the war. During the second half of the 1970s, the oil-importing countries had to tackle balance-of-payments problems caused primarily by the worsening of the terms of trade and the extraordinary rise in the cost of fuel imports; in most cases, they sought to adjust to the new circumstances, and strove to maintain some growth.

40. The course of the world economy and particularly trends in the industrial countries, with which Latin America maintains most of its external relations, particularly influenced this rise and fall of the growth rate, and the serious problems affecting the world economy have had clear effects and repercussions on the situations and prospects of future growth of the Latin American countries. Consequently, it is of particular interest to recall, albeit summarily, the cycle of these interrelations between internal and external factors in order to gain a better understanding of the nature of the problems currently facing Latin America, and thereby shed light on the essential aspects to be taken into account by the strategy or policies aimed at stepping up the economic growth rate of the 1980s.

41. The 1970s may be divided into three clearly identifiable periods namely: (i) the boom in the early years of the decade, which was partly the continuation of a process that had begun in the late 1960s; (ii) the crisis of the economic growth rate in the mid-1970s; (iii) moderate and unstable recovery from 1975 onwards.

42. During the first four years of the 1970s the economic dynamism of the region as a whole increased and the annual growth rate of the domestic product amounted to over 7%. While this growth was basically determined by a very small number of countries, the improvement was nonetheless widespread and to a varying extent affected most of the countries of the region. Particularly important among the dynamic factors were national policies directly aimed at boosting economic growth, as well as buoyant external demand stemming from the favourable trends in the economies of the developed countries until 1973. The improvement in the terms of trade and the more flexible availability of external financing also contributed to the process. This experience showed that when external conditions are favourable the region is capable of setting off a very wide-ranging dynamic process of investment and real growth of the economy.

43. In 1974 the Latin American economic picture and the course of the world economy changed appreciably. The oil-exporting countries enjoyed a significant rise in oil prices and this led to higher real income and a greater import capacity. On the other hand, the non-oil-exporting countries were faced with weaker external demand due to the economic recession in the developed countries, at the same time as a worsening of their terms of trade. During that year investment and the domestic product continued to

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expand in these countries, together with a considerable rise in imports. This led to a large current-account deficit in their balance of payments, which they covered partly from their monetary reserves and partly with external financing.

44. In 1975, the worsening of external conditions led to a significant drop in the import capacity of the Latin American countries, and despite the contraction or adjustment of imports the current-account deficit in the balance of payments rose above the high figures recorded in the previous year. The economic growth rate plummeted to 3%, virtually the same as the growth in population.

45. As of 1976 the economic process was characterized by marked instability and difficulties in all-round recovery. The economic growth rate was very uneven, varying considerably from country to country; the average annual rate in the period 1975-1980 was 5%. This average is heavily influenced by a very small number of countries, such as Brazil and Mexico, which raised the average while most countries continued to experience more difficult conditions of extreme external vulnerability and a low historical growth rate.

46. It is quite clear, then, that external sector developments directly affected the course followed by the Latin American countries, to a varying degree and in one direction or another. This is not to overlook the fact that domestic policies have been the other major factor in the acceleration or weakening of economic growth. In practice, circumstances in the mid-1970s led to a rise in external indebtedness with subsequent repercussions, particularly through the effect on the balance of payments of servicing that debt, which thus created a new kind of external vulnerability.

47. Broadly speaking, it may be said that out of a number of options the policy adopted by most governments had the fundamental objective of promoting suitable conditions for avoiding a recession or a drastic drop in the economic growth rate. They continued with their export promotion policies and increased external indebtedness to cover import needs.

## 2. The growth of exports and economic trends in recent years

48. A noteworthy aspect of recent trends was the growth in the volume of exports of almost all the countries of the region. The average growth rate was much higher than the historical rate, and even higher than the rate during the early years of the previous decade. This was influenced by the policies followed by the Latin American countries deliberately to promote the growth of exports; the rise in world demand thanks to the upturn in the economic growth rate of the industrial countries following the recession of 1975, although without attaining pre-recession levels; the external demand for building up stocks as well as speculative factors in a climate of world inflation; declining costs because of the devaluation of the dollar; and the favourable conditions which developed with the greater competitive capacity of the developing countries, and above all of the Latin American countries, particularly in branches of light industry and primary commodities with some degree of processing, which gave rise to large flows of non-traditional exports.

/49. Nevertheless,

49. Nevertheless, the greater volume of exports did not suffice to attenuate the serious balance-of-payments problems of the oil-importing countries, for a number of reasons:

(i) The rise in the value of imports, caused particularly by inflation in the industrial countries and the higher oil prices for importing countries. In these countries, fuel imports rose significantly as a proportion of total imports or of current foreign exchange earnings. Thus, for example, the value of net fuel imports in 1973 represented 8.4% of total imports of goods, rising to 23.8% in 1979;

(ii) The worsening terms of trade;

(iii) The widespread inflation in the industrial countries which raised the prices of manufactured goods imported by the developing countries;

(iv) The higher cost of servicing the mounting debt and the rise in interest rates;

(v) The need to recover specific import levels, following the decline in the mid-1970s, in order to underpin the growth of the domestic product;

(vi) The need to keep monetary reserves up to certain levels, which were rising due to world inflation and the nature of the capital inflows destined for short-term investment or the financing of private enterprise.

50. In these circumstances, the non-oil-exporting countries managed shakily to maintain some rate of growth, or increase it in recent years, and their external vulnerability has increased. This may be seen in the large current-account deficits in the balance of payments, which for the non-oil-exporting countries represented 3.4% of the product and 13.8% of domestic capital formation in 1979; in the high proportion of current export earnings which the servicing of the debt and profits of direct investment represent, amounting to 44.5% in 1979; in the size of the external debt; and finally in the worsening of the terms of trade, on account of the rise in the prices of imports of manufactures, and particularly of petroleum.

51. There are no signs in the short term of fundamental changes which may enable the Latin American oil-importing countries to overcome this situation, in the absence of major changes in the institutional organization and in the structure and functioning of the world economy as well as in national policies.

52. In the first place, there is some agreement at the technical and political levels that the growth rate of the industrial countries which currently account for two thirds of Latin American exports will be slight in the coming year, and that its subsequent recovery will in any event attain an average rate significantly lower than that achieved by those countries until 1973. The socialist countries too are expected to have a much lower growth rate than in the past. The conclusion may therefore be drawn that the demand for imports from the developing countries, and particularly from

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Latin America, will grow slowly, and that the real prices of commodities or commodity products with some degree of processing will not be buoyant, unless there are adverse weather conditions for agricultural products. Consequently, what is most likely is that the non-oil-exporting countries will continue to see a decline in their terms of trade in the coming years, inasmuch as inflation persists in the industrial countries and the real price of petroleum rises.

53. The resurgence of protectionist measures in the industrial countries will strengthen these tendencies, by limiting access to those markets for various branches of manufactures of particular interest to Latin America, in which it has a real or potential capacity for increasing output with a view to expanding exports.

54. With regard to the use of external financing, which in recent years helped to sustain the economic growth rate, various situations may be foreseen which may entail serious difficulties for continuing to channel towards the developing countries the funds available in the financial markets and the large surpluses which will accumulate in the oil-exporting countries. Clearly this conjunction of various elements represents a highly unfavourable scenario and probably will not occur quite so intensely. However, this identification of the trends and problems affecting the major external variables of economic growth, to which we will return later, is very useful for pointing out the fundamental issues to be considered in connexion with the instrumentation of a new international economic order, which the new IDS seeks to promote.

### C. ENERGY

55. Latin America has abundant resources of the three traditionally most important forms of commercial energy; hydrocarbons (petroleum and natural gas), hydroelectricity and coal; but they are distributed very unevenly in the region. The sources of hydroelectricity are important and more uniformly distributed. This is not true of hydrocarbons or coal, the known reserves of which are heavily concentrated in a few countries. In the case of oil, for example, almost 80% of reserves are to be found in Venezuela and Mexico, and the picture is much the same for coal, as Colombia and Mexico account for 60% of known reserves.

56. In contrast, the structure of demand for energy in all countries is fundamentally based on petroleum. Although only five countries produce sufficient oil to meet their needs, the region's consumption of this fuel represents more than 60% of total commercial energy used in the region. Adding the consumption of natural gas to that of petroleum, as it is generally obtained in association with the latter, the total consumption of hydrocarbons represents 75% of total energy consumption. Hydroelectricity, on the other hand, is only used to a limited extent in relation to its production potential, and the importance of coal as a source of energy is even smaller.

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57. Thus, in most countries there is a striking difference between the structures of energy supply and demand, leading to heavy dependence on imported oil to satisfy domestic needs.

58. The dynamism and the productive and technological changes which have characterized economic development since the war may be clearly appreciated in the rise in energy consumption and in the changes in primary energy sources. In the long term (1950-1975), total energy consumption in the region as a whole grew at a rate of approximately 5.5% annually, or in other words in line with the growth of the gross domestic product. On the other hand, the consumption of commercial or modern energy grew much more rapidly than the domestic product, at a rate of nearly 7% annually. This process originated in the major changes which took place in energy sources, as a consequence of technological progress and in particular the structural changes in production and domestic demand accompanying economic development. In 1950, the output of traditional non-commercial sources satisfied nearly 40% of total consumption in the region as a whole, as against only about 15% in 1976.

59. In contrast with what occurred on the consumption side, commercial energy production grew by only 4% annually in the period 1950-1975. As a result of the difference between the two trends, there was a relative decline in Latin America's exportable surplus. Thus, in 1950 the region consumed as products 27% of its petroleum output and 17% of its natural gas production; in 1975 these percentages had risen to 57 and 43%, respectively. Thus the region continued to be a net exporter of fuels, although the trend was towards a rapid dwindling of its exportable margins. Subsequently there has been a tendency towards a change in this situation, with the growth of output and new export flows, primarily from Mexico.

60. The situation and prospects differ considerably from country to country, and this is particularly affected by the large share of hydrocarbons and the weight of such imports in the supply of domestic needs. A classification of countries according to their degree of dependence on oil imports shows noteworthy differences. On the one hand, there are the net oil-exporting countries; and on the other, the importers, where the share of imported oil in total consumption varies considerably from one country to another.

#### D. ASYMMETRY AND VULNERABILITY IN EXTERNAL ECONOMIC RELATIONS

61. During the 1970s a profound change took place in the forms of insertion of Latin America in the world economy, and its process of internationalization and of linking up with the industrial market economy countries grew stronger. Transnational corporations played a preponderant role in this process, as did private international banks on account of their importance as a source of external financing for Latin American countries. The governments have followed policies of greater openness to the exterior in various economic, financial and technological fields. Concrete signs of these new relations and problems are to be seen in the participation of transnational corporations; in the

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pace and composition of external trade; in the trends in the terms of trade; in the scale of external financing and the sources providing it; and in the degree of external indebtedness.

62. The transnational corporations have an important share in manufacturing output. They dominate the key sectors of greater dynamism and technological progress, particularly in the chemicals, basic metals, engineering and automobile industries. They have a smaller participation in traditional industries where national enterprises weigh more heavily. The bulk of their operations is directed towards the domestic market, and less to exports. They are the channel for a significant proportion of imports, of external financing and of the incorporation of technology by the countries of the region. In these circumstances, the action of the transnational enterprises must evidently be in keeping with the development policy adopted by national governments. Consequently, fixed rules of conduct must be established for the transnational corporations in order to secure that compatibility. At the same time, it will be necessary to promote new forms or machinery leading the transnational corporations to co-operate more closely with the policies and plans or programmes decided on by national governments.

63. Exports have become diversified through the effects of two processes. Exports of manufactured goods have increased, amounting to 20% of total exports for the region as a whole, but this rise was not evenly spread, tending to be concentrated in the group of large and some medium-sized countries, where the percentage was higher. At the same time, national exports of primary commodities were diversified, and new flows of agricultural and mining products began to acquire considerable importance. Thus, the effects of industrialization and of production changes which have been taking place for some time in the Latin American economies have begun to extend to exports.

64. In recent years, and particularly since the recession of 1975, Latin American exports expanded rapidly until they attained a growth rate which may be considered relatively high, in the context of trends in the entire postwar period. This process was affected by the growth of the industrial or agricultural production capacity created in past years, and especially by the deliberate export-promotion policies which were even more active in recent years on account of the pressure of balance-of-payments problems. With the exclusion of Venezuela, whose exports declined or remained constant, the volume of exports of goods and services of the Latin American countries as a whole showed an annual average increase of 8.9% during the period 1977-1980.

65. In the late 1960s a trend towards greater liberalization of imports became visible, which in a large number of countries represented a new stage of economic policy that was clearly different from the situation in the 1950s and early 1960s. At the beginning of the 1970s, with the support of greater external financing, the ratio of imports to the domestic product tended to rise. In the second half of the decade, however, on account of the balance-of-payments problems plaguing many countries, the coefficient tended to decline, but then latterly to rise again in the context of a more liberal policy.

66. The composition of imports is particularly significant for prospective studies. In the first place, they consist largely of intermediate products, fuels and capital goods, so that the total demand for imports is closely linked with the course of domestic production and investment. Secondly, the value of imports of fuels, lubricants and other petroleum products has increased appreciably in most countries, as a result of the need for bigger foreign supplies and of the rise in prices, and represents a growing proportion of current foreign exchange earnings.

67. Despite the progress made in the diversification of exports, and particularly the inclusion of manufacturing branches, the foreign trade structure of Latin America continues to be typical of the developing countries. Firstly, although more diversified in all branches, exports contain a high proportion of primary commodities with a varying degree of processing, and a relatively small proportion of manufactures. On the other hand, imports consist mostly of fuels and manufactures, including essential intermediate goods and capital goods, on which economic activity in general and the formation of production capacity in particular depend. In addition, the small proportion of non-manufacturing imports often consist of foreign supplies of food products, of particular importance for many countries. Clearly, the composition of imports will be different in the case of countries which have adopted liberal policies with a high degree of openness to the exterior.

68. This leads to an uneven structure of external economic relations which the protectionist policies adopted by the industrialist countries tends to perpetuate. In other words, imports consist of fuels and the goods essential for maintaining and increasing economic activity and the growth process; while exports contain a small proportion of manufactures, which must be expanded in order to achieve a more balanced structure in trade relations and particularly in the faster growing areas of world trade.

69. In the inflationary context dominating the world economy, the prices of commodities and manufactures have not developed at all uniformly either in general or within their component branches, with the result that the effect of variations in the terms of trade has varied in intensity and impact among the Latin American countries. As is well known, the terms of trade of the oil-exporting countries improved during the decade, in comparison with the markedly low level of the previous decade. In the non-oil-exporting countries, on the other hand, the terms of trade have worsened in recent years, although to a varying extent. Taking these countries as a whole, it may be seen that the improvement in the terms of trade favoured them for a relatively short period, particularly in the two years 1973-1974; but their position subsequently began to deteriorate and the index of the terms of trade of goods and services in the last two years is significantly lower than at the beginning of the 1970s.

70. There has been an enormous change in both the amount and sources of external financing in Latin America. The deficit on the balance-of-payments current account of the group of non-oil-exporting countries has risen considerably, amounting to an average of 3.3% of the gross domestic product in the 1970s, well above the 1.9% average recorded in the 1960s. Inflows of foreign finance tended in many countries to be well above the current-account deficit and helped to increase foreign currency reserves, except in 1980 when the balance-of-payments current-account deficit increased considerably and the countries financed part of it with their reserves.

71. Another striking aspect is the fundamental change in the sources of financing. During the 1950s and early 1960s, the bulk of capital flowing into Latin America was official long-term capital, and consisted partly of direct investment. In contrast, in the 1970s a large proportion consisted of private bank and commercial sources, for the short or medium term, bearing rising interest rates. Consequently, the burden of financing the external debt has risen with respect to the national income and the current value of exports. In addition, there is growing concern about the possibilities of continuing with this system of financing, due to factors linked with the functioning of private banks and the management of the debt by the borrower countries.

72. The result of this process has been an appreciable increase in the external debt, rising from 10 billion dollars in 1965 to about 150 billion dollars at the beginning of 1980. In brief, a situation of external vulnerability has arisen which is of particular significance for the future course of economic growth.

73. The economic integration agreements have run into difficulties and in most cases have failed to achieve the targets and objectives they had set themselves. Nevertheless, significant progress was made in multinational investment in infrastructure, particularly in the energy field, as well as in the expansion and diversification of intra-regional trade; the proportion of total exports going to countries of the region has increased, and includes a larger amount of manufactures - intermediate and capital goods - than exports to other areas; in the case of some countries, these trade flows have represented a significant growth factor in specific branches.

## Chapter II

### II. TOWARDS A NEW ORIENTATION OF DEVELOPMENT

#### A. TOWARDS A COMPREHENSIVE AND INTEGRAL SET OF PROPOSALS ON ECONOMIC DEVELOPMENT AND SOCIAL CHANGE

74. Thus, three central aspects are to be distinguished in the development problems affecting the region. Firstly, and at the most general level, there is the existence of extremely inequitable societies with high concentration of wealth and income, high levels of unemployment, and the persistence of poverty which affects a substantial sector of the population. Secondly, there is the decline in the economic growth rate observed in most of the Latin American countries, the recovery from which is conditioned by factors of instability and uncertainty largely related with external variables. Thirdly, there is the imbalance still being recorded in the external trade structure on account of the differing flows of imports and exports and the unfavourable evolution of the terms of trade of the non-oil-exporting countries, together with the growing external indebtedness, with its material and financial effects on real national income, and the deterioration in the balance-of-payments situation. All this goes to make up a situation of extreme vulnerability and instability as regards the economic growth process.

75. These are consequently aspects which concern the structure and functioning of the economic and social process, which are inherent to that process, and whose solution calls for institutional and structural changes at the domestic level and in the world economy capable of bringing about a new form of functioning of the economy and society in order to attain specific objectives. In this respect, the experience of Latin America and other developing areas clearly indicates the aspects and problems which warrant special consideration in the enunciation of development strategies and policies aimed at promoting economic growth and social welfare in the framework of more equitable societies.

76. Among the objectives and conceptual aspects which should form part of a development strategy, particular reference may be made to the following:

(i) speeding up the growth and productive and technological evolution of the national economies;

(ii) promoting the equitable distribution of national income and eradicating situations of extreme poverty in the shortest possible space of time;

/(iii) formulating

(iii) formulating a suitable economic policy designed to attain certain conditions permitting the control or avoidance of inflationary processes;

(iv) promoting change in the structure of external economic relations and achieving satisfactory conditions as regards the performance of the external accounts of the balance of payments;

(v) stimulating the active economic, social and political participation of the various social sectors in the economic and social development process and ensuring the welfare of children, the participation of young people, and the integration of women;

(vi) preserving the quality and increasing the use potential of the environment in order to improve living conditions and lay the foundations for a type of development which can be sustained in the long term;

(vii) preserving and stimulating cultural authenticity and identity and the development of independent life styles, and

(viii) maintaining sovereignty over national resources and autonomy in the management of the development process.

77. The formulation of a strategy incorporating these diverse elements, along with other related objectives and concepts, undoubtedly represents an extraordinary challenge to the existing knowledge and experience on economic and social policy, and the application of such a strategy will furthermore represent a delicate political task.

78. The acceleration of economic growth and productive and technological change is essential in order to strengthen the national economies and lay suitable foundations for facilitating the execution of a social policy. In particular, the intensification of economic growth is necessary in order to increase the production capacity of the labour force, promote accumulation and facilitate the application of policies aimed at improving income distribution and resolving situations of extreme poverty through the active incorporation of the labour force into high-productivity activities. Economic development is thus a necessary but not of itself sufficient condition for achieving certain objectives connected with better distribution of the fruits of economic growth and the eradication of poverty.

79. In the conditions currently prevailing in Latin America, the technological structure of the economy, the distribution of assets and wealth and the power relations between the different social groups create situations of resistance and inflexibility in the determination of the primary distribution of income.

80. This distribution can be altered by the action of other factors, especially the collection of resources by the State through the tax system, the distribution of such resources in the form of personal remuneration and various types of transfers, and the access of the various social groups to the goods and services produced by the State.

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81. There is no specific information available in Latin America which makes it possible to determine with reasonable accuracy the differences observable between the distribution before and after the payment of taxes. According to some partial investigations, it would appear that the distribution of family income after the payment of taxes and the allocation of goods and services to those sectors which benefit from them is not significantly different, especially in the case of the poorer groups. Indeed, it would appear that either directly or indirectly the goods and services provided by the State, and even infrastructural works, tend to heighten the inequality of distribution, since these services are enjoyed to a large extent by the middle and high sectors, and only to a lesser degree by the poorer sectors located at the lowest distribution levels. Thus, the middle and high sectors receive compensation for the taxes they pay, even when these are levied in accordance with a progressive system.

82. The fact is that the determination of the nature and scope of the concrete measures which should be taken to improve income distribution depend largely on the particular economic, social and political conditions of each country. It is, however, possible to indicate some basic aspects or principles which hold good for the different situations to be observed within the economic and social system prevailing in the region.

83. One of these aspects concerns the so-called "distribution struggle". Any measure tending to improve the participation of a social sector or group will bring a reaction from the other sectors who consider themselves adversely affected by it, thus frustrating the aim of improving the distribution. This is what happens, for example, when a wage increase is simply passed on to prices by the entrepreneurs so as to maintain their share of the real income.

84. The second aspect concerns the relations between income distribution and economic growth. Clearly, the redistribution of income in favour of sectors which have a lower propensity to save than other sectors can finally result in a drop in accumulation and a subsequent decline in the economic growth rate.

85. It is therefore necessary to design a policy which, while tending to reduce the tremendous differences in disposable income between the various social groups, will promote increased accumulation and thus raise the production capacity and the efficiency of the economic units. What is involved is the reconciliation of better income distribution with faster economic growth, so as to avoid the frustrations to which much past experience bears witness. Naturally, various kinds of policies can be proposed in this context, provided that their end-result is to contain or reduce the consumption of the upper groups, which concentrate in their hands a large proportion of the income. This would increase the resources available for investment in physical and human elements and promote more employment at higher levels of productivity and income. In addition, of course, institutional and structural reforms are needed in respect of other basic aspects such as access to the land and agrarian reform.

86. The eradication of poverty situations within a reasonable length of time has more concrete significance than the proposals regarding the improvement of income distribution. In reality, these objectives are of broader scope and incorporate the objectives concerning poverty.

87. The magnitude of poverty situations may be associated with two basic elements: the size of the average income of the society as a whole, and the family distribution of that income. In countries with low average per capita income, a high proportion of the population generally have incomes below those considered necessary for satisfying their essential needs. In contrast, the proportion of poor is usually smaller in societies with higher average per capita income.

88. The investigations which have been made, albeit on the basis of incomplete data, seem to show that the proportion of poor in the total population tends to go down with economic growth, but because of the high rate of population increase this reduction does not necessarily mean that poverty is reduced in absolute terms. The faster economic and social growth which it is proposed to achieve would further the process of incorporation of the economically active population into activities of higher productivity and income, but because of the seriousness and magnitude of poverty situations the process of absorption would be relatively slow: hence the need, for reasons of equity and social justice, to complement the strategy with a specific programme designed to tackle the solution of this problem within a more reasonable length of time. It is worth bearing in mind that in the next two decades rural out-migration will help to transfer poverty from the country to the city, although poverty situations will undoubtedly continue to have an appreciable incidence among low-productivity, low-income family farms and landless agricultural workers.

89. The objectives of accelerating economic growth, improving income distribution, eradicating poverty situations and promoting the economic and social participation of all sectors of society will exert strong inflationary pressures and cause imbalances of undesirable size and nature in the external accounts because of the expansion and changes which will take place in domestic demand and imports, in addition to which there will be the persistent increase in service payments on the accumulated debt.

90. Consequently, it will be necessary to plan action in the economic and financial field in such a way that, while promoting the sought-for changes, it will avoid or control inflationary pressures, which, as everyone knows, would imperil the achievement of the economic and social programme and would particularly harm the groups with the lowest income.

91. The efforts made in this respect will have to be particularly intensive in those countries which traditionally suffer from chronic inflation, but in any case, all the countries will be affected by world inflation, which seems to be getting worse and spreading more than expected.

92. In order to strengthen the foundations of the national economies and establish juster trade relations with the exterior it will be necessary to make profound changes in the structure of trade aimed at reducing trade imbalances and projecting into external relations the changes in production and technology which take place in the structure of the economy as a whole. In addition, a suitable amount of external financing is needed on terms which back up the national development effort.

93. This development effort depends fundamentally on the mobilization of domestic resources, but in order to secure more efficient use of those resources international economic co-operation is needed, especially in order to facilitate the access to markets of manufactures with growing technological content. These external components of the strategy are all the more necessary now that there is a recrudescence of protectionist measures on the part of the industrialized countries and most of the external financing comes from private international banks on less favourable terms than those offered by multilateral financial institutions.

94. Measures must be taken to ensure the real and active participation of the entire population in all aspects of the development process. Steps must be taken to establish or improve national machinery to ensure that women enjoy full equality with men with a view to their integration into the development process, which is an important objective for the countries of the region. Within this framework, measures must be promoted to guarantee women more participation in the economic, political, social and cultural life of the region and to put a new value on the role of Latin American women in society, seeking to improve their social image. All the countries should also assign high priority to the objective of mobilizing and integrating young people in the development process.

95. Within the framework of an integral development strategy, it is also necessary to consider the environmental dimension. To this end, it is necessary to emphasize some basic aspects of the relation between the environment and development: (i) the natural and artificial biophysical environment - in short, the environment - is the material system supporting life in society, which provides mankind with the ground and infrastructure for the conduct of human activity, the materials and energy needed for his reproduction and development, and the means of absorbing the waste he generates; (ii) society and nature are mutually adapted to each other through socio-economic processes, human settlement, and scientific and technical knowledge; (iii) the natural ecosystems can be altered and specialized by Man in order to increase their productivity, but at the risk of reducing or destroying their capacity for regeneration; and (iv) development is really an advanced state of transformation of nature into a contrived and artificial environment.

96. To the extent that this is properly understood and taken into account in planning and practical action, it will be possible to take full advantage of the potential of the environment as one of the fundamental bases for achieving the objectives of development. Many features of past development patterns, however - and also of the current style of development - are limiting the capacity for action and increasingly affecting those key functions of the environment, so that they represent severe limitations for a proper self-sustaining development process both from the point of view of production potential and from that of living conditions, especially for the poorest sectors.

97. Policies designed to harmonize the economic and social objectives of development with the ecologically sound management of resources and the environment must take careful account of the wide variety of ecological, cultural and socio-political situations and conditions in the countries of the region. As the diversity of environmental problems and potentials has only come to be fully recognized in recent years, and extensive and urgent task of diagnosis and conceptual, methodological and operational development lies ahead in order to incorporate the environmental dimension into an integral development strategy.

## B. THE ACCELERATION OF ECONOMIC GROWTH AND ITS REQUIREMENTS

### 1. Economic growth prospects and the definition of a normative target

98. The need to step up the economic growth for the Latin American countries in the context of an integral strategy aiming towards an equitable distribution of income and greater social wellbeing for the entire population arises from, among other things, the scale and seriousness of the social problems which will be aggravated by the rapid growth of the economically active population.

99. The productive incorporation of the labour force available will obviously call for much more dynamic economic development than the region has enjoyed in the past, and certainly much higher than the average for the second half of the 1970s. It should be borne in mind that the acceleration of economic growth is accompanied by an acceleration of the growth in the product per person employed, as a result of the progress which must take place in productive transformation and in the development of new forms of production. As is well known, during this process the amount of capital required per person employed increases, and there is a considerable rise in the volume of output to absorb the same amount of labour.

100. This raises a serious technical and political problem of the definition of a quantitative economic growth target, as for this purpose it is necessary correctly to assess the internal and external conditions currently affecting the course of economic activity and subsequent trends in given areas with a special impact on the rate of economic development.

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101. The usefulness of establishing a quantitative target for the countries of the region as a whole may be called into question, particularly in the climate of instability and uncertainty prevailing in major growth variables or factors. However, the establishment of quantitative targets and the study of their various implications is highly useful because they shed light on the size of the growth rate required, the nature and scale of the efforts to be undertaken, and the depth of the institutional and structural reforms to be carried out at the national and international levels. In addition, a quantitative target represents a basic element for judging or appraising the progress made towards established goals. It is therefore necessary to distinguish clearly between an appraisal of economic growth prospects and the determination of a normative or indicative growth target. We shall therefore first examine some aspects which make it possible to weigh up growth prospects, and then the more important factors of a normative target.

102. In studying the immediate economic growth prospects of the Latin American countries as a group, it is first necessary to distinguish between the oil-exporting and the non-oil-exporting countries. It is estimated that the real prices of fuels will continue to improve and that consequently the oil-exporting countries will enjoy steadily favourable terms of trade, so that the external sector will not represent a constraint for their development process. On the contrary, they will strengthen their import capacity, their economic growth and their ability to imbue their economies with a social orientation.

103. The non-oil-exporting countries will enter the 1980s in patently unfavourable conditions, with extreme vulnerability to external variables which will essentially continue to restrict their possibilities of maintaining or raising their economic growth rates.

104. The following are among the aspects which must be taken into account:

(i) the degree of external indebtedness, and above all the burden of the financial services, which are very high in relation to the domestic product and current export earnings. This situation varies considerably from country to country;

(ii) this external debt has largely been contracted with private international banks on "hard" terms, and the machinery through which the capital flows are channelled is facing difficulties which may hinder its continued use in the near future;

(iii) the economic growth prospects of the industrial countries with which the region has the bulk of its economic and financial relations are clearly unfavourable; their growth rate will be extremely low in the early 1980s, perhaps rising subsequently although remaining below pre-1973 levels;

(iv) this will weaken the demand for goods from the developing countries, and the situation will be still worse if protectionist measures are adopted or increased in the industrial countries; and

(v) this is all compounded by the relentless effect of rising real oil prices on the balance of payments of the importing countries.

105. In these circumstances, the prospects of higher economic growth for the group of non-oil-exporting countries as a whole are unfavourable, at least in terms of the achievement of a desirable target. This is due not so much to internal restrictions, which could be overcome by suitable policies (although it must be recognized that they are of major significance for some countries), as to the bottleneck and vulnerability stemming from external variables. The question therefore arises of the extent to which the economic growth rate of the Latin American countries depends on the economic growth of the industrial countries and of the world economy. In this connexion, it may be said that in the framework of existing relations there is a high degree of structural dependence, whose effects were examined in the preceding chapter.

106. During the 1970s, the economic growth trends of the Latin American countries were more or less parallel to those of the industrial countries as a whole, although considerably higher than the latter. This means that the countries of the region were able to keep up their economic growth rate and avert a major contraction or economic recession which might otherwise have occurred.

107. This was the consequence of the production capacity acquired by those countries, the higher level of integration and diversification of their economies, the growth of their exports and, particularly, the availability of external financing which enabled them to cover their rising balance-of-payments current-account deficits and even build up international reserves. It is well known, however, that this growth model based on external financing runs into serious restrictions after a time on account of the accumulated debt and the burden of servicing it.

108. In establishing a quantitative growth target for the 1980s, account must be taken of the salient features at the outset as well as of future prospects. However, the point is not to extrapolate those trends but rather to review the changes which should take place in domestic and external conditions and policies in order to boost the dynamism of economic development. The aim is therefore to establish a target or objective, normative or indicative, which will be reasonably viable if structural and institutional changes take place and policy measures forming an integrated action programme are applied.

109. In this connexion, the new IDS establishes an annual growth target of 7% for the gross domestic product of the developing countries as a whole, which would signify a per capita growth of 4.5%.

110. In the prospective studies undertaken by the secretariat, various economic development scenarios for the 1980s have been examined. From these, a normative growth scenario was chosen which includes the following elements:

(i) faster economic growth than indicated by the projections of past trends, so that, with the use of suitable policies, a positive contribution will be made to solving the problems of unemployment and the eradication of extreme poverty;

/(ii) a

- (ii) a minimum target of doubling the per capita product within 15 years, as a general norm for all countries; and
- (iii) the materialization of the high economic growth potential to be found in some countries, so that in some cases the growth target may be higher than the above-mentioned minimum.

111. The annual growth target for the region as a whole would be somewhat over 7%. This means, for Latin America, an annual economic growth rate roughly equal to that of the first four years of the 1970s. There is a major difference, however: during that period growth was primarily concentrated in a very small number of countries, whereas what is now postulated is faster growth in all the countries of the region.

112. In short, the target of doubling the gross domestic product of the region as a whole by the end of the 1980s, which would signify an annual growth of a little over 7%, may be considered reasonably justified. However, in view of existing circumstances the growth rate may be lower than that average in the early years of the decade and somewhat higher in the second half.

## 2. Saving and investment

113. To achieve this growth target will call for a serious rise in investment: the product-investment coefficient will have to rise to over 25% for the region as a whole. In principle, this should not present an unsurmountable obstacle, because the region has shown, particularly in boom periods, a striking capacity for promoting large-scale investment. Domestic saving will have to rise appreciably if external financing is to retain reasonable proportions with respect to investment and exports, as would be desirable.

114. It should be noted, however, that the conditions and trends which this scenario comprises vary from country to country in the region, and in many of them the acceleration of the growth rate will call for much greater relative increases in investment and domestic saving, and thus a much greater effort, than in others. Furthermore, the relative importance of external financing, in comparison with the product and investment, will obviously also differ significantly from country to country.

## 3. Growth and sectoral structure

115. The output of the agricultural sector will have to grow more rapidly than in the past, to reach an annual rate of over 4%, and perhaps even 4.5%, for the region as a whole. This target for agricultural output is in keeping with the global growth rate of the product, and is essential to satisfy the growth of domestic demand (stemming from higher incomes and the aim of eliminating extreme poverty or destitution) while increasing the region's exportable surplus.

116. Various studies suggest that the growth of agricultural production may feasibly be boosted by increasing the productivity of cultivated land more than previously; but at the same time it is very important also to expand the cultivated area.

117. The dynamism of industrialization will have to be relatively intense, with an annual growth rate of a little over 8.5%, representing an industrialization process that would be much more rapid and profound than in the past. It will have to extend to new activities with a higher technological content, calling for major capital investment in the branches of essential intermediate goods and production goods. In this new stage, industrialization will have to take place in more economically efficient conditions, as the materialization of this growth scenario calls for a considerable rise in the trade of manufactures among the countries of the region and in exports to the developed countries and to other developing regions.

118. This growth scenario also assumes significant sectoral and technological changes in the Latin American economies. The share of the agricultural sector will decline appreciably, while that of the manufacturing sector increases. The pace of this process and the indexes of the sectoral composition of the product will vary among the countries, which will continue to show major differences in their level of development during the next twenty years.

119. There will also be a sharp rise in the product per person employed, reflecting the intense process of technological change spreading in the national economies, which will be more or less generalized among the various groups of countries; it will be stronger in the manufacturing than in the agricultural sector and in the economy as a whole. This difference in the growth of productivity between the economic sectors and within them raises serious problems which must be borne in mind when formulating policies designed to improve the national income distribution.

120. Despite the rise in productivity indexes, greater absorption of labour will be fostered, which should equal the growth of the economically active population for the region as a whole. Nevertheless, this will not solve the problem of unemployment within a relatively short period on account of the magnitude of underemployment and open unemployment. Nevertheless, it will lead to higher productivity and income levels for that segment of the population. The employment structure should change significantly, not merely in terms of sectoral distribution but also from the standpoint of the nature of jobs and their skill levels. This therefore points to the need for training the economically active population, to which some countries will have to pay particular attention.

#### 4. The energy problem

121. The analysis of energy needs is a matter of particular concern on account of their great impact on technological and economic policy strategies in the development process. In the present circumstances, this is of course a key aspect which must be taken into account in weighing up the feasibility

/of development

of development options, since the basic and complementary nature of energy as a factor of production goods and services makes it one of the characteristics of the development style of the industrial era.

122. It is estimated that the total energy consumption measured in terms of use of primary sources has grown over the long term (since the war) at an annual average rate of 5.5%. Thus, in the region as a whole the rise in energy needs went hand in hand with the growth of the gross domestic product. Consumption of commercial energy grew much more rapidly (by almost 7% per year), on account of the replacement of traditional sources.

123. As a consequence of the rising real prices of oil and natural gas products, which account for over 75% of the region's total supply of modern energy, it may be expected that the elasticity of demand with respect to the product should decline and that policies will be applied deliberately to hold down energy consumption of specific sectors or for specific purposes. At the same time, however, obviously the economic growth rate and the dynamism of productive and technological change inherent in the economic development scenario under consideration necessarily imply an appreciable rise in the product per person employed and a higher energy input in accordance with known patterns of technology. Thus, in the absence of alternative styles of development, it may be assumed that despite whatever energy-saving measures are taken, energy needs will rise more rapidly than in the past, and should double in a period of ten to twelve years in accordance with the normative economic growth target.

124. The region as a whole is a net energy exporter to the rest of the world. As was stated earlier, however, the exportable surpluses have been dwindling appreciably. This situation may change to some extent with the new export flows, primarily from Mexico. Naturally, these trends are due not only to the lack of dynamism in the production of primary energy sources, but also and perhaps primarily to the resource-conservation policy followed by some countries, such as Venezuela. At present, only five countries are really net exporters of hydrocarbons, while all the others are net importers, although the degree to which they depend on imports varies.

125. At the national level the situations differ considerably. On the one hand, the oil-exporting countries have strengthened their financing capacity and their possibilities of increasing their economic development will be even greater as their terms of trade continue to improve. On the other hand, the group of non-oil-exporting countries face different prospects. In some, the importance of external fuel supplies in projections of total demand, and the impact of their cost on current foreign exchange earnings, are relatively low. Their demand for imports of hydrocarbons should rise to a varying degree according to the growth of the national product and the results of the energy measures and policies adopted. Their balance-of-payments problems may worsen but most probably will not become an unsurmountable obstacle hindering more severely than any other factor the objective of raising the economic growth rate.

126. On the other hand, in another large group of countries of varying size, the degree of dependence and the relative importance of the costs of imports are much greater and are rising from day to day. In many of these countries the energy problem is extremely important and the proposal of economic growth scenarios cannot be divorced from energy prospects and programmes. In these countries, energy saving, the replacement of hydrocarbons by other traditional and non-traditional energy sources, the reduction in dependence on oil imports and the growth of exports to increase the availability of external purchasing power must be considered necessary objectives of development strategies and policies. In some cases they are being pursued with great vigour, with an attempt to replace oil imports by local biomass energy to some degree. In chapter IV, below, the main aspects of energy policies are reviewed in connexion with the situation and concrete problems facing the countries of the region.

### C. THE CHANGES AND TRANSFORMATIONS WHICH MUST TAKE PLACE IN EXTERNAL ECONOMIC RELATIONS

#### 1. Import needs and the capacity to buy abroad

127. From the mid-1960s until 1974 the volume of imports grew rapidly and to a greater extent than the domestic product in most of the countries of the region. This occurred in the context of structural changes tending towards greater openness to the exterior, a diversification of exports, greater use of external financing and an active participation of transnational enterprises in the economy of the countries of the region. Subsequently, on account of the serious balance-of-payments problems of the non-oil-exporting countries, the pace of imports declined to such an extent that in some cases the level dropped in absolute terms. Recently, however, they have tended to recover.

128. The secretariat has studied the possible projections of imports in a dynamic growth process taking into account various aspects affecting the process and particularly the correlation between imports and the product and investment. This analysis suggests that import needs will grow in almost all countries, and for the region as a whole, at a somewhat higher rate than the growth of the gross domestic product. In the normative scenario under consideration, imports should grow at an annual rate of 8%. Thus, by 1990 the value of imports of goods and services at constant 1975 prices will be 2.6 times higher than the average for the three-year period 1976-1979. Their structure will continue to be dominated by intermediate and capital goods, with relatively greater growth in the latter.

129. It is clear, then, that external purchasing power must expand much more than in the past in order to be able to cover this demand for imports of goods and services. This growth will depend on three major sources: (i) the volume and diversification of exports; (ii) the trends in the terms of trade; and

/(iii) the

(iii) the magnitude of external investment and finance. Thus, for example, assuming that the terms of trade remained at 1979 levels and that net external financing - equivalent to the deficit on current account of the balance of payments - in the 1980s maintained a similar relationship with respect to the domestic product as was true of the countries of the region during the 1970s, then for the region as a whole the income from exports of goods and services would have to rise in step with imports (8% annually during the decade) and by 1990 net external financing would represent an average of 2.8% of the gross domestic product and about a fifth of exports.

130. Export needs will naturally be smaller if net external financing is larger, and this will also be true if the terms of trade improve. It has been calculated that exports of goods and services would rise by 7% annually if net external financing increased even more during the 1980s to represent 4.4% of the gross domestic product by 1990. In these circumstances, the servicing of the external debt and the profits on foreign investment would reach very high proportions of current export earnings, and the ensuing situations would be very difficult to handle in practice. Furthermore, in the resulting economic growth structure the domestic saving coefficient would tend to decline with the rise in economic growth. Naturally, this scenario could improve appreciably if there were a favourable change in the terms and conditions of an effective transfer of real resources to the developing countries.

## 2. Pace and structure of exports and balance-of-payments problems

131. It is therefore necessary to examine the projections of external demand in relation to these export needs of Latin America, as well as the nature and scope of the structural changes to be promoted in the international order in order to foster the growth of trade of the developing countries. Various studies have been carried out by the secretariat and other institutions on the basis of a variety of hypotheses concerning world economic growth and particularly the economic growth rate of the industrial countries.

132. One of these studies, essentially based on historical relationships, gives the following results: if world trade expands at an annual rate of about 7%, and the region follows a trend similar to that of the past, the region's exports will grow by roughly 5% annually. Consequently, the region's share of the world trade of primary commodities and fuels will continue to decline, while its share of the trade in manufactures will grow at a similar rate to that of world trade in such products (8% to 9% annually).

133. However, as has been stressed above, in the 1970s the Latin American countries made great efforts to alter the historical trend by following export promotion and diversification policies. In the last years of that decade, the trend began to change in major respects. Thus, it is interesting to note that in 1977-1980 Latin American exports grew at an annual rate of nearly 8.9%, despite the drop in the volume of Venezuelan exports.

134. This suggests the possibility that Latin American exports may be more dynamic than was the case until the mid-1970s. Clearly, the proposed acceleration of economic growth, as well as the changes in the production and technological structure, also call for changes in the rate and structure of the exports needed to bring them into being, and substantial alterations in the world economy tending towards the shaping of a new International Economic Order. It cannot be thought that external financing may be the main source for covering the balance-of-payments deficit which would result if exports in the 1980s grew at the historical rate prior to 1974. This would not be viable on account of the size of the deficit and the frustration of domestic saving which accompanies a policy of that kind. What is required is international co-operation and profound changes in the policies of the developed countries in order to facilitate the growth and diversification of exports above the levels of those past trends.

135. Other related aspects to be taken into account are the improvement and stability of the external terms of trade and the possibilities of holding down imports without affecting the postulated economic growth rate, and fundamental changes in the sources and conditions of external financing so that its share may increase above expected levels.

136. The growth of exports should be examined in relation to their composition and the markets to which they have access. Dealing first with their growth rate and structure, it may be recalled that in chapter I it was pointed out that during the 1970s the process of export diversification underway since the end of the previous decade grew stronger, and that this took place in the primary commodity branches together with a growing share of manufactured products. Nevertheless, for the region as a whole, exports of manufactures represent only 20% of the total, and are concentrated in the large and some medium-sized countries. Naturally, this export structure must change in favour of a greater share of manufactured goods, including product lines with more advanced technological content, in a way that is consistent with the transformation of production and technology accompanying the economic development process and with a development strategy which seeks to retain some degree of external openness in order to favour the most efficient allocation of resources and the growth of productivity. A similar line of reasoning, particularly in connexion with resource endowment, applies to the greater dynamism to be achieved by commodity exports with a rising degree of processing; in this case there is also the important fact of the great significance of such exports in the regional total, particularly for the medium-sized and small countries.

137. The considerable increase required in Latin American exports in the 1980s must therefore include the various branches of primary commodities with a higher degree of processing, new export flows, and increased and more diversified manufactured products which represent the most dynamic flows of international trade. It is well known that Latin America's share of the primary commodity trade has been declining; it would suffice for the region to retain a specific proportion of that trade, and be allowed access to the markets of the industrial countries, for total commodity exports to increase at a significantly higher rate than in the past. Nevertheless, it is manufactures that should become the most dynamic lines of Latin American exports.

138. The breakdown of the value of total Latin American exports in recent years is as follows: about two thirds was accounted for by sales to the developed countries, somewhat less than 20% by sales to Latin American countries, a little less than 10% by sales to the socialist countries and 4% by sales to other developing areas. In these circumstances, to achieve the export targets required to underpin the region's economic growth will obviously depend heavily, particularly at first, on greater access to the industrial countries which currently absorb such a high proportion of them. This in turn will depend on the trends in those countries' external demand, and particularly on the policies to eliminate the well-known restrictions of all kinds limiting access to their markets, as well as policies to restructure their domestic economic activity, promoting the basic conditions for a new, expanding position for the developing countries in the world economy. In this connexion, the immediate prospects are clearly unfavourable, on account of the slow rate of economic growth in the industrial countries and the resurgence of protectionist measures.

139. The above-mentioned studies have also shown quite clearly that despite the positive results which may be achieved in terms of increasing and diversifying exports to the developed countries, the growth of intra-regional trade appears to be a necessary condition for stepping up the development of the Latin American countries. This trade has been growing more rapidly than trade with the rest of the world. In the early 1960s, exports to the region represented only 8% of the total, as against 17% today;<sup>1/</sup> furthermore, the composition of these trade flows differs from that of trade with the rest of the world, as they consist predominantly of new branches of intermediate manufactures and capital goods.

140. In addition, the growth of trade with the socialist countries and with other developing regions should also be a complementary objective in order to make use of the enormous potential offered by those areas. This objective is included in national policies, and some interesting progress is being made.

141. The fluctuations and worsening of the terms of trade have important, favourable and unfavourable, effects on the results of the balance of payments and the course of investment and real income in the Latin American countries. In the secretariat's prospective studies, it has been assumed that the terms of trade remain constant at the 1979 level. Chapter I contained an indication of the relative position of those indexes during the 1970s. It should be added that, with respect to 1979, the terms of trade tended to improve in 1980 but very much worsened for the non-oil-exporting countries. The prospects for the evolution of the terms of trade are far from encouraging, particularly in the short and medium term, on account of the rising cost of imports from the industrial countries, the higher price of fuels and instability and uncertainty with regard to commodity prices. Inasmuch as the terms of trade decline, the balance-of-payments problems will

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<sup>1/</sup> These figures include only Haiti and the Dominican Republic from among the countries and territories of the Caribbean.

/grow worse.

grow worse. Hence the capital importance attached by the Latin American countries and the developing countries to achieving stable real prices for commodities at remunerative levels in the international market.

142. The model of this economic development scenario assumes that imports will grow relatively faster than the gross domestic product. The elasticity of projected imports with regard to the product is less than in the early 1970s; however, the models have a relatively open growth structure compared with the situation in the past, when the so-called import substitution model prevailed. This trend towards greater openness has been strengthened by foreign trade developments in the last four years.

143. The question arises of whether it would be possible to achieve the proposed economic growth with a lower import elasticity than appears in these studies. This question is of enormous importance at present, given the rise in protectionism and the developed countries' resistance towards the adoption of effective measures for expanding trade with the developing regions within a process of restructuring the world economy. While it is impossible to give a precise technical answer on the basis of the global analysis under consideration, some general comments may be made on the issue. There are grounds for believing that in the framework of the prevailing style of development, the import elasticity shown by these quantitative studies may be considered reasonable from the standpoint of a given growth structure with a specific degree of openness; thus, it might be considered that at least the large countries and some medium-sized countries, given their industrial capacity and their larger domestic markets, are in a position to make some progress in import substitution of essential intermediate goods and capital goods. There can be no doubt that a policy of this kind should be set in the context of the growth of intra-regional trade, which would provide a more efficient solution than the "squeezing" of the import coefficient at the national level.

### Chapter III

#### III. GENERAL ECONOMIC AND SOCIAL POLICY GUIDELINES

##### A. BACKGROUND: THE EVOLUTION OF ECONOMIC POLICY

144. The economic policy followed by the Latin American countries after the Second World War until the mid-1970s had a number of key common features, despite the differences appropriate to the heterogeneity existing among them. These include the responsibility assumed by the State for productive and social transformation. Many of the economic policy instruments were used to secure industrialization processes, intervene in the structure of mining and agricultural ownership, build up physical infrastructure and expand social services, particularly education, health and housing.

145. In the mid-1970s, a group of countries fundamentally altered the line of their economic policy, switching to a liberal approach to the State's responsibilities and objectives. In addition, the remaining countries also had to adjust their policies more thoroughly than in the past, due to the stage reached by the industrialization process and the major changes which had occurred in the international economic system.

146. Before dealing with the guidelines for a new kind of economic policy, it seems necessary to summarize the main aspects of the policies followed by the countries in the post-war period.

147. The post-war period (1950-1965) was characterized by external markets and prices which, after having being very favourable for Latin America during the Korean war, thereafter became unfavourable. After an initial period when international market prices rose rapidly and the volume of exports expanded, there was a weakening of external markets which lasted until the mid-1960s. Exports grew slowly and the terms of trade worsened. Furthermore, borrowing capacity and the availability of external financing were relatively low. Substitution industrialization was emphasized, and imports grew slowly in many countries. The import coefficient declined, to a noteworthy extent in some countries, particularly Brazil. It should be emphasized, however, that the external situation was not unfavourable for all countries, particularly most of the Central American countries.

148. The decline in the external purchasing power mentioned above encouraged in most countries, to a varying extent, the trends towards import substitution industrialization, which had been developing in the 1930s and after the Second World War. The countries whose import capacity was most restricted, such as those of the "Southern Cone", Brazil and for some years Mexico, had to make appreciable domestic efforts to carry out their industrialization strategy. The dynamism of these countries declined in the late 1950s and early 1960s, with a varying intensity and with fluctuations from country to country. Their efforts caused these countries to advance more rapidly in the stages of industrialization, particularly in the case of Brazil and

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Mexico, but the import bottleneck caused them to push the substitution process to a degree which was not always in keeping with the desirable requirements of efficiency, and which redounded in excessive costs borne by the consumer and by other production sectors.

149. Other economically and demographically smaller countries, such as the Central American ones, did not face similar restrictions in their external conditions and towards the end of the period began to embark on a first, fruitful stage of subregional integration. This enabled them to progress in industrialization in a way which would have been difficult to achieve in restrictive external conditions, given the small size of their markets.

150. After 1965, major changes began to occur in external conditions, with a steady improvement which reached a peak in the two-year period 1972-1973.

151. Exports became more dynamic and diversified, and the terms of trade tended to improve, as did the availability of external financing, particularly in the 1970s. During this second stage there were significant differences in the ability of countries to gain a place in the new international situation. The varying capacity of the Latin American countries to tap external financing, embark on new stages of domestic productive transformation and diversify their exports created sharp differences in their degree of dynamism and national economic processes.

152. The countries which profited most from the external situation were those which combined an active policy of domestic transformation with a dynamic insertion in the foreign trade and finance markets. The financial markets became organized, thus fostering important processes of accumulation and greater participation at the international level. Gradually inflationary adjustments were introduced into those markets, thus eliminating many of the distortions which had occurred in the capital markets and in investment.

153. A growing concern for inflation was built into economic policy. Initially confined to a few countries, inflation ended up as a generalized problem in the 1970s, in the context of a world-wide inflationary process, on account of the varying impact of domestic and external factors on the Latin American countries. The efforts to harmonize growth, inflation and employment show that many countries are carrying out more elaborate forms of economic policy.

154. The new international circumstances and the rigidities created by import substitution in many countries caused or facilitated changes in the economic policy. Broadly speaking, the countries attempted to frame their industrialization processes in broader markets in order to embark on new stages and remedy some distortions of the past. To that end, they combined a policy of export promotion with greater liberalization of imports, by means of measures relating to tariffs, exchange rates and tax subsidies.

155. The requirements of the accumulation process, as well as the desire to retain a reasonable degree of independence in the management of key sectors, also led to a revision of attitudes towards foreign capital. In the case of

/natural resources,

natural resources, there was a widespread trend towards nationalization which enabled the countries to retain or recover control over their mining and energy activities. On the other hand, in the other sectors of the economy there was a more favourable attitude towards foreign capital, which led in many cases to the transnational corporations gaining a strong influence in the branches where demand was most dynamic.

156. From 1974 external conditions changed radically. The changes in fuel prices created very favourable conditions for the oil-exporting countries, and very unfavourable conditions for a group of countries which depended to an appreciable degree on foreign supplies. At the same time international liquidity increased and most countries had access to the private and transnational banking system which handled a fundamental part of that liquidity. The growth rate of the industrialized countries declined sharply, and they ended the decade in a period of recession or of slight or zero growth. International inflation also increased appreciably.

157. In these circumstances, balance-of-payments and inflationary problems became widespread for the non-oil-exporting countries. On account of the stage reached in their industrialization process, the possibility of resorting to external borrowing and their governments' ability to manage economic policy, most of the countries were able to avoid recession, although a climate of instability and great external vulnerability developed.

158. In most cases the industrialization process continued, but was adapted both to the needs of the new stages to be embarked upon and to external conditions. Broadly speaking, the aim was to accentuate the above-mentioned trend towards undertaking more competitive activities in international terms, a fact which was fully consistent with the progress made in industrialization in many countries and the growing need for a larger share of manufactures in the export structure. In addition, an effort was made to recover a more active role for natural resources in external trade, thus breaking the trend towards a declining share of the world market. Thus, at the national level the basket of agricultural and mining exports became diversified.

159. Economic policy was appreciably altered in order to meet these new requirements. There was a tendency to manage the exchange rate and tariff policies so as to reduce protection and encourage foreign trade, thus seeking greater openness. Nevertheless, in most cases the domestic market has remained the main focus of investment and destination of output. In other words, in projecting investment and output the aim has been to complement the two markets.

160. Since the war, there had been a clear trend towards broader functions for the State and towards the increasing importance of its activities in both the economic and the social spheres. Infrastructure needs, the initiation of natural resource exploitation, the social demands of the population rapidly becoming urbanized, the absorption and persistence of pressure on educational systems, and the installation of industries fundamental for the growth process are examples of these activities.

161. Given the dynamism of economic and social demands the State became overloaded in some cases and even unable to cope in some spheres. This may be explained both by technical and organizational problems and by the fact that this growing burden of responsibilities was not accompanied by major changes in the financial basis of State activities. Thus, a high fiscal deficit has been a characteristic of almost all the public sectors in the region. In the last five years this situation, together with the external sector crisis, has led to many adjustments in public activity. As a rule, the trend has been towards a reduction of expenditure rather than to a broadening of the financial base of the State. In addition, and in keeping with the new stages of the industrialization process described above, in many cases the credit and monetary support given to the public and private production sectors has been limited and rationalized. Thus, most countries, while not neglecting the problems of inflation, external equilibrium and fiscal equilibrium, have made great efforts to avoid recession and proceed with their process of productive transformation. The aim has been to avoid the economic, social and political effects of a recession and maintain a certain rate of growth.

162. In some cases, this led to high fiscal deficits or an acceleration of inflation, or large balance-of-payments deficits. Nevertheless, it was hoped that industrialization and the modernization of agriculture would in the medium term create supply conditions which could underpin the growth of exports and a drop in inflation.

163. These economic policy trends do not apply, however, to all the non-oil-exporting countries of the region. As was mentioned earlier, a group of countries thoroughly altered their economic policy and are shaping a liberal-style system.

#### B. GENERAL GUIDELINES

164. The preparation and management of economic policy in the 1980s will be a demanding task, particularly if the objective is to achieve integral and organic development as proposed in the preceding chapter when defining the basic elements of a strategy aimed at overcoming the key problems of the present style of development and tackling the serious difficulties presented by the situation and prospects of the international setting.

165. The acceleration of economic growth, the deepening of productive and technological change, the formation of more equitable societies, the achievement of less dependent economic relations and other aspects considered above should be essential economic policy objectives. It will therefore be necessary to reconcile the partial objectives of economic policy to a much greater degree than is currently the case.

166. First, there is the need to reconcile economic growth with a better distribution of income. To do so, it will be necessary to foster the transformation of the production structure so that it is in keeping with the income distribution patterns established as social objectives. Thus, economic

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growth must be sufficiently high to absorb productively the labour force available. As the higher growth and new production structure produce their results, governments will have to seek to remedy the serious poverty situations affecting a large part of the population.

167. The policy must also co-ordinate the satisfaction of domestic and external objectives. The developing countries have been striving to achieve more balanced production structures with regard to those of the industrialized countries than at present. They consider that the asymmetry in production is largely responsible for the relations of dependence, the unbalanced nature of international trade and the unfavourable terms of trade. Thus, the deepening of productive and technological change must simultaneously meet the needs of domestic distribution, greater national autonomy in decision making and the export needs inherent in the growth process itself.

168. Furthermore, the policy should be oriented towards achieving specific medium-term and long-term goals, but without creating unmanageable disequilibria in the short run. Thus, while domestic and external monetary and financial disequilibria should not become the sole and exclusive concern of economic policy, neither should they be allowed to reach levels which disrupt the functioning of the economic system and undermine the effectiveness of the action undertaken in other respects.

169. The materialization of this proposed strategy will call for intensive action on various internal and external fronts. Internally, measures must be taken for achieving the global saving and accumulation objectives, as well as the objectives relating to the growth and structure of the economy; at the same time, special attention must be paid to social objectives, which are the bases of social change.

170. Externally, the international situation and prospects, as well as the objectives related to the shaping of the new International Economic Order, make it necessary to step up action on a number of fronts. Indeed, the commercial, financial and monetary requirements inherent in accelerating economic growth and productive and distributive change are so enormous that it will be essential to give strong encouragement to regional co-operation and to relations with other developing areas, and at the same time to struggle to improve the conditions governing relations with the developed countries.

### C. THE MOBILIZATION OF NATIONAL RESOURCES

171. In order to achieve the postulated significant rise in production, it will be necessary to make a great effort to mobilize national resources, as well as to create new supply conditions which will help to solve other problems.

172. The proposed objectives in the spheres of agricultural and industrial production mean that governments must properly programme their policy measures and directly intervene in specific areas. As is well known, there are branches where the scale of investment is so great, and the lead time so long,

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that the national private sector cannot tackle them, at least not independently. In such cases the public sector can undertake the investment through its own enterprises or in association with national or transnational enterprises or by means of arrangements with the latter. This is the case, for example, of much of the expansion of the economic and social infrastructure, the necessary basis for expanding production and improving the distribution of consumption and income.

173. The private sector will have to play a very active role in the investment process in many sectors. Conditions must be created which facilitate accumulation by removing obstacles, particularly those affecting the instability of the economic factors which condition investment decisions.

174. The handling of capital markets calls for action on two fronts. On the one hand, real interest rates must make saving attractive. On the other, it is essential that interest rates and other financial costs should be kept at levels such that the cost of investment is not so high that they only justify and stimulate speculative activity.

175. The achievement of a high rate of investment must be accompanied by a policy of national saving and use of external financing which are in keeping with the proposed targets relating to distribution and external trade and financing. Tax, credit, tariff and price policies should not foster high growth rates of consumption of the high income groups. Thus, for example, the abundant international liquidity should not be used to favour, through the growth of external credit, consumption levels which are in contradiction with the postulated levels of national saving.

176. The growth of production and the high investment levels, while calling for intense economic policy efforts, will in turn create the potential for action in other spheres. The control over at least some of the investment in such major areas as infrastructure, and the stimulatory or regulatory role to be played by the State in other spheres of accumulation, will allow governments to define a technology policy. Thus, they may select areas in which to concentrate the capacity of adaptation and creation of selected technology modules both at the national and regional levels, thus advancing in the pioneering efforts undertaken by some countries.

177. The expansion of markets stemming from the doubling of income during the decade and the greater efforts of regional integration and co-operation will enable producers to achieve greater efficiency. Economic policy will thus be relieved of the effort to protect many production activities as hitherto required since the war, and be able to design protection measures for the group of activities to which they attach priority.

178. The sharp rise proposed for agricultural output should become a vital element in the fight against inflation and the solution of the problems of nutrition and extreme poverty. Thus, measures designed to guarantee production in the medium and long term, although sometimes in conflict with measures to combat inflation in the short run, may prove an effective weapon which will

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in the medium term reduce or eliminate the need to control prices and relieve public expenditure of at least some of the programmes designed to place reasonably-priced foodstuffs within the reach of the poorest sections of the population.

#### D. SOCIAL POLICIES

179. The countries will freely determine and implement appropriate policies for social development in the context of their development plans and priorities and in keeping with their cultural identity, socio-economic structure and stage of development. Part of their success will depend upon the achievement of the objectives and policies to increase the capacity of production, so that the structures of production and consumption can be changed in order to satisfy the basic aspirations of the majority towards a better life. Policies for this purpose should pay attention to the consistence between the promotion of dynamic economic growth, greater social justice and the reduction of structural differences and social inequalities. In order to reach these goals and to achieve national and collective self-sufficiency in the region, the effective participation of the majorities in economic, social and human development should be encouraged. In order to bring this about, policies should be defined and applied to promote participating structures, processes and organizations,

180. The distribution objectives and goals examined will mean that policies affecting the structure and dynamism of economic growth in the medium and long term and measures affecting the present distribution in the short term are essential. In the medium and long term the reduction of heterogeneity in production and increased economic dynamism should noticeably change the labour market, and this should give rise to a better distribution of incomes through employment, and greater homogeneity in labour and wage productivity. In the near future the need to increase national saving at the cost of the growth of consumption of the high income groups will require action to attract or productively orient the use of part of these earnings. The need to go to the assistance of the least favoured groups, particularly those affected by situations of critical poverty, will require changes in the present structure of distribution.

181. The distribution measures will in some cases call for a prior distribution of assets, as in the case, of the rural milieu in which greater access to land and the use of water is required for a considerable proportion of peasants. In other cases it will be necessary to change the primary distribution of income by means of the direct supply of goods and services financed from resources derived from the tax system or to contribute to social security and prevision funds. A clear definition of the groups it is desired to favour will make it easier to handle economic policy instruments in order to prevent these effects seeping through to other social groups.

182. The redistribution policy will take on special connotations when the aim is to abolish situations of extreme policy. In these cases public spending will be an instrument of the greatest importance and should be focused

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on the most needy social sectors and groups, particularly as regards education, health and housing services. Other policies of a structural nature are also required to fight poverty. Among these should be mentioned those aimed at guaranteeing in the rural milieu greater access by poor people to production credits and support for the marketing of commodities, and in the urban milieu to giving own account workers and small entrepreneurs access to credit, instruments of employment and technical and commercial advisory services.

183. There is a very important place for specific policies directed at children and young people which will have an increased effect on the family group as a whole. The greater the desire of the countries to allocate resources for the development of children and young people, the greater the probability of breaking the vicious circle of extreme poverty.

184. The heterogeneity which characterizes the structure of production of the countries makes it necessary to define different employment policies, depending on whether they are aimed at the modern or traditional sectors and at large-scale, medium-sized or small enterprises. Policies will also be different in countries where the labour force has a high growth rate from those countries in which major employment problems are not anticipated.

185. In the countries with serious problems, the orientation of the structures of production and the choice of the size of the enterprises may play an important role. As the external trade situation becomes more flexible, the options to promote a more efficient production structure in relation to employment will be greater. As the technological development of the region grows and the conditions in which technology is purchased improve, the possibility of choice will increase, including the size of the factories. In the circumstances, the criterion of employment should play an important role in decision-making.

186. In the low productivity urban and rural sectors which is where the mass of underemployment is to be found, policies of a very different type must be designed. In addition to the emergency conjunctural policies which must be adopted in critical cases, it will be necessary to go to the assistance of low productivity and potentially productive economic units in order to transform them into units capable of generating employment and income at appropriate levels. Naturally, the orientation of demand should be an important guide to the selectivity which the supporting policy must demonstrate. Key policy areas will be the shift of demand in some industries, particularly State demand, towards the informal sector in order to expand the markets for these activities, improvements in marketing, better access to technological progress and access to the factors of production such as credit on an equal footing for units of production and small commercial units. Rural development, in addition to requiring these policies, depends on the availability of varieties of high-yield seeds, fertilizers, irrigation and the creation of suitable forms of non-agricultural organizations and activities. Measures will be implemented to promote small-scale agriculture and fishing. The countries will seek policies which will bring an increase in productivity indexes into line with an increased absorption of the labour force. Measures for this purpose include access to

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land, credit and technology in addition to training and technical assistance adapted to the various needs of the different sectors, and which are also sufficiently flexible to ensure the extension of training in keeping with the continuing change in technical progress. The organization of peasants, minifundium owners, small-scale fishermen, small-scale tradesmen and landless day-workers is essential for the success of these measures. The countries will formulate policies aimed at reducing unemployment among young people and women and bringing aspirations into line with job opportunities.

187. It is not possible to expect nor should it be expected that economic growth will automatically produce the generalization of education nor to trust that the simple increase in present educational services is sufficient to do away with these high rates of illiteracy and semi-illiteracy. The true democratization of education at all levels should be a goal of the countries of the region and the result of decided action in this field. A fundamental task for the next few decades which cannot be postponed should be the proposal to fight with all available resources and means to generalize complete primary or basic education for all children of school age, eradicate illiteracy and gradually and thoroughly intensify the programmes of integral attention for children of pre-school age living in adverse social conditions. The harmonious growth of all the levels of education is equally necessary, as is a closer link between education and the working world, in the context of the efforts to improve the quality of the integral training of human beings and the relevance of the content and results of education with respect to the integrated development needs of the countries of the region.

188. In the context of the integrated development process the countries should design and implement education policies in keeping with national social, cultural and economic diversity, allocating the resources which may be necessary in order to achieve this. The elimination of illiteracy and semi-illiteracy through the joint action of consistent programmes for adults, and school and extracurricular work to incorporate all children and young people in functional and efficient educational services is considered to be the basic condition for the true democratization of education. This measure also implies a high priority strategy which also includes the elimination of absenteeism and the reduction of the rates of repetition and dropout, and the appropriate use of the social communications media. To give more and fairer access to all levels and forms of education will help to reduce the inequality in income distribution and increase society's capacity for economic and social progress. In the effort to achieve a more direct link between education and the labour market the countries should implement education systems which will efficiently train people for work and give individuals integral training with emphasis on the cultural heritage and universal values of mankind. Of particular importance for the autonomous development of the region is the improvement of the teaching of the sciences and technology at all levels and in all types of education - school and extracurricular, general and professional.

189. The elimination of the growing shortfall in urban and rural housing is a long-term goal which requires the concerted action of the governments.

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During the decade it will be necessary to increase the supply of housing for the low-income urban majorities by solving the problem of the shantytowns and slums. At the same time it is essential to improve the infrastructure associated with housing: electrification, drinking water supply and sewerage. It is important to include the development of human settlements for low-income groups in integrated national programmes to ensure the success of sectoral action by means of consistent changes in global socio-economic trends.

190. In order to do away with the growing shortfall in housing, State participation which would give high priority to the housing of the population with least resources will be essential in many cases. Adequate planning is required as regards urban development in order to rationalize the specifications of town-planning design in residential areas and the incorporation of urban land with its corresponding basic services. The countries will together seek the legal instruments which will permit an adequate functioning of the real estate market. Self-construction will receive incentives from the material and technical support of the State. The fulfilment of large-scale housing plans will require the promotion of the development of industry for the construction of low-cost housing, support to the relevant financing institutions, stimulus to research and the dissemination of findings on efficient construction techniques, low-cost design and technology for infrastructure, local construction materials and environmental protection.

191. An important goal for all the inhabitants of the region for the year 2000 is to achieve a level of health which will enable them to lead economically and socially productive lives. Primary attention is the key to achieving this objective and for the year 2000 the access of 100% of the population to health services must be ensured. During the 1980s the main goal will be to increase the life expectancy of the population using as a strategy the extension of the national health service systems, reoriented towards covering rural and urban populations which do not receive attention or only insufficient attention. The maximum efforts must be made to supply drinking water and basic sewerage services to the whole of the population in rural and urban areas by 1990 and to maintain this effort until the year 2000 by extending the coverage to the additional population, and ensuring the quality of the services. The reduction of the death rate will be an important demographic objective. For the year 2000 no country of the region will have a life expectancy at birth of less than 70 and no country will have an infant death rate exceeding 30 deaths per thousand live births. The prevention of disabilities and the integral rehabilitation of disabled persons should be tackled as soon as possible. The governments should include in their national development plans programmes on prevention and rehabilitation with a view to the dynamic integration of disabled persons into society. Measures and programmes should be aimed at fulfilling the following objectives:

- (i) assistance of disabled persons in their physical and psychological adaptation to society;
- (ii) promotion of all national and international efforts to give disabled persons appropriate assistance, attention, training and orientation, their access to appropriate employment opportunities and the ensuring of their full integration into society;

/(iii) stimulus

(iii) stimulus of research and study projects to facilitate the practical participation of disabled persons in daily life, for example, by improving their access to public buildings and transport systems;

(iv) education and information of the public regarding the right of disabled persons to take part in the different aspects of economic, social and political life and to make their contribution, and

(v) promotion of efficient measures to prevent disability and to rehabilitate disabled persons.

192. In order to achieve the goal of health for everyone in the year 2000, each country should set up, in keeping with its national priorities and individual characteristics, an adequate and comprehensive system of primary attention as an integral part of a global health system and part of a general improvement in nutrition and basic infrastructure for the supply of drinking water and sewerage services. Priority should be given to programmes for the prevention of disease and disability combined with activities for recuperation and rehabilitation aimed at the low-income groups of the margined rural and urban areas, thus surmounting the inequalities between the different sectors of the population. It is important to give special consideration to migratory movements and to considering specific sub-strategies for the urban and rural milieux, so that appropriate changes can be adopted for both. Measures to cut down the levels of infant and general mortality should include integral attention for the family, appropriate nutrition, the education of mothers, the immunization of children and environmental sanitation programmes. As regards disability, this problem must be given the priority it merits in national policies and plans, taking into consideration the following aspects:

(i) measures for prevention and medical rehabilitation;

(ii) regular and special facilities for education, culture, recreation and sports;

(iii) professional training and access to employment;

(iv) removal of architectural barriers; and

(v) reformulation of existing legislation to ensure the rights of disabled persons.

193. Population policies should be considered as part of global and sectoral development policies. It would be necessary to bring population measures and programmes into line with socio-economic goals and strategies. The countries will take the measures they consider necessary as regards migratory movements and levels of fertility with full respect for the fundamental human right to take a free and responsible decision as regards the number and spacing of children.

194. In order to correct the growing inequality between the small group of the population amply protected by the social security systems and the majority of the population not so protected, one goal will be to extend the coverage of the social security system to the entire population, particularly in rural areas and for margined urban groups.

195. The countries should reform their social security systems as regards the extension of the coverage and quality of the services provided, their financing and administration. A horizontal rather than a vertical increase should be encouraged in order to correct the growing inequalities between a small protected group and the majority of the population not so protected. The countries will determine their own order of preference as regards the risks to be covered but all the population should be protected against the risk of disease independently of whether or not it is labour-related. High priority should be given to national maternity-disease programmes which would especially benefit the low-income population. It would be necessary to reform the system of contributions to finance the social security systems progressively and take such measures as the countries may consider appropriate to improve the unity and uniformity of the systems now stratified.

196. In formulating global development policies the environmental dimension must be incorporated in policies on population, human settlements, spatial reordering, natural resources, technologies, international relations, energy and subregional integration, on the basis of natural resources, particularly in drawing up strategies aimed at reducing or eliminating poverty and underdevelopment. In this way an effort will be made to leave future generations the benefits of a healthy environment and ensure a process of socio-economic development which can be maintained from the environmental and ecological standpoint in the long term.

197. In the planning of Latin American development consideration should be given to the place of the environment in policies relating to the development of agriculture, industry, and urbanization.

198. Specifically in the development of the agricultural sector new systems and technologies should be explored aimed at maximizing environmental supply, which can be maintained at the long term and which ultimately will cut the ecological cost, particularly the deterioration of ecosystems with a high production potential, indiscriminate deforestation, soil erosion and exhaustion, salinization of irrigated areas and desertification.

199. As regards industrial development high priority attention will be required for its location, the identification of appropriate technologies, both preventive and restorative, and for appropriate scales of production from the environmental standpoint. Urban development policies should correct congestion and pollution in the cities and the environmental problems which accompany metropolitanization, the explosion of the urban population and the occupation of agricultural land for urban purposes.

200. Regional and international co-operation to preserve the quality and increase the potential of the environment should be increased. In environmental policies a trans-disciplinary approach should be adopted which will accept the interaction and interdependence of the different sectors of the social systems through a better understanding of the relations between society and environment, both nationally and internationally.

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201. The active and real participation of the entire population in each stage of the development process should be ensured. The establishment and improvement of the national machinery which will guarantee the equality of women on an equal footing with man and the implementation of measures for their integration into the development process are important goals for the countries of the region. In this context measures should be encouraged which will guarantee the increased participation of women in the region's economic, political and social and cultural life. The role of Latin American women in society must be reassessed and an effort made to improve their social image. All the countries should give high priority to the objective of mobilizing and integrating young people into development.

202. The countries have committed themselves to deploying their best efforts to support the implementation of the Regional Plan of Action for the Integration of Women into Latin American Economic and Social Development, which is the special instrument giving the action priorities for the region. The measures aimed at guaranteeing the equality of men and women and promoting development should take into account that the situation of the women of the region varies depending on the socio-economic stratum to which they belong. Their forms of participation in economic, political, social and cultural life also vary as do the sources and expressions of the discrimination of which they are the object. These policies should give priority to women belonging to poor groups, particularly poor rural women. Activities should aim at relieving the burden of domestic chores and improving housing conditions, infrastructure, health, employment, education and other social aspects. Special attention should be given to reassessing the contribution of women to society and improving their social image.

## Chapter IV

### IV. BROAD OUTLINES OF INDUSTRIAL, AGRICULTURAL AND ENERGY POLICY

#### A. INDUSTRIAL POLICY

203. The objectives and goals of productive growth and change set out above have a special impact on the nature and rate of growth of the industrial sector. This will continue to be one of the focal points of development, and on it will depend the possibilities of raising the level of national autonomy in so far as the implementation of development policies is concerned. Substantial progress must be made in the capacity for innovation in production and in the development of more complex industrial branches, such as those producing capital goods, which will be an indispensable requisite for increasing the competitiveness of the sector. The fulfilment of these goals and objectives will make it necessary to mobilize a full set of economic policy instruments. It will be necessary to identify national policies, Latin American co-operation policies and policies covering co-operation with other developing regions and the establishment of links with the developed countries.

204. The industrial structure should be modified if it is to play the role of meeting a considerable share of domestic demand while at the same time bringing about greater symmetry in industrial trade with the exterior. It is hoped that the result will be a more integrated and efficient sector. What is needed is to overcome the industrial lag; correct trends which have persisted for decades; tackle the production of more complex articles; improve technological linkages; export manufactures, including those which enjoy the most dynamic international markets, and make progress in technological development. Goals as ambitious as these call for the establishment of priorities and programmes which will make it possible to handle the necessary instruments of promotion and support adequately, since it cannot be hoped that they will take shape spontaneously through the sole action of market forces.

205. The countries of the region have long experience in this field, specially in the administration of industrial policy and of the institutional arrangements relating to it. Similarly, in many countries the public enterprises have made significant achievements in the execution of industrial policies. While it is true that this is another area in which the countries are still dissimilar, as they are in the relevant political approaches, basically no excessively severe problems are envisaged in the formulation and implementation of industrial policy, provided, of course, that the objectives of industrialization are espoused in an unequivocal and deliberate manner.

206. When the supply is not conditioned by special factors, industrial growth is very much influenced by increases in domestic demand and therefore depends on global economic policy measures. For a varied range of industries, however, more specific measures are needed as well.

207. A large number of consumer goods industries will be stimulated by the demand generated by the rapid growth of income and the improvement in income distribution patterns which are postulated. Although, due to the technological capacity and ability to compete abroad acquired by this branch, no serious problems should arise in its development it will, however, be necessary to promote the long-term investments needed to meet the new types of demand. Consideration is given below to proposals or policies related to the need to increase and diversify exports of industrial products.

208. The situation will be different in the case of a number of intermediate products and especially in that of capital goods. Among intermediate products, attention should be drawn to basic industries, whose development may still call for direct State action, as the long-term Latin American experience clearly illustrates. These and other intermediate industries would be given strong impetus by the expansion of those promotive activities whose backward technological linkages have a propulsive effect. In any case, the lag in this area indicates that it will be necessary to mobilize over concurrently a number of policy instruments (financing, customs, tariffs, taxation, external savings, programme and project proposals, technical assistance, etc.).

209. The development of the capital goods industries may be even more complicated, since the transfer of technology and technical know-how from abroad and the learning process is usually more difficult in them. In addition to the traditional measures, others may be applied, notably the policy of programmed purchases of the public sector as the main purchaser of capital goods (especially heavy capital goods and basic capital goods) and the creation of long-term financing systems to make it possible to compete in sales. Moreover, it will be necessary to avoid the acquisition of foreign technological packages, so that those parts whose national production is feasible may be selected. For the same purpose, and also with a view to training, stress should be laid on measures such as the participation of local engineers in the design of plants, and programmes which include training activities (household appliances, machine shops, steel fabrication shops, etc.) so as to move subsequently in the direction of more complex products.

210. Support and promotion policies for industrial activity must provide for efficiency and quality, primarily because their objectives are exportation and a brisk trade in manufactures among the countries in the region. Not only the rationalization of production and the choice of appropriate technology but also competition within the framework of subregional and regional preferences may help to increase efficiency, as will support in infrastructure and basic services and, in general, external savings, shortage of which frequently generates higher costs than in mature economies. With regard to quality, rigorous standards and controls will be decisive, as will technical assistance programmes aimed especially at medium- and small-scale industry, where technical self-reliance is usually lower.

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211. The region's wealth of natural resources (mineral, agricultural, forestry) offers substantial promise for its industrial enrichment. In addition to industrial promotion, programmes for the development of such resources and the inclusion of this matter in international negotiations (including those among developing countries of the region or between those countries and developing countries of other areas) held within the framework of the industrial redeployment in line with the New International Economic Order are important in this respect. Every attempt should be made to ensure that the standard of manufacture of products sold abroad is as high as possible.

212. Entrepreneurial policy is another matter of special importance. National enterprises, especially private firms, have been losing ground in industry in relative terms, and this trend might become more marked when the countries, in accordance with the structural changes proposed, enter more fully into areas which include manufactures of intermediate or capital goods with a high technological content. Although in some cases industrial transnationalization has been favoured as a way of acquiring the appropriate technological capacity, it cannot be passively envisaged that industrial denationalization should continue to accelerate over the long term. For this reason, there seems to be an urgent requirement for establishing entrepreneurial policies which promote and support the development of national enterprises (public and private) which can take an increasing share of the tasks of industrialization into their own hands. Such policies would then be added to those aimed at governing the behaviour of transnational corporations in pursuance of the goals provided for.

213. Entrepreneurial policy is an indispensable complement to the promotion policies of medium-size and small enterprises, in order to ensure that they play a prominent role in many branches. There is of course a vast range of industrial activities where the technology involved enables them to be carried out efficiently in medium- and small-scale establishments; moreover, it must be taken into account that the market always has fringe areas which are not satisfied by mass production and whose needs can be met adequately by medium- and small-scale industry; furthermore, the geographical division of the market calls for the decentralized location of smaller establishments in a number of categories of products; agro-industry and rural development likewise hold out excellent prospects for the promotion of medium-sized and small enterprises and plants; and the subcontracting of parts of processes which can be broken up is another promising field. Naturally, in all such undertakings, the training of the entrepreneur is vital if they are to function well.

214. In attempting to implement such policies, consideration should be given to the many examples of Latin American experience showing that either the market does not transmit enough signals or there is no response to the signals transmitted in terms of adequate entrepreneurial capacity. Similarly, it should be borne in mind that many failures with regard to these policies have been due, to a large extent, to the fact that there has been little or no association between the various instruments of promotion and support.

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Thus, for example, measures taken separately with regard to financing, infrastructure, technical or commercial assistance or data systems have frequently been incapable of producing significant results in the promotion of small-scale industry.

215. One of the most difficult aspects of an industrial policy compatible with the targets proposed is autochthonous technical development. Nevertheless, it will be necessary to proceed well beyond the little that has been accomplished so far. While it is true that in some countries industrial engineering is considerably developed and, especially in the big countries, has even succeeded in generating some additional know-how, this process is in its early stages and requires strong support in order to expand, deepen and reach the point where the few examples recorded so far of innovations which really represent major improvements will become the general rule.

216. The policy which must be proposed begins at the university level with the recovery of scientific and technological values. For the time being, however, the State must give consideration not only to the activities which are clearly its responsibility in this field but also to the promotion, sponsoring, financing or contracting of scientific and applied research activities in universities, institutes and enterprises. Within this framework, transnational corporations should be given the opportunity of internalizing engineering in their host countries, and even of carrying out research activities, which should be organized, like those carried on the national level, in accordance with well-defined priorities, this being the only way of efficiently operating within the obvious financial restrictions.

217. The difficulties in the matter do not lie so much in an intrinsic incapacity to perform scientific and applied research as in the frequent lack of social recognition for such activities and of the necessary direct State promotion of the kind that exists in any developed country regardless of its political bent.

218. The Latin American Governments have recently adopted agreements <sup>2/</sup> aimed at making collective efforts with regard to intra-regional trade in manufactures, research and technology, Latin American transnational and multinational corporations, the planning and consolidation of the industrial policies of countries, and the use of collective negotiation.

219. Intra-regional trade in manufactures must facilitate industrial progress and reduce the great industrial dissimilarity of the countries. The structural corrections which are being made in the sector, especially in the basic, intermediate and capital goods industries, generally call for big markets,

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<sup>2/</sup> See, for example, CEPAL, La Paz Appraisal, 1979, and the Report of the Second Latin American Conference on Industrialization, Cali, Colombia, 1979.

more complex technologies and large minimum masses of capital. The smaller national markets are, the more important regional trade will be. Stress should therefore be put on activating the integration processes and ensuring that they converge and interconnect, without prejudice to the informal or bilateral co-operation which has been increasing notably at the regional level. Intra-regional trade, in addition to being viewed within the context of market liberalization in order to achieve a competitive environment, must be considered in the context of complementarity and of concerted industrial policy, because it is here that the dynamic version of the concept of comparative advantages predominates.

220. Thus, this trade will be based on technological development, including the adoption of appropriate instruments for quality control. Similarly, emphasis must be placed on regional preferences as a way of introducing dynamic comparative advantages in the most complex industries with a high level of technology. The policies proposed should ensure that the less industrialized countries of the region do not assume a peripheral role in relation to those with more advanced industrial development.

221. Technological co-operation aims at strengthening the ability to choose and adapt as well as to create independently, viewing these tasks in the Latin American context and taking account of the endowment of natural resources and the need to enrich them industrially. The capacity to choose is given positive support by the existing Latin American Technological Data Network (RITLA). The regional and subregional centres should move to extend this network, and encouragement should also be given to entrepreneurs, who often tend to reject engineering studies. Because of the scant experience available in the adaptation and creation of technology, a combined effort focused on priority areas of common interest for two or more countries is called for.

222. Intra-zonal investments or those which the entrepreneurs of one Latin American country make in other countries in the region have constituted mechanisms for the transfer of technology. The intensification of the efforts to establish and expand multinational industrial corporations, in which a number of encouraging experiments have been made, might become a way of making regional co-operation effective and distributing its benefits equitably. Naturally, these corporations should operate within the framework of the overall industrial development policies which are defined.

223. The use of regional co-operation as a tool both to bring about industrialization in more complex difficult and demanding spheres of intermediate and capital goods and to reduce the industrial dissimilarity among countries will require considerable harmonization of national policies and will produce a marked increase in industrial complementarity. Harmonization will be particularly important for small and medium-sized countries which are promoting industries such as those producing capital goods; in this case, the fact that the leading buyer will be the public sector should facilitate the effort. Another central role of regional co-operation has to do with the arrangements needed to initiate or improve long-term credit mechanisms, which are fundamental for the promotion of sales.

224. Industrial programmes or agreements at the regional level must be a vital part of industrial policy if it is desired to develop the power of joint negotiation and adopt common positions. To this end it is necessary to determine which branches it is desired to develop or endow with comparative advantages for the long term. To deal with the growing instability and external vulnerability, the role of regional harmonization should be to cushion the impact of extra-regional economic vicissitudes.

225. The growing importance of the regional market is a powerful factor for use in joint negotiations. It should be possible to use this power in dealing with many external interlocutors, such as transnational corporations, and in international negotiating forums. Thus, it would be advantageous for the countries of the region to join forces in the debates on standards relating to transnational corporations, the protectionist measures of the centres, industrial relocation and the transfer of technology. The magnitude and diversification of the regional market's capacity for the purchase of manufactures are very useful tools in negotiations. For this approach to work, there is need not only to adopt common positions but also to seek optional suppliers among the centres themselves and other regions and countries.

226. Latin America and the other developing regions have similar industrial problems, especially as regards relations with the developed countries. It therefore seems desirable to establish mechanisms which permit the exchange and pooling of experience with regard to industrialization and technology and make it possible to increase industrial trade by developing areas of complementarity.

227. Co-operation among State trade bodies and generalized systems of trade preferences among developing countries; the strengthening of institutions responsible for promoting co-operation, consultation and horizontal co-ordination activities, and the success of agreements related to financing, capital flows, and insurance and reinsurance of international trade show that there are areas with obvious potential advantages which the developing countries should make use of in the medium term.

228. Multinational corporations should be established in connexion with the marketing and production of semi-manufactures and manufactures. The experience acquired in negotiations with transnational corporations and in the handling of foreign investment could be put to use. Similarly, it seems possible to achieve greater unity in the sphere of the transfer and development of technology by having recourse to ventures such as the Industrial Technology Data Bank (BITI).

229. Trade in manufactures with the centres will continue to be a leading component of Latin American foreign trade. The present asymmetry of the latter, which is reflected in a marked deficit in trade in manufactures, must be sharply reduced. The experience of the 1970s shows that the region is able to cope with this lack of symmetry and that, had the protectionist measures of the centres not intervened, the increase in exports in manufactures

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would have been even greater and it would have been possible to reduce that deficit. The industrial structure desired for the 1980s will create conditions in which trade can be made more symmetrical provided that regional negotiating power succeeds in reducing the tariff and non-tariff barriers of the centres.

230. Concerted industrial redeployment such as that which the UNIDO system of consultations sets out to achieve will be a useful element in industrialization policy to the extent that the new international division of labour which it is hoped to achieve favours the region with packages of complex technology in sectors producing intermediate and capital goods; supports the processes of national, subregional and regional integration; protects natural resources and the environment, and results in more balanced participation as between national and transnational corporations.

231. In the negotiations on the transfer of technology, the region should insist on the elimination of restrictive and disloyal practices, on the need for assistance to strengthen self-reliance in technology on increased flows of international technology on terms favourable to the recipient countries, and on technical co-operation for the redeployment and transfer of technology which will to some extent compensate for the migration of qualified manpower to the developed countries.

232. Apart from the general postulates sustained by the developing countries in the negotiations on a code of conduct for transnational corporations, it will be necessary to promote concrete measures in the industrial field which contribute to the establishment of new branches, to the reduction of the imports of these companies, and to an increase in their exports. Complementarity, and in many cases industrial specialization, will give other countries a chance to deal in the subregional and regional markets. It may be said that there are various options for dealing with transnational corporations or for making arrangements with them, and these should be reviewed in each case. One of these is to deal separately with the possible contributions of a branch of a transnational, such as capital, technology and technical know-how, entrepreneurial ability, external markets or knowledge of them, and capacity for managing trading activities.

## B. AGRICULTURAL POLICY

233. The agricultural situation of many countries of the region differs from that which prevailed two decades ago; however, problems of great importance have been perpetuated and must be dealt with, for example, the need to modify the conditions of access to land, so as to expand the results obtained from the land reform activities undertaken and as an important means of achieving the aims which should be pursued by national strategies on the improvement of income distribution.

234. Land reform should be understood as a permanent process of change and readjustment of the agricultural structure to new national situations. Its dynamism, intensity and forms of implementation will depend on the particular conditions of each country and the realism applied in the effort to improve the quality of living in the rural sphere. In societies where land ownership is heavily concentrated, a change in the relationship between men and the land to benefit peasants and workers without land seems inevitable. Programmes aimed at a better distribution of agricultural income and a larger and more diversified output should avoid the growth of the minifundium, peasant settlements on marginal land and the underutilization of land in medium-sized and large properties, which have still not been incorporated into modern processes of organization and production in a social sense. The concentration of production in a few enterprises should be avoided, and the formation of co-operatives and other forms of associative agricultural exploitation boosted, so as partly to counter the adverse results of excessive segmentation which in some cases is reaching economically non-viable limits.

235. An important form of access to land will be the rational occupation of national territory so as to expand the agricultural frontier. Suitable forms of colonization and the opening-up of land to irrigation will relieve demographic pressures in specific areas of rural poverty, and will contribute to the solution of land ownership problems and to increasing agricultural output and employment.

236. The integrated rural development programmes appeared as forms of concentrating efforts to benefit part of the great mass of peasants, encourage their incorporation in the markets, allow them to be permeated by technology and provide them with government services of support and assistance which will contribute to improving their conditions of work and living. However, since the nature of these programmes does not attack the roots of rural poverty, their results go no further than the limited nature of their own activities as regards to access to the resources of production.

237. New conditions of access to land should include the participation of the peasants. Peasant organization has proved to be of vital importance in the land reform processes; the strengthening of their weak organizational structures, the reordering of their productive activities and their training should therefore be promoted, in order to enable the peasant sector to acquire broader areas of negotiation within a general framework of greater autonomy as a social group; this autonomy is indispensable for avoiding decisions which frequently prove mistaken. All this requires policy instruments aimed at facilitating peasant organization and giving free rein to their decisions on the use of the resources of production and their incorporation into market machinery and agroindustry.

238. In the rural sector there have been frequent increases in redundant labour, although production is growing and migrations towards towns and cities are a means of relieving demographic pressures which lead to the proletarianization, but not to the surmounting of poverty. Agricultural policies cannot be proposed independently of this situation of an unemployed labour force; on the contrary, and as the conditions of each country permit, they

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should contribute to solving the problem. More employment can be achieved by putting more land at the disposition of the sectors of the population which do not possess it, or which only do so in limited quantities, either by changes in land-owning systems, or by means of colonization, public investment in land habilitation, particularly irrigation, or the construction of a basic economic and social infrastructure. The considerable increase in production potential which irrigation brings with it should help to improve the situation of small producers and prevent them, as has happened, from being shifted or driven out, once the semi-arid land has been placed under irrigation. Seasonal underemployment, which is generalized in agricultural areas during the periods in which little labour is required, shows the advisability of public investments in manpower for the purpose of capital formation in predial or extra-predial infrastructure, which will benefit agricultural communities.

239. Technological policy has a major impact on the opportunities for agricultural employment. If agricultural research and experiments are carried out without any reference to existing land structures or the availability of labour, they end up with results which only partially or marginally respond to the needs of the majority of producers. Some policies to cut the prices of certain inputs and of equipment and machinery affect agricultural employment; they determine a role of certain abundant factors such as labour, the participation of which could be more intensive if capital formation were not indiscriminately subsidized.

240. The development of new activities in the rural sphere, resulting from the strengthening of the interrelations between agriculture and the rest of the economy, diversify the sources of employment, thus supplementing the income generated in agriculture. Education and training assist the labour force to acquire the skills required by agroindustry, construction and the services which operate in the rural milieu. The programmes of administrative decentralization and regionalization may also contribute to the development of non-agricultural activities and employment in the rural sphere.

241. In the absence of technological responses prepared in keeping with the economic and social conditions of each country, the available technologies are reduced to what the international markets offer. This means that technological patterns are adopted with a bias as regards the national requirements of a balanced agricultural development. Despite the progress achieved in Latin America in the organization of research and in the training of researchers, generally speaking, there exists a notorious ignorance of the needs of peasant farmers, in view of their individual form of organizing their economic activity and using land; they rarely adopt specialization processes, as is the case in larger-sized units. There is also a lack of research on specific crops, and on production systems based on associated or multiple crops. Moreover, there is little progress in the handling and recovery of ecologically fragile resources with a high deterioration risk, as is the case in some tropical areas or in general in forest-covered land.

242. In orienting the generation of technology - and, in broader terms, of technological supply - special attention should be given to the effects on the environment which both the new technologies and the different possibilities for using land and the processes of incorporation of new areas into production will have. The haste for short-term economic yield has caused broad areas of land in Latin America to become useless. Among other tasks, research should find answers to the recovery of ecologically deteriorated areas.

243. Definite progress has been achieved in the region in the field of the generation of technologies and the supply of technical services and technological inputs. The same cannot be said of the processes of transfer of technology. This is a field which presents a considerable challenge if the aim is broader social participation in the benefits of economic agricultural growth. The requirements in terms of the organization of production, and particularly capital formation, characteristic of certain technological options, are generally speaking very difficult to satisfy even where there is abundant labour. The research and technical and financial assistance institutions should encourage research aimed at generating new technological options the centre of which will be the production systems as such. There is evidence in some countries that new possibilities are being opened up for large groups of peasant producers of improving their productivity and their earnings with technological options centering on the production systems.

244. The group of policy measures aimed at facilitating access to land, increasing employment opportunities and generating, transferring and promoting the adoption of technologies, will contribute to tackling the great Latin American challenge: to increase still further the rate of output of agriculture but so as to be accompanied by the surmounting of situations of inequity and indigence. In order to contribute to the achievement of these aims it will be necessary to carry out specific activities as regards credit, marketing, prices, the supply of agrochemical inputs and the strengthening of State services to support peasant agriculture.

245. In order to ensure that production will increase more rapidly, greater financial resources must be placed at the disposition of the farmers. It is obvious that there is a need to expand credit coverage and review its forms of operation in order to incorporate small-scale producers into institutional credit. Experience shows that attractive measures, such as, for example subsidized interest rates, do not necessarily guarantee this. They should be supplemented by other measures which will allow the peasants to minimize their risks - an element of transcendental importance in the decisions they take. It is also advisable to study the introduction of some type of agricultural insurance for small farmers.

246. Marketing policies should, generally speaking, be aimed at achieving the following objectives: ensuring a more efficient process of marketing with lower costs; ensuring that post-harvest and storage losses are minimal; adopting machinery which will ensure that producers, particularly small-scale producers, can sell their products at reasonable prices, and ensuring that

/the supply

the supply of food to the population is adequate. In order to implement marketing policies the active provision of a new marketing infrastructure which will substantially improve that already in existence will be required in many cases and the integration of distant and inaccessible areas of production into the markets. In other cases, it will be necessary to establish purchasing powers which will ensure for producers, particularly small-scale producers, the outflow of their products under favourable conditions.

247. The price policies constitute a powerful tool for achieving the basic objectives established in the national agricultural development strategies. Their approach and form of operation will depend on each country's conditions and options. Price policies should stimulate the production and incorporation of new technologies, consistent and compatible with other specific policies, so as to avoid their benefits being concentrated among farmers who traditionally have been favoured by this type of measure. The degree of uncertainty as regards prices, to which small-scale farmers are particularly sensitive, must be reduced.

248. The policies for the supply of agrochemical inputs should ensure, particularly for small producers, that they will have timely access at reasonable prices to the inputs they require for the process of production. In many cases it will be necessary for the State to locate supply centres at points in its territory where there are no channels for distribution, or where these are inadequate and costly.

249. Agricultural activity has been responding dynamically to the increases in domestic and external demand. The difference in the participation of different types of agricultural producers in the home market is a reflexion of the uneven distribution of resources and factors of production. The medium-sized and large farms, owing to the volume and quality of their supply and their access to the information and transport media, storage and financing, are in a better position for obtaining remunerative prices. The dispersed and fragmented peasant supply, mainly consisting of basic foodstuffs for general consumption, is, generally speaking marketed at low prices. Thus, the measures aimed at facilitating their access to land and other means of production, should be accompanied by further measures to strengthen their bargaining power, important among which is support to peasant associative organizations.

250. As regards access to external markets, the familiar restrictions have been maintained and in many cases not only have been accentuated but have had further restrictions added to them. Vis-à-vis a situation of this type, pooled action by the developing countries must be kept going in order to bring about changes in international trade which will facilitate the access to these markets of their raw materials and processed agricultural products. Together with the increase in intra-regional trade, this should contribute to ensuring the price stability and to improving export earnings. The above should be part of a group of measures which at the national level will be consistent with achieving the declared aims. These measures include those

/relating to

relating to the removal of excessive bureaucratic restrictions, changes in tax and exchange systems, the provision of an adequate infrastructure, the promotion of new exports and their diversification.

251. The progressive interdependence and integration of agriculture with the rest of the sectors, and with the economic system as a whole, has generated greater concern for the structure and growth of agricultural investments. There is evidence of active government efforts to achieve substantial increases in private investment in agriculture - both investment increasing output and productivity in the short-term and slow-maturing investment. Particular mention should be made of the additional efforts to improve the efficiency and capacity of the public agricultural apparatus, in its different areas and levels of action.

252. The nature and dynamism of public and private investments in agriculture are strongly influenced by the origin of the funds available. In the 1970s, official external assistance, both multilateral and bilateral, contributed appreciably to financing the agricultural investments of many of the countries of the region. The increase in production, in a context of greater equity, requires measures aimed at the most effective, systematic and co-ordinated use of these external resources. Efforts should be made to obtain more loans for programmes and projects the aims of which in terms of economic growth and technical progress are accompanied by social objectives, such as increasing employment, improving income distribution, raising the level of nutrition and reinforcing food security measures.

253. During the 1980s, the agricultural development of the Latin American countries will no doubt give rise to an even more rapid growth of agroindustry than the already high rate recorded in recent years. This increased dynamism will be fostered and will tend to be controlled by a small number of major transnational corporations, which impose specific agroindustrial models which are in turn reflected in national agricultural and rural development. It is clear that the countries must seek forms of making maximum use of the financial, technical, organizational and market advantages of these corporations, but in doing so they must make careful use of the power they exercise and not permit forms of operation incompatible with national interests. In order to make the most of these advantages it will be necessary to improve and increase the capacity of intervention of agricultural producers in the market, by stimulating their organizations so as to reduce and balance the predominance obtained by the transnational corporations through their vertically integrated primary and industrial production systems.

254. The governments should adopt policy measures relating to the ownership and use of land, which will guarantee priority attention to national over foreign interests, since agricultural land is a vital resource for the economic and political independence of the countries. The activities of the transnational corporations must be part of and regulated by the main lines of each country's development policies and strategies, so as to be in keeping with national needs, interests and reality.

255. Co-operation efforts in the field of food and agriculture in the countries of the region have been difficult and frequently conflictive. Co-operation in agriculture and food is a relatively new phenomenon compared with co-operation in trade and industry, and its assimilation by the political determining factors and motivations which support and foster it is just beginning. Co-operation activities of this type have generally tended to be accepted circumstantially. They did not emerge from a clear awareness of the advantages of interdependence, and because of this their practical and permanent implementation still pursues multinational forms of understanding. However, there are numerous areas where it is possible to observe an appreciable co-operation potential.

256. The increase in production and agricultural productivity would be helped by joint programmes aimed at the simultaneous use of abundant resources for the production of certain foodstuffs, the production of inputs for agriculture and the preservation of foodstuffs, and the control and eradication of plagues and diseases affecting the agricultural sector. The relevant national institutions could establish agreements for the exchange of specialists, mutual technical assistance, the generation of technologies, the expansion of the national genetic base, and programmes for training professionals and supporting staff.

257. Bilateral or multilateral co-operation for improving the supply and consumption of foodstuffs, based on supplementary outputs, is of particular importance. The countries of the region have experience of this type of understanding; its practical use and political feasibility have been demonstrated. Foodstuffs considered "critical" - wheat, rice, beans, vegetable oilseeds and milk products - may be a motive for multiple trade combinations. Subregional and regional co-operation may notably increase the level of self-supply in the "critical" foodstuffs and support the region's food security, which will become part of the broader framework of the Plan of Action for world food security, proposed by FAO and adopted in 1979. Policies should be adopted as regards stocks of edible cereals, criteria for the administration and liberalization of national stocks and special measures to assist countries in emergency situations or difficult conditions.

258. In the short-term, gradual progress can be made to replace extra-regional imports by outputs from countries of the region. For this purpose medium- or long-term trade commitments or contracts of a bilateral or multilateral scope may be set up between countries whose outputs complement each other, particularly through marketing bodies; financial machinery can be set up to back the promotion of the national outputs involved, multinational enterprises encouraged which will promote interregional trade and joint purchases of the inputs used in production, market information systems reinforced and the infrastructure of trade improved, particularly as regards centres for stocking and storing.

259. The instability of the international markets and the protectionism of the developed countries have affected and still do affect export earnings and discourage production. Regional co-operation to increase regional

/bargaining power

bargaining power has been concentrated in some products such as sugar, bananas, coffee, meats, wines, and timber. Other products may be a motive for concerted or co-ordinated activities. Stress should be placed on measures such as the harmonization of common Latin American positions and strategies vis-à-vis third countries, groups of countries and international forums, and the creation of new producers' associations to solve external trade problems.

260. In various international forums, the Latin American countries have brought up the need for a substantial increase in external financial assistance for agricultural and rural development. Concerted and co-ordinated action by the Latin American countries should lead to the revision of the conditions for granting financial assistance applied by the international financial bodies. In particular, financing as a whole should be obtained, and where feasible, the financing of integrated rural development or food systems projects, instead of the individual study and adoption of the projects composing them.

### C. ENERGY POLICY

261. In one form or another the countries of the region have outlined, and in some cases implemented, a variety of measures aimed at tackling the energy crisis not only with economic and political implications but also involving national security. However, there is a generalized consensus as regards three fields of action:

(i) technical, political and administrative machinery to save energy in general and hydrocarbons in particular must be designed. The application of increasingly high prices to fuel consumption so as to slow its growth, particularly as regards petroleum, is stressed in this field, as well as the restructuring of fuel-consumption patterns in the public sector particularly so as to reduce dependence on imported petroleum. In combination with these aspects, the administrative measures drawn up by the governments of the industrialized countries to cut the rate of growth of petroleum consumption are of special significance, such as, for example, the express prohibition to import vehicles with a high cylinder capacity;

(ii) a larger quantity of technical and financial resources must be earmarked for the creation, prospection and development of new sources of energy, giving priority to hydrocarbons as the shortest-term solution. The increase in the rates of investment to increase the supply of energy to replace oil imports would therefore be concentrated on quantitatively larger sources of energy, such as petroleum, natural gas, and water-power, and to a much lesser extent on other traditional sources. However, where this is feasible, special consideration should be given to taking advantage of Brazil's experience in producing alcohol as a fuel for vehicles, which also could be of priority interest, and

(iii) alternative sources of energy must be used, as a means of reducing present heavy dependence on petroleum and consequently the external vulnerability of the non-oil-producing countries; and the adoption of a more suitable policy to preserve non-renewable resources in the countries with surpluses. All of this is closely linked with the conservation of the environment and thus with rooting-out practices which cause the deterioration of nature.

262. The energy-saving policies have basically been aimed at imposing restrictions on the consumption of hydrocarbons in the transport sector, which in many countries absorbs over 50% of total consumption. The measures adopted for this vary from one country to another and do not have clearly-defined features permitting categorical generalizations. With few exceptions, as in the case of Brazil, they consist of statements of somewhat scattered goals and objectives which it is expected to achieve by means of tax machinery and discriminatory prices in terms of the area of consumption. The consumption of the lighter products, such as gasoline, have come up against higher tax rates, while consumption of the heaviest products have preferential treatment since they are used basically in the production of goods and in the generation of thermoelectricity. In some countries partial rationing measures have been adopted, such as the closing of petrol pumps during the night and at weekends. These measures, together with the tendency to use cars with a low cylinder capacity (either as a result of a prohibition on using vehicles other types or from preference), have contributed to cutting the annual growth of consumption of liquid fuels in the region from 7.7% in the period 1970-1973 to 4.3% during the period 1973-1978;<sup>3/</sup> however, this evolution has gone along with a decline of similar dimensions in the rate of growth of the gross domestic product (7.3% and 4.6% respectively).

263. The implementation of policies for the conservation of energy resources generally have been sponsored by high-level government authorities particularly in the economically largest countries. This has permitted noteworthy progress in the identification of national and regional co-operation problems, particularly through the Latin American Energy Organization (OLADE). Perseverance is required here, with more stress on taking political decisions of wider scope to solve the most pressing energy problems facing the countries. This is obviously indispensable if the eminently extravagant and imitative styles of consumption of the industrialized societies are to be modified in a few cases. It is symptomatic that even in the countries which openly have deficits, with few exceptions, the domestic prices of hydrocarbons have grown more slowly than those of the international market, with an implicit system of subsidies which is not in keeping with the growing restrictions imposed by the energy crisis. In the majority of the self-sufficient countries, or those which are close to being so, the phenomenon is more pronounced and would seem to be in line with practices aimed at solving short-term problems which do not exercise sufficient prudence in the conservation of resources. Throughout this spectrum, one of the exceptional cases is Brazil, which apart from having designed an ambitious energy programme to replace hydrocarbons, has proposed to implement an energy conservation strategy which in 1985 would account for 8% of the consumption

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3/ Figures based on United Nations, World Energy Supplies, 1973-1978, Statistical Papers, series J, N° 22, New York, 1979.

of commercial energy.<sup>4/</sup> Naturally, the physical and economic potential of this country is also exceptional, but the case serves as an example to illustrate the options furnished by economies of scale accompanied by clear political decisions.

264. The tendency of economic growth to be concentrated in industrialization, urban services and agricultural modernization goes along with a production system with few technological options for the short-term use of sources of energy other than hydrocarbons, particularly in view of the high degree of inflexibility of the transport sector. This leads it to be concluded that the intensification of efforts to increase oil reserves should be a collective and high priority responsibility of the international community, at least during a transition stage will make it possible to set up a bridge towards the incorporation of new sources of energy. In this context, the existence of strong common interests in the majority of the countries of the region and others outside it establishes an appropriate basis for international co-operation, essential in this field both because of the magnitude of the resources required and technological complexity involved in achieving these objectives.

265. This co-operation should materialize on the basis of regional agreements which will in turn make it possible to define positions vis-à-vis other international communities. The design of policies to make use of hydrocarbons should take a long-term view and take account of their close interrelations with the expected evolution of other sources of energy. Some high priority aspects which should be considered for implementing these policies could be:

(i) the adoption of political decisions at the highest level aimed at laying the legal bases for formalizing this co-operation, which could be implemented through OLADE;

(ii) the financing and technology to implement the operations for the prospection and exploitation of hydrocarbons could be based on the common effort of national enterprises which conclude agreements; however, if this were not sufficient, co-operation with other countries or international organizations would also be open, since vis-à-vis the present crisis the mobilization of resources for these purpose is an undertaking which satisfies common interests. According to the declarations of the Vienna Conference, it should be borne in mind that technological progress constitutes a common heritage of mankind and that this principle should therefore be used;

(iii) the formation of commercial enterprises for hydrocarbons with a powerful bargaining capacity is found to an extent which transcends the national context, and will be particularly important for the smallest countries.

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<sup>4/</sup> See, Ministry of Mines and Energy of Brazil, Modelo energético brasileiro, 1979. The World Bank in its study, Energy in the Developing Countries, Washington D.C., August 1980, considers that the developing countries could reduce around 15% of their projected consumption if they applied policies for the conservation of resources. In Energy: the next twenty years, Ford Foundation, 1979, it is concluded that in the United States the energy conservation policies could be the most important source of energy towards the end of the century.

The operational system of these enterprises should consider negotiating schemes which will make it possible to design a price policy in the longest term possible so as to minimize uncertainty, and at the same time obtain fairer conditions. Since the main suppliers of hydrocarbons belong to the Third World, and have in different forums expressed their willingness to collaborate with developing countries, the materialization of these schemes should have a solid point of departure;

(iv) a large proportion of the considerations formulated above could be applied to the creation of enterprises for transporting fuels;

(v) the construction of modern refineries is a field requiring major investments, and although their materialization may be difficult for geo-economic reasons, and possibly for reasons of national security, no effort should be spared to achieve this objective which most certainly would produce large-scale profits, currently non-existent in the great majority of the countries;

(vi) the implementation of the policies described briefly would ease the way to concluding agreements which would ensure the supply of hydrocarbons in a permanent form. It must, however, be borne in mind that in any circumstances this is a fundamental aspect which would have to be faced, since the present crisis has not only generated mounting prices but also instability in supply. A constructive example here has been given by Mexico and Venezuela, whose agreement to supply Central America and the Caribbean countries gives them a security which under other negotiating conditions it would be difficult to achieve.

266. The policies for the development of other sources of energy pursue as one of their central objectives the replacement of oil consumption to the maximum that technological options permit. Activities in this context are also closely linked to the changes which must be made in the system of production to increase these options. The alternative sources are hydroelectricity, natural gas, coal, biogas, alcohol, nuclear energy and other non-conventional sources.

267. Water power can replace oil to a very large extent. Although Latin America as a whole only uses around 16% of its hydroelectric potential, as a result of the oil crisis its supply of hydroelectricity has increased and accounts for 60% of the total electrical energy generated; this proportion goes up to over 80% in countries with a shortage of hydrocarbons. However, the subsequent expansion of this sector requires large-scale investment and the solution of complex technical problems, since although hydroelectric potential does not constitute a limiting factor in the majority of countries, its location in areas far from the centres of consumption requires not only financing for the construction of plants, but also for infrastructure for the transport of the energy; under these conditions, the validity of the solution will tend to be assessed in terms of costs, technical application and other considerations such as external vulnerability, to give some general aspects.

/268. Brazil,

268. Brazil, for example, which is the country with the largest potential in this field, will have increased the share of hydroelectricity in commercial energy from approximately 36% in 1978 to 46% by the end of the decade. Logically, this growth aims at minimizing the generation of thermal energy. In the field of international co-operation there have been notable achievements in border countries where hydroelectric power stations are being constructed or are in operation, such as those of Itaipú (Brazil-Paraguay), Yaciretá, Corpus and Itate-Itacorá (Argentina-Paraguay) and Salto Grande (Argentina-Uruguay), but these have been the product of major binational efforts which could have been mitigated with more decided support from the industrialized countries. In this sense, it must be agreed that the earmarking of international resources to take advantage of energy must not discriminate against water power although the countries involved may lack common interests in doing so.

269. Natural gas as a petroleum substitute has certain technical advantages over other energy resources; however, since its production is largely associated with discoveries of petroleum, it has a high level of concentration in certain countries (70% of the region's total reserves are to be found in Mexico and Venezuela), so that the real margin for substitution is very small, considering the countries separately.

270. As regards coal, its possibilities as another source of energy at the regional level are limited, and only Colombia, Brazil, Chile and Mexico produce and maintain coal reserves of any importance, although with a relatively low calorific power. However, in its energy model Brazil anticipates the use of coal in a large proportion of its thermal power stations and in the production of gas and hydrocarbons; around 1985 34% of total petroleum substitution in this country would come from an improved use of mineral coal. Similarly, it is estimated that vegetable coal could cover 24% of this anticipated substitution; this is an interesting use of non-commercial energy sources as a form of tackling the transition stage towards new sources and the expansion of the production of hydrocarbons. In any case efforts must be redoubled to identify coal reserves of significance in terms of size and calorific power, since a large part of the coal used in the Latin America iron and steel industry is imported.

271. Nuclear energy is promising, but of very limited scope for the small countries. In fact only Argentina has to date succeeded in generating electricity by this system, and although Brazil, Cuba and Mexico have progressed in their respective programmes, they have done so with delays and in the face of serious technological problems not exempt from political implications. Although this field is a very propitious one for making the energy sector more flexible, it tends to constitute a longer-term alternative and the access of the medium-sized and small countries to it will depend on drastic changes in international policy.

272. The margin of substitution for petroleum products in the transport sector is very small. In this context, only Brazil's experience with ethylic and methylic alcohol has been successful, although still on a limited scale (around 1.5% of commercial energy consumption). Around 1985 it is planned

/to increase

to increase this share nearly fivefold and mobilize around 2.5 million vehicles; however, the consolidation of alcohol as a fuel for wide consumption is still far from being within the reach of the countries with less available land. Independently of progress in production techniques which could reduce costs, and the use of by-products, the problem of the alternative use of land to produce food without indulging in large-scale investments to expand the agricultural frontier is outstanding. In any case, a large share in this pioneering effort should be given to countries with the possibility of taking advantage of this technology while at the same time the technical and financial support of the international community to speed up their subsequent development should be requested.

273. The traditional sources of energy still play an important role in the region; wood in particular and vegetable residues possibly exceed 25% of the primary energy consumed <sup>5/</sup> so that in the short-term it could constitute a reasonable solution which would make it possible to gain time for incorporating other sources of energy and alleviating the pressures of the balance of payments. It does, however, seem hardly realistic to project a sustained growth of the consumption for these fuels in the long term, not only because this would be incompatible with increasingly complex economic growth, but also because, in the absence of appropriate machinery for their use, indiscriminate deforestation would provoke erosion and desertification, and finally the deterioration of the environment.

274. As regards non-conventional sources of energy, such as solar, geothermal, wind and tide energy, etc., its use in the region is minimal and no large-scale projects are anticipated for the immediate future. Policies for using these sources tend to be found at the research stage, and only in the relatively long term can alternatives of any significance be considered. Solar energy, which is one of those with the highest yield in this area, still involves high costs of installation and distribution, which makes it commercially non-competitive with hydrocarbons either in the production of hot water, the generation of heat at intermediate temperatures for industry, or the generation of electricity. It is considered that even if the costs of solar installation were substantially cut and the prices of hydrocarbons maintained their upward spiral, only at the end of the century could solar energy become an alternative source. Geothermal energy has a poorer outlook, among other reasons because although its potential is considerable, it is generally to be found isolated from the centres of consumption and this would mean problems of transport involving large-scale investment; in any case, where it exists, the use made of it has been moderate, since there are only two power-stations in the continent (in Mexico and El Salvador) which generate

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<sup>5/</sup> In Brazil which is the country of most importance in this context, this proportion was 27% in 1976-1978. It is estimated that the rural population accounted for 35.4% of Latin America's total population in 1980.

less than 0.2% of the region's energy. Similar considerations could be invoked as regards wind and tide energy, since although the continent has a very long coast with tides which allow the construction of tide-energy factories and the use of wind energy on coasts where there are permanent winds, the use of these forms is very localized, and is definitely marginal as a source of energy. Naturally, this is not intended to be a pessimistic view of the potential of all these energy sources; however, it must be stressed that, at least in the short term, they do not constitute options which will change the prevailing state of energy. In the long term they will no doubt be able to play an important role, but for this to be possible, unlimited international co-operation in terms of financing, research and transfer of technology is indispensable.

## Chapter V

### V. GENERAL LINES OF THE EXTERNAL ECONOMIC POLICY

275. This chapter will first of all situate the region in the international context and attempt to show its relationship with the crisis of the developed countries. Next, some important problems of international trade (such as access to markets, the new organizational patterns of world trade and the situation of exports of commodities and manufactures), external financing, the international monetary system, the transnational corporations and technology will be analysed. Lastly, the trade relations between Latin America and the developed countries and co-operation among developing countries will be reviewed. It should be noted that owing to the complexity of the reciprocal relationships inherent to the external sector, in order to be able to propose policy measures, the context into which they will be introduced must be described in greater detail than when domestic policies are under discussion; thus in each case an effort will be made to summarize the present situation and spell out some specific activities under consideration or lines of action which could be adopted.

#### A. LATIN AMERICA AND ITS PLACE IN THE INTERNATIONAL ECONOMY

##### 1. Recent changes in the international economy

276. The changes which took place in the 1970s profoundly altered the international economic situation. Among the developed market economy countries the sustained postwar boom came to an end and a multi-crisis situation began to appear (inter alia, in growth, in overall, monetary and energy management, in economic concentration, in employment and in markets). This situation of the developed countries was not only strongly reflected in the developing countries, but the nature of several of their most important problems was altered (for example, their external vulnerability), and the policies implemented endeavoured to minimize the effects of these difficulties, in some cases by establishing defence mechanisms and others by the expedient of closer links with the developed economies.

277. The place in the world economy of the developing countries in general and of Latin America in particular is conditioned by several factors, outstanding among which are, firstly, the disequilibria of the international economy, in the midst of which numerous relationships and mutual links are established or renewed at a great rate, both as regards countries (for example, those established between oil-producer or consumer countries) and economic machinery (of the type of the new international financial circuits); and secondly, the links between the centre and the periphery of the international economic system with a very unequal distribution of the power of decision-making

/and of

and of incomes and a very unfair share in the fruits of technical progress and the world economic growth.<sup>6/</sup>

278. The developing countries brought up in the United Nations the need to introduce a group of reforms in the structures which currently govern the economic relations between developing and developed countries. This led to the adoption of the Declaration and Programme of Action on the Establishment of a New International Economic Order, pursuant to resolutions 3201 (S-VI) and 3202 (S-VI), adopted in 1974 at the Sixth Special Session of the United Nations General Assembly. Subsequently, at the Seventh Special Session of the General Assembly, held in 1975, a commitment accepted to initiate negotiations between the two groups of countries; the Conference on International Economic Co-operation which met in Paris between 1975 and 1977 was the expression of this agreement. Moreover, a substantial number of these problems were tackled in the meetings of the United Nations Conference on Trade and Development (UNCTAD) held in Nairobi and Manila in 1976 and 1979. These principles were reaffirmed in the Charter of Economic Rights and Duties of States. Subsequently, the governments agreed to resume the dialogue in a round of global negotiations between developed and developing countries within the framework of the United Nations. The Strategy for the Third Development Decade, adopted in December 1980, contains some of these basic proposals of the Sixth Special Session.

279. This is not the place to analyse international economic events. This is why only some features of the milieu in which external relations of Latin America evolve will be described, with regard to the characteristics of the recent functioning of the economy of the central countries and the machinery of propagation of their crisis to the periphery.

280. The central market economies are experiencing deep-seated changes which substantially alter the form in which they function; although it is not our intention to establish cause and effect relations, some of the most important changes will be mentioned. In the first place, inflexibilities and restrictions exist which have caused a slow growth in productive activity. Noteworthy among these are the need to divert substantial investments towards the readaptation of the system to the new conditions, thus withdrawing them from the production circle, i.e., investment must be assigned to readjustments instead of being earmarked for the installation of production equipment. In particular, the implementation of the process of "re-industrialization" in some developed countries requires the modernization of a group of industries which have lost their international competitiveness, as well as

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<sup>6/</sup> During the period 1950-1977, the per capita domestic product increased (in United States dollars at 1970 prices) by US\$ 2 576 in the United States, US\$ 1 771 in the countries of the European Economic Community and US\$ 126 in the developing countries as a whole (US\$ 400 in the case of Latin America); it should be noted that the annual average growth rate of the per capita product during the entire period was the same in the United States as in the developing countries as a whole (2.3%).

adjustment to the new prices of fuels and the application of technical improvements to minimize pollution. The increase in the oil prices abruptly changed the rules of the game of an economic system based on cheap and plentiful energy. The rate of growth of labour productivity dropped;<sup>7/</sup> and in the enterprises of the United States the structure of production costs changed with a reduction of the share of profits, while that of the interest received increased.<sup>8/</sup> At the same time, the international monetary crisis materialized and inflation and unemployment re-emerged. Secondly, some socio-economic trends were consolidated, such as the internationalization of the patterns of the consumer society, the transnationalization of the economy and the process of economic and financial concentration. Lastly, at the level of the international economic activity of the market economy countries, a state of leadership shared by the United States, the European Communities and Japan was declared, instead of the clearly-marked hegemony of one of these which predominated from the postwar period until the end of the 1960s.

281. The critical situation of the centres is spread to the periphery by various forms of propagation machinery. It should be noted that these are complex phenomena, in which it is difficult to distinguish which are the generating agents which simultaneously have different effects. Of these, mention may be made of: (i) protectionism, which is the elementary form in which the countries of the centre defend their output, with their high costs in agriculture and some industries, which limit the potential exports of developing countries; (ii) the inflation of the central countries spread to the periphery particularly as a result of the increase in the price of manufactures, added to the inherent factors of inflation of some countries; for the developing countries as a whole, the accumulated additional sums paid during the period 1971-1978 as a result of the increase in the unit prices of machinery and transport equipment amounted to US\$ 242.3 billion;<sup>9/</sup>

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<sup>7/</sup> Between the periods 1957-1973 and 1973-1978, the annual average growth rates of manufacturing dropped from 2.1 to 0.8% in the United States, from 8.9 to 3% in Japan, from 4.8 to 2.9% in France, from 4.6 to 3.1% in the Federal Republic of Germany and from 3.0 to 0.7% in Great Britain (in this last-mentioned case the comparison is up to 1977) (see Organisation for Economic Co-operation and Development (OECD), Statistical Yearbooks, Paris, 1957 to 1978; ILO, Statistical Yearbooks, Geneva, 1957 to 1978).

<sup>8/</sup> In the United States between 1960 and 1978 in the structure of the production costs of the enterprises, interest increased from 1.3 to 3%, while profits after taxation dropped from 6.7 to 4.6%; at the same time, during the same period, the rate of the self-financing of enterprises dropped from 73 to 48% (see the United States, Economic Report of the President, Washington, 1979).

<sup>9/</sup> In order to give an idea of the size of this figure it should be recalled that during the same period and for the same countries the additional payments resulting from the increased unit prices of fuels amounted to US\$ 152.8 billion; i.e., the "manufacturing account" was larger than the oil account, since although the unit values of fuels increased (Cont.)

(iii) the boom in superfluous or luxury demand in the periphery countries which has acquired vast dimensions and which responds to the pressure from enterprises in developed countries to sell goods - independently of whether or not they are essential - and to the mass action of the means of propaganda, and also to the imitative patterns adopted by the great majority of the local population; but, unlike the countries of the centre, in the periphery countries it is not a case of the consumption of the majority of the population in a very homogeneous society, but of luxury, superfluous or common-place consumption in societies in which a great part of the population - in some cases the majority - lack the essentials.<sup>10/</sup>

282. On the basis of the global picture outlined some trends may be distinguished. One must above all be aware of the nature of the problems affecting the developing countries, the multiplicity and complexity of the new relationships which have emerged, and the continuing existence, with some original features, of the subordination which characterizes the relations between the centre and the periphery. In this context, it is fundamental for the Latin American countries to define the general lines of their international position and the short-term forms which will enable them to adjust better - i.e., by making maximum use of their own development potential - to the world economic conjuncture which may emerge during the 1980s. This is once again to stress the absolute need for the region to continue to prepare and propose a common platform of action proposals, which at the same time should be in keeping with the basic positions maintained by the developing countries as a whole. These proposals should be expressed in various contexts: in the first place, in the negotiations with the developed countries; secondly, in the preparation and implementation at the national level of defence machinery which will prevent or minimize the harmful effects of international difficulties; lastly, in the implementation of a regional co-operation policy.

2. Three major areas for action; international trade, financing and regional co-operation

283. The main guidelines for action as regards international relations were specified in the International Development Strategy for the Third

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9/ (Concl.) more rapidly than those of machinery and transport equipment, they were applied to a smaller physical volume. In any case, these are two items which are indispensable for the operation of the economy. In the case of Latin America, the increased prices of fuels amounted to US\$ 70.7 billion and those of machinery and transport equipment to US\$ 63.8 billion during the same period.

10/ See the series of articles published on the subject in the CEPAL Review, especially those by Raúl Prebisch, "A critique of peripheral capitalism", (No. 1), "Socio-economic structure and crisis of peripheral capitalism" (No. 6), "The neoclassical theories of economic liberalism" (No. 7) and "Towards a theory of change" (No. 10); by Aníbal Pinto, "Styles of development in Latin America" (No. 1) and "The periphery and the internationalization of the world economy" (No. 9); by Jorge Graciarena, "Power and development styles" (No. 1) and by Marshall Wolfe, "Approaches to development: who is approaching what?" (No. 1).

/United Nations

United Nations Development Decade, and concern trade, financing and co-operation.<sup>11/</sup>

284. The first group of questions to be attacked and action to be adopted concern Latin America's international trade. To maintain or increase the growth rate of exports constitutes an essential requisite for a satisfactory growth rate to be achieved. This is no utopian proposal, since this relatively high growth rate in trade was achieved in the period 1975-1979, in the midst of a world recession. As is obvious, the dynamism of the external sector depends on the one hand on the generation of a growing and increasingly diversified flow of export for products and on the other on free access to the international markets. The first requisite is linked with the strengthening of the internal economic structure, particularly with the invigorating and diversifying of industrialization and with improving exports and the local or regional processing of primary products. As regards access to the markets, the struggle against the protectionism of the developed countries and in favour of a significant share in the preparation and implementation of the international economic policy should continue. In this regard, the best arms of the developing countries are unity of action in negotiation and the capacity to adapt group measures.

285. The second group of problems concerns external financing. In the majority of the countries of the region, the absorption of the effects of the international recession and particularly the increase in the price of energy products has caused reductions in the growth rate, increases in inflation rates and the growth both of the current account deficits of the balance of payments and of external indebtedness.

286. The decade now beginning will require new efforts to tackle with imagination and realism the problem raised by the substantial resources required to finance the balance of payments. Among possible lines of action mention may be made of a substantial increase in resources from the international financial institutions and access to the international financial markets with new forms of co-operation under conditions which will not be harmful to the development process. Direct financial co-operation between oil-producing and non-oil-producing developing countries may be fundamental; an example of this has been the co-operation of Mexico and Venezuela with a group of Central American and Caribbean countries.

287. The third series of problems is linked to integration and co-operation among the countries of the region, which continues to be a fundamental component both of the strategy for achieving a more appropriate position in the world economy and for boosting the internal development of the Latin American and Caribbean countries. In the former case ample support is given to international action, and in the latter, national growth receives impetus from the broadening of the possibilities and dimensions of the home markets. In the case of the traditional integration systems, despite the tensions which they have experienced since the mid-1970s, the results achieved in terms of intra-regional trade continue to be significant and in some of them there are excellent prospects for growth.

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<sup>11/</sup> See United Nations, General Assembly, Development and International Economic Co-operation, document A/35/592/Add.1, paragraphs, 52, 96 134 and 135.

288. The courses to follow and the machinery to be used in the future will differ in some cases from those used in the past to integrate and unite the region, because the international scenario and the economic, political and social structures of the Latin American and Caribbean countries themselves are different. Latterly, the interrelation of the economies has continued to increase through agreements and projects of a bilateral or multilateral nature, in the field of trade, the physical infrastructure, the sectors of production, technological complementarity and financial co-operation, as part of a definite trend towards greater pluralism and a growing variety of forms of co-operation.

289. Regional co-operation should also be considered in the broadest possible perspective of joint action with the developing countries. The experiences of the decade show existing possibilities and the need to intensify the links with the rest of the peripheral regions so as to seek new dynamic impetuses for development and strengthen the bargaining capacity with the industrialized countries.

## B. LATIN AMERICA'S INTERNATIONAL TRADE

### 1. Access to the markets

290. Protectionism in the trade policy of the industrialized countries has re-emerged in recent years, materializing in very diverse forms and significantly affecting Latin American exports. There has been a move from instruments implemented at the national level, proper to the import systems of each country to applying mechanisms - without doing away with the previous ones - which are of the nature of international agreements. A change of relative importance has also taken place: non-tariff barriers have acquired greater relevance than tariff barriers, while at the same time the committees which will handle directly the specific agreements adopted in the Tokyo Round have emerged.

291. The developing countries have, generally speaking, emphasized their dissatisfaction with the results of the Tokyo Round, because they do not significantly alter the protectionist policy of the developed countries. This means that the maintenance of internationally non-competitive industries or activities is being permitted in the developed countries preventing a more rapid growth of the exports of the developing world. It is important to repeat that this restriction on the purchasing power of the developing countries in turn restricts the export possibilities of the developed countries themselves, particularly of capital goods and intermediate manufactures which they export in sizeable quantities to the developing countries. This tends to form a vicious circle with its origin in the protectionism of the developed countries.

292. It must then be asked what means of resources the countries of Latin America can use to oppose the protectionist barriers of the developed countries to some extent. By repeating or combining suggestions made in different forums and on different occasions, there are two aspects which these suggestions

/may cover:

may cover: (i) the strategy to be used and its main means or instruments; and (ii) possible action.

293. As regards the first point mention should be made of the bargaining power which the region may have vis-à-vis the developed areas. For this bargaining power to be significant various circumstances must exist. First of all, a common Latin American position is required vis-à-vis the negotiations themselves, the form and mode of tackling them, the selection of areas and products to be considered and the barriers to be removed. This position might possibly include other developing areas in order to increase the bargaining power and the efficacy of joint action, considering the large volume of imports which the developing world receives from the developed countries, particularly in the form of manufactures, and the possession of strategic commodities.

294. Among the specific actions which the developing countries have proposed in different forums to combat protectionism, particularly that of certain industrialized countries, are the following: (i) the establishment of a symmetrical trade treatment applicable to exports originating in the developed country or countries which apply protectionist policies; (ii) the maintenance of a continuing and co-ordinating activity aimed at achieving an adequate share in the negotiations and in the international operational machinery - particularly in that of UNCTAD and the General Agreement on Tariffs and Trade (GATT) - for the collective defence of the interests of the countries of the region; (iii) persuasion of the developed countries to restructure their output, moving activities which are not internationally competitive to other countries instead of applying protectionist measures. The present situation and possible actions as regards tariff and non-tariff barriers and new patterns of organization of international trade will be discussed next.

(a) Tariff barriers

295. As regards tariffs and as a result of the Tokyo Round of negotiations a new cut took place in the average weighted rate of the nominal tariffs existing in the developed countries, and particularly in the United States and in the European Communities and Japan. At the same time, serious and substantial differences continued to exist as regards this average rate and a tariff-scaling which, although it was less obvious, kept up the real rate of protection on homogeneous groups of products.

296. The liberalization of the trade conducted by the developed countries covered a huge number of tariff lines (approximately three quarters of dutiable products) and meant the reduction by a third of weighted tariff averages for industrial products and 40% for agricultural goods. However, it is precisely in sectors of particular interest to the developing countries where relatively high tariff levels were maintained in the main developed countries. Thus, for export products of great interest to Latin America, they exceed 40% and even 50%, reaching in Japan (for example, for tobacco) over 350%. These high levels seriously alter the tariff structure, excessively increase the tariff spread and establish a scaling which produces levels of

/real protection

real protection far higher than the nominal tariff levels.<sup>12/</sup> In this latter sense, the most important difference between the real and nominal tariffs may be seen in processed foodstuffs, in textiles and textile goods and in labour-intensive light industries, i.e., in those industries of particular interest to Latin America.

297. The introduction of modifications in aspects of differences compared with the average rate and tariff-scaling in a complicated task, since no new round of negotiations is anticipated for the next few years. However, great efforts must be made to achieve the norm laid down in the International Development Strategy: "Steps will be taken early in the decade to reduce or eliminate existing restrictions on imports from developing countries" (paragraph 53).

(b) Non-tariff barriers

298. As regards non-tariff measures and barriers, it should be noted that several of them have been regulated by agreements stemming from the Tokyo Round. Others, however, with a greater protective potential, such as the quantitative restrictions and variable duties and components, have practically not been negotiated nor legislated on and their existence is still endorsed in multilateral agreements reached within GATT.

299. All this numerous, diverse and complex group of non-tariff mechanisms used by the developed countries in their protectionist policies have substantially affected our region's exports. Taking 20 groups of non-tariff barriers it may be seen that in 1979 they affected US\$ 8 billion, i.e., more than 50% of exports to the markets of the United States, the European Communities and Japan, excluding petroleum. Both as a result of the number of applications and the value of the trade affected, of note were: the quantitative restrictions (329 applications); the "voluntary" restrictions, including those of the Multifibre Textile Agreement (320); the health licences, regulations and prohibitions (350); and the variable duties and components that the European Communities apply on agricultural and livestock imports (72).

300. In view of the expansion and strengthening of the non-tariff barriers observed in recent years, as the International Development Strategy lays down, "concerted efforts will be made, particularly by developed countries, to reduce non-tariff barriers progressively and even abolish them, particularly in the case of products or sectors of export interest to the developing countries" (paragraph 53). For this purpose measures could be implemented in order to:

(i) establish information systems which could indicate efficiently which non-tariff barriers exist, how they are applied and where; the complicated network of restrictions established in very different regulations should be brought to the fore in order to be able to counter them;

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<sup>12/</sup> See GATT, The Tokyo Round of Multilateral Trade Negotiations: Report by the Director General of GATT (April 1979) and Supplementary Report (January 1980).

(ii) use all available bargaining power to obtain the abolition of these measures in the case of products of interest to Latin America;

(iii) consider the possibility of active responses imposing restrictions on the exports of developed protectionist countries.

(c) The new patterns of organization

301. The Tokyo Round, unlike earlier rounds of negotiation within GATT which primordially concerned the liberalization of tariffs, adopted a group of measures which substantially modify the organization of international trade and which together with the General Agreement on Tariffs and Trade will form the basic structure of the new trade order.<sup>13/</sup> However, the Agreements mentioned above appear as instruments independent of each other and to a large extent, independent of the General Agreement. In this regard, it should be considered with concern that the special treatment established in the agreements for the developing countries does not significantly alter their fundamental structure; generally speaking, it consists in some measure which makes it possible to exclude a developing country from some obligation or else to take into account some particular situation to facilitate the application of the agreement. However, in order to make use of these measures, their implementation must be negotiated in each case. Also, no agreement establishes norms permitting direct and stable access to the markets of the signatory countries, while on the contrary, in each agreement in which it could be introduced, the so-called gradation clause was institutionalized, by means of which the measures in favour of the developing countries will apply in terms of each country's level of development, which will be decided on a case-by-case basis. In view of the difficulties which the developing countries will have to obtain access to the Tokyo Round Agreements it may be concluded that a great many of them, even although they are Contracting Parties of GATT, will not be able to take part in taking the decisions which will govern international trade and which will therefore affect them directly.

302. For the reasons given, it is extremely important that the developing countries, particularly the Latin American countries, should review in depth the new and complex commitments which have emerged from the multilateral trade negotiations so as not only adequately to understand the new rules of the game in international trade and its effects on the external sector but also to determine the degree and form of participation in the implementation of the commitments adopted and the new decisions regarding international trade. GATT is responsible for analysing the topics of the escape clauses and restrictions on exports which did not become a motive for commitment in the Tokyo Round, where concepts of great importance for the developing countries like "selectivity" and "supply of raw materials" were discussed. It is

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<sup>13/</sup> This new system was formed from six agreements on the following instruments: subsidies and countervailing duties, anti-dumping measures, import licensing, valuation, technical obstacles to trade and government procurement; to decisions on developing countries; a declaration on balance of payments; and an understanding on notifications, consultations, solution of differences and surveillance. Three agreements were also signed on milk products, beef and civil aircraft.

important to follow closely the activities of the Committees of the Tokyo Round in which the Latin American countries which did not sign the agreements could consider the possibility, at least in an early stage, of participating as observers.

303. The end of the GATT multilateral trade negotiations should not mean the end of joint action by the developing countries to achieve a trade order which better responds to their need for trade, both with the developed nations and among the developing countries themselves. As the International Development Strategy says, "the rules and principles governing the functioning of international trade should continue to be reviewed ... so as to ensure the steady growth of trade under equitable and secure conditions" (paragraph 52).

## 2. Commodities

304. In 1978 the value of exports of commodities by 23 countries of the region was US\$ 40 billion. This still accounted for nearly half of Latin America's total exports, although this proportion dropped during last decade, owing to the increase in exports of fuels and manufactures. If the oil-exporting countries are excluded, the share of commodities comes to represent around four-fifths of total exports. For these reasons, a high level of dependency is maintained with respect to the volume of commodities exported and the behaviour of their prices. Both factors have continued to be subject to large-scale fluctuations, but a long-term trend towards a drop in the real prices of the majority of the products is finally emerging.<sup>14/</sup> This course is the result of factors as diverse as the relatively low growth of world demand for commodities, the different negotiating positions of the exporting countries with respect to some products and the growing competition from the developed countries. As is obvious, these generalizations conceal a range of very different situations. The first problem, relating to the low growth of demand, for example, refers to such products as coffee, cotton or tin, but not to oilseeds, the demand for which, on the contrary, has grown very rapidly. The different positions of the producer countries in the negotiations have been a determining factor in the cases of copper and iron, for example, and, until recently, coffee. In other experiences, such as tin, bauxite to some extent and coffee in recent years, in which the countries coincided in common positions, significant advantages were obtained.

305. The commodities' policy should be part of the objectives and machinery established in the Integrated Programme for Commodities endorsed at the IV Conference of UNCTAD (Nairobi, 1976). In this Programme it was recognized that in order to cope with the problems of commodities it was necessary to

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<sup>14/</sup> Considering the prices of commodities, deflated by the price index of exports of manufactures, the 1979 level was lower than that of 1975 in sugar, coffee, bananas, wheat, maize, cotton, soya beans, soya flour, aluminium, bauxite, copper and iron ore. In some cases the drop was heavily accentuated as in the cases of bananas and bauxite. Only in cocoa, beef and tin was there a real increase in prices between these two dates.

apply a global integrated approach, since the results of the traditional fragmentary approach were not satisfactory. The Programme signified the political commitment of negotiating agreements by products and setting up a common fund for financing buffer stocks as a means of stabilizing prices and for other measures to promote the development of the commodity economy. The International Development Strategy expressly says that "international commodity agreements with initial emphasis on the core commodities included in the indicative list of the Integrated Programme for Commodities should be concluded" (paragraph 56).

306. In the negotiations of the Integrated Programme only one new agreement was concluded - on natural rubber - and the trend in the remaining products seemed to favour reaching agreements on measures for research and development, but not with regard to prices (either through the constitution of buffer stocks or the establishment of export quotas). It would be advisable for future agreements to give particular consideration to problems of prices and include more suitable machinery for protecting them, particularly as regards the margins as from which the measures for the distribution of quotas and accumulation of stocks begin to function; price groups should also be reviewed periodically in order to adjust them to inflationary expectations. In this matter the short-term concern of the Integrated Programme for Commodities converges with the long-term problem of the deterioration in the terms of trade for primary products, which has been repeatedly studied in CEPAL.

307. The measures adopted to stabilize export earnings are also important. The two systems currently functioning contain considerable restrictions: STABEX <sup>15/</sup> of the European Communities and the ACP countries includes only part of the developing countries; and the International Monetary Fund facility in operation has various limitations. For this reason, at the Fifth Conference of UNCTAD held in 1979, the Secretariat of this organization was requested to carry out studies aimed at creating a new system, applicable only to commodities and which consequently would take their specific problems into account. The steps towards formulating and establishing this system must be speeded up. <sup>16/</sup>

308. The recent creation of the Common Fund opens up promising prospects because it will contribute to solving the problems of the financing of stocks and of supporting measures for production, processing and marketing, and because the developing countries will have a real influence in the Fund's decisions. Its constitution is the result of negotiation and transaction between developed and developing countries so that the initial funds - and consequently the possibilities for immediate action - will be notably smaller than those originally projected; this is why the action which can be taken to expand its resources and extend its manoeuvring radius is important.

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<sup>15/</sup> STABEX is a system of automatic financing to compensate for the decreases in commodity export earnings in the countries belonging to the system.

<sup>16/</sup> The International Development Strategy says that "additional measures for the stabilization of commodity export earnings of developing countries should be considered as soon as possible" (paragraph 58).

309. In the future increasing importance should be allocated to the processing and marketing of commodities.<sup>17/</sup> The lack of local processing does not only bring with it lower earnings but also a delay in the industrialization process. The UNCTAD Secretariat has calculated that if out of ten commodities exported in 1975 by developing countries stages of semi-processing had been achieved in the total volume exported, the earnings from unprocessed products - which in fact amounted to US\$ 17.9 billion - would have been increased by US\$ 27.2 billion, thus taking the total earnings to US\$ 45.1 billion. The global relationship of the additional earnings to the original earnings is 1.52; while relationships established in this study for products of interest to Latin America were 0.42 for copper, 7.85 for bauxite, 1.86 for cotton, 1.67 for hides and skins, 1.66 for non-coniferous timber; 0.21 for cocoa and 0.04 for coffee.<sup>18/</sup> It can be seen that the tasks of producing commodities for export - particularly where mineral ores are concerned - usually constitute economic enclaves with very limited direct multiplier effects; local processing, on the other hand, may contribute to creating important external economies which boost industrialization.

310. However, in this regard it is difficult to arrive at a general action formula valid for all products. In some cases, such as tin, bauxite and cotton, there are real margins for local processing of which advantage is not taken, either because of the inadequate capacity of the export industry or, in the majority of the cases, owing to difficulties of access to strongly-protected consumer markets. In others, however, such as cocoa and copper, a large part of the exports already takes place in a semi-processed or processed form, although there are still wide margins for increasing the level of processing of the exports. Lastly, there are products such as wheat, sugar and bananas which owing to their nature are not suitable for industrial processing prior to export. It should also be recalled that this possibility of local processing comes into conflict - in addition to all the technical difficulties - with the tariff-scaling of the developed countries, which impose heavier duties or non-tariff barriers on the products with most processing.

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<sup>17/</sup> The International Development Strategy lays down that "within the overall context of the Integrated Programme for Commodities for expanding in developing countries the processing of primary commodities and exports of processed goods, as well as for the increased participation of developing countries in the marketing, distribution and transportation of their primary commodities" (paragraph 57).

<sup>18/</sup> See UNCTAD, The processing before export of primary commodities (Document TD/229/Supp. 2, Manila, 1979). The products considered are copper, bauxite, phosphates, natural rubber, cotton, jute, hides and skins, non-coniferous timber, cocoa and coffee. The figure obtained only endeavours to indicate an order of magnitude as a point of reference since the semi-processing of all the raw materials exported is not possible.

311. As regards the marketing of commodities, measures should be implemented to increase the percentage of the final consumer price which the producer countries receive, which is at present very low; the proportions determined in an UNCTAD study show that they are less than 10% in iron and bauxite, while they fluctuate between 20 and 40% for tea, coffee, cocoa, juices, citrus fruits, bananas and jute; and reach around 50% for sugar.<sup>19/</sup> If it is also considered that these are export prices, which include local costs (marketing, transport, etc.), it can be seen that the primary producer's share is minute.

312. In addition to the negotiating activity which the commodity-exporting countries are conducting with the consumer countries in the international forums, they intervene directly in the markets through the associations of producer countries. In 1978, there were 21 associations with a membership of 70 countries the objectives of which were the protection of primary products on the international market and co-operation among producer countries. The most important of these, OPEC, was set up with the active participation of Venezuela. The strengthening of existing associations and the creation of new associations seems important not only to inject dynamism into the action of the producer countries but also to induce the developed countries to negotiate. When these countries control a market, they are usually unwilling to conclude agreements which will restrict their freedom of manoeuvre; but if the alternative were the unilateral action of a producers' association, they would probably prefer to negotiate.

### 3. Manufactures

313. The value of exports of manufactures <sup>20/</sup>of the 23 Latin American countries as a whole amounted in 1978 to US\$ 13.8 billion, amounting to 25% of total exports of goods. The values recorded throughout the 1970s thus continued to rise, with a single interruption in 1975. Within this total, a large-scale growth of the export of the metal manufactures and machinery industry may be seen - particularly transport material and non-electrical machinery - which accounted for 27% of the total; intermediate goods, although their share dropped, continued to be the most important (30% of the total); non-durable consumer goods - particularly textiles and clothing - increased their share (24%); and the share of the group of foodstuffs, beverages and tobacco decreased (10%). As regards the destination markets, the regional groupings play an important role; for example, for Argentina, Brazil and Mexico the market of the ALADI countries in 1978 accounted for 37%, 22% and 18% respectively of their total exports, and in the case of the Central American countries, the proportion of intra-area trade in manufactures has remained at around 80% of the total.

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<sup>19/</sup> See UNCTAD, Proportion between export prices and consumer prices of selected commodities exported by developing countries, TD/184/Supp.3, Nairobi, January 1976.

<sup>20/</sup> The classification of manufactures used here is that adopted by UNCTAD, according to which some processed agricultural products are included in sections 0, 1 and 2 of the SITC, in addition to sections 5, 6, 7 and 8 excluding chapter 68 (unworked non-ferrous metals) and petroleum, gas and electricity products.

314. The most serious threat faced by exports of manufactures by the developing countries are the protectionist measures of developed countries, a problem which was analysed above. For this reason only the functioning of the generalized system of preferences (GSP) will be reviewed below and the undermining of the margins of preference as a consequence of the tariff concessions agreed upon in the multilateral negotiations within GATT which ended in 1979. Although this system does not only refer to manufactures, they are by far the most important consignee.

315. As regards the GSP, the problems affecting developing countries involve various aspects; one of these is the legal nature of the system, its duration and specific modes of application. As regards the first of these, all the countries which grant preferences continued to reassert the principle that the system should continue to be autonomous and subject to the unilateral decision of each of the countries granting them. The developing countries have reiterated that this unilateral feature has conspired against their efficacy owing to the element of permanent uncertainty it introduces which, inter alia, discourages investments; there should therefore be insistence on the need to change its legal nature, doing away with its autonomous nature and along with this the factors of uncertainty and instability. The recognition of the GSP by the Tokyo Round, although it constitutes progress, does not put an end to the unilateral nature of the system and therefore remains subject to the independent decision of the country granting the preference.

316. The Latin American countries have requested in this regard that the GSP should be permanent and that it should be expanded and improved in its implementation with such measures as: the need for the preference schemes to cover numerous products that are subject to customs duties (especially processed agricultural goods); the elimination of the quota system; the adoption of principles and norms resorting to escape clauses; the harmonization of preference schemes of various countries; the adoption of more flexible criteria regarding rules of origin; the simplification of administrative formalities; the inclusion of non-tariff barriers; and the establishment of a prior consultation system when it becomes necessary to restrict the application of the system.<sup>21/</sup> In this regard the International Development Strategy says that "the international community reaffirms the importance of the generalized non-reciprocal and non-discriminatory system of preferences for expansion and diversification of the export trade of developing countries and for acceleration of the rates of their economic growth. To this end, the preference giving countries will fully implement the agreement reached at the ninth session of the Special Committee on Preferences of the Trade and Development Board" (paragraph 63).

317. Another problem is connected with the fact that the existing margins of preference under the GSP shrank or disappeared as a result of the reductions in the tariffs of the "most favoured nation" agreed upon in multilateral trade negotiations in GATT. The developing countries say that the undermining of

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<sup>21/</sup> See CEPAL, Resolution 347 (XVI), Second Regional Appraisal of the International Development Strategy, Trinidad and Tobago, 1975, paragraph 78.

the margins of preference constitutes a loss of the commercial advantages offered by the GSP, which is only offset to a small extent by the cuts granted in tariffs for products not covered by the GSP. This position is also supported in estimates made of the net effect of this undermining; in a study prepared by the UNCTAD Secretariat a potential net loss is estimated in this regard of US\$ 1 billion, considering the systems of the United States, the European Communities and Japan.<sup>22/</sup> Adequate compensation should therefore be claimed for the damages suffered by the Latin American countries in this regard. It is true that some developing countries which have achieved progress in the diversification of their exports of manufactures could obtain some benefit from greater integration into international trade; but in this case they would compete on an equal footing with developed countries and would be subject to the other protectionist measures. Generally speaking, too, they do not have adequate financial support and when they promote their exports, they are accused of granting subsidies and practising "dumping" and consequently suffer from the imposition of quotas or other restrictions.

318. There is another restrictive element of great importance which is the implementation, also in this field, by the countries granting the preferences, of the "gradation" principle to eliminate or reduce preferential treatment to the more advanced among the developing countries. Both the United States and the EEC have announced their intention of applying it in their GSP. This principle is rejected by the developing countries, since it runs counter to the basic principle of the generalized and non-discriminatory preferences.

319. There may also be damaging action by the transnational corporations when they impose restrictions on exports and transfers of technology or use "transfer prices" in their intra-company transactions.

320. As regards the more general problem of exports of manufactures, both the balance-of-payments restrictions and the need to boost industrial development, suggest the advisability of pursuing and intensifying Latin America's policy in this regard. It should be borne in mind that exports of manufactures and import substitution are not mutually exclusive terms, but complementary aspects of the industrialization process. The aim is to contribute to the global development of each country and to the equilibrium of the balance of payments by strengthening an industrial structure capable of supplying the home market and of exporting.

321. The export promotion policy of the Latin American countries should form part of a global strategy and be linked to the sectoral policies, particularly those of the industrial sector, so that priorities can be established for the products and items which are the object of the promotion. The use of appropriate instruments of promotion makes it possible to export manufactures and semimanufactures, but on its own it is not capable of generating the competitiveness which emerges when the structure of industry and related

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<sup>22/</sup> See UNCTAD, Assessment of the results of the multilateral trade negotiations. Report by the Secretary-General of UNCTAD (TD/B/778/Add.1, 26 February 1980).

activities are sufficiently diversified and the average productivity of the economic system so permits. Incentives should be applied in a consistent form, using exchange, fiscal, tax, tariff and financial elements. Moreover, instruments of orientation and support must also be used, such as trade information, the simplification of formalities, norms on the use of containers and packaging and attendance at international fairs and exhibitions, the promotion of export consortia and of marketing enterprises, duty-free deposits abroad and arrangements for freight and related services.

322. As regards financing and credit insurance on exports, the fact that several countries individually have a small number of operations, makes it advisable to create a common facility for these purposes. Joint regional activities should be encouraged in matters of trading, information and market studies. Another important aspect is constituted by the institutional forms and modes of incorporation of exports into development by small and medium-sized enterprises. This activity has been neglected in the region and the benefits of promotion have especially been absorbed by the major enterprises, particularly the transnational corporations, which control the consumer market.

### C. EXTERNAL FINANCING AND MONETARY PROBLEMS

#### 1. External financing

323. The present international financial problem is of unprecedented complexity, both because of its volume and its consequences and the inflexibilities which affect it. It has its root in the structural deficits or surpluses, as the case may be, of the balance of payments and one of its results is the growing indebtedness - which in some cases threatens to become a spiral - of a large group of countries. In the theoretical analysis made and in the policies prepared their effects have been studied more than their causes and there is uncertainty as regards the evolution of some of the determining factors (such as, for example, the future relative prices of fuels, raw materials and manufactures; the economic policy of the main developed countries; and the action of the transnational banks and the International Monetary Fund).

324. In recent years the international financial markets have continued to grow at very high rates. The large-scale disequilibria registered in the current accounts of the balance of payments of the majority of the countries of the world as from 1974 have been an important source of this growth, both in terms of supply and demand. On the other hand, the continuing growth of the international financial markets has induced the transnational banks to assess increasingly carefully at least two elements of their own financial situation: the liquidity of their portfolio holdings, and the general and individual security of their operations, the latter reflected in the debt/capital ratios of their balances. They have therefore intensified their preference for relatively short-term deposits, while the countries with deficits press increasingly for medium- and long-term financing. This problem

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of liquidity tends to produce an increasing selectiveness in bank placements, so as to minimize the risks stemming from possible failures to pay on the part of their customers; this is a matter of extreme importance because the conduct of the private transnational banks has acquired increasing significance with the sustained reduction in recent years of the proportion of official financing channelled through the international credit bodies and the lending countries themselves.

325. As is well known, the rapid change in the structure of external financing brings with it a deterioration in its conditions since, generally speaking, loans from official sources are longer term and have lower interest rates than those from private sources. This unfavourable trend can be explained by the fundamental fact that official development assistance from the member countries of the Development Assistance Committee (DAC) dropped from an annual average of 0.44% of their gross national product during the 1960s to 0.33% in more recent years, a coefficient very different from the objective of 0.7% laid down in the International Development Strategy. In the case of the United States, a country whose conduct has a very considerable impact on Latin America, the development assistance coefficient which was 2.8% of its gross national product in 1949 when the Marshall Plan was introduced dropped to 0.2% in 1979, and it is estimated that it will not exceed this level in the years 1980-1981.

326. The relative position of Latin America in its access to official concessional-type loans has been worsening far more than that of other developing areas. Thus, in 1972 the concessional flow amounted to 19.7% of the region's inflow of financial resources, but in 1978 this percentage had dropped to 8.2%. The concessional factor of the officially guaranteed loan commitments of Latin American countries dropped from 18% in 1969 to 9% in 1977. It should be added that at the end of 1979 the net position - assets less liabilities - of the Latin American countries with the external commercial banks registered a deficit of US\$ 63 billion, while the other non-oil-exporting developing countries showed a deficit as a whole of only US\$ 10 billion.

327. In recent years the ever-increasing current deficit of the developing countries, including Latin America, has had deeper and firmer roots than in the developed countries. However, Latin America has been successful, with different degrees of difficulty, in obtaining sufficient financial resources to cover the current deficits of its balance of payments, and in some cases, to increase its gross international reserves. As regards the external financing of the non-oil-exporting Latin American countries, loans from private sources, mainly from international commercial banks, which in 1966-1970 on average accounted for one-third of total net external financing, in 1979 covered 76% of this, for an amount of close on US\$ 20 billion.

328. As a consequence of the above facts, in the non-oil-exporting Latin American countries, the total global debt which amounted to US\$ 52 billion at the end of 1974 is estimated to have risen at the end of 1979 to around US\$ 143 billion, while the conditions corresponding to these balances became simultaneously stiffer.

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329. The deficit position of the current balance and the consequent external indebtedness in the forms described has brought some Latin American countries to a new situation of vulnerability in the external sector. In fact, in the past this vulnerability was associated with the shortage of external financing and the balance-of-payments restrictions placed limits on the projected growth of the economy. At the present time, the situation has changed radically over the last five years, since the access to external credit has come to be relatively "easy" for countries manifesting certain conditions; but now the suppliers of liquidity are the international private banks and the conditions of their loans have been rather different from those which the developing countries contracted previously.

330. Among the limitations of the new situation mention may be made first of all of the fact that the credits do not always correspond either in their deadlines or in their types of interests to the maturity periods and the financial requirements of the investments which must be made in the developing countries, many of which have relatively long maturity periods. This, for example, is the case of investments in energy which it will be necessary to expand considerably during this decade. Secondly, the predominance of private sources of credit gives rise to the limitation of tending to apply criteria of private rather than social profitability as regards the use of the funds. Both of these may differ considerably, particularly in countries which endeavour to follow development strategies aimed at social sectors marginated from the benefits of traditional economic growth. Thirdly, the magnitude and form which the international financial system is acquiring brings up the risk of postponing the basic adjustments which are necessary between deficit and surplus countries. The postponement of the adjustment involves the danger that it could become inevitable at a much less favourable moment, as, for example, on the occasion of an unexpected drop in the terms of trade or a major world recession. Lastly, it is difficult to predict to what extent and under what conditions this "easy" credit will be maintained in the future, since there are already signs of a decline.

331. In practice, an "indebtedness spiral" is beginning to materialize and the share of new credits which must be earmarked for the payment of prior debts is growing. This situation makes the economies of the debtor countries which for the annual payment of their debt depend on their exports and the granting of new credits - both factors over which they only have part control - extremely vulnerable. The fact that in several countries more than 35% of exports must already be earmarked for payment of the debt indicates the seriousness of this new vulnerability which is not limited to external relations but conditions the domestic policy, for example, obliging economic activity to be directed towards exports.

332. It should not be lost sight of that the deficit on the current account of the balance of payments of the non-oil-exporting Latin American countries is in part the inevitable counterpart of the persistent surplus registered by the oil-exporting countries. While a world situation of major current disequilibria is maintained, it is indispensable for certain groups of countries to become large-scale debtors, while others establish a growing

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position as creditors year after year. In so far as certain countries with deficits might endeavour to apply policies to reduce the deficit and at the same time the growth of their external debt, they would only succeed in transferring the problem to others without solving it globally at the world level. Also, responsibility for the adjustment should be shared by the countries with surpluses. In the appraisal of the situation of each individual country its position in the international situation must therefore be borne in mind. Although this is not an element which is easy to include in the assessments of solvency made by private institutions, it is incumbent on the international financial institutions to consider it and act in consequence. Naturally, the foregoing does not mean that the countries with deficits individually can ignore the problem of the readjustment of their balance of payments, but it does mean that this responsibility should also be placed in a world perspective. Consequently, if some form of co-operation were established between international private banks and the IMF it would not justify the application of conditions similar to those of the past to the economic policies of the countries in order to grant credit. In essence, present indebtedness is more the result of the difficulties facing the international economy than the contingencies of the domestic policy of the countries.

333. A more profound solution to the problem of the oil surpluses which would be of tremendous importance for developing countries would be the establishment of new forms of recycling which would directly link the credits of the oil-producing countries to the implementation of development programmes. An important step forward in this sense at the regional level is the agreement between the governments of Mexico and Venezuela for supplying petroleum to the Central American and Caribbean countries. Both governments in August 1980 resolved to ensure the oil supply of these countries<sup>23/</sup> and finance its payment. For this purpose they will allocate up to 160 000 barrels per day and grant credit for 30% of their value, to be paid in five years with an annual interest rate of 4%; however, if these resources are earmarked for financing development projects the deadline will be 20 years and the annual interest rate 2%. This means the application for these purposes of an annual sum of around US\$ 700 million according to the price of oil in force in 1980.

334. In brief, during the 1980s the region will require huge masses of resources to balance the balance of payments and cope with the enormous investments which its development requires. The International Development Strategy lays down that "international financial flows, particularly public flows, should be improved and adapted consistent with the needs of developing countries, as regards volume, composition, quality, forms and distribution of flows" (paragraph 96). The achievement of this aim would require: (i) a large increase in the transfer of official resources through public institutions in particular, so as to have on hand the long-term funds required to finance the energy transition; (ii) access to private resources, particularly to new banking sources, on better terms and conditions; (iii) new forms of

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<sup>23/</sup> Barbados, Costa Rica, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama and the Dominican Republic.

co-operation between international public and private financing institutions to facilitate the channelling of resources from countries with financial surpluses to the Latin American economies, without conditions harmful to development; and (iv) new forms of direct financial co-operation between the oil-producing countries and the Latin American economies. Naturally, all the foregoing does not exclude but should complement the internal efforts which the countries of the region must make in order to bring about the changes required by the international conjuncture and effect the transformations required by satisfactory economic and social development.

## 2. Monetary policies

335. The International Development Strategy recommends that "in order to create conditions more favourable to the development of the developing countries and as well as the growth of the world economy in general, efforts to increase the responsiveness of the international monetary system to the needs and interests of the developing countries should be intensified" through new reforms to the system which should be rapidly undertaken and implemented early in and throughout the decade to the benefit of the international community" (paragraph 115). Despite this expression of the desires of developing and developed countries, the reform of the international monetary system continues in a state of stagnation.

336. Despite the efforts made to reach an international agreement on the possible establishment of a substitution account, this has not been achieved. The substitution account would make it possible to absorb without large-scale exchange fluctuations, the balance of convertible currencies which the holding countries might voluntarily wish to change for special drawing rights (SDRs). Its importance for the development of the monetary system would be considerable, since it would enable exchange fluctuations to be reduced and facilitate the growth of international trade. However, the lack of agreement as regards the distribution of costs and in particular as regards the responsibility which the country issuing the currency entering the account must assume, have paralysed discussions.

337. The asymmetries of the readjustment process continue, and the developing countries with deficits, although they have access to external indebtedness, will sooner or later have to undertake a greater effort for the readjustment of their economies in the present circumstances. Hence it continues to be important to seek machinery which will distribute the weight of the readjustment in a more harmonious manner between surplus and deficit countries in the current accounts of their balance of payments. One form of creating incentives in the right direction would be to set up a link between the allocation of SDRs and the readjustment in the countries with surpluses. For example, in those countries with net reserves greater than a certain percentage of their imports, and a growth rate higher than a certain figure agreed upon, future allocations of SDRs could be reduced and even abolished. Naturally, a scheme of this nature could only operate in an international monetary system in which all the countries settled their payments in assets other than their own currency. Otherwise, the countries issuing reserve currencies, the number of which is increasing, would have an advantage over the rest in the readjustment process.

338. Just as today there is a problem of currency substitution, there is also an external debt problem. Perhaps it would be worth considering seriously the advisability of setting up a "refinancing facility" as an institution with the joint participation of IMF and the World Bank. This facility could operate on the basis of voluntary access for those countries which comply with certain objective conditions established in advance, while the amount and conditions of the refinancing granted would be studied on a case-by-case basis. A facility of this type would be a natural counterpart in the developing countries of a substitution account which would lighten the burden of the external liabilities of the countries with reserve currencies.

339. Lastly, it is perhaps the moment to renew the consideration of formulae for increased monetary and financial co-operation in the Latin American context. The machinery of compensation for trade balances and reciprocal credit has functioned satisfactorily for more than a decade and so has the more limited machinery of balance of payments support. New steps in this direction must now be considered, with a view to constituting a financial safety net which will make it possible to alleviate present uncertainties at the national and regional levels.<sup>24/</sup>

#### D. THE TRANSNATIONAL CORPORATIONS

##### 1. Policy guidelines

340. In order to produce a wide range of goods of vital importance for their development, the countries of the region need the support of the transnational corporations; in particular they can make important contributions in technology, capital and the management of plants and enterprises. The increase in productivity on the basis of innovations originating in the transnational corporations or the need for access to the markets of the central countries on the basis of the bridge which the corporations may establish are also factors worthy of consideration. However, the motivations of the transnational corporations do not necessarily coincide with the most representative national interests, and their activity at the world level may come to frustrate or condition the achievement of the objectives of the countries. Naturally, the optimum use of their resources and the maximization of their profits at the transnational level often give rise to conflicts with national objectives of the countries of the region and frequently do not correspond to the most desirable allocation of resources from the standpoint of these countries. It is thus essential that the investment of the transnational corporations should be in keeping with the strategy guidelines and development policy of each country and that their conduct and forms of operation should be those most suited to national needs and realities.

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<sup>24/</sup> See CEPAL, Possible features of a financial safety net for Latin America, E/CEPAL/1009, Santiago, Chile, 31 July 1975.

341. Just as in the past the transnational corporations have played a decisive role in structuring the mode of development, so their presence and impact in the region would naturally give them a principal role at the present stage, if the governments do not assume a leading position in the conception, appraisal and negotiation of the new guidelines for development. The inertia and the trends observed to date suggest that the incursion and influence of these corporations will grow progressively in the region's economy, with the possibility of covering new sectors and changing the internal economic relations of the countries.

342. The transnational corporation has evident advantages enabling it to find a place in changing contexts and influence the construction of new scenarios with its action. If to its economic and political power is added its geographical coverage, the data it possesses and its long-term view, its advantageous position may clearly be seen. On the other hand, the constant pressures and economic, social and political crises which the countries are facing, and the difficulty for the governments of bringing into line the objectives of economic growth, social equity, political pluralism and autonomy of decision-making, make the steps they take complex while their bargaining position does not always have the required solidity. If, furthermore, it is borne in mind that struggling with conjunctural situations frequently inhibits long-term considerations, constituting an essential dimension in the context of the discussion on modes of development, the importance achieved by transnational corporations and the importance which they may acquire at this stage if a different type of negotiation, taking its inspiration from deliberate government strategies and policies is not put forward, can be explained.

343. For these and other reasons the International Development Strategy lays down that "negotiations on the United Nations code of conduct relating to transnational corporations will be concluded in 1981 and the code will be expeditiously adopted by all the members of the international community soon thereafter with a view to anticipating, and ultimately eliminating, the negative effects of the activities of the transnational corporations and maximizing the positive contributions of transnational corporations to the development effort of developing countries, consistent with the national development plans and priorities of these countries" (paragraph 70). In this regard it is important to bear in mind that the region's participation in direct world foreign investment in developing countries is very substantial and increasing, accounting in 1977 for nearly 60%. In the case of the United States this participation exceeded 80% in 1979. On the other hand, the region attracts 16% of the direct foreign investment by the United States in industrial activities in the world. Obviously, these conditions furnish the region with particularly strong bargaining power. The recognized prospective perspicacity of the transnational corporations could permit this to be successfully used in bringing foreign capital more into line with regional interests and in safeguarding a more integrated development.

## 2. The delimitation of areas for the transnational corporations

344. The political strategy leading to these aims should give particular consideration to the role which transnational corporations would play in this new scenario and the type of negotiations which might be established with them. In this regard, a basic matter to be defined, as has already been said, is the delimitation of areas or activities in which the participation of the transnational corporation would be appropriate and others which would be reserved for national capital, whether public or private. In this delimitation it seems vital to be clear on what is essential, so that foreign investment will be limited to those activities which really contribute to make the mode of development fairer and less vulnerable. The bargaining capacity of the countries will increase the more the positions which stress the essential and transcendental elements of their policies with respect to foreign capital become generalized. Otherwise "consumer paradises" may come into their own as a product of policies open to welcome any type of foreign investment.

345. In the reappraisal of the transnational corporations it would seem useful to consider the three classical prospects of planning: the short-, medium- and long-term, so as to establish their effects on the respective pertinent variables. The income of a specific transnational corporation may satisfy short-term requisites but may run counter to longer-term needs. Moreover, generally speaking, the conjunctural requirements are easier to satisfy but are also more ephemeral and often inadequate. On the other hand, those needs relating to the structural background, apart from being better reflected in longer-term prospects, are not always taken into consideration in the typical short-term criteria, because this appears to be far more conditioned by contingent pressures and the different aspects and effects of foreign investment are brought out by other weightings. Once the sectors, activities or projects in which the participation of this type of corporation is admissible and appropriate have been delimited, negotiation with them should not only cover the topics endorsed in the majority of the laws and regulations for the treatment of foreign investment. In fact, apart from the traditional concerns of regulating taxes, patents, reinvestments and the repatriation of profits, it seems advisable also to introduce clauses on minimum export and maximum import quotas, the employment of labour, the use of domestic credit, inter alia. When their administration so permits, clauses may also be proposed on prices, qualities and quantities of products. Naturally, the introduction of these other variables into the negotiation implies differentiated treatment for different categories of transnational corporations.

## 3. Increasing bargaining capacity

346. When the need for specific treatment for each transnational corporation arises, it is the major projects which are being considered, in those activities which due to the amount of the investment or their impact on the economic process merit special attention. However, when the treatment of foreign capital is considered in general terms, only a global position is typified or a certain philosophy characterized.

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347. Concrete negotiation involves detailed factual considerations. Although the transnational corporations constitute a category with common features, they form a very heterogeneous group, the projects or activities which the countries wish to encourage are also of great diversity. Vis-à-vis these two types of heterogeneity it can hardly be thought that general laws or regulations can give rise to the optimization of negotiations with foreign capital. Perhaps the global regulations could be reserved for investments or projects of a lesser size, but for those of greater importance the possibility of ad hoc negotiations capable of assimilating the particularities of each should remain open so as to illustrate the principle of maximizing profits and minimizing disadvantages vis-à-vis the presence of the transnational corporations in the region. This may result in the participation of the transnational corporations responding to a type of tender which will make it possible to assess how each corporation would comply with the specifications and criteria previously established by the host country so as to select the one which does so best. The emergence of new transnational corporations and the interest they show in settling in the region suggest that the countries would have the possibility of choice.

348. On the other hand, the bargaining position of the Latin American countries would be increased if the possibilities of negotiation with medium-sized enterprises in developed countries and the most advanced countries of the region, were studied; their scales and modes of operation could also be more compatible with regional peculiarities. However this may be, the search for other alternatives and the proposal of conditions which would guide the negotiations and agreements in pursuit of the development to which the countries aspire seem to be fundamental tasks if Latin America's effective bargaining capacity is to be used and increased.

## E. TECHNOLOGY

### 1. Policy guidelines

349. During the last decade, the rate of technological development of the region as a whole speeded up. However, this rate was far from being even, since the difference in the level of economic development of the countries determined different capacities of technological growth. This disparity was accentuated because some countries applied technological policies which enlarged the breach with other countries which did not efficiently promote technological development.

350. The main form of access of the region to technological innovation continues to be imports of technology from the developed countries and in this regard the problems of a highly imperfect market remain, where the bargaining power of purchasers and sellers of technology is unequal and favours the latter, as is also the case with the amount and quality of the technological data. It should be recalled that in this type of market earnings of an oligopolistic nature are generated, generally speaking attracted by the international firms which act as licensors or investors.

351. The objectives of the economic policy should be closely linked to the conditions in which purchases of technology are made, whether it is incorporated in capital goods or in the form of non-incorporated technological assets. The aim should be for the countries of the region to be better habilitated for making a broader selection than they do at present of available technology and not set themselves up as price keepers but handle a broader range of alternatives.

352. This leads to a revision of national legal frameworks which in several countries conspire against the above objective, for example, the system of patents and the legislation which governs the incorporation of foreign enterprises and direct investments from abroad, which may increase the degree of technological monopoly of foreign enterprises. At the same time there are regulations on external trade which in fact subsidize the incorporation of capital goods, thus encouraging the introduction of labour-saving technology or technologies using raw materials which do not exist in the country, and run counter to local development objectives. These characteristics, and others of a similar nature, should be analysed in the context of the global development strategy, making clear their technological content, both to test whether it is consistent with the ends pursued and to orient the legal and institutional reforms and the implementation of policy instruments in the technological field.

353. As regards the creation of technology and the adaptation locally of foreign technology, the objective should be the greatest possible increase of this local capacity, stressing those aspects which coincide with the development strategy. It should not, however, be forgotten that the increase of this local capacity depends on many factors, some of which may be influenced by the economic policy, and others where the possibility of being modified within reasonable periods is smaller, particularly with reference to the degree of maturity of production activities and the experience accumulated in production.

## 2. Some activities

354. Among the policy measures of importance for improving the region's technological conditions are those aimed at increasing the coverage and quality of available technological information, by means of activities in which not only the State but also the associations of professionals and entrepreneurs and regional and international organizations should take part. The State, through its bodies devoted to sectoral technological research, should be able to offer the apparatus of production an up-to-date and systematic knowledge of technical alternatives, by collecting and disseminating information on the options offered in the international market, their technical characteristics and the possibility of bringing them into line with the conditions of the country and the objectives of development. The associations of professionals and entrepreneurs should be encouraged to make a systematic search for technological information in each sector and disseminate it to the advantage of the medium-sized and small enterprises which cannot finance the effort of updating their technology. The international organizations can also play an active role

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in this regard - as they do in some aspects - by acting as data and information banks and promoting international co-operation.

355. The patents system raises the possibility of a greater dissemination of technology at the expense of a larger monopoly for the holder of the patent. The profits and costs stemming from this must be weighed, and for this purpose it is necessary to review the conditions of the use of the patents, the limits of their validity, and generally speaking, certain conditions implicit in the local legal forms which may very significantly increase the cost of using this system. Moreover, the legal texts and their application should be reviewed in the light of a technological policy consistent with the development strategy, particularly as regards the increased use of basic raw materials and the utilization of the local capital goods industry.

356. As regards the promotion of activities for the creation and adaptation of foreign technology, numerous policy measures may be suggested. An example of this may be the dissemination of lesser innovations; the training of suitable technical cadres with a critical attitude which will facilitate the appraisal of the foreign technology in terms of local conditions; and a type of financing to favour permanent research and development activity and not only the isolated or circumstantial fact. However, the development of local technological activity must have a greater degree of specificity than at present. A clear illustration is to be found in the multiple, diverse and redundant state activities in the area of technological research, frequently concentrated in very small bodies with an operational capacity which is almost nil. The public policy should, in terms of the global and sectoral development strategy, concentrate its efforts, support and resources on a technological policy which responds to national requirements and makes the most of the advantages or potential of the local research already carried out.

## F. TRADE RELATIONS AND CO-OPERATION WITH OTHER AREAS

### 1. Trade relations with the United States, the European Communities and the CMEA countries

#### (a) The United States

357. Despite the progress made in some aspects of the United States' trade policy, new elements have emerged and others accentuating its protectionist tendencies have been strengthened. As this process continues it will not be possible to extend sufficiently towards the developing countries and Latin America in particular the benefits deriving from the increasing openness of the United States economy to international trade; on the contrary, if it were possible to increase trade between the two areas, the benefits would be mutual, particularly as regards economic growth and the reduction of inflation.

358. In the next few years it will be necessary to activate and reinforce the negotiations which the region is carrying out in the appropriate forums to solve existing difficulties in its economic relations with the United States. Among

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the topics of highest priority should figure the reduction and suppression of tariff and non-tariff barriers in the way of products which may be exported by Latin America to the United States market, and the activities which are indispensable for increasing product coverage and making the GSP of the United States more flexible, at the same time avoiding the introduction of the "gradation" principle. It would also be important for the United States to participate in the measures aimed at reducing the fluctuations in commodity prices and in the export earnings of the developing countries. In this regard, support for the product agreements under consideration in UNCTAD as part of the Integrated Programme for Commodities would be fundamental.

359. Some of the most important problems which arise in the trade relations between Latin America and the United States are reviewed below.

360. Among recent events of importance is the modification of the legislation excluding Ecuador and Venezuela as beneficiaries of the Generalized System of Preferences. Another was the decision by the United States to sign the International Sugar Agreement, which brought into force the clauses which establish the system of receipts for the stock financing fund. However, until the end of 1980 the United States had not signed the International Cocoa Agreement. The United States Trade Agreements Act of 1979 which brought into force the results of the multilateral trade negotiations and the Agreements adopted in the Tokyo Round, although it contributed to standardizing and clarifying the instruments of non-tariff protection, practically did not restrict their use and in fact consolidated a procedure the results of which have been adverse for the Latin American countries.

361. As regards tariff concessions, it is improbable that the cutbacks in United States tariffs resulting from the multilateral trade negotiations will have significant favourable effects on Latin America's exports and global economic position. This is partly due to the fact that a great dispersion was maintained in the customs tariffs of the United States, which means that numerous products exported by the region continue to be subject to high duties, as has already been said. On the other hand, the United States demanded tariff cuts or other types of concessions from the developing countries as a reciprocal measure. Thus, numerous Latin American countries granted tariff advantages for lists of products presented to them by the United States as a condition for taking advantage of that country's tariff reductions, including those corresponding to tropical products.

362. Furthermore, as was said on another occasion,<sup>25/</sup> the positive impact on the developing countries of the tariff cuts agreed upon by all the developed countries is reduced by the fact that: (i) in primary goods (BTM, chapters 0-24) whose total import value exceeded US\$ 10 000 in 1976, the tariff cut is only 1.3%; (ii) as has been said, tariff cuts mean an undermining of the advantages stemming from the generalized system of preferences; (iii) textiles

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<sup>25/</sup> See CEPAL, Latin America on the threshold of the 1980s, op. cit., pp. 116-133.

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were excluded from any tariff concession, and (iv) the consolidation and strengthening of non-tariff barriers as an instrument of protectionism of the developed countries, including the escape clause, have accentuated the secondary role of tariffs.

363. Lastly, in another area of great importance, the United States has insisted on the need for the developing countries to sign the Tokyo Round Agreements, indicating that it will apply them equally to all countries as regards the obligations involved but not the benefits, which will only be extended to those countries which sign these agreements. As regards the agreement on subsidies and countervailing duties it has gone further, since it has said that it will not apply its benefits to the developing countries which adopt it if previously they have not undertaken to abolish the subsidies they grant to exports. In the case of Latin America, Brazil and Uruguay have already accepted this commitment and other countries are considering doing so in the near future (including Argentina, Colombia, Mexico and Peru; Chile for its part declared that it would not grant subsidies to exports).

364. As far as the Generalized System of Preferences (GSP) is concerned, the amendments resulting from the Trade Agreements Act of 1979 relate to: (i) rules of origin in the case of merchandise from associated countries; (ii) the competitive need rule; (iii) the "gradation" principle; and (iv) conditional inclusion in the system of the countries members of OPEC.

365. As regards the competitive need norm, the 1979 Act tended to give a more flexible delimitation to a situation harmful to the countries benefiting from GSP. It was decided that the mechanism would come into force only when annual exports of the product in question by a single country exceeded a sum in money to be determined annually, and which for 1980 was set at US\$ 1 million. The efficacy of this measure was obviously reduced by the low level of the limit established.

366. As regards the probable introduction of the concept of "gradation" into the benefits of the GSP, the opposing position of Latin America is very clear in this respect, as has already been said. Experience has also shown in the application of the competitive need rule, that the exclusion of products and countries has not permitted the least advanced countries to take advantage of the system since they lack appropriate and adequate means of producing the goods covered by the GSP for the external market.

367. The amendment introduced by the Trade Agreements Act of 1979 conditions the granting of preferential treatment to the negotiation of bilateral agreements on products and authorizes the President to terminate the concession if the other country interrupts the supply of petroleum or petroleum products to the United States. Also, for other reasons, Cuba continues to be excluded from the GSP of the United States.

368. Exports of manufactures by developing countries must overcome numerous internal and external difficulties in order to be competitive with those produced in the industrialized economies and have access to the international

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markets. An additional element, seldom given adequate consideration, which assists the exports of manufactures by developed countries to the real and potential detriment of industries located in the Third World, is constituted by the export activity credits granted in these countries. These credits are generally more favourable than usual in their terms and interest rates.<sup>26/</sup> It is of interest to note that while this takes place it is paradoxically the case that countervailing duties may be applied by the central countries to the exports of developing countries, in order to restrict entry to their markets, on the grounds that they have received subsidies.

(b) The European Communities <sup>27/</sup>

369. The most characteristic feature of the trade relations between Latin America and the EEC since the postwar is the lack of dynamism of the Community market for Latin American exports. The main reasons which have adversely influenced this have been the protectionist trade measures of the Community's common agricultural policy, and the granting of preferential regimes to a large number of developing countries and some developed countries, which has materialized as a large increase in reciprocal trade among member countries of the EEC. These circumstances have had an adverse effect on Latin American exports of commodities and manufactures.

370. As regards the common agricultural policy, the EEC has maintained the unyielding position that the instruments it uses are not negotiable, even when their application requires a complex system of variable duties on imports, quantitative restrictions and even absolute prohibitions as was the case for some time with imports of meat. This does not include the fact that the common agricultural policy creates surpluses, which are highly subsidized and poured into the world market. This not only depresses the prices of the international market but takes markets from other exporters, particularly of developing countries other than the ACP countries, which have comparative advantages but are not in a position to compete with subsidized exports. In this regard the adoption of a programme for the gradual elimination of

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<sup>26/</sup> In the case of the United States the financing of exports by OPIC (Overseas Private Investment Corporation) accounted for a total value of US\$ 4 billion in the last five years (see U.S. Department of Commerce, Business America, 5 May 1980, pp. 20-22). Furthermore, a programme begun in 1980 allows small and medium-sized enterprises to obtain financing for exports of up to US\$ 500 000. Mention should also be made of the export credits financed through EXIMBANK, which have grown very rapidly from a level of US\$ 700 million in 1977 to 2.9 billion in 1978 and 3.7 billion in 1979. For 1980, the global amount budgeted is US\$ 5.1 billion.

<sup>27/</sup> See in this regard the recent document by CEPAL, "The economic relations of Latin America with Europe", Cuadernos de la CEPAL, E/CEPAL/G/1116, October 1980.

the restrictions of the common agricultural policy will have high priority in the negotiations with the EEC, as far as possible starting off from a common Latin American position.

371. The EEC maintains a preferential system of trade and co-operation with 58 countries of Africa, the Caribbean and the Pacific (ACP countries) as established in the Lomé Agreement. On 31 October 1979 a new Agreement (Lomé II) was signed, which still further expands the field of co-operation of the EEC with the countries involved. Among other matters, the STABEX refinanced, the amount of official aid for the development of the signatory countries was doubled and a new facility was set up, known as MINEX, aimed at offsetting by means of financing under very favourable conditions, the drop in the mining output of the signatory countries. An appraisal of the results of the Lomé Agreement after five years of operation shows that despite the trade advantages granted, the trade between the EEC and the ACP countries has not grown substantially, mainly as a result of the limited capacity of production of the ACP countries; between 1972 and 1978 their share in total EEC imports dropped from 4.1% to 3.3%. However, the network of preferential relationships which the EEC maintains cannot be left out of the negotiations between the two areas. More specifically, it will be necessary to stress once again the general principle of non-discrimination.

372. The generalized system of preferences of the EEC has been analysed in earlier documents,<sup>28/</sup> and its consequences for the Latin American countries described. It was observed that it was mainly those amendments which favoured the relatively less developed countries which were incorporated in the GSP, a trend which has continued to materialize in recent years.

373. It is of interest to recall that the EEC's system of preferences has had as its main objective the promotion of exports of manufactures and semi-manufactures from developing countries rather than of agricultural products, which are discouraged as a result of the Community's common agricultural policy.<sup>29/</sup> Despite this, for the import of manufactures included in the GSP (excluding textiles) there are restrictions in the form of tariff quotas and ceilings for sensitive and semisensitive products which prevent the entry of duty-free goods once the established limits have been reached. There is an additional restriction which establishes individual limits for beneficiary countries ("butoir") expressed in percentages of the global ceiling admitted. Lastly, there is a long list of products submitted to special surveillance, the object of which is the suspension of preferential treatment in the near future in those cases in which the established quota is exceeded.

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<sup>28/</sup> See CEPAL, Latin American development and the international economic situation (E/CEPAL/981/Add.2), 21 February 1975, Part Two, and Latin America on the threshold..., op. cit., pp. 184-186.

<sup>29/</sup> In any case there is a list outstanding of 312 agricultural products not included in the EEC common agricultural policy with unlimited preferential access. For another four products considered "sensitive" (soluble coffee, tobacco, cocoa butter and tinned pineapple) preferential access is subject to quotas.

374. The amendments adopted in recent years have not significantly altered the importance of the Community's generalized system of preferences for the region, although progress has been registered, such as the substantial cutting back of the list of sensitive products and an increase in the preference quota for textiles. The need to improve this generalized system of preferences continues to be one of the top priorities in the relations between Latin America and the EEC. This improvement should cover the following points: the extension of quotas for the so-called sensitive and semisensitive products, the inclusion of a larger number of agricultural products in the system, the extension of their preference margin, which in some cases is very small, and the increase of quotas in cases in which they are applied to agricultural products.

375. A relatively discouraging picture emerges from the above, with few prospects for short-term improvement. The Latin American countries will have to make an appropriate use of their bargaining power with the EEC so as to avoid the discriminatory and protectionist trends mentioned above from continuing to materialize and become stronger in the future.

376. Among the elements which may serve as a basis for a possible dialogue with the EEC are the following:

(i) the contradiction between the lack of dynamism of trade relations and the marked and growing interest in the Latin American market shown both by the industrial enterprises and by the European financial institutions;

(ii) the need to increase the low rate of participation of manufactures in European imports from Latin America: slightly over half the figure corresponding to the United States and nearly five times less than in the intra-area trade of ALADI;

(iii) the need for global negotiations covering trade in both senses and financial flows;

(iv) the need for deep-seated changes in the discriminatory policies examined above, particularly as regards protectionism and the common agricultural policy.

(c) Countries members of the Council for Mutual Economic Assistance (CMEA)

377. Trade between the Latin American countries and the Eastern European countries members of the Council for Mutual Economic Assistance (CMEA) which was of little value and limited to very few countries during the 1950s and the 1960s, began to acquire great dynamism and to reach positions of importance as from the years 1972-1973, both as a result of the increase in the value of this trade and the increase in the number of Latin American countries taking part in it. For the 23 Latin American countries as a whole, excluding Cuba, the value of exports to the CMEA countries amounted in 1960 to only US\$ 144 million (1.7% of total exports), while in 1979 it amounted to US\$ 2 051 million (3.5% of total exports).

378. This evolution of trade was at the same time accompanied by the evolution of the institutional instruments and mechanisms set up between countries in the two areas, particularly as regards the negotiation of a wide-flung and varied network of trade agreements, payment arrangements, credit lines and

/broader economic

broader economic co-operation agreements, aimed at supporting the development process in the countries concerned. In the majority of cases, the trade agreements and the economic co-operation agreements determined the functioning of mixed government commissions which serve as channels of information and machinery for negotiation of specific aspects of mutual relations. Although all the information and a suitable standpoint to assess the contribution of these agreements to the economic development of the countries signing them are not still available, in several specific cases (including electrical equipment, fishing, equipment for hospitals and for teaching purposes) there have been satisfactory results which make the field promising.

379. As regards Cuba, since the beginning of the 1960s this country has signed various trade agreements with the CMEA countries encouraging the growth of its trade with them; this was accentuated by the restrictions that the United States and other market economy countries placed on trade with Cuba. Thus, at the beginning of the 1970s slightly over 60% of Cuban exports and imports were earmarked for or came from CMEA countries. As from 1972, when Cuba became a member of CMEA, the trade and economic co-operation links between this country and the members of CMEA continued to increase. Thus in 1978 the value of Cuba's exports to the member countries of CMEA amounted to US\$ 3.5 billion (78.5% of the total).

380. The importance which trade and economic co-operation with the CMEA countries has been acquiring, the special forms of economic relations of countries with different economic and social systems and the prospects of wider expansion and closer collaboration offered by these relations, led to a detailed review of the relevant experiences of some Latin American countries.<sup>30/</sup>

381. Among the conclusions obtained from this review the following may be stressed and reiterated: (i) although reciprocal trade between Latin America and the CMEA has achieved high growth rates, it is still far from taking adequate advantage of the potential for economic relations; (ii) the imbalance of the trade flows (a large deficit of the CMEA countries) and the asymmetrical structure of trade (Latin America exports primary products and the CMEA countries manufactures) constitute two of the main limitations on a greater growth of trade; in order to correct this progressively, since it cannot be modified in the short-term, measures such as a better and more intensive promotion of trade, long-term supply contracts, co-operation in third markets and other forms of co-operation should be adopted; (iii) as regards the problems of financing and systems of payments, it is noteworthy

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<sup>30/</sup> For this purpose, in the context of a joint project of the secretariats of UNCTAD and CEPAL, sponsored by UNDP, studies were prepared on the evolution of economic relations between countries of the two areas and (in June 1980, in Mexico City) a seminar was held with the participation of government experts. More detailed information on the publications made in the context of this project and a summary of the conclusions adopted at the seminar may be seen in "Notas sobre la economía y el desarrollo de América Latina", Nos. 321-322, July 1980, a publication of the CEPAL Information Service.

that there has frequently been a low level of utilization of credit lines, while at the same time conditions of payment have become more flexible and the importance of the use of convertible currencies in trade has increased; (iv) as regards the institutional aspects, the network of trade and economic co-operation agreements set up in the course of the last 25 years supplies a sufficiently broad contractual base for conducting reciprocal economic relations, although the degree to which the goals achieved and the utilization of the machinery established in these agreements may be improved in the future; and (v) as regards co-operation in areas other than trade, the importance which activities with regard to the transfer of technology, the constitution of joint enterprises and tripartite co-operation in third countries may acquire is very clear.

## 2. Co-operation among developing countries

### (a) A global view

382. The decade which has just ended has shown the potential of links between the countries of the South. Trade among developing countries, which took 15 years to double in order to reach US\$ 11 billion in 1970, increased sixfold in the next seven years and reached US\$ 67 billion in 1977; thus, reciprocal trade which accounted in 1970 for one-fifth of total trade in the developing countries came to constitute in 1977 a quarter of this total. It may also be seen that the market of the developing countries themselves is relatively more important for their manufactures than for raw materials and fuels, since while one-third of manufactures go to developing countries, only around one-fifth of primary products and fuels have the same destination.<sup>31/</sup>

383. At the same time, economic co-operation among Third World countries has come to acquire increasing importance in international dialogue and action. Decisions and results exist which enable it to be concluded that there are concrete bases for intensifying mutual economic relations among developing countries.<sup>32/</sup> Moreover, some machinery has been set up, and negotiations initiated for introducing more, which will make possible and significantly encourage the economic co-operation of the periphery.

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<sup>31/</sup> See UNCTAD, Statistics of trade among developing countries by country and by product, SGPC, TD/B/7/36/Add.1, 28 March 1980.

<sup>32/</sup> Noteworthy among these are the Buenos Aires Plan of Action (1978) for Promoting and Implementing Technical Co-operation among Developing Countries and the First Short- and Medium-term Action Plan for Global Priorities on Economic Co-operation among Developing Countries (Arusha, 1979).

384. In this regard, the global system of trade preferences among developing countries as designed in the bases adopted in Arusha and supplemented in subsequent meetings, is closely linked with the other subjects anticipated to increase South-South economic co-operation.<sup>33/</sup> In view of the breadth and importance of the bases agreed upon it is foreseeable that the functioning of the Generalized System of Trade Preferences will lead to the establishment of a genuine economic system for developing countries, which will allow trade relations between them to be strengthened, and relations in numerous other fields of economic activity.

385. Prospects are also promising for a substantial increase in the next few years of the direct flow of loans and investments from the developing countries of the Organization of Petroleum-Exporting Countries (OPEC) to the non-oil-producing nations of the Third World, which for the most part are generating persistent current account deficits in their balance of payments. An increasing share of this transfer of resources could be effected in the form of direct capital transfers (loans and investments). In this way this fundamental mechanism of South-South co-operation would be consolidated and become more effective for the parties involved. In turn, some Latin American countries should prepare to mobilize capital and provide technical assistance to other developing nations as far as they can, particularly for making joint investments, as some countries of the region have begun to do.

(b) The economic relations between Latin America and Africa

386. In recent years an endeavour has been made to cause to materialize some forms of co-operation between Latin America and Africa; it is expected that during the 1980s this incipient effort, in which CEPAL plays an active role, can be supported and increased. An appraisal of economic relations between Latin America and Africa in recent years shows their potential. Firstly, it can be seen that on the basis of trade which was practically nil prior to 1970, trade reached a level of US\$ 1.5 billion in 1978. Of this figure, one billion corresponded to exports from Latin America and 500 million to imports from Africa.

387. However, there are numerous limitations which impede co-operation between the two regions, since the former lack of communication was nearly absolute and cannot be done away with in a short period. Until the beginning of the 1970s economic links were almost non-existent and mutual ignorance was and continues to be very great; at the same time official relationships have been minimal: to date, the great majority of the Latin American and African countries do not maintain diplomatic, consular or trade relations with each other. This situation of non-communication between Latin America and Africa

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<sup>33/</sup> The system designed is global, in that it pursues the incorporation of all the developing countries, covers all products subject to tariffs and considers all or the most important instruments of external trade and as far as possible other machinery for the promotion of production activities.

/responds largely

responds largely to their traditionally high level of economic relations with the industrial centres, particularly with Europe in the case of Africa.

388. So as to develop systematically economic co-operation between Latin America and Africa it would be advisable to formulate and agree on an action programme for co-operation which will constitute an appropriate framework for implementing numerous multilateral and bilateral activities. Naturally, this should not inhibit the activities taking place at the present time or which countries or groups of countries in the two areas are planning to carry out.

389. The aspects to be considered in this programme can be subdivided into three main categories: studies, publication of information and creation of forums for regular dialogue between the two regions. The aim of the studies would be to identify the basic elements required for a better understanding of the real situation of each continent and pinpoint the main areas for co-operation. The periodic publication of information would particularly be of a statistical nature referring to the economy and trade of the two regions, while the definition and subsequent functioning of specific forums would allow regular and direct contact between representatives of the two regions so as to know and assess their problems and experiences; from these activities new opportunities and guidelines for mutual co-operation may emerge.

## Chapter VI

### VI. REGIONAL ECONOMIC CO-OPERATION

#### A. BACKGROUND INFORMATION

390. Latin America and the Caribbean have a long tradition in the field of integration and co-operation, for the first systematic attempts to bring about economic integration in the region date back to the 1950s. The result of these efforts was the creation of four integration arrangements which, although subject to serious pressure in recent years, have been very constructive in producing a marked increase in the trade between the respective member countries and have helped to forge many significant links between nations. At the same time, in Latin America and the Caribbean, many approaches towards bilateral or multilateral co-operation have been devised and, with or without the support of the integration plans, have helped to solve concrete problems or have added to the tapestry of relations and interests which is in the making.

391. The future trends of these processes are uncertain and somewhat contradictory: while on the one hand integration and co-operation appear to be the basic elements needed to support growth compatible with the needs and aspirations of the countries in the region, on the other it is becoming increasingly difficult to reconcile national positions and policies with the premises on which joint action must be based. A viable solution might be in a balanced construction of legitimate national short- and medium-term interests with a longer view of the benefits which may result from greater economic and political unity among the countries in the region.

392. The strengthening of the systems and structures which link the Latin American and Caribbean nations economically and politically call for the strengthening of their capacity for negotiation and at the same time of their forcefulness in dealing with the dominant economic blocks and the transnational corporations. Although countries have already in many cases agreed on joint negotiating arrangements these must be strengthened to meet the concrete challenges to most of the nations in the region.

393. Intra-regional trade, in terms of exports, grew by 4.2 times between 1970 and 1978 (from US\$ 2 billion to US\$ 8.4 billion), while, during the same period, exports to the rest of the world grew by 3.3 times (from US\$ 13.5 billion to US\$ 44.6 billion), which raised the share of intra-regional trade in total trade from 12.7% to 15.8% during the 8-year period referred to. The most dynamic period for exports within the region was from 1970 to 1975, when they represented 16.8% of total trade. Some 90% of intra-regional transactions are conducted within the respective integration arrangements, a fact which reflects the close commercial ties which exist among the Latin American and Caribbean countries in the different integration areas. The member countries of LAFTA account for almost 70% of all intra-regional exports and for 86% of the trade between the region and the rest of the world.

394. Among the factors which account for the increased dynamism in intra-regional exports compared with exports to the rest of the world, attention may be drawn to: (i) the reciprocal tariff preferences granted by the member countries within each integration arrangement;<sup>34/</sup> (ii) the various mechanisms to facilitate trade; (iii) improvements in export promotion policies and (iv) the greater knowledge and trade links resulting from the process of integration itself.

#### B. INTEGRATION ARRANGEMENTS

395. The formal integration arrangements in the region, which cover the large majority of the countries,<sup>35/</sup> have been under great pressure since the middle of the 1970s due to many complex factors connected both with changes in the political and economic structures of the Latin American and Caribbean countries themselves and with the impact of the international situation on them. Thus, they were unable to attain goals explicit in the four integration treaties of the region (the Montevideo Treaty, the Managua Treaty, the Cartagena Agreement and the Chaguaramas Agreement). This was due to many reasons, some of the most important of which are:

(i) Weakening of the real political support provided by some member countries to the integration process in which they participate. This lapse in interest might be attributed partly to the discontent of countries with less potential capacity to profit from the advantages of the larger market and partly to a combination of situations including dissidence or conflict among some countries in the region; abrupt internal political changes in various countries, sometimes accompanied by drastic changes in their economic policies and relations with the region and the rest of the world; and the priority which some governments have given to solving urgent and vexing national problems in ways which are far removed from integration;

(ii) The marked differences in the levels of development and in the economic and political structures of the countries in the region makes it difficult to ensure a balanced distribution of the benefits of those processes. That heterogeneity not only represents a real obstacle to the application of the conventional instruments of integration, but has also been a constant

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<sup>34/</sup> A recent IDB/INTAL study on the effect of preferential tariff margins on trade within the Latin American Free Trade Association (LAFTA) confirms that this is a significant factor in the generation of trade. Thus, in a representative sample of 80% of the trade in negotiated products in LAFTA in the period 1960-1978, it was determined that in 61% of the cases the relative preferential tariff margin was an influential element in the decision to purchase in those countries which enjoyed tariff concessions, this influence becoming more marked as margins rose above 10% and being greater in the case of manufactures than in that of primary products. See IDB/INTAL, El margen de preferencia arancelario y sus efectos en el comercio intra-ALALC: un estudio empírico, Buenos Aires, August 1980.

<sup>35/</sup> The only countries which do not participate in any Latin American integration arrangements are Cuba, Haiti, Panama, the Dominican Republic and Suriname. They are, however, all members of the Latin American Economic System (SELA).

cause of dissatisfaction in those countries which have not obtained the benefits hoped for;

(iii) The powerful traditional bonds between the Latin American and Caribbean economies and the great industrialized centres through transnational corporations, foreign trade, financing, technology, culture and other basic areas strongly oriented towards those centres make it difficult to gear national policy to the accomplishment of the objectives of integration;

(iv) In general, the integration processes were not deep-rooted enough to form an active and permanent part of the activities and interests of the population or of the concerns of government officials and public and private entrepreneurs; moreover, integration is rarely encountered explicitly in the development plans and programmes of the countries or enterprises of the region;

(v) The international instability of recent years may have persuaded the member countries of the integration plans to avoid restricting their freedom to adopt those economic guidelines and policies which they deem to be more effective in the circumstances with which they must cope; in other words, the need for flexibility in the mechanisms of integration has made itself strongly felt - in contrast with the rigid time limits and goals contained in the large majority of the integration treaties negotiated in the 1960s.

396. In the particular case of LAFTA, the members have adopted a new model treaty which has given rise to the Latin American Integration Association (ALADI) and is clearly oriented towards greater permissibility and a general absence of conditions and fixed-term objectives.

397. In spite of the pressures and crises experienced in differing degrees and at different times by the integration plans in recent years, there have been obvious signs of progress, in particular in the growth of the external trade of the countries of the region and the development of some instruments which contribute to the improvement of such aspects of intra-regional trade as financing, the facilitation of transport, the physical links between neighbouring countries, communications systems, the adoption of uniform customs nomenclatures and increased personal contacts among foreign trade operators.

#### C. OTHER FORMS OF CO-OPERATION IN THE REGION

398. The processes of economic integration in Latin America and the Caribbean call for concurrent progress in ways and means of co-operation which have proved to be successful and which, in view of the new focus put on integration by the ALADI countries, can be decisive in this new stage in which practical initiatives rather than global undertakings predominate.

399. The Latin American and Caribbean countries have a long tradition of economic and technical co-operation, which functioned both through the traditional channels of bilateral agreements and through the more recent multilateral integration and co-operation agreements. The Governments are still exploring direct and practical forms of co-operation; they periodically

/take action

take action outside the familiar conventional pattern and promote operative co-operation and complementarity agreements, at the Government or enterprise level. There are many examples of both types of co-operation, the most important of which are the agreements providing for hydroelectric programmes in common river basins, border integration programmes, financial and payments agreements, co-operation in specific productive sectors, in transport and tourism and many others of various kinds and in a variety of areas. Concrete examples include the economic co-operation agreements between Argentina and Uruguay and Brazil and Uruguay; the agreement between Argentina and Uruguay, on compensated trade in products of the automotive industry; the energy co-operation programme between Mexico and Venezuela and the Central American and Caribbean countries; and the joint negotiations under the Automotive Programme and the joint ventures under the Metal Products and Machinery Programme of the Andean Group.

#### D. PRIORITY ACTION AND AREAS FOR REGIONAL INTEGRATION AND CO-OPERATION

400. To strengthen the integration treaties and agreements in force in the region, it will be necessary to provide adequate support to the following tasks:

(i) Setting up mechanisms which grant real preference to products originating in the region, and in particular, to those which need large markets, such as capital goods and articles needing to be produced on a large scale, or products of activities which are essential for the countries of the region;

(ii) Giving special consideration to the relatively less economically developed countries with a view to obtaining their full participation in the processes of integration and avoiding the polarization of trade and disequilibrium in the realization of benefits, which usually occurs when only the more traditional instruments of integration are employed. This means mobilizing effective co-operation in favour of such countries, through preferential tariff treatment, the use of financial resources, the development of common projects, technical co-operation and other action which helps to create a larger market for their products and, at the same time, provides the means for increasing the exportable supply;

(iii) Ensuring that, within a framework of flexibility and partial action (dominant elements in ALADI), the final objectives of integration and the indispensable convergence of this kind of action are borne in mind; this approach will keep watertight compartments from forming and hampering the multilateral interrelationship which is so important for strengthening and unifying the region; and

(iv) Linking up the integration plans, even though they retain their institutional individuality.

401. With a view to avoiding duplication or overlapping of efforts of the various secretariats of the integration and co-operation bodies of Latin America and the Caribbean, there is need to establish permanent links among them to serve in the exchange of experience and in suggesting advisable interrelationship measures to the Governments of the member countries.

402. Apart from the essential support of the countries of the subregion for the formal integration plans now in effect in Latin America and the Caribbean, there are other fields of action in which co-operation can make an important contribution to the solution of problems affecting all or some of the countries. In suggesting those fields of co-operation, it is not excluded that they be implemented by means of the mechanisms which the integration agreements possess, and, indeed, it is highly desirable that this be done. The characteristic common to all the areas of co-operation selected is that their nature and magnitude are such that international co-operation would facilitate their solution and increase the effectiveness of the resources applied. Obviously, international co-operation will act only as a coadjutant of national policies.

403. The list of areas of co-operation which follows is not by order of priority nor is it exhaustive; however, an attempt has been made to include those areas which it is supposed will be relevant in the 1980s. Each area is described only to show the kind of topic involved and, where possible, to suggest co-operation options.

1. Joint rational development of natural resources  
and compensation for regional disequilibria

404. This involves the initiation or continuation of action to bring about: (i) self-reliance in regional supplies of items of importance, such as food and raw materials in general; (ii) conservation of the environment, defined as the rational use of resources, especially non-renewable resources; (iii) joint use of shared resources, such as water; and (iv) increased earnings from exports of basic commodities, by increasing their value added and greater participation in the distribution and marketing stages and in international negotiations to revalue these products.

405. In the case of water resources, co-operation has already been carried out in a number of activities; however, various activities such as in particular the ordering, handling and protection of the resources must be strengthened.

406. The mining sector lags notably behind other industrial processes in the region with regard to the integration of the mining, metallurgy and engineering stages and of capital goods and intermediate inputs. There is an urgent need for co-operation in this field in view both of the relatively small size of the national markets in comparison with the scale and diversity required by mining production and the uneven increase in the demand for the different types of products. Priority could be given to Latin American multinational agreements or projects of an integral nature, that is to say, those which concern joint activities in prospecting, infrastructure, mining and industrial production and trade agreements. The first steps might consist of the formulation of co-operation projects whose objective is to increase the knowledge and development of the mining potential of the region.

407. Latin America has sufficient natural resources to sustain an overall high rate of growth; however, they are not equally distributed among the countries in the region. Thus, an important task of co-operation is that of ensuring the supply of basic commodities in each of the Latin American and Caribbean nations. Likewise, there is need to seek formulas of co-operation which help to improve the value of exports of basic commodities made by the countries of the region to international markets.

## 2. Energy

408. As noted in the section on energy, this is a field where there already are numerous and very important activities, co-operation such as the full-scale interconnexion of the electric power systems of neighbouring countries where bi-national hydro-stations are under construction or in operation; the energy co-operation programme of Mexico and Venezuela with the Central American and Caribbean countries; and the activities of ARPTEL, OLADE and CIER, as specialized regional organs. Nevertheless, there are still large areas where adequate co-operation is not being effected, such as the development of non-conventional energy resources; full, rapid and accurate information, especially with regard to petroleum and its derivatives; manpower training; the management of enterprises and, in general, everything related to energy economics and technology. Among the Latin American countries there are large differences in knowledge and experience, so that high-yield horizontal co-operation is possible.

## 3. Physical integration of transport and communications facilities

409. An effort must be made to overcome the obstacles posed by long distances and to progress towards a better use of the existing infrastructure by facilitating the movement of persons and goods and linking the various modes of transport. It will be necessary to promote greater co-operation in areas which are non-competitive internationally, such as public services (urban underground railways, drinking water, irrigation and urban sanitation and the like).

410. With regard to transport, there are shortcomings in the physical infrastructure because the present system is oriented basically towards communications between ports and the hinterland, which is almost always remote from the international routes; moreover, transport facilities, including most of the railways and some of the ocean and air fleets, are usually old or in poor condition and, finally, there is ample margin for facilitating the movement of persons and goods by removing administrative and organizational obstacles. Co-operation in the field of physical infrastructure and transport is already traditional among the countries in the region; nevertheless, it must be increased in view of the many investments needed for improving or linking them and the many measures required for their facilitation.

411. The public services and enterprises which provide them have reached a significant level of development in some countries of the region and have built up experience which can be valuable for countries of their kind, i.e., those where a large proportion of the population live in rural areas and the rest of the inhabitants are concentrated in a few densely populated capital cities of large size, with high rates of population growth and unequal income levels. The experience acquired through the adaptation or creation of technology should be useful for countries now beginning to tackle similar problems and should therefore be included in the horizontal co-operation efforts within the region.

#### 4. Co-operation in industry

412. Due to the heterogeneity among the countries in the region, each of them has different objectives in its climb up the industrial ladder. Thus, the large countries whose industrial development is more advanced may opt for more balanced and diversified structures supported by growing exports of manufactures and for increased production of capital goods, intermediate inputs and final consumer goods which need to be manufactured on a large scale or are very complex; for such products regional integration and co-operation offer the best prospects. Medium-size countries may rely on specialized lines, possibly related to their predominant basic activities, to exports also tied to those activities and to the expanded markets which result from regional integration and co-operation. Finally, the small countries, in view of their limited domestic market, find their best options for industrial development in the integration and co-operation agreements, since these provide effective mechanisms for the equitable distribution of opportunities and permit a high level of specialization to be achieved in their industrial structures.

413. As was made clear in the section concerning industry, co-operation may be extended in broad sectors by narrower branches or through agreements between public or private enterprises of different countries. The main areas might be complementarity or joint programming of industrial activities of high capital density and volume with inadequate or unstable national markets, such as the petro-chemicals industry, the aluminium industry, shipbuilding or the iron and steel industry. The development of capital goods is a special case, since the capacity of a country to manufacture its own productive equipment confers on that country an ability to opt between alternative economic structures and promote continuous progress in technology and engineering. It might be possible for the region as a whole to sustain a modern scientific organization and for groups of countries to co-operate in certain specialized branches of technology based on an integrated production system. Big projects in the basic sectors, which account for a large share of the demand for capital goods, open up opportunities for constructive complementarity among the enterprises in the region.

### 5. Food and agriculture

414. A variety of efforts have been made in this area, both within and outside the integration arrangements, with a view to attaining objectives of very different kinds. Nevertheless, there is still much room for action in the sphere of technology, foreign trade and the region's ability to produce its own supplies. Complementarity in production, in line with climatic characteristics or the type of land available (intensive or extensive farming), may give rise to long-term agreements between groups of countries. Moreover, in view of the unstable international situation, it may be important not to depend too much on food supplies from other regions. With regard to the export of basic agricultural commodities, there are some worthwhile co-operation experiments (CEPLAC and COMUBANA) which might be extended to other products. Fishing is another activity where co-operation could be essential for protecting natural resources and helping to exploit them rationally, as well as making joint use of the natural wealth shared by two or more countries.

415. Within SELA, a number of activities of interest to the community have been defined which are certainly still of interest. These include the creation of regional machinery for information on surpluses, shortages and prices; the arrangement of medium- and long-term marketing contracts among countries or groups of countries; the establishment of multinational marketing firms; the establishment of regional or subregional common or co-ordinated storage systems; agreements between agricultural research agencies and institutions for the implementation of joint projects; the promotion and establishment of enterprises providing technological services, especially for purposes of co-operation with the less developed countries, and the establishment of a regional form insurance scheme.

### 6. Science and technology

416. Science and technology are related not only with the creation, application, dissemination and monitoring of knowledge but also with all productive activities, so that co-operation in this sphere may be viewed from various perspectives, including the strengthening of scientific and technological know-how, the promotion of the adaptation or creation of technologies linked to specific priority sectors in the countries of the region (technology linked to energy, food, capital goods, etc.), the interlinking of scientific and technological networks, the organization of multinational technological enterprises in the region, financing for the local development of technologies, and the adoption of common regional positions on topics of mutual interest (such as industrial property and a code of conduct in technology). There are examples of successful co-operation in technology at the subregional level (such as the Central American Research Institute for Industry (ICAITI) and the Andean Technological Development Programmes (PACT)) and also of co-operation of a bilateral picture such as technical co-operation among State petroleum enterprises, exchanges aimed at training technical and industrial manpower, co-operation in the nuclear field and many other cases of a similar nature.

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417. There are, however, many areas of regional co-operation where significant results, which are difficult to obtain by relying only on local efforts, may be realized. Such areas include:

(i) the incorporation of technological progress into science and technology policies and plans (for example, micro-electronic, genetic engineering, enzyme technology and, very especially, technology related to energy) and other sectors where technological development is slower and less of a gamble for the countries;

(ii) the strengthening of technological capacities: the existing scientific and technological infrastructure in the region could be extended beyond national boundaries to include co-operative efforts in certain areas and problems such as natural resources and food;

(iii) the selection, acquisition and transfer of technology: in the future, the region will continue to incorporate technologies at a growing rate, especially those from the industrialized countries, and this will make it necessary to protect the interests of the recipient countries. In this task important roles may be played by the support services of the Latin American Technological Data Network (RITLA), the recently established Andean Technological Data and Network and the Technological Information Exchange Service (TIES), sponsored by The United Nations Industrial Development Organization (UNIDO). Similarly, it would be appropriate to examine the possibility of gaining access to the technology of the medium-sized and small enterprises of the developed countries, which might be more suitable for the region than the technology available from the big transnational corporations;

(iv) with respect to the utilization of human resources, for some time the countries in the region have been concerned about the strong "reverse transfer" of technology and have been seeking ways of curtailing it or, at least, of ensuring that a large share of the scientists and technologists who emigrate remain within the region itself. For this purpose more information is required on job opportunities and the exchange of specialists should be increased. Moreover, the educational policies of the region could be co-ordinated with a view to achieving a certain degree of specialization in investments for education and in the training of qualified personnel;

(v) co-operative programmes could be developed involving technological research into fields of interest, such as pharmaceuticals, where there is a heavy concentration of production and where research and development are controlled by a few transnational corporations;

(vi) financing could be obtained from international and regional finance agencies for co-operation projects in scientific and technological development which meet the particular needs of the countries in the region;

(vii) in view of the ongoing process of internationalization of technical standards, it is necessary for the region to be prepared to meet international technological standardization requirements which affect national industrial development and export policies.

## 7. Financing

418. On a regional scale and within the integration arrangements, there now exist financial mechanisms intended to facilitate commercial transactions within the scope of their operation, to support countries with a balance-of-payments deficit, and to finance projects relating to integration industries. Another element still of great importance is co-operation aimed at the acquisition of financing from new zonal and extra-zonal sources and at the creation of an export insurance system to cope with the needs for long-term credit brought on by the energy disequilibria of many countries in the region, the urgent need to create and consolidate new export flows, and the demands for financing which will result from greater trade in capital goods.

## 8. Co-operation in the field of services, in particular in consulting and engineering

419. These activities, which are relatively new in the region, have made such progress in some countries that in the future they might become a significant item in their foreign trade. All the countries, to a greater or lesser extent, possess experience and knowledge concerning the technology used in the productive sectors most characteristic of their economies or in infrastructure works. What is needed, then, is to identify the mechanisms which make it possible to combine those capacities in such a way as to bring about a fuller utilization of national consulting and engineering services within and outside the region. In particular, important opportunities might arise for increasing the use of capital goods produced in the Latin American countries and the Caribbean, since the origin of engineering design and projects also has a significant impact on the origin of those goods. The possibility of co-operating in large-scale works in energy, transport and communications, in mining projects, or in the establishment of industrial plants may give continuity to the use of specialized knowledge and eliminate the sharp fluctuations in the demand for consulting and engineering services within each country. The specific forms of co-operation may consist of the association of engineering enterprises of various countries to perform works in common; of technological complementation in sectors where more experience and knowledge has been built up (mining, afforestation, farming, fisheries, petroleum exploration and exploitation, etc.).

## 9. Export promotion

420. In general, the non-traditional exports of the countries in the region are of little magnitude compared with sales to the domestic market; this is reflected in a weak foreign trade structure, which is deficient in management and in international marketing techniques and ignorant of the potential of external markets. All this implies limited power to negotiate with possible purchasers because of the relatively small exportable supply and the lack of experience in international trade.

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These problems are more severe in the case of the relatively less developed countries in the region, which hardly have any export promotion mechanisms. Regional co-operation between Governments and enterprises may help to improve the facilities for promotion (export insurance, for example), to increase exportable supplies, to sustain publicity campaigns, to create associations of producers of exportable articles and of multinational enterprises engaged in marketing abroad and, in general, to take such collective action as will facilitate competition on an international market which is protectionist and increasingly competitive. The Group of Latin American and Caribbean Sugar Exporting Countries (GEPLACEA) and the Union of Banana Exporting Countries (UPEB), in the field of sectoral exporters' associations, and the Comercializadora Multinacional de Banano (COMUNBANA) and the Empresa Multinacional Comercializadora de Fertilizantes (MULTIFERT), in the area of joint enterprises for marketing final products and inputs, respectively, are examples of concrete co-operation efforts which may serve as guides for future action in this field.

10. Co-operation with the relatively less developed countries of the region

421. The integration arrangements and multilateral mechanisms for regional co-operation contain explicit statements that this area is considered to be fundamental to co-operation. In practice, however, serious problems have arisen since there seem to have been shortcomings in terms both of the means used to establish such co-operation and of the difficulties of the less developed countries themselves to profit from it; nevertheless, it is recognized on all sides that it is important for removing some of the chief causes of the disparity between the more and the less developed countries in the region. One of the priority objectives should be the integration of the English-speaking countries of the Caribbean with the rest of the region, a project requiring specific types of co-operation, which should be identified and undertaken by mutual agreement between the parties.

422. The meeting of experts of the member countries of the Caribbean Development and Co-operation Committee held in Barbados in May 1980 to discuss the Strategy for the Third United Nations Development Decade approved a draft strategy, one of the central points of which was the recommendation for: (i) the improvement of Caribbean bargaining power by strengthening the international instruments which channel Caribbean aspirations, the regional and subregional institutions for co-operation, and national institutions dealing with external relations; (ii) economic planning or management of available resources through a flexible system adapted to the size and structure of Caribbean economies, the use of resources available in the international context and seeking an appropriate balance between inward and outward - oriented activities; and (iii) social planning and social engineering, through which knowledge of the Caribbean circumstances is developed, the distributive mechanisms are deployed to

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achieve more equity, available human resources are mobilized more effectively and more adequate forms of social articulation are developed.<sup>36/</sup> On the basis of these elements, consideration might be given to a better relationship between the economies of the Caribbean and those of the rest of the region.

423. As regards the other relatively less developed Latin American countries, an attempt can also be made to find fields in which co-operation with the more developed countries in the region might be more useful (energy deficits, problems of being landlocked, small domestic markets, lack of natural resources or shortages of qualified personnel).

11. Regional co-operation in the negotiations  
with transnational corporations

424. Some countries of the region have established regulations for ensuring that access to foreign investment and technology produces adequate benefits in the recipient countries; however, the joint negotiating capacity has not been fully utilized in confrontations with transnational corporations. The sole exception is Decision 24 of the Andean Group, which establishes a system of uniform treatment of foreign investment and technology in the member countries. There are various ways by which the countries in the region can improve their position vis-à-vis the transnational corporations, the most important of them being: (i) information concerning the structure and behaviour of the leading corporations and their operations in the region and the rest of the world; (ii) co-ordinated action by countries which adopt common positions and unite their individual negotiating capacities; and (iii) identification of the areas and matters where transnational corporations can provide countries with real assistance without distorting the apparatus governing their production, foreign trade and consumption patterns. The search for other sources of technology and markets must not be overlooked, perhaps in the medium-sized and small enterprises of the industrialized countries and enterprises in recently developed countries or countries with centrally planned economies.

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<sup>36/</sup> CEPAL, Office for the Caribbean, Strategy for the Caribbean Countries during the third Development Decade, (E/CEPAL/CDCC/61/Rev.1), September 1980.

